

STANDARD
& POOR'S

4th Annual European Insurance Symposium

24th - 25th June 2009



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STANDARD
& POOR'S

agenda (24th June)



Standard & Poor's Versicherungssymposium "Ist die Assekuranz fit für die Zukunft?"

14.15 **Registrierung und Ausgabe der Tagungsunterlagen**

14.30 **Begrüßung und Eröffnung**

Karin Clemens, Senior Director, Financial Institutions Ratings Group, Standard & Poor's

14.45 **Enterprise Risk Management - Rüstzeug in Krisenzeiten**

Dr. Jörg Schneider, Mitglied des Vorstands Münchener Rück Gruppe

15.15 **Panel 1: Gewinnen und Bestehen in herausfordernden Märkten**

Moderator: Karin Clemens, Senior Director, Financial Institutions Ratings Group, Standard & Poor's

Panelists: Dr. Jörg Schneider, Mitglied des Vorstands Münchener Rück Gruppe
Dr. Axel Wehling, Geschäftsführer Querschnittsbereiche des GDV
Dr. Jan Martin Wicke, Mitglied des Vorstands Wüstenrot & Württembergische AG

16.00 **Kaffeepause**

16.30 **Panel 2: Wieviel Größe muss sein?**

Moderator: Wolfgang Rief, Director, Financial Institutions Ratings Group, Standard & Poor's

Panelists: Dr. Gerhard Rupprecht (Vorstandsvorsitzender Allianz Deutschland AG)
Dr. Werner Görg (Vorstandsvorsitzender Gothaer Konzern)
Friedrich Gieseler (Vorstandsvorsitzender DEVK Gruppe)

17.15 **Wandel als Chance**

Torsten Hinrichs, Managing Director, Geschäftsführer Standard & Poor's Deutschland

17.45 **Ende des ersten Konferenztages**

speaker biographies



Karin Clemens
Senior Direktorin,
Financial Institutions
Ratings,
Standard & Poor's

Frau Karin Clemens ist als Senior Direktorin bei Standard & Poor's Financial Institutions Ratings tätig. Seit 2004 leitet Frau Clemens das Versicherungsteam in Frankfurt. In ihrer Funktion ist sie zuständig für die Länderbereiche Deutschland, Österreich und Schweiz und verantwortet das Rating sowohl nationaler als auch multinationaler Versicherungskonzerne wie Allianz, Münchener Rück oder Zurich Financial Services. Frau Clemens leitet für Standard & Poor's außerdem das Projekt ‚Global Multiline Insurance‘, das sich mit der vergleichenden Analyse der weltweit größten Versicherungskonzerne befasst.

Frau Clemens begann ihre Karriere im Unternehmen 1996 in London, wo sie als Analystin zahlreiche Erst- und Rückversicherungsunternehmen betreute. 2000 wechselte sie in gleicher Funktion nach Frankfurt und baute hier für Standard & Poor's auch das Versicherungsteam auf. Ihre berufliche Laufbahn begann Frau Clemens 1995 bei Coopers & Lybrand Deutsche Revision AG. Zuvor studierte Frau Clemens Wirtschaftsingenieurwesen mit Schwerpunkt Versicherungswissenschaft an der Universität Karlsruhe.



Friedrich Gieseler
Vorstandsvorsitzender
DEVK Gruppe

Friedrich W. Gieseler (55), Dipl. Verwaltungsbetriebswirt, geborener Ostwestfale, begann seine berufliche Laufbahn 1972 bei der Deutschen Bundesbahn mit Einsätzen in Wuppertal, Düsseldorf und Köln. Im Jahr 1979 wechselte er dann die Branche und setzte seinen Weg bei der DEVK Deutsche Eisenbahn Versicherung fort. Über mehrere Stationen, insbesondere bei den Regionaldirektionen Saarbrücken, Münster, Frankfurt, Essen, Kassel und Karlsruhe, gelangte er 1993 zur Zentrale nach Köln. Dort übernahm er die Leitung des Vertriebes für die Gruppe, bis er 1995 in den Vorstand für das Ressort Sach/HUK-Betrieb und Rückversicherung berufen wurde. Seit Mitte 2007 hat er die Funktion des Vorstandsvorsitzenden der DEVK inne.



Werner Görg
Vorstandsvorsitzender
Gothaer Konzern

Nach Abschluss des Jurastudiums und der Referendarzeit trat Herr Dr. Görg 1983 in die Dienste der Rheinland-Pfälzischen Finanzverwaltung. Dort war er zum Schluss als Referent im Finanzministerium Rheinland-Pfalz tätig. Sodann wechselte er in die Steuerabteilung der Gothaer Versicherungen und legte dort 1988 die Steuerberaterprüfung ab. Nach mehreren Stationen innerhalb des Unternehmens leitet Herr Dr. Görg seit 2001 den Gothaer Konzern. Er ist zuständig für die Bereiche Konzernstrategie, Risikomanagement/Controlling/ Rechnungswesen/ Revision, strategische Beteiligungen, Recht/Steuern sowie Führungskräfteentwicklung.



Torsten Hinrichs
Managing Director
Head of Northern
Europe
Standard & Poor's,
Frankfurt

Torsten Hinrichs ist Geschäftsführer von The McGraw-Hill Companies GmbH in Frankfurt mit Verantwortung für den deutschsprachigen Raum sowie Nord- und Osteuropa. Ebenfalls ist er als Leiter des nordeuropäischen Netzwerkes verantwortlich für die Koordinierung der kommerziellen Aktivitäten in den lokalen Niederlassungen in Frankfurt und Stockholm sowie Dubai und Johannesburg. Hinrichs trat im Februar 1999 in das Unternehmen ein.

Zu seinen Aufgaben gehört der weitere Ausbau der Ratingaktivitäten und die Expansion von Standard & Poor's in den Bereichen Fondsratings, Aktienrecherche und Informationsdienstleistungen mit ihren vielfältigen Produkten für den Finanzmarkt.

Zuvor war Hinrichs 15 Jahre bei der Westdeutschen Landesbank tätig und hat dort in den Bereichen Neuemissionen/ Kapitalmarkt sowie Global Derivatives/ Fixed Income und Global Treasury Erfahrungen gesammelt. Nach Einsätzen in Düsseldorf, New York und London war Hinrichs zuletzt als Head of Treasury bei der WestLB Niederlassung Hongkong tätig.

Hinrichs hält einen Abschluss in Wirtschaftswissenschaften als Dipl. Kaufmann der Universität Hamburg.



Wolfgang Rief
Director, Financial
Institutions Group,
Standard & Poor's

Wolfgang Rief ist Director im Frankfurter Versicherungsteam von Standard & Poor's, das Kunden in Deutschland, der Schweiz und Österreich betreut. Er ist seit Juni 2000 für Standard & Poor's tätig. Zuvor war er Direktor bei der Gerling Versicherungsgruppe, spezialisiert in den Bereichen Controlling internationaler Aktivitäten, value based Management und Rating.

Wolfgang Rief betreut bei Standard & Poor's ein breites Spektrum an Versicherungskunden. Er ist ferner führend involviert in Standard & Poor's Projekt für Fragen im Zusammenhang mit Solvency II.

Wolfgang Rief ist bereits seit langer Zeit im Versicherungsgeschäft tätig. Er schloss das Studium als Diplomkaufmann – spezialisiert im Bereich Versicherungen – an der Universität zu Köln ab. Seine berufliche Laufbahn begann er als Assistent der Geschäftsleitung des Gesamtverbandes der Deutschen Versicherungswirtschaft. Später bei Gerling, wo er über fünfzehn Jahre tätig war, wurde er in Rückversicherung und internationaler Industrieversicherung geschult und war insbesondere als Direktor in der Steuerung der Auslandsaktivitäten tätig. Bei Gerling hat er auch die Ratingprozesse für die diversen Konzerngesellschaften aufgebaut.



Gerhard Rupprecht
Vorstandsvorsitzender
Allianz Deutschland AG

Ausbildung

1969 – 1974 Mathematik-Studium an der Universität Stuttgart, Diplom-Mathematiker
1972 – 1973 Stipendium der Studienstiftung des Deutschen Volkes am Imperial College in London
1974 – 1978 Assistent am Mathematischen Institut der Universität Stuttgart
1978 Promotion

Beruflicher Werdegang

1979 – 1989 Allianz Lebensversicherungs-AG, Versicherungsmathematiker
1989 – 2005 Vorstandsmitglied der Allianz Lebensversicherungs-AG
1991 – 2005 Vorsitzender des Vorstands, Allianz Lebensversicherungs-AG
Seit 1991 Mitglied des Vorstands der Allianz AG (seit Oktober 2006 Allianz SE)
Seit Januar 2006 Vorsitzender des Vorstands, Allianz Deutschland AG



Jörg Schneider
Mitglied des Vorstands
Münchener Rück
Gruppe

Dr. jur. Jörg Schneider wurde 1958 in Duisburg geboren. Er studierte Betriebswirtschaft an der Berufsakademie Stuttgart, sein studienbegleitendes praktisches Training absolvierte er bei der Daimler-Benz AG. Nach seinem Diplom begann er ein Jurastudium in Tübingen, das er mit der Promotion abschloss. Parallel dazu arbeitete er als Programmierer und Systemanalytiker bei Daimler-Benz sowie einer Beratungsfirma. Nach seinem juristischen Vorbereitungsdienst beim Freistaat Bayern trat Herr Schneider 1988 in den Bereich Finanz der Münchener Rück ein. Fünf Jahre später übernahm er die Leitung des Bereichs Beteiligungen. Von 1997 an leitete er den Geschäftsbereich Finanz/Konzern. 2000 wurde er zum Mitglied des Vorstands bestellt. Herr Schneider ist als Chief Financial Officer zuständig für die Bereiche Group Reporting, Group Controlling, Corporate Finance, M&A, Integrated Risk Management, Group Legal, Compliance, Group Taxation sowie Investor and Rating Agency Relations. Er ist verheiratet und hat zwei Kinder.



Axel Wehling
Geschäftsführer
Querschnittsbereiche
des GDV

Dr. Axel Wehling ist Mitglied der Hauptgeschäftsführung, verantwortlich für die Querschnittsbereiche, Gesamtverband der Deutschen Versicherungswirtschaft e. V. (GDV).

Er ist Mitglied des Consultative Panel des Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).



Jan Martin Wicke
Mitglied des Vorstands
Wüstenrot &
Württembergische AG

Berufstätigkeit:

- | | |
|--------------------|--|
| Sept. '07 - heute | Vorstand Wüstenrot & Württembergische AG, Ressort Finanzen und Risikomanagement, Stuttgart |
| Apr.'03 - Juli '07 | Vorstand DBV-Winterthur Versicherungen, Ressorts Finanzen, DBV Niederlande (ab 2005) und Kapitalanlagen (bis 2004) |
| Aug.'97- Apr.'03 | DBV-Winterthur Versicherungen, verschiedene Funktionen, zuletzt Leiter Betriebswirtschaft & Controlling |
| Juli'93 - Aug.'97 | DG Capital Management |

Studium:

- | | |
|------------------|--|
| Nov.'88- Juni'93 | Studium der Betriebswirtschaftslehre an der OFU Bamberg
Promotion (1997) über Vermögensverwaltung |
|------------------|--|

agenda (25th June)



Standard & Poor's 4th Annual European Insurance Symposium "Rebuilding Capital, Reputations and Confidence"

09.00 Registration & coffee

09.30 Welcome & introduction

Yann Le Pallec, Managing Director, Head of Insurance Ratings, EMEA, Standard & Poor's

09.45 Keynote speech: Rebuilding confidence in ratings

Anthony Angel, Executive Managing Director, EMEA, Standard & Poor's

10.15 European economic outlook: How serious is the risk of a double dip?

Jean-Michel Six, European Chief Economist, Standard & Poor's

10.45 Coffee break

11.15 The New Capitalism: What does the future hold for US insurers and banks?

Jayan Dhru, Managing Director, Global Head of Financial Institutions Ratings,
Standard & Poor's

11.45 European insurers: Wounded but alive and kicking

Rob Jones, Managing Director, Financial Institutions Ratings, Standard & Poor's

12.15 CEO/CFO panel: Rebuilding confidence in insurers

Moderator: Yann Le Pallec, Managing Director, Head of Insurance Ratings, EMEA,
Standard & Poor's

Panelists: Dr. Stefan Lippe, CEO, Swiss Re
Dr. Konstantin Klien, CEO, UNIQA
Oliver Bäte, CFO-Elect, Allianz

13.00 Lunch in the "Schwarz & Weiz" Restaurant

agenda (25th June continued...)

14.00 CRO panel: ERM: Did it do the job?

Moderator: Laura Santori, Senior Director, Financial Institutions Ratings, Standard & Poor's

Panelists: Jo Oechslin, Group CRO, Munich Re
Jeroen Potjes, Chief Insurance Risk Officer, ING Group
Tom Grondin, CRO, AEGON

14.45 Breakout sessions

Main Room: Nymphenburg I & II

(1) Global multiline insurers: How do they shape up?

Karin Clemens, Senior Director, Financial Institutions Ratings, Standard & Poor's

Breakout Room: Schwabing IV to VI

(2) Ratings in insurance markets - how are they are used?

Peter Hughes, Vice President, Commercial & Product Management, Standard & Poor's

15.15 Coffee break

15.45 Breakout sessions

(1) Developments in Central & Eastern European Markets

Main Room: Nymphenburg I & II

David Laxton, Senior Director, Financial Institutions Ratings, Standard & Poor's and
Paul Bradley, Director, Financial Institutions Ratings, Standard & Poor's

(2) Insurance Linked Securities: Here to Stay?

Breakout Room: Schwabing IV to VI

David Harrison, Senior Director, Financial Institutions Ratings, Standard & Poor's and
Cameron Heath, Director, Financial Institutions Ratings, Standard & Poor's

16.15 Analyst/investor panel

Moderator: Rob Jones, Managing Director, Financial Institutions Ratings, Standard & Poor's

Panelists: Ralph Hebgen, Insurance Analyst, Keefe, Bruyette & Woods
Trevor Petch, European Insurance Analyst, Insight Investment
Manish Bakhda, Director, European Insurance Analyst, Barclays Capital

17.00 Closing remarks

speaker biographies



Anthony Angel
Executive Managing
Director, EMEA,
Standard & Poor's

Tony Angel was appointed Executive Managing Director and Head of Standard & Poor's Europe, Middle East and Africa region in June 2008.

In this newly created position, he is a member of S&P's global operating committee and responsible for managing and developing S&P's activities across the EMEA region - spanning credit research and ratings, investment indices, independent equity and fund research, fixed income risk management services and a network of offices in 10 countries.

Prior to joining S&P, Tony was for 32 years at Linklaters, the global law firm, first as a corporate tax lawyer, partner and global head of tax, and then for almost a decade as Firmwide Managing Partner.

Tony holds an M.A. from Queens' College, Cambridge, and is a qualified Solicitor.



Manish Bakhda
Director, European
Insurance Analyst,
Barclays Capital

Manish Bakhda is a director within the European High Grade Credit Research team at Barclays Capital. He has covered the European insurance sector over the past 5 years and has achieved top three rankings (2008) in both Euromoney and Institutional Investor annual polls. Prior to joining the sell side, he worked as a credit analyst within the European life ratings team of S&P in London.

Manish was a voting member of rating committees and lead analyst for a number of UK/Irish/Norwegian life/health (re)insurers. He is a qualified actuary and worked within the insurance industry for over 10 years after graduating from the London School of Economics.



Oliver Bäte
CFO-Elect,
Allianz

Oliver Bäte is a Member of Management Board of Allianz SE and the Chief Operating Officer. He is also the Supervisory Board Chairman of Allianz Shared Infrastructure Services SE. Before joining Allianz SE in January 2008, he was a Director and Senior Partner at McKinsey & Company and leader of the European Insurance and Asset Management Sector. During his 16 years of experience at McKinsey & Company he specialized in the strategic, organizational, and operational management of financial institutions. He studied business and economics in Cologne and graduated from the Leonard Stern School of Business in New York (MBA in Finance). Oliver Bäte also lectures as an adjunct professor on insurance and capital market economics at the University of Cologne.



Paul Bradley
Director,
Financial Institutions
Ratings,
Standard & Poor's

Paul Bradley is a Director in Standard & Poor's Insurance Ratings Group in Europe. He holds a degree in Mathematics from Keble College, Oxford and is a Fellow of the Institute of Actuaries.

Paul joined Standard & Poor's in November 2002, having spent 10 years as a consultant to UK occupational pension schemes and a spell in sell-side equity research.



Karin Clemens
Senior Director,
Financial Institutions
Ratings,
Standard & Poor's

Karin Clemens is a Senior Director and Team Leader in Standard & Poor's Financial Institutions Ratings, responsible for a team of eight analysts covering Insurer Financial Strength Ratings in Germany, Switzerland and Austria. She is extensively involved in rating relationships with multinational groups like Allianz, Munich Re or Zurich Financial Services. Karin is also leading Standard & Poor's industry focus team for global multiline insurers. She has written several Standard & Poor's insurance commentaries and speaks regularly on local and global insurance market conditions.

Prior to joining Standard & Poor's in 1996, Karin worked as an accountant for Coopers & Lybrand Deutsche Revision AG. Karin earned her diploma in Business Engineering (Wirtschaftsingenieurwesen) from university of Karlsruhe, Germany (1994).



Jayan Dhru
Managing Director,
Global Head of
Financial Institutions
Ratings, Standard &
Poor's

Jayan Dhru is a managing director with Standard & Poor's. Jay heads up the Global Financial Institutions Group that is responsible for developing criteria and analyzing financial institutions and insurers globally.

Jay had previously guided the North American Banking Group that follows all North American banks, broker dealers, GSEs, mortgage companies, asset managers, clearinghouses, credit card companies, and finance companies. Over his career at Standard & Poor's, Jay has headed a number of teams responsible for rating large complex insurance groups. These groups have spearheaded the analysis of capital markets transactions such as insurance securitizations, funding agreements, DPC companies guaranteed by insurers, credit wraps, and other insurance company related structured securities.

Jay spent three years in Standard & Poor's London office, where he led a team of analysts following life, non-life, and reinsurance companies in Germany, Switzerland, the Netherlands, United Kingdom, and the Middle East. He was also responsible for spearheading ratings development in the European life insurance and pensions sector. Prior to his move to London, Jay was the senior analyst responsible for rating U.S. and Canadian life insurers.

Jay holds a B.S. with a concentration in Finance and Computer Science from the New Jersey Institute of Technology.



Tom Grondin
CRO,
AEGON

Prior to his current role which started in 2003, Tom was Chief Actuary with AEGON in the Institutional Markets Division. Prior to joining AEGON in 2000, Tom worked as a consultant at Tillinghast - Towers Perrin and prior to that was an ALM manager for a block of business of a Canadian insurer.

As Chief Risk Officer, Tom is a member of AEGON's senior risk committee and manages AEGON's Group Risk department. These two groups have the responsibility for managing AEGON's aggregate risk position, setting risk management standards for all units, setting risk policies, promoting sound risk management as part of culture and assisting smaller country units in their risk management needs.

Tom has a degree in Mathematics and Statistics from the University of Windsor in Canada. He is a Fellow of the Society of Actuaries.



David Harrison
Senior Director,
Financial Institutions
Ratings,
Standard & Poor's

David Harrison is a senior director in Standard & Poor's Insurance Ratings Group, based in London. He specializes in the European sector and heads up teams involved with interactive insurance ratings and insurance securitisations. He joined Standard & Poor's in April 2003.

Prior to joining Standard & Poor's, David worked for twenty years in the banking sector, the last seventeen years at Citigroup. During this period he worked in treasury, audit and risk management functions.



Cameron Heath
Director,
Financial Institutions
Ratings,
Standard & Poor's

Cameron Heath is a Director of Standard & Poor's Insurance Ratings Group in London. Cameron is the lead analyst of insurance linked transactions in Europe, with particular emphasis on the non-life sector. He is also the global head of non-life reserving for insurance ratings and a member of the Run-off Payment Assessment (RPA) team.

Cameron is a Fellow of the Institute of Actuaries and holds a degree in Accountancy & Finance. He joined Standard & Poor's in June 2005, having spent 10 years working in the UK insurance sector, largely in the London Market.



Ralph Hebgen
Insurance Analyst,
Keefe, Bruyette &
Woods

After a 5-year period at UK life assurance company Friends Provident, I joined German Landesbank "Helaba" as a part-qualified actuary with a brief to analyse a portfolio of financials and non-financials from a credit perspective. From there, I joined stockbroker Cazenove as an equity analyst, covering Continental European insurance stocks. I currently work at financial specialist Keefe, Bruyette & Woods, where I focus on insurers in France, Italy, and Austria.



Peter Hughes
Vice President,
Commercial & Product
Management,
Standard & Poor's

Peter is a Vice President of the Corporate & Governance practice of the rating agency Standard & Poor's with responsibility for a number of the business operations for the corporate, financial institutions, governments and insurance practices, including the development of insurer financial strength ratings, Insurance Linked Securitisations, the "European Risk Learning Institute", and the Ratings Evaluation Service. Peter joined Standard & Poor's in 1998.

Prior to joining Standard & Poor's, Peter worked for twenty years in the International Reinsurance markets, latterly as a business producer, broker and account executive. From 1978 to 1997 he worked for Sedgwick Group, most recently as Senior Partner responsible for new business production and Director in charge of Europe for Sedgwick Re.



Rob Jones
Managing Director,
Financial Institutions
Ratings,
Standard & Poor's

Rob Jones is Standard & Poor's European Insurance Criteria Officer and a Managing Director. He is based in London and has been with S&P for 14 years. His current focus includes various European/Global issues: reinsurance sector analysis, Enterprise Risk Management, EU (including Solvency II) and global regulation, IFRS and capital modelling. He is also extensively involved in developing and presenting Standard & Poor's internal and external training and seminars. He represents S&P on the IASB Insurance Working Group.

Rob joined Standard & Poor's in 1995, having previously been a senior manager with Ernst & Young where he specialised in insurance auditing, consulting and corporate advisory services for most of his 14 years with them. He was also extensively involved in the firm's insurance technical and training activities.

Rob holds a BSc in accounting and financial analysis from Warwick University. He is a Chartered Accountant (FCA) and a Chartered Insurance Practitioner (ACII).



Konstantin Klien
CEO,
UNIQA

Dr Konstantin Klien was born on April 26, 1951, and holds a doctorate in business management from the Vienna University of Economics. He started his professional career at Arthur Andersen in 1977 and changed to Nordstern Versicherung in 1978, where he became Member of the Board in 1986. He managed Nordstern's merger with Colonia and was appointed CEO in 1991. In 1997, when Nordstern-Colonia was acquired by AXA, France, he had already expanded business activities to Hungary and Liechtenstein with two separate companies.

Since 2002, he has been CEO of UNIQA Versicherungen AG, Austria's largest insurer, which resulted from a merger between Bundesländer, Austria-Collegialität and Raiffeisen Versicherung in 1997 and is presently one of the fastest-growing companies in Central and Central Eastern Europe.

Dr Klien is a member of the Presidential Committee of the Austrian Insurance Association and of the Supervisory Board of Casinos AG Austria.

His international mandates include a statutory membership in the Geneva Association.



David Laxton
Senior Director,
Financial Institutions
Ratings,
Standard & Poor's

David Laxton is a Senior Director of Standard & Poor's responsible for a team of analysts covering European insurance company credit analysis. He joined Standard & Poor's in December 1995 having previously held senior financial positions in both life and non-life insurance companies and been a Regulator. He is a Chartered Accountant with an MBA from City University.

David has been with Standard & Poor's for over 13 years and has covered a broad range of non-life, life and reinsurance companies. In particular he has specialised in the Nordic, Dutch, Central European and Russian /CIS markets. David has been involved in developing Standard & Poor's criteria for insurance company analysis and in internal and external training.

Prior to joining Standard & Poor's David worked in insurance for 14 years, most of that time in the London Market, and then spent 3 years as a Regulator responsible for supervising the UK composite insurance sector.



Yann Le Pallec
Managing Director,
Head of Insurance
Ratings, EMEA,
Standard & Poor's

Yann Le Pallec is the Head of Standard & Poor's Insurance Ratings for Europe, Middle East and Africa.

Yann manages a team of 50 insurance credit analysts based in London, Frankfurt, Paris, Milan and Moscow covering more than 400 rated insurers and reinsurers across the region. He represents the Standard & Poor's Insurance Ratings Practice at public events regularly and is personally involved in the Solvency 2 debate. Yann is based in Paris.

Yann joined Standard & Poor's in December 1999, having previously been a senior manager with Paris-based audit firm Salustro Reydel, specialized in insurance.

Yann holds a business degree from ESSEC, France.



Stefan Lippe
CEO,
Swiss Re

Mr Lippe, a German citizen born in 1955, graduated in mathematics with business administration from the University of Mannheim. He obtained his doctorate in 1982 while working as a scientific assistant to the chair of insurance business management.

He joined Bavarian Re in 1983 and in 1986 became head of the non-proportional underwriting department. He was appointed deputy member of the board in 1988, a full member in 1991 and, in 1993, became chairman of the board of management.

Stefan Lippe was appointed a member of Swiss Re's Executive Board in 1995, as Head of the Bavarian Re Group. In 2001, he was assigned as Head of the Property & Casualty Business Group and appointed a member of the Executive Committee. In September 2008 he took over as Chief Operating Officer and was appointed Chief Executive Officer on 12 February 2009.



Joachim Oechslin
Group CRO,
Munich Re

Joachim Oechslin is Group Chief Risk Officer and Head of Integrated Risk Management at Munich Re, which he joined on 3 September 2007.

A Swiss citizen, he studied electro-technics and mathematics in Zurich and Winterthur, followed by a university teaching position at HTL Winterthur.

He started his professional career in 1998 as a consultant at McKinsey & Company in Zurich. In 2001, he joined Winterthur Life & Pensions. Subsequently, in 2003, he was appointed Chief Risk Officer and, in 2006, Member of the Executive Committee of the Winterthur Group, which was acquired by the AXA Group in December 2006.

In 2007, he took over the position of Deputy Chief Risk Officer of the AXA Group in Paris.

Joachim Oechslin is Munich Re's representative in the European Chief Risk Officer Forum and a member of the IFRI (International Financial



Trevor Petch
European Insurance
Analyst,
Insight Investment

After a degree in economics and postgraduate work in Latin American Studies at King's College, Cambridge, Trevor Petch worked for nine years as a teacher of children with behavioural or learning difficulties before becoming a journalist, specialising initially in Caribbean economics and politics. In 1987 a chance freelance commission led to him joining the Financial Times World Insurance Report. He was its editor from 1989 to 1996, and in 1990 launched the Financial Times East European Insurance Report, which he edited until 1999.

He joined Robert Fleming Securities as European insurance analyst in 1997. In 2000 he moved to the London branch of Alecta, the largest manager of pension assets in Sweden, as senior analyst for pan-European financials, taking up his present position as European insurance analyst for Insight Investment in 2004. He is an active member of the Corporate Reporting Users Forum (CRUF) Insurance Group. He is speaking today in a personal capacity.



Jeroen Potjes
Chief Insurance Risk
Officer,
ING Group

Jeroen Potjes (1965) started his career with ING in 1992 within the Group Actuarial and Risk Control.

From 1992 Jeroen Potjes started working in ING for Group Actuarial & Risk Control. He worked on several projects, and was responsible for embedded value reporting. He set up the risk management department of ING Life Japan starting in 1997 and became CFO in 1999, responsible for the Finance, Actuarial and Investment Analysis Divisions. In 2001, Jeroen became CFO of ING Asia Pacific and became General Manager and CFO of ING Insurance Asia Pacific in 2007 responsible for both Finance and Insurance Risk Management. From April 2008, Jeroen is General Manager and Chief Insurance Risk Officer of ING Group, leading ING's Risk Management network managing insurance and market risks of the insurance companies of ING Group.

Jeroen holds a Doctorate of the Faculty Economics at Erasmus University in Rotterdam on the thesis "Empirical Studies in Japan Retailing" (1993). He studied Econometrics (1997).



Laura Santori
Senior Director,
Financial Institutions
Ratings,
Standard & Poor's

Laura Santori is a Senior Director at Standard & Poor's Financial Institutions Europe.

Laura is the head of the Paris and Milan insurance teams and, since May 2005, head of Insurance Enterprise Risk Management Europe.

After having qualified as a life actuary in Rome in 1994, Laura joined Towers Perrin in Paris as a junior consultant. She then moved on to the Hong Kong branch of Assicurazioni Generali, where she was primarily in charge of the regional coordination of their international pooling arrangement business. In 1997, she moved back to Paris with Generali Finances, where she was in charge of developing ALM for the Group's French subsidiaries.

Shortly after, Laura joined Bacon & Woodrow, an actuarial consultancy firm based in London, where she was responsible for various consulting assignments for European companies, primarily in the area of Embedded Value methodology. She also participated in several M&A assignments and she was involved in various ALM projects for large European groups. In 2001, she joined Standard & Poor's as an associate, where she initially focused on the analysis of southern European groups.




Jean-Michel Six
European Chief
Economist,
Standard & Poor's

Mr. Six rejoined Standard & Poor's as Chief European Economist, based in London, in February 2005, after a number of years working in senior positions in the business services sector. He held a series of roles for Standard & Poor's economic and financial information business between 1982 and 1997, including Chief European Economist and global head of sales and marketing. He left Standard & Poor's in 1997 to help found Global Partners, Inc., a US-based business development and executive training firm, and subsequently held senior positions for Giga Information Group, a US IT advisory firm, and Kyriba Corp. a treasury management systems group, where he headed the company's North American operation.

Mr. Six has been a member of the ECB Shadow Council since June 2007.

Mr Six holds a PhD in Economics from the University of Paris.

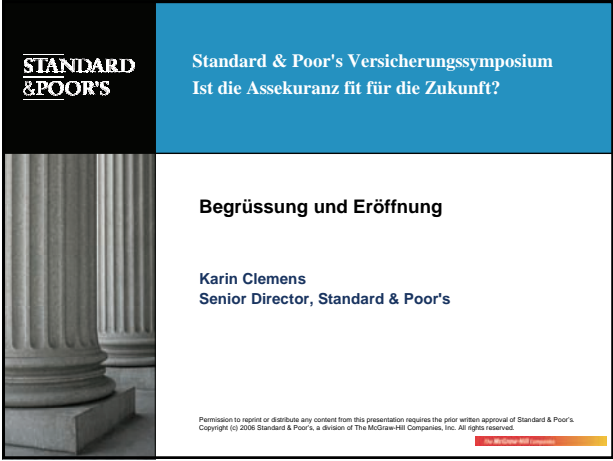
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Versicherungssymposium

Mittwoch, 24. Juni 2009

Presentations





Standard & Poor's Versicherungssymposium
„Ist die Assekuranz fit für die Zukunft?“

Enterprise Risk Management (ERM)
– Rüstzeug in Krisenzeiten

Jörg Schneider
Mitglied des Vorstands (Chief Financial Officer)

Münchener Rück
Munich Re Group

24. Juni 2009

Agenda

Münchener Rück
Munich Re Group

- A. Aktuelle Finanz- und Wirtschaftskrise:
Erster Härtefall für gutes Risikomanagement
- B. Konsequenter gelebtes ERM:
Überlebenskonzept für die Versicherungswirtschaft
- C. ERM als strategischer Erfolgsfaktor:
Auf dem Weg zu einem Wert schaffenden Portfoliomanagement

19.06.2009 2

Aktuelle Finanz- und Wirtschaftskrise
Zinsen wieder steigend, Risiken haben ihren Preis!

Münchener Rück
Munich Re Group

EUR Staatsanleihen

USD Staatsanleihen

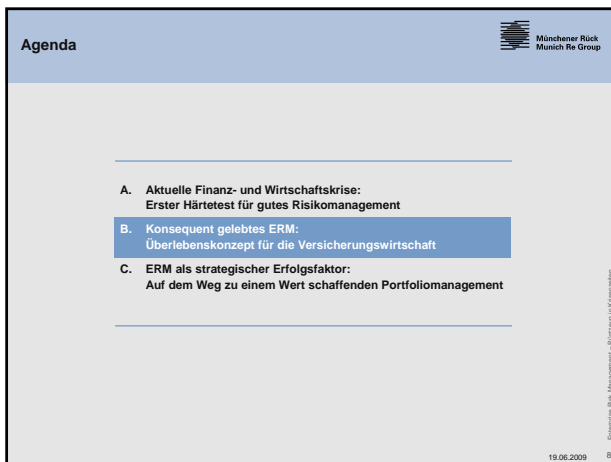
Spreads EUR Unternehmensanleihen (10 Jahre)

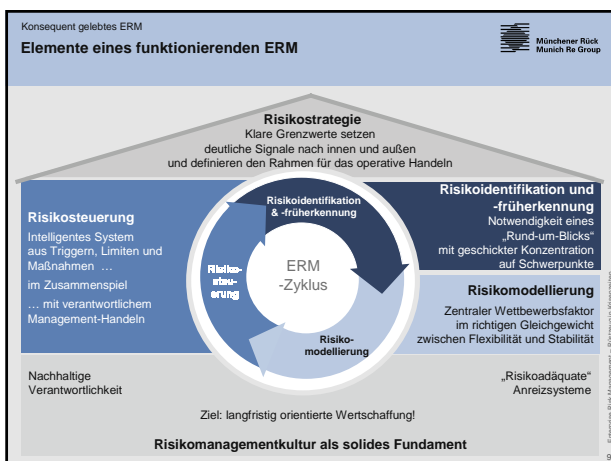
VSTOXX Index


Quelle: MEAG, Datastream, Reuters.

19.06.2009 3








Agenda 

- A. Aktuelle Finanz- und Wirtschaftskrise:
Erster Härtefall für gutes Risikomanagement
- B. Konsequenz gelebtes ERM:
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Auf dem Weg zu einem Wert schaffenden Portfoliomanagement

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Enterprise Risk Management – Risikozugriff in Unternehmen

ERM als strategischer Erfolgsfaktor 

Vom Risikomanagement zum aktiven Portfoliomanagement

Portfoliomanagement macht ERM zum Erfolgsfaktor auf der Geschäftsseite!


Ökonomische Portfolio-Steuerung dank ERM mit zielsicherer Identifikation und Messung von Risiken

- durch Gestaltung eines nachhaltig vorteilhaften Risiko-/Returnportfolios, konkret Ausbalancierung von
 - kurzfristig ertragreichem Geschäft mit langfristig ausgerichteten Zukunftsoptionen
 - verschiedenen wenig miteinander korrelierten Versicherungsrisiken und geographischen Expositionen (aber: Konflikt mit „Konzentration auf Kernkompetenzen und Kernregionen mit hohen Marktanteilen“)
 - verschiedenen Kapitalanlagerisiken
 - intelligentem Mix von Kapitalanlage- und Versicherungsrisiken
- zweckentsprechende risikobasierte Steuerungs- und Anreizsysteme
- ERM integrierter Bestandteil der gesamten Unternehmensstrategie

Gutes Risikomanagement im „defensiven und offensiven“ Sinne befördert nachhaltigen unternehmerischen Erfolg

Enterprise Risk Management – Risikozugriff in Unternehmen

23

ERM als strategischer Erfolgsfaktor 

ERM ein Muss – aber gut auszubalancieren

Vorsicht: Methodisch und organisatorisch „perfektes“ ERM mit

- unabhängigen, hoch qualifizierten Risikomanagern
- exzellenter Identifikation und Quantifizierung der Risiken
- Weltklassmodellierung und hervorragenden Berichtssystemen
- intelligenter Portfoliooptimierung ...

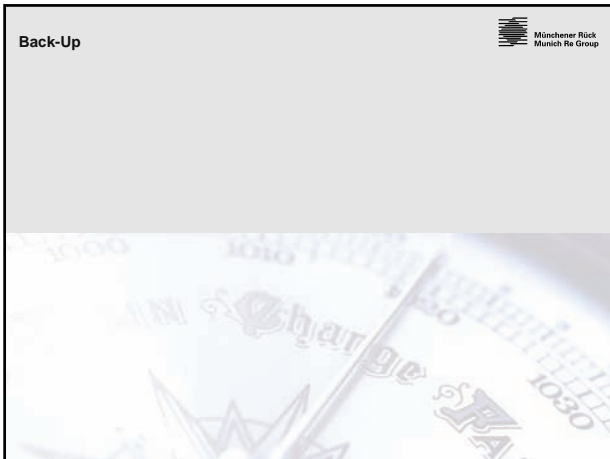
⇒fördert blinden Modellglauben
 ⇒Wieg uns in falscher Sicherheit
 ⇒kann die gesunde Skepsis ausschalten
 ⇒entmutigt Querdenker

Fazit:

Etablierung eines guten Enterprise Risk Management ist ein Muss für verantwortliche Unternehmensführung; unvermeidliche Unzulänglichkeiten sind keine Ausrede für Untätigkeit!
 Aber: Feste Bodenhaltung, unternehmerisches Gespür und gesunder Menschenverstand sind durch nichts zu ersetzen.

Enterprise Risk Management – Risikozugriff in Unternehmen

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Implikationen der Finanzmarktkrise

Implikationen für das ERM gemäß CRO Forum

Münchener Rück
Munich Re Group

Integrierte Risiko-kontrolle	<ul style="list-style-type: none"> • Effiziente und umfassende interne Risikokontrolle • Risikomanagement muss vorausschauend, unabhängig und handlungsfähig sein • Explizite Festlegung und Überwachung der Risikotoleranz • Kompensation gebunden an risikoadjustierte Kennzahlen
Risiko-modelle	<ul style="list-style-type: none"> • Unerlässliches Werkzeug für verschiedene Zwecke, vermehrt auch für die Aufsicht • Kein Ersatz für gesunden Menschenverstand und Kenntnis der Risiken • Fortlaufende Anpassungen aufgrund von Erfahrungen notwendig, ersetzt nicht das Urteilsvermögen der handelnden Personen
Liquiditäts-Risiko-management	<ul style="list-style-type: none"> • Liquiditätsrisiken und Solvenzrisiken zwei komplett verschiedene Dinge • Liquiditätsrisikomanagement soll auf Szenariorechnungen basieren • Liquiditätsrisiken der Versicherer grundlegend anders als die der Banken
Bewertung und Transparenz	<ul style="list-style-type: none"> • Marktvertrauen verlangt zutreffende Bewertung und umfassende Transparenz • Markt konsistente Bewertung von Anlagen und Verpflichtungen soll der Standard für Finanzkennzahlen und Aufsicht werden • Ratingagenturen sollten beaufsichtigt werden • Kein blinder Gebrauch von Ratings
Gruppen-aufsicht	<ul style="list-style-type: none"> • Krise unterstreicht die Notwendigkeit für internationale Kooperation der Regulatoren • Prinzipienbasierte und auf ökonomischen Grundsätzen aufbauende Aufsicht notwendig • Änderungen des IAS sollen gestützt werden durch Einführung bindender Standards, die die regulatorische Konvergenz beschleunigen

Quelle: CRO Forum, April 2009

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Panel 1: Gewinnen und Bestehen in herausfordernden Märkten

Es diskutieren:

Dr. Jörg Schneider, Munich Re
 Dr. Axel Wehling, GDV
 Dr. Jan Martin Wicke, W&W

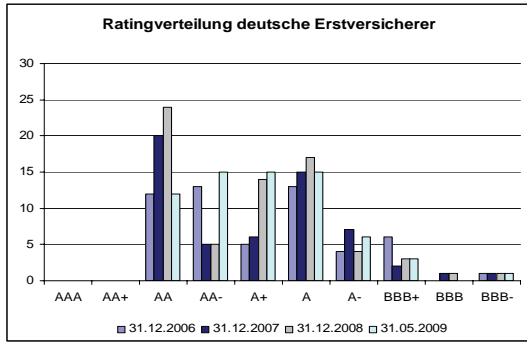
Moderation:

Karin Clemens, Senior Director, Standard & Poor's

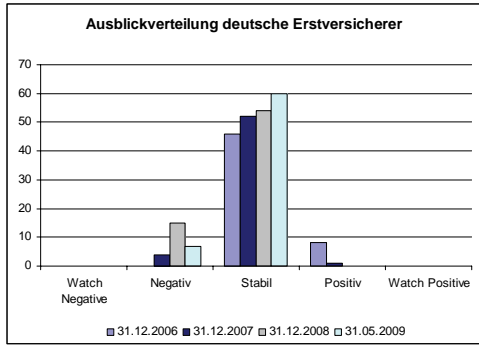
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Deutsche Erstversicherer befinden sich in relativ robuster Verfassung



Der Spielraum im Rating hat sich jedoch reduziert



S&P Ausblick – Deutsche Erstversicherer

- Deutlicher Rückgang in der Kapitalausstattung
- Verhaltene Wachstumsaussichten
- Starker Wettbewerb
- Unsichere Entwicklung der Finanzmärkte
- Verbesserung der Ergebnisaussichten frühestens in 2010

Der Spielraum im Rating im Falle einer weiteren Verschlechterung des Finanzprofils und/oder Geschäftsprofils ist weitgehend ausgeschöpft



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STANDARD & POOR'S

Panel 2: Wieviel Größe muss sein?

Es diskutieren:

Friedrich Gieseler, DEVK
Dr. Werner Görg, Gothaer
Dr. Gerhard Rupprecht, Allianz Deutschland

Moderation:

Wolfgang Rief, Director, Standard & Poor's

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Wieviel Größe muss sein?

- Gibt es eine Mindestgröße?
- Wie misst man Unternehmensgröße?
 - Mitarbeiter?
 - Prämienvolumen?
 - Marktanteile?
- Welche Vorteile/Nachteile könnte Größe bieten?
 - Skaleneffekte?
 - Synergien?
 - Wo bietet Unternehmensgröße Wettbewerbsvorteile?
 - Diversifikation versus Komplexität?



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S&P Ratingkriterien im Überblick




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Wandel als Chance

Torsten Hinrichs, Managing Director,
Geschäftsführer Standard & Poor's Deutschland

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4th Annual European Insurance Symposium


Thursday, 25th June 2009

Presentations




Standard & Poor's
4th Annual European Insurance Symposium
“Rebuilding Capital, Reputations and Confidence”

Sofitel Munich Bayerpost, Germany
 Thursday 25th July 2009



4th Annual European Insurance Symposium
 “Rebuilding Capital, Reputations and Confidence”



Welcome & Introduction


Yann Le Pallec
 Managing Director, Head of Insurance Ratings, EMEA,
 Standard & Poor's

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Talking points

- When and where will market sentiment converge with fundamentals again?
- How much capital is enough?
- How much financial flexibility do insurers have left?
- Where now for hybrids?
- ERM: with hindsight, how did it do?
- Solvency II: will it be delivered?
- Insurers are the same as banks, aren't they?
- How confidence-sensitive are insurer's liabilities?
- What role does government support have in ratings (witness AIG, Fortis, ING, AEGON)?
- How do bond spreads and equity prices inform the rating process?
- Ratings in insurance markets - how are they used and what's changed?

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Key Note Speech

Anthony Angel
Executive Managing Director, EMEA,
Standard & Poor's

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STANDARD & POOR'S



European Economic Outlook: The Long, Slow Climb From Recession Begins

Jean-Michel Six
Chief European Economist

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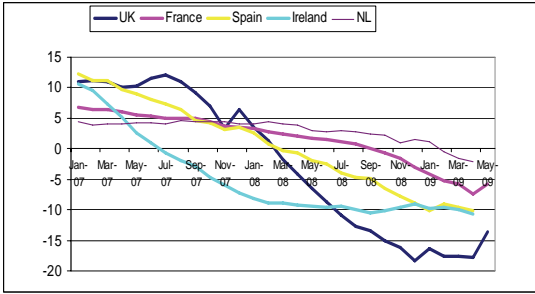
Key Messages

- **Very slow recovery from the most severe recession in 40 years**
 - The "worst" should be behind us in terms of output declines:
 - Low commodity prices have helped consumers
 - Fiscal stimulus across all economies
 - Ultra low interest rates
 - Emerging markets are decoupling now
 - But growth in Europe is going to remain sub trend for the next 18 months:
 - High Unemployment
 - Major drop in financial wealth, housing markets
 - Uneven outlook in emerging markets (Eastern Europe..)
- **Inflation a remote risk**
 - Because of the amount of slack in manufacturing sector
 - Oil prices below \$100/bbl
 - Monetary policies haven't caused a surge in money supply
 - But the temptation to "monetize" public debt will be strong
- **The major risk: A W-shaped recession**
 - FX Markets and the risk of a weak dollar
 - Bond markets and the risk of higher interest rates

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STANDARD & POOR'S

A Synchronized Slump in Housing Markets



House Price Inflation (% change y/y)
Source: Halifax, FNAIM, Irish Statistical Office, NL Kadaster, Tinsa Int.



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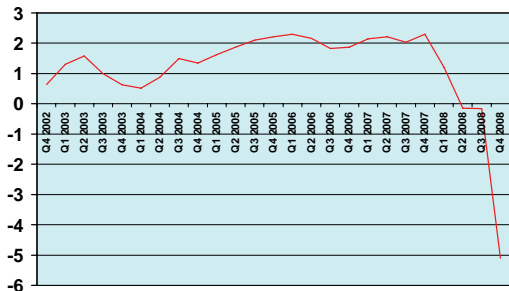
Emerging Markets: Uneven Recovery As Financing Constraints Remain Strong

Country	Current Account defaults as % of GDP in 2008	Foreign Debt as % of GDP in 2008
Bulgaria	-24.4	103.0
Estonia	-10.8	115.1
Latvia	-15.1	121.5
Lithuania	-14.9	73.4
Poland	-4.7	52.0
Romania	-13.8	37.1
Slovakia	-5.1	51.0
Slovenia	-4.7	107.1
Czech Republic	-2.2	39.2
Hungary	-5.5	93.0



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BIS Reporting Countries: Cross-Border Assets as a Proportion of Total Bank Assets



Annual change in %

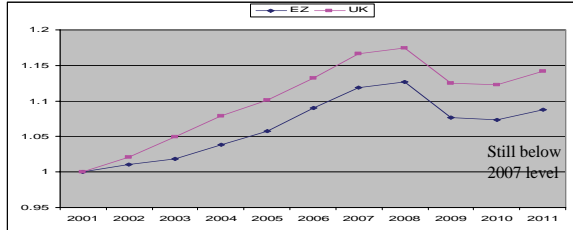


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3 – Inflation is a Remote Risk

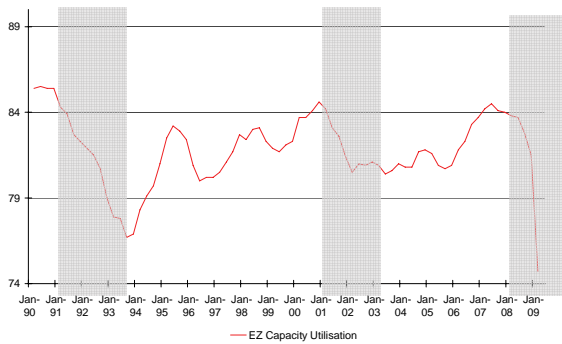
- Because of the amount of slack in manufacturing sector
- Oil prices below \$100/bbl
- Monetary policies haven't caused a surge in money supply
- But the temptation to "monetize" public debt will be strong

Real GDP: Rebased as 2001-1.00



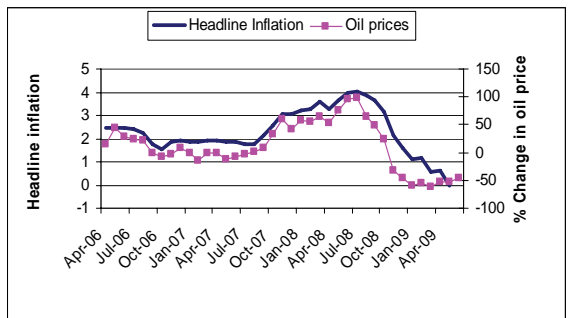
19.

Considerable Amount of Slack in the Manufacturing Sector



20.

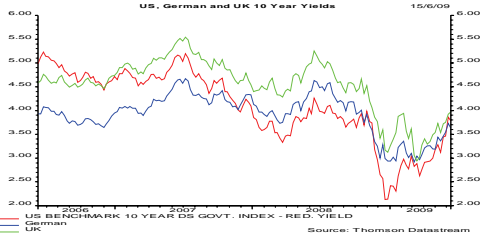
Moderate Increases in Oil Prices Foreseen



21.

The Major Risk: A W-Shaped Recession

- Short lived recovery in early 2010
- Followed by new pull back
 - Activity on Credit markets stalls
 - EM's on the verge of deflation
 - Banking systems almost fully nationalized, surge in public debt
 - US dollar FX rate collapses (twin deficits), making European exports very uncompetitive
- "Bond Bubble" bursts, causing interest rates to shoot up, killing incipient recovery in capital spending



25.



STANDARD & POOR'S

The New Capitalism: What does the future hold for US insurers and banks?

Jayan Dhru
Global Head – Financial Institutions Ratings

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Role of Government Support in U.S. Financial Institutions Ratings

- Broadly, we see higher risks related to bank sector than previously assumed
 - Franchise stability and market confidence are critical components of credit
 - Higher credit loss expectations
 - Further slowdown in lending unfolding
- S&P's Bank Industry Country Risk Assessment (BICRA) revised on Dec. 17, 2008, reflecting credit performance deterioration and macroeconomic weakness
- U.S. revised to Group 2 from Group 1
- Downgrades or Outlook Changes on 22 Banks As a Result of Reassessment based on Our Analysis of Industry Fundamentals
- Significant Capital Raises & Extensive Government Support Have Been Mitigating Credit Deterioration

Average Bank Rating In The US Declined To BBB+ From 'A' In June 2007



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Role of Government Support (continued)

- U.S. government measures – while no panacea – have provided measure of stability to bank ratings that otherwise were vulnerable to deteriorating market confidence and an associated “credit cliff”
- Benefits have been especially noteworthy in cases of systemically important banks, which have received extraordinary external support
- In some instances, we've explicitly identified extent of enhancement added to “stand-alone credit profile” to derive issuer credit rating, reflecting our assessment of potential for additional extraordinary government intervention
- We see much of current government support as temporary. At some point, banks will be expected to operate on less supported basis again
- Key rating issue will be extent to which banks use period of support to reconfigure and strengthen their businesses
- Flip side of extraordinary support is that regulation will, in our view, become tighter and more prescriptive



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Selected Major Financial Institutions

Issuer/Counterparty Credit Ratings*	Holding Company	Operating Company	Notching Uplift from Government Support
U.S.-based:			
Bank of America Corp.	A/Stable/A-1	A+/Stable/A-1	3
Citigroup Inc.	A/Stable/A-1	A+/Stable/A-1	4
Goldman Sachs Group Inc. (The)	A/Negative/A-1	A+/Negative/A-1	2
JPMorgan Chase & Co.	A+/Negative/A-1	AA-/Negative/A-1+	0
Morgan Stanley	A/Negative/A-1	A+/Negative/A-1	3
Wells Fargo & Co.	AA/CW Neg/A-1+	AA+/CW Neg/A-1+	0
Europe-based:			
Barclays PLC	A+/Negative/A-1	AA-/Negative/A-1+	0
Credit Suisse Group	A/Stable/A-1	A+/Stable/A-1	0
Deutsche Bank AG	N.A.	A+/Stable/A-1	0
HSBC Holdings PLC	AA-/Negative/A-1+	AA/Negative/A-1+	0
Royal Bank of Scotland Group PLC	A/Stable/A-1	A+/Stable/A-1	4
UBS AG	N.A.	A+/Stable/A-1	2

*Ratings as of May 1, 2009. Source: Standard & Poor's Research



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U.S. Government Response

Multi-Pronged Approach

- Freeing up liquidity
- Increasing access to term funding
- Direct capital injections into banks
- Macroeconomic stimulus

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Uses of Stress Testing

- It's a tool—used since 2006
- Impact on earnings
- Impact on capital adequacy
- The "One Size Fits All" design will be adjusted for company specifics
- We will examine results of others' stress tests as available

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S&P Stressed Loss Assumptions – Annual Losses

Asset Type	Actual NCOs Rate 4Q 2008 (%)	Base Case Loss Assumptions Annual NCOs (%)	Stress Case Loss Assumptions Annual NCOs (%)
Residential Mortgage	0.97	2.00	3.00
Home Equity	2.58	4.00	7.00
Construction & Land	5.82	8.00	10.00
Multifamily	0.76	2.00	3.00
Commercial Mortgage	0.66	4.00	7.00
C&I	1.56	2.50	3.50
Other Consumer	3.60	5.00	7.50
Credit Cards	6.53	10.00	13.00
Other Loans	1.57	3.00	4.50
Agric Prod & Farm	0.32	1.00	3.00
Depository Institutions	1.13	2.00	3.00
Loans to Foreign Govt.	0.00	0.50	0.75
Lease Financing Receivables	0.78	2.00	4.00
Total Loans	2.21	4.09	5.97

33.

Source: S&P analysis and FRY-9C regulatory reports. Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.



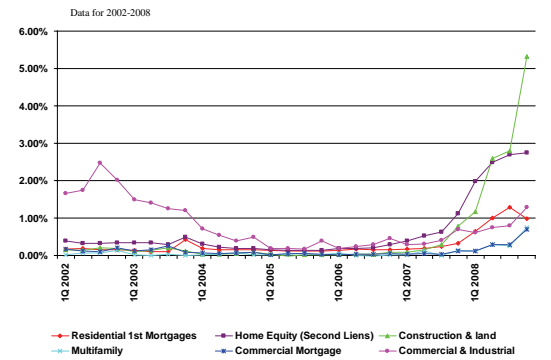
S&P Stress Case: Impact of Loan Losses on Earnings and Capital

- Stressed period continues for all of 2009 and 2010
- Purchase accounting adjustments for loans acquired deducted from loss estimates
- Normalized pre-provision income based on fourth-quarter 2008
- RWA remains flat; securitized credit card receivables on balance sheet
- Loan-loss reserves raised to cover 1 year of stressed net charge-offs
- Assume 50% losses on unrealized losses on private-label mortgage-backed securities and 80% for the stress case
- Risks of other complex securities holdings not addressed
- Assume dividend cuts
- Estimate Tier 1 capital, TCE/Tangible Assets, TCE/RWA. Add capital raises after December 2008



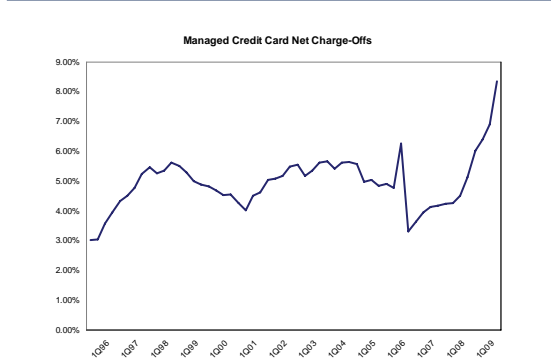
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Net Charge-Off Rates at Historic Highs



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Card Loss Rates Headed Higher



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Common Equity Is Greater Need Than Tier 1

Scenario:	Pretax Margin (Year 1)	Pretax Margin (Year 2)	Banks that Fail Adjusted Tier 1 (%)	Banks that Fail TCE / TA (%)	Banks that Fail TCE / RWA (%)
Base Case	-30.65%	-7.29%	20%	38%	32%
Stress Case	-79.73%	-31.83%	72%	78%	82%

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Results of Stress Tests Show Moderate Capital Needs

(\$Bil)

Scenario:	Annual Credit Losses	Reserve Build	Pretax Profit Margin		Estimated Tier 1 / RWA Shortfall	Estimated TCE / TA Shortfall	Estimated TCE / RWA Shortfall
			Year 1	Year 2			
Base Case	\$230	\$109	-31%	-7%	\$21	\$31	\$37
Stress Case	\$335	\$223	-80%	-32%	\$148	\$204	\$193

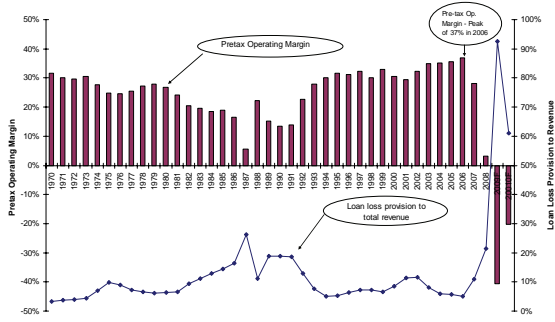
38.

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Profitability – Our Expectation

Pretax Operating Margin & Loan Loss Provision to Total Revenue



Source: FDIC and S&P

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2009 U.S. Life Industry Outlook



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Strong Fundamentals Remain Intact, But...

Continued Market Pressures May Impact Ratings Downward

- Standard & Poor's outlook on the U.S. life industry changed to "Negative" in October 2008

- View for the coming months
 - The outlook for the U.S. life industry is negative, but in our opinion the sector's strong fundamentals remain intact
 - If ratings were negatively affected, the downgrades would likely be one to two notches, at most



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Key Strengths

Our View of the U.S. Life Insurance Industry

- Relatively stable insurance cash flows from mortality, morbidity and expense performance

- Generally strong liquidity profile due to surrender charges, protected liabilities and highly marketable investment portfolios

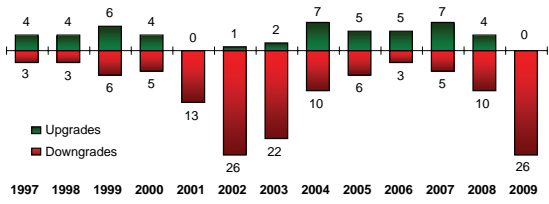
- Well positioned to capture opportunities in the retirement market

- Despite various recent market pressures, strong capitalization generally remains intact



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Credit Rating Trends
U.S. Life Insurance 1997 – 2009

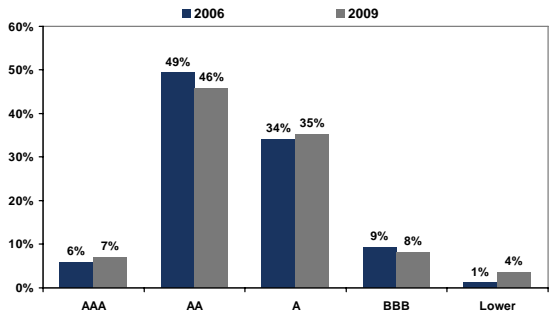


Source: Standard & Poor's.
2009 totals through April 26, 2009; multiple rating actions within a given year are included.



43.

Distribution of Credit Ratings
U.S. Life Insurance 2006 vs. 2009

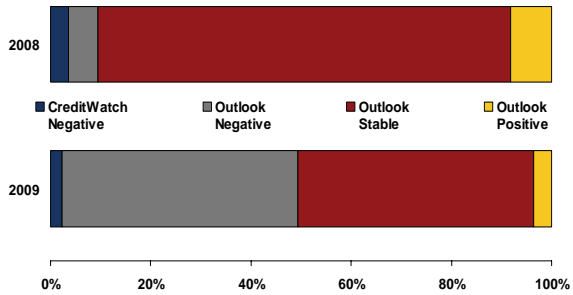


Source: Standard & Poor's.
Ratings of 86 interactively rated companies and groups as of April 26, 2009 looking backward to 2006.



44.

Credit Ratings Outlook
U.S. Life Insurance 2008 vs. 2009



Source: Standard & Poor's.
Ratings of 86 interactively rated companies as of April 26th of each year.



45.

U.S. Life Outlook Remains Negative

Three Key Themes

1. Higher than expected credit defaults

- Investment grade bonds
- Below investment grade bonds
- Commercial real estate
- RMBS/CMBS

2. Equity market levels and volatility

- Direct exposure
- Indirect exposure/product driven

3. Reduced financial flexibility

- Financial services companies not attracting capital



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Incorporating Incremental Stress



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Taking into Account Unprecedented Stresses

Standard & Poor's View

- U.S. insurers' holdings could experience unprecedented stress in the next 12 to 18 months
- These holdings represent 80% of the industry's invested assets in:
 - Bonds
 - Commercial mortgages (CM), and
 - Commercial mortgage-backed securities (CMBS)



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Standard & Poor's Incremental Stress Analysis

Applied in Periods of Unprecedented Stresses

- Incremental stress analysis evaluates the amount of capital that an insurer would need to cover losses in the current economic environment at confidence intervals commensurate with ratings categories, as follows:
 - 99.9% – AAA;
 - 99.7% – AA;
 - 99.4% – A;
 - 97.2% – BBB (five year time horizon)
- Should be interpreted as reflecting a near-term (one to two years) view based on current market conditions



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Application of Stress Factors – Corporate Bonds

On Insurers' Holdings

- Applied by credit rating and maturity bucket to insurers' balance sheets on a pro forma 2008 basis
- Example: For the five- to 10-year maturity bucket, at the "AAA" confidence interval, Standard & Poor's added an incremental stress capital charge of 4.03% for "BBB"-rated bonds to the existing 4.33% baseline factor, reflecting a total stress (existing plus additional) of 8.36%



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Application of Stress Factors – Commercial Mortgages (CM)

On Insurers' Holdings

- Using the ACLI Mortgage Database, the worst observed economic cycle for commercial mortgages occurred from 1988–1995
- The cumulative foreclosure rates were approximately 17% and average loss severity rates were approximately 27%
- The stress assumption does not differ by maturity
- Example: At the "AAA" confidence interval level, Standard & Poor's added an additional stress of 3.77% to the existing 2.90% baseline factor, reflecting a total stress of 6.67%



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Application of Stress Factors on Insurers' Holdings

Commercial Mortgage-Backed Securities (CMBS)

- Most CMBS transactions are facing increasing stress as the economic conditions deteriorate
- Standard & Poor's loss estimates will increase in response to the worsening market conditions, with expected losses for the 2005–2007 originations rising the most
- Our stress assumptions are that many of these assets will transition to lower ratings
- The vast majority, approximately 95%, of these securities within insurers' CMBS portfolios are identified as NAIC 1 bonds (A-AAA)
- Example:
 - At the "AAA" confidence interval, we added an incremental stress capital charge of 39.49% for "BBB"-rated bonds to the existing 4.33% baseline factor, reflecting a total stress (existing plus additional) of 43.82%



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Impact of Current Economic Stresses

On U.S. Insurers' Earnings and Competitive Position

- Standard & Poor's ratings actions recently taken
 - Reflect impact of economic stress on earnings and competitive position of life companies
 - As much as they reflect impact on capital adequacy
- Expected effect of these stresses
 - Will challenge life companies' competitive strengths
 - Thus, we have lowered our projections of many companies' earnings
- The recent market dislocations have challenged most enterprise risk management (ERM) programs
 - Insurers with large equity-related risks are reviewing ERM programs
 - And, are looking to increase product pricing to cover higher hedging costs



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**European Insurers:
So Far, So Good?**

Rob Jones
Managing Director, Financial Institutions Ratings,
Standard & Poor's

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The Headlines (Standard & Poor's Views)

“Europe's Insurers Feel The Strain, But The Sector Retains Its Strength”

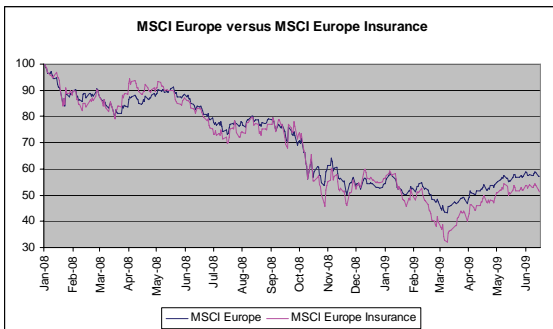
“Solvency II: Wounded, But Still Alive And Kicking”

1 April 22, 2009
2 February 12, 2009



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European Insurers: What Do Equity Markets Think?

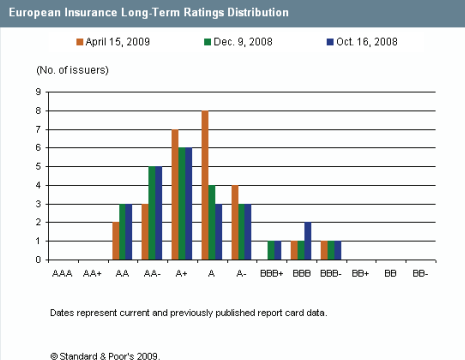


Source: Bloomberg Data as at June 16, 2009



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Our Opinion: Insurer Ratings – European Majors



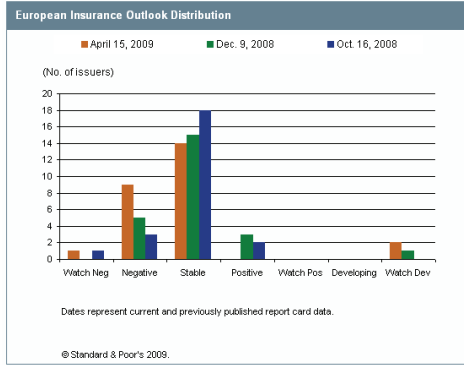
Dates represent current and previously published report card data.

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Our Opinion: Insurer Outlooks – European Majors



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Reinsurers – Cyclical Turn In Q4 2008

Balance sheets 2008

- Capital adequacy remains a strength (in spite of asset write downs and Hurricane Ike)
- Lower asset risk
 - High credit quality
 - Short duration
 - Moderate holdings in equities
- Loss reserves still adequate, but less so

Income statements 2009

- Price adequacy is generally sound
- Lower economic activity
- Low investment returns
- Catastrophe/financial turmoil losses?



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Primary Non-Life Insurance - Cycle Yet To Turn Convincingly

Balance sheets 2008

- Capital adequacy remains a strength
- Reinsurance protection demand higher, supply lower
- Lower asset risk
 - High credit quality
 - Short duration
 - Moderate holdings in equities
- Loss reserves still adequate, but less so

Income statements 2009

- Price adequacy is variable
- Lower investment return
- Lower economic activity
- Non-compulsory insurance cancellations/non-renewals
- Higher propensity to claim (including fraud)
- Financial turmoil claims



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Primary Life Insurance – A Sector Under Stress

Balance sheets 2008

- Higher asset risk (especially in US life subsidiaries)

Income statements 2009

- Economic pressures comprehensively negative
 - Higher lapse risk
 - Less discretionary income
 - Value based fees declining
 - Guarantees
 - Lower investment return



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Capital Adequacy Is A Weakness For Some...

- Capital started the year at cyclical high
- ERM practices limited the downside
- Capital adequacy need not match target rating level at all times
- Greater tolerance of shortfall for higher rated insurers
 - Stronger competitive positions and earnings
- Tolerance influenced by earnings prospects



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...Financial Flexibility Has Been Stretched Too, But Is Now Improving

Insurers' options:

- **Equity capital**
 - Suspend share repurchase programs?
 - Reduce dividends?
 - Raise capital?
- **(Hybrid) Debt capital**
 - Miss call dates?
 - Defer interest?
 - Raise capital?
- **Balance sheet management**
 - Hedge asset risks?
 - Buy more reinsurance?
 - Sell more cat bonds/sidecars?
- **Or look to policyholders / cedants?**
- **Or even governments?**



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Insurers Are Not Banks....

- Confidence sensitive, but different implications
- Naturally liquid balance sheets and cash flows except:
 - Post catastrophe
 - Surrender activity
- Low leverage / capital markets dependence
 - Insurance linked securitisation (ILS) still in its infancy
- Lower systemic threat

However, they may suffer some of the regulatory consequences



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So Summing Up, In Our Opinion, In The Medium Term:

European insurance remains a strong sector with its business model intact...but, expect more negative than positive rating actions this year



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.....Longer Term....

***“Solvency I is no longer fit for purpose
.....current turmoil highlights the
urgency of implementing Solvency II”****

- Solvency II remains on target for October 2012
 - With some important compromises
- Reinforced by the de Larosière report

* From "Solvency II: Wounded, But Still Alive And Kicking" February 12, 2009



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Group Support (1)

- **Initial proposal to allow subsidiaries to cover only MCR rather than SCR, with difference made up by parental guarantees**
 - Would have allowed groups to downstream diversification benefits to subsidiaries
 - Fundamental to Directive
 - Smaller member states opposed
 - Council of Ministers versus EC and EP
- **CEA supportive although most insurers (quietly) opposed**
- **Implications of absence**
 - Undermines group solvency proposals
 - Loss of market efficiency / competitiveness
 - Loss of capital fungibility

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Group Support (2)

- **Market response**
 - Lobby CEIOPS and EC
 - Group structure rationalisations accelerated
 - Internal reinsurance
 - Internal hybrid

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Capital Requirements For Holding Equities

- **QIS 2 tested 40% for global equity SCR**
- **QIS 4 tested 32% and a dampener**
- **Per QIS 4 report: Majority of insurers and supervisors believe minimum should be 40% and believe dampener lacks credibility**
- **Internal models average equity stress = 39% per QIS 4**
- **Directive includes dampener (SCR may fall by 10%)**

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Solvency II: Impact On Capital Adequacy

- **Based on QIS 4: 11% of Europe's insurers failed to cover SCR (QIS 3: 16%) but:**
 - What about the buffer?
 - Capital adequacy at cyclical peak (QIS 4 based on 2007 balance sheets)
- **25% of Europe's insurers may need to:**
 - Raise capital
 - Buy more reinsurance or other mitigants
 - Reduce risk
 - Write less business
 - Merge or be acquired
 - Close to new business



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Competitive Landscape Changes

Pillar 1 diversification benefits will give the more diversified groups capital relief and a pricing advantage

- Smaller insurers may find it increasingly difficult to compete while providing similar returns to their owners

Risk management capability and sophistication required to respond to Solvency II is demanding

- Systems overhauls may be needed, actuarial skills are in short supply
- Insurer readiness (Simplifications and Proxies used extensively in QIS 4)
- Supervisor readiness (63% of insurers to use internal models per QIS 4)

= European Market Consolidation



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Are Insurers Ready?



Country readiness:

- 1 UK
- 2 (Switzerland)
- 3 Netherlands, Denmark, (Bermuda)
- 4 Germany, Portugal, Sweden
- 5 France, Belgium, Italy, Spain, Ireland, Finland

Leading pan-European groups well prepared in our opinion



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**CEO/CFO Panel:
Rebuilding confidence in insurers**

Panellists:
Dr. Stefan Lippe, CEO, Swiss Re
Dr. Konstantin Kliem, CEO, UNIQA
Oliver Bäte, CFO-Elect, Allianz

Moderator:
Yann Le Pallec, Managing Director, Head of Insurance Ratings, EMEA, Standard & Poor's

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**CRO Panel:
ERM: Did it do the job?**

Panellists:
Jo Oechslin, Group CRO, Munich Re
Jeroen Potjes, Chief Insurance Risk Officer, ING Group
Tom Grondin, CRO, AEGON

Moderator:
Laura Santori, Senior Director, Financial Institutions Ratings, Standard & Poor's

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STANDARD & POOR'S




Main Room: Nymphenburg I & II
(1) Global multiline insurers: How do they shape up?
 Karin Clemens, Senior Director, Financial Institutions Ratings, Standard & Poor's

Schwabing IV to VI
(2) Ratings in insurance markets – how are they used?
 Peter Hughes, Vice President, Commercial & Product Management, Standard & Poor's

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STANDARD & POOR'S



**Global Multiline Insurers:
How do they shape up?**

Karin Clemens
 Senior Director, Financial Institutions Ratings,
 Standard & Poor's

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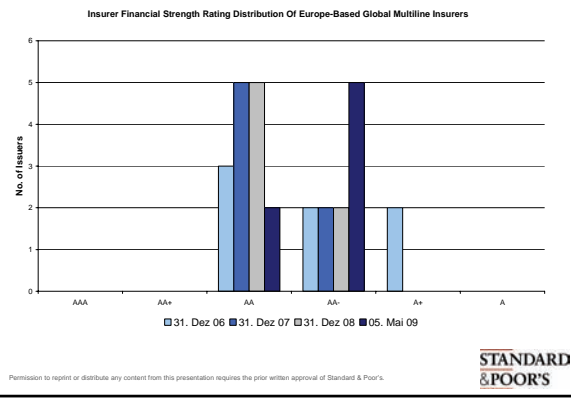
Agenda

- Europe-Based Global Multiline Insurers – Ratings Profile
- Our View On 2009 Rating Drivers

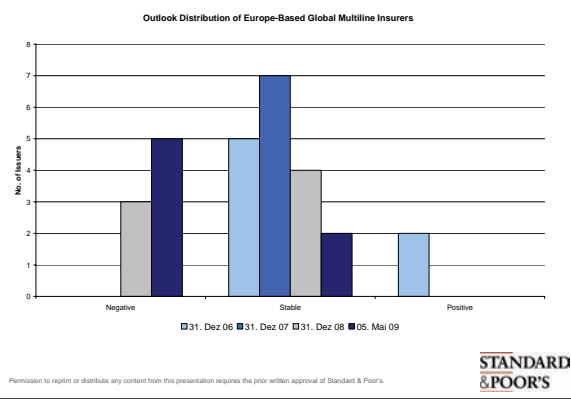
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STANDARD & POOR'S

GMI's Entered The Tougher Environment From A Position Of Relative Strength



.... But The Headroom In Ratings Has Reduced Considerably



Ratings (as of 16 June 2009)

Entity	IFSR*/Outlook Core Operating Entities	Rating/Outlook Holding Company
Allianz SE	AA/Stable	AA/Stable/A-1+
AXA	AA/Negative	A+/Negative/A-1
Assicurazioni Generali SpA	AA-/Stable	AA-/Stable/--
Aegon N.V.	AA-/Negative	A-/Negative/A-2
Aviva PLC	AA-/Negative	A/Negative/--
ING Verzekeringen N.V.	AA-/Negative	A+/Negative/A-1
Zurich Insurance Co.	AA-/Negative	A/Negative

* Insurer Financial Strength Rating

Agenda

- Europe-Based Global Multiline Insurers – Ratings Profile
- Our View On 2009 Rating Drivers



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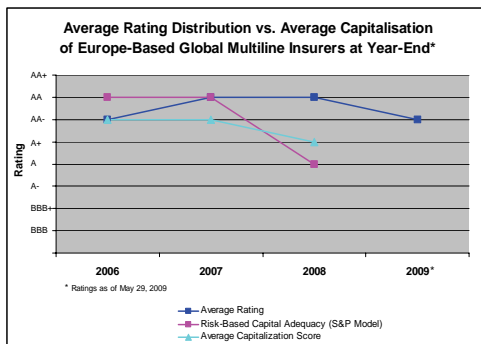
Our View On 2009 Rating Drivers

- Capitalization remains in the focus
- Financial flexibility is stretched, but improving
- Operating performance key to rebuild capital
- Investment exposures to be closely monitored



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Capitalization: The S&P View



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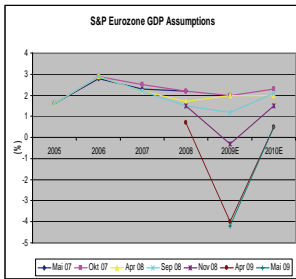
Capitalization Likely to Drive Greater Rating Divergence

- Reemphasis on capital by market participants
- No fundamental changes to existing capital strategies
- Capitalization has in our opinion become a relative weakness for the majority of GMI
- Allianz risk-based capital adequacy has in our view proven more resilient on a relative basis helped by the sale of Dresdner
- AEGON and ING continue to have what we consider very strong risk-based capital adequacy partly owing to government support



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2009 Economic Outlook: Deteriorating Fast



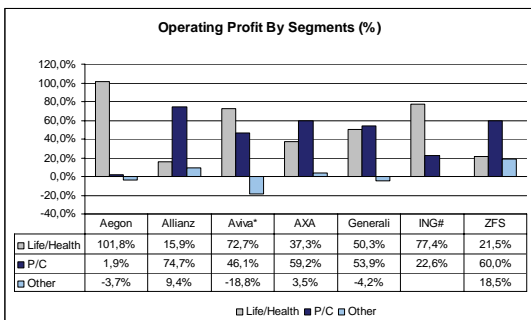
- Tougher environment leads to worsening business and operating performance prospects
 - Stagnant non-life premiums
 - Increased non-life claims frequency
 - Falling new life business
 - Higher life policy lapses

Source: Standard & Poor's Macroeconomic Forecasts



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GMI's With a Non-Life Bias Show Greater Earnings Resilience



Insurance profits only
Source: Company Accounts



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Turn In The Non-Life Cycle Will Be Critical To Ratings

- Pricing cycle in non-life primary insurance has not changed dramatically
- No clear catalyst for significant rate increases
- Recession will likely moderate rate increases
- Underwriting performance in 2009 likely to decline



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Turn In The Non-Life Cycle Will Be Critical To Ratings

Zurich Insurance Company Rate Change Monitor		
	3 Months 2009	12 Months 2008
Commercial:		
Global Corporate	3.0%	-5.0%
North America Commercial	2.0%	-3.0%
Europe	2.0%	1.0%
International	3.0%	2.0%
Personal:		
Europe	1.0%	2.0%
International	3.0%	1.0%
Farmers	3.0%	7.0%

Allianz estimated price trends for 2009 on new business			
	Personal	Commercial	Total
Germany	-0.3%	0.8%	0.2%
Austria	0.0%	-	0.0%
Switzerland	-0.1%	-0.8%	-0.4%
Italy	-0.3%	-	-0.3%
Spain	-3.5%	-8.3%	-5.6%
France	2.4%	1.9%	2.2%
USA	-0.6%	0.7%	0.2%
UK	8.0%	4.9%	5.9%
Australia	5.4%	16.9%	9.9%



89. Source: Company Q1 2009 Results Presentations. Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.

Pressure On Life Insurance Will In Our View Persist

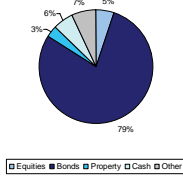
- Strong positive correlation to the general economic development
- Demand challenged by weak capital markets and rising unemployment
- Lower assets under management result in reduced fee income
- Risk of persisting low interest rates
- Hedging costs and costs of options and guarantees have increased



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Investment Exposures Remain In The Focus

Aggregate Portfolio Composition Europe-Based Global Multilines



Source: Company Reports

- Pressure on investments will in our view continue to impact GMIs capitalization and profitability although to a varying degree
- Equity market sensitivity has reduced compared with the last capital market downturn
- Exposure to credit risk remains a key focus



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Downgrade Potential Across Credit Grades And Sectors

- Global ratio of potential downgrades to potential upgrades increased to 7 to 1 at the end of first quarter 2009
- Banks display the highest downgrade propensity, closely followed by media and entertainment, consumer products, insurance and forest products and building materials
- Of our rated universe, 32% had either a negative outlook or ratings on CreditWatch negative as of May 21, 2009
- Geographically the U.S. continues to top the list of potential bond downgrades, with roughly 55% of current ratings showing downside risk, followed by Europe with 20%

Source: Standard & Poor's RatingsDirect: „Downgrade Potential Across Credit Grades And Sectors“, May 28, 2009



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Summary

Pressure on credit quality is in our view likely to persist:

As a negative we see

- Capitalization relative to the rating is likely to remain stretched
- Underlying earnings will be a key rating driver and are unlikely to recover before 2010

As a positive we see

- Very strong competitive positions
- Relative resilience in underlying non-life earnings
- Liquidity

Further potential risks are:

- Investment markets reversing course again
- Higher than expected catastrophe losses
- Irrational pricing behaviour
- Inflation



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**Ratings in insurance markets –
how are they used?**

Peter Hughes
Vice President, Commercial & Product Management,
Standard & Poor's

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Main Room: Nymphenburg I & II
(1) Developments in Central & Eastern European Markets
David Laxton, Senior Director, Financial Institutions Ratings,
Standard & Poor's and Paul Bradley, Director, Financial Institutions
Ratings, Standard & Poor's

Schwabing IV to VI
(2) Insurance Linked Securities: Here to Stay?
David Harrison, Senior Director, Financial Institutions Ratings,
Standard & Poor's and Cameron Heath, Director, Financial
Institutions Ratings, Standard & Poor's

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**Emerging Market Focus:
Central & Eastern Europe**

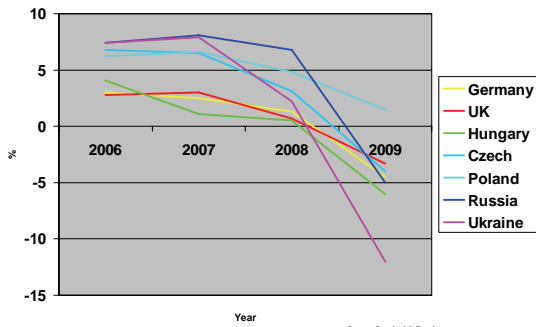
David Laxton
Senior Director, Financial Institutions Ratings,
Standard & Poor's

Paul Bradley
Director, Financial Institutions Ratings,
Standard & Poor's

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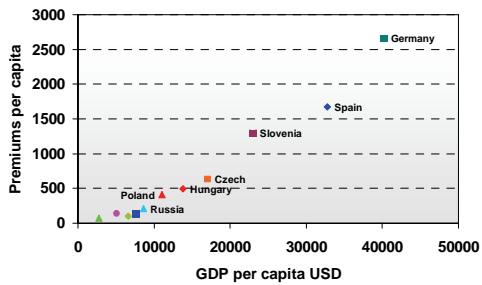
GDP % Annual Change



Source: Standard & Poor's

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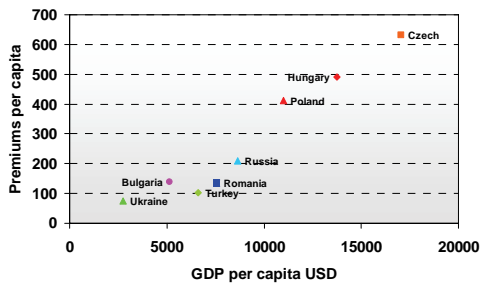
GDP and Premium per capita - 2007



Source: Sigma

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GDP and Premium per capita - 2007



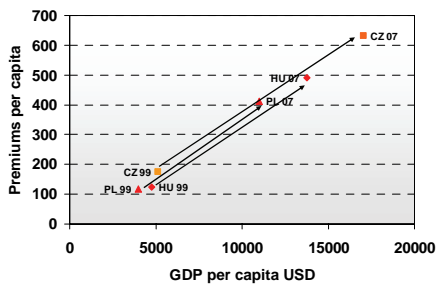
▲ Poland ■ Czech ◆ Hungary ■ Romania ■ Bulgaria ▲ Russia ▲ Turkey ▲ Ukraine

Source: Sigma



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GDP and Premium per capita – 1999-2007



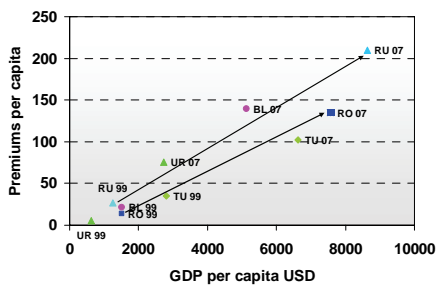
▲ PL 07 ■ CZ 07 ◆ HU 07 ▲ PL 99 ■ CZ 99 ◆ HU 99

Source: Sigma



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GDP and Premium per capita – 1999-2007



■ RO 07 ■ BL 07 ▲ RU 07 ◆ TU 07 ▲ UR 07 ■ RO 99 ■ BL 99 ▲ RU 99 ◆ TU 99 ▲ UR 99

Source: Sigma



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Market Developments

- **Poland**
 - Rapid growth in life sales
 - Improving motor rates

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Market Developments

- **Slovenia**
 - Unprecedented storms
 - Liability claims
 - Continuing competition

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Market Developments

- **Czech Republic**
 - Non-life insurance
 - Fewer than expected large claims in early 2009
 - Slower premium growth
 - Life insurance
 - Linked sales under pressure
 - Solvency volatility

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Market Developments

• Hungary

- Economic challenges
- Life insurance
 - Sales continue to be under pressure
- Non-life Insurance
 - Growth slowing
 - Technical results expected to remain positive in 2009



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Market Developments

• Russia

- Industrial risks –
 - less insurance being purchased
 - Flight to quality
- Retail risks
 - Increased price competition for motor risks



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Financial Strength Ratings

Central & Eastern European Ratings as at 18th June 2009

Bulstrad Insurance & Reinsurance PLC (Unsolicited Ratings)	Bulgaria	BBp/-/-
Allianz Pojistovna A/S (Unsolicited Ratings)	Czech Republic	BBBp/-/-
Ceska pojistovna a.s.	Czech Republic	A+/Stable/-
CSOB Pojistovna, a. s.	Czech Republic	A-/Stable/-
First American Czech Insurance Co. A.S.	Czech Republic	A+/Negative/-
Generall Pojistovna as (Unsolicited Ratings)	Czech Republic	BBBp/-/-
UNIQA Pojistovna A/S (Unsolicited Ratings)	Czech Republic	BBBp/-/-
VIG RE zajišťovna a.s.	Czech Republic	A+/Stable/-
AHICO First American-Hungarian Insurance Co	Hungary	A+/Negative/-
Generall-Providencia Bitosito Zrt	Hungary	BBB-/Negative/-
K&H Bitosito Zrt. (Unsolicited Ratings)	Hungary	BBB-p/-/-
UNIQA Bitosito Rt (Unsolicited Ratings)	Hungary	BBB-p/-/-
Eurasia Insurance Co.	Kazakhstan	B+/Stable/-



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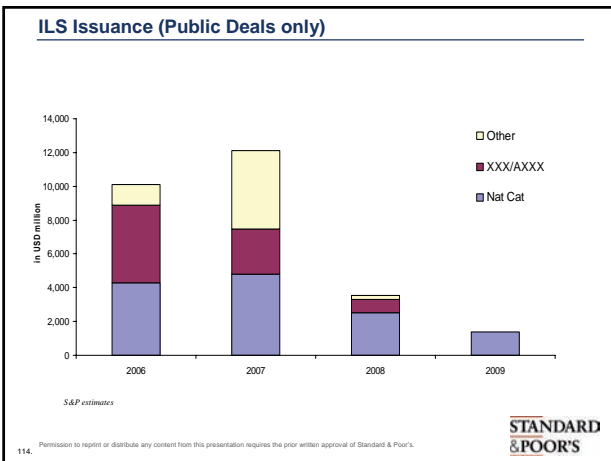
ILS – Since Sept 2008

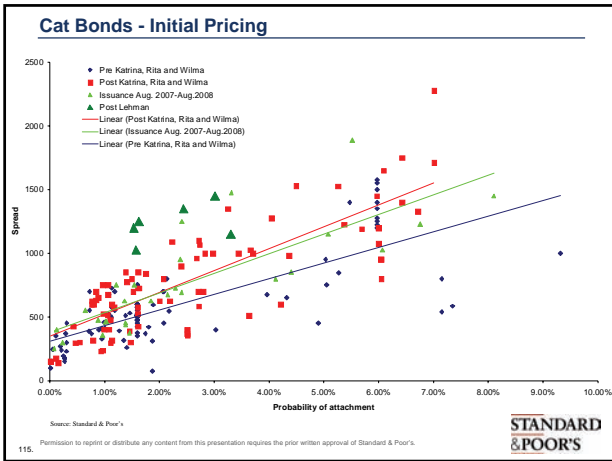
- Significant slowdown in issuance
- Greater scrutiny of collateral and collateral structures
- Improved disclosure of documentation to investors

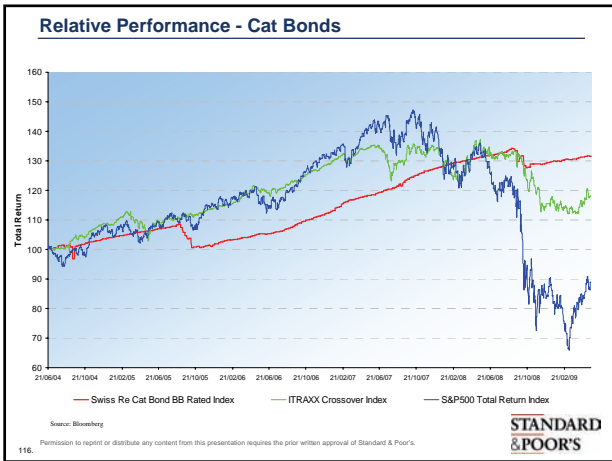
- Fall in Total Return on cat bonds

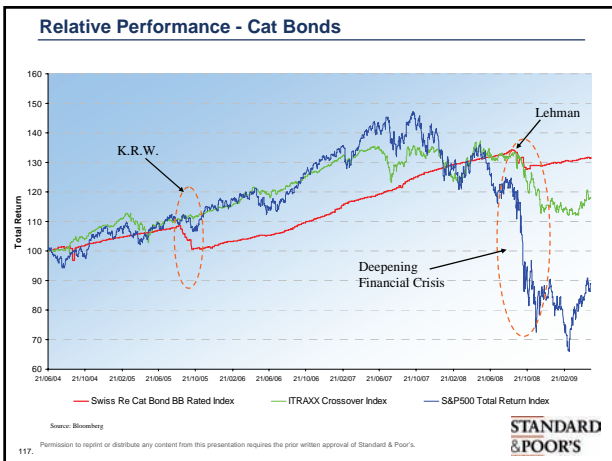
- Increased pricing for new cat bond deals

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Collateral – the challenges

Key Challenges

- Credit, liquidity & market risk
- Collateral management
- Transparency
- Yield

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STANDARD & POOR'S

Latest solutions

- **Total Return Swaps**
 - Government & TLGP guaranteed-bank paper
 - Mark-to-market of collateral
 - Top-up provisions
 - LIBOR based return
- **Improved quality & transparency**
- **Duration of assets similar to duration of cat bond**

But,

- **Credit risk to 3rd party still exists**
- **Concentration of assets in the collateral account**

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STANDARD & POOR'S

Latest solutions

- **AAA notes issued by government entities or supranationals**
 - Quarterly put option exercisable at par (except for initial period)
 - Matures at scheduled redemption or final extension date
 - LIBOR based return
 - **Meets S&P eligibility criteria for AAA-rated structures**
 - **Duration of assets matches duration of cat bond**
- But,**
- **Cost of put option**
 - **Concentration risk of assets in the collateral trust**



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Latest solutions

- **Money market funds**
 - "AAAm-G" or "AAAm"-rated
 - Pre-agreed investment guidelines
 - **Duration of assets matches duration of cat bond**
 - **Monitoring of investment criteria by indenture trustee**
- But,**
- **Treasury based return**
 - **Potential to lose small portion of collateral**



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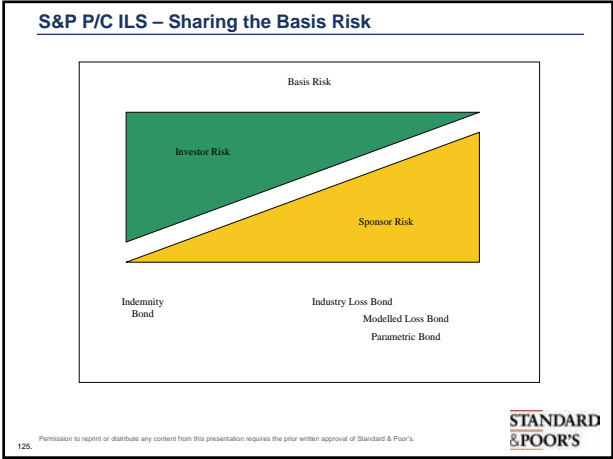
Collateral features in 2009 issuance

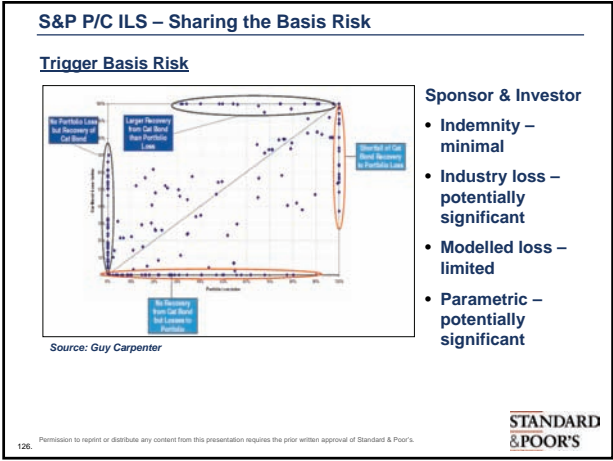
Issuer	TRS	AAA-collateral	MMF
Atlas V	X		X (during extension)
East Lane Re III	X		
Mystic Re II	X		X (certain cases)
Blue Fin		X	X (certain cases)
Ibis Re	X		X (during extension)
Calabash III		X	X (during extension)
Res Re 2009			X



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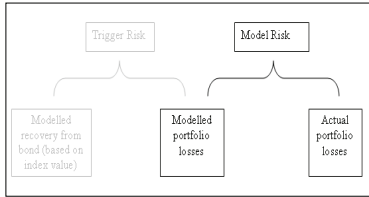




- Sponsor & Investor**
- Indemnity – minimal
 - Industry loss – potentially significant
 - Modelled loss – limited
 - Parametric – potentially significant

S&P P/C ILS – Sharing the Basis Risk

Model Basis Risk



Sponsor

- Indemnity – minimal
- Industry loss – potentially significant
- Modelled loss – significant
- Parametric – significant

Investor

- Indemnity – significant
- Industry loss – potentially significant
- Modelled loss – significant
- Parametric – significant



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S&P P/C ILS – Sharing the Basis Risk

Data Basis Risk

Cat Bond Structure	Sponsor	Investor
Parametric	Minimal	Significant
Modelled loss	Modest	Potentially significant
Industry loss	Potentially significant	Minimal
Indemnity	Potentially significant	Minimal

Currency Basis Risk

Timing Basis Risk



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S&P P/C ILS – Sharing the Basis Risk

S&P Capital Model

Current treatment

- Use modelled figure but ..
- Materiality

Indicative levels for ILS

Cat Bond Structure	ILS Base Stress
Parametric	5%
Modelled loss	5%
Industry loss	10%
Indemnity	20%



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**Analyst / Investor Panel:
ERM: Did it do the job?**

Panellists:
Ralph Hebgen, Insurance Analyst, Keefe, Bruyette & Woods
Trevor Petch, European Insurance Analyst, Insight Investment
Manish Bakhda, Director, European Insurance Analyst, Barclays Capital

Moderator:
Rob Jones, Managing Director, Financial Institutions Ratings, Standard & Poor's

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**4th Annual European Insurance Symposium
"Rebuilding Capital, Reputations and Confidence"**



Closing remarks

Yann Le Pallec
Managing Director, Head of Insurance Ratings, EMEA,
Standard & Poor's

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Close

The background of the page features a series of classical, fluted columns in a light beige or off-white color. The columns are arranged in a perspective that recedes into the distance, creating a sense of depth and grandeur. The lighting is soft, highlighting the texture of the stone or marble.

Related Articles

June 17, 2009

Industry Report Card:

Outlook Mostly Stable For German Insurers Despite Increased Near-Term Economic And Financial Market Risk

Primary Credit Analyst:

Ralf Kuerzdoerfer, Frankfurt (49) 69-33999-195; ralf_kuerzdoerfer@standardandpoors.com

Secondary Credit Analyst:

Karin Clemens, Frankfurt (49) 69-33-999-193; karin_clemens@standardandpoors.com

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Commentary/Key Trends

We believe that increased economic and financial market risk will challenge the German insurance sector over the next 12-24 months. In our view, lower capitalization, subdued growth prospects, a continued soft pricing environment in non-life insurance, and the prospect of declining investment returns will place incremental downward pressure on ratings in 2009 and 2010. Despite these pressures, we believe that negative rating actions will be limited in number due to robust capitalization. This view is reflected by the current outlook distribution in the sector, of which about 90% are stable (see chart 3).

Realized and unrealized investment losses have left their mark on insurers' capitalization

Realized and unrealized investment losses have left their mark on German insurers' capitalization. Overall we estimate that for many rated insurers risk-based capital adequacy as measured by our model had on average fallen by almost a full rating category by year-end 2008 compared with year-end 2007. It should be noted, however, that most insurers entered the current economic downturn with what we consider as strong or even very strong capital adequacy, having benefited from several years of improving results prior to 2008. Moreover a fall in capital adequacy would not automatically lead to a negative rating action if we believe that an insurer's earnings capacity is sufficient to rebuild its capital adequacy over the next 12-24 months to a level that we consider more commensurate with the rating. Nevertheless we are of the opinion that those insurers that can demonstrate higher capital resilience in a time when capital is not easy to come by will fare relatively better. We believe that strong balance sheets are beneficial in terms of policyholder and investor confidence allowing a relatively better capitalized insurer to leverage both internal as well as any potential external growth opportunities. Moreover a stronger capital base will also likely provide for greater investment freedom which (provided that risks are effectively managed) should translate into a competitive advantage, in particular in life insurance. Consequently we believe that capitalization will remain a key rating driver throughout the remainder of 2009 and potentially even into 2010.

Economic conditions do not bode well for the insurance market

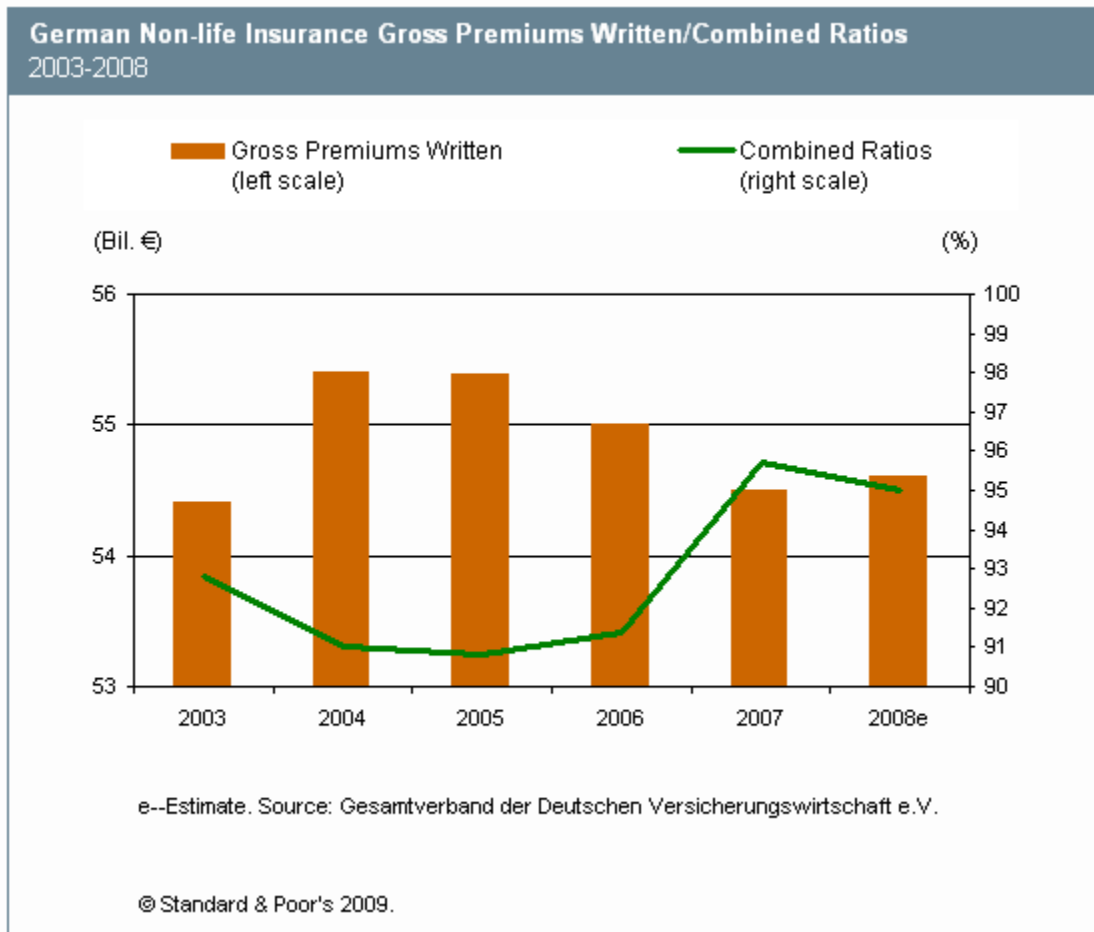
The global downturn, which may prove to be the worst since the 1930s, does not bode well for insurers' business and performance prospects, in our view. We expect a decline in Germany's GDP of about 5% in 2009. Moreover, the substantial retrenchment in manufacturing activity and in financial services over the past year is now having a negative effect on household incomes through the labor markets. As a result, we expect a marked rise in the unemployment rate to 9% in 2009 from 7.8% in 2008 and to 10% in 2010. Although the German insurance market has in the past been able to partly disconnect from GDP development in some years we expect, considering the extent of the downturn, a noticeable negative impact on growth prospects in 2009 and 2010 both in life and non-life insurance. In addition, the subdued economic environment is seen to increase the risk of higher life policy holder lapses and increased non-life claims frequency.

Property casualty insurance: Intense price competition with a broader based turn in the cycle unlikely before 2010

The soft market in property casualty insurance has continued into 2009 and we believe that a broad based turn in the cycle is unlikely before the end of 2010. The market remains plagued by overcapacity (i.e. many players, mostly with strong balance sheets) and intense competition, in our observation, while demand is likely to fall further due to the economic downturn. We continue to expect the ratings on German insurance groups with a bias towards non-life insurance to prove more resilient. However, this view is underpinned by our expectation that combined ratios will remain below 100% barring major catastrophes, and that there will be no material decrease in loss-reserve strength. Lower yields on investments further underpin in our view the need for strong underwriting discipline. In this context we will closely monitor each company's response to the continued soft pricing environment; failure to maintain underwriting profitability could result in downward rating pressure.

According to the German Insurance Association, gross premiums written were almost stagnant in 2008 at €54.6 billion compared with €54.5 billion in 2007 (see chart 1). Premiums in 2009 will in our view remain at best flat but will more likely decline by 1%-2%. Our opinion is based on the intense competition we see in the all-important German motor market and the likely decline in insurance demand in particular in industrial and commercial lines due to the economic downturn. Products remain largely commoditized, highlighting the necessity of superior cost efficiency as an important factor driving competitive advantage. The sector's combined ratio has been deteriorating since 2005 when it achieved a stellar combined ratio of 90.8%. Performance in 2008 was almost unchanged at about 95% compared with 95.7% in 2007. However, results in 2007 were heavily impacted by a winter storm that is estimated to have cost the industry about €2.4 billion (source: Gesamtverband der Deutschen Versicherungswirtschaft e.V.). In addition, we believe that reported underwriting results partly mask soft pricing conditions, having benefited from positive loss reserve run-off. As we see no clear signs of a hardening of the market environment we regard it likely that underwriting performance will deteriorate further in 2009. Moreover, our discussions with management teams suggest that some companies view a rise in inflation as a major risk. We partly share this expectation but believe that such a rise is unlikely to materialize before 2011. This opinion is based on our view that the economic recovery across Europe is likely to be only gradual and that it will be accompanied by persistently high unemployment.

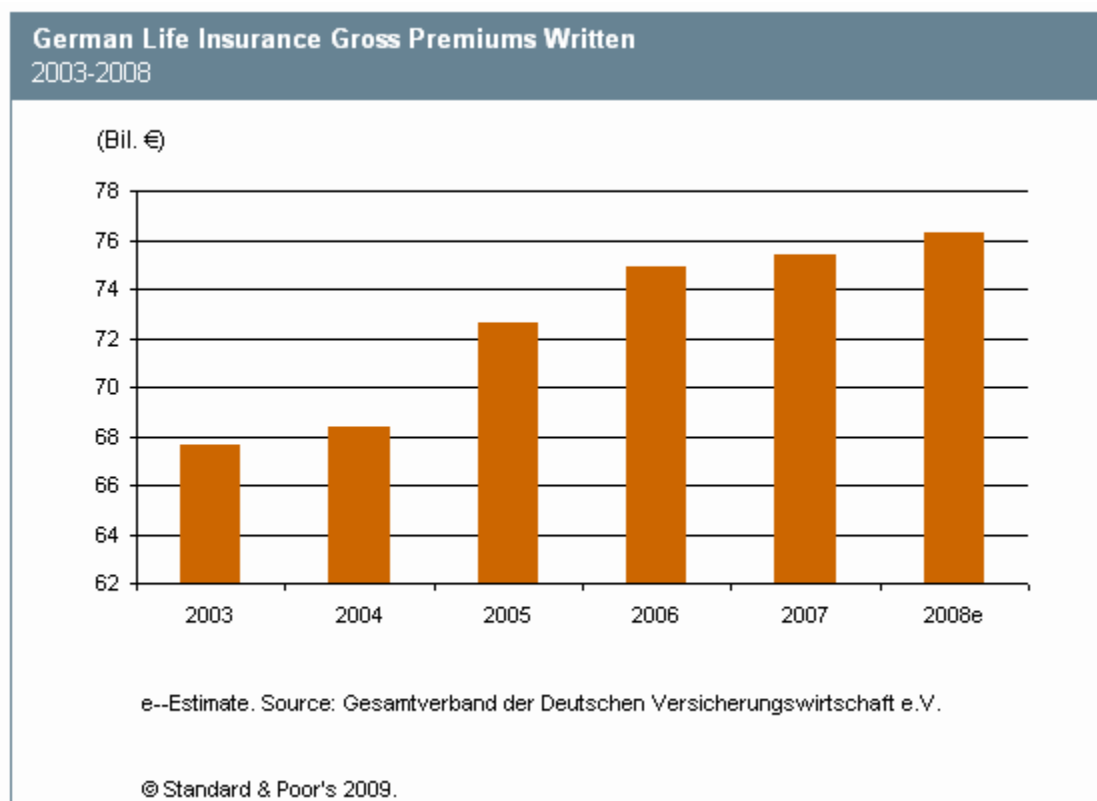
Chart 1



Life insurance: strongly geared toward investment markets

By nature the German life insurance business model remains strongly geared towards investment markets. Despite the market's shift towards unit-linked products in recent years, results continue to be heavily impacted by traditional guarantee products (For overall premium development see chart 2). Consequently, we continue to closely monitor the effectiveness of companies' asset liability management as well as their ability to manage guarantee risks in a low interest rate environment. Failure to maintain what we would consider a disciplined bonus policy closely aligned with a company's risk-bearing capacity can result in negative rating pressure. On a more positive note, our most recent economic forecast suggests that long-term interest rates will continue to trend upwards with a view that the interest rate on long-term German government bonds will reach 4.5%-5% again by year-end 2010. Exposure to equity risk remains, but has, in our view, significantly fallen since the last significant downturn in equity markets in 2002 across the spectrum of insurers that we interactively rate.

Chart 2



We continue to see potential for good long-term growth but believe that the market's short-term growth prospects are not so bright. Sales performance during the first quarter of 2009 suggests that the decline in equity markets and their uncertain outlook for the remainder of the year will likely lead to a sharp drop in unit-linked products, one of the main growth drivers in recent years. Moreover, the market continues to see a significant number of policies maturing, which places further pressure on top line growth. We therefore regard it as likely that the market's gross premiums written will decline by 2%-3% in 2009.

The majority of ratings in the sector remain in the 'A' or 'AA' category

We have 67 public, interactive insurer financial strength ratings on insurance operating companies in Germany (excluding credit insurers) of which 60 have a stable outlook (see chart 3). The ratings distribution in the German insurance sector is shown in chart 4. The chart includes only interactively rated companies. The chart illustrates that the sector continues to show a strong or even very strong level of financial strength with 94% of our ratings in the 'A' category or 'AA' category. The financial strength of 'AA'-rated companies is driven by their international and global operations in addition to their German operations.

Chart 3

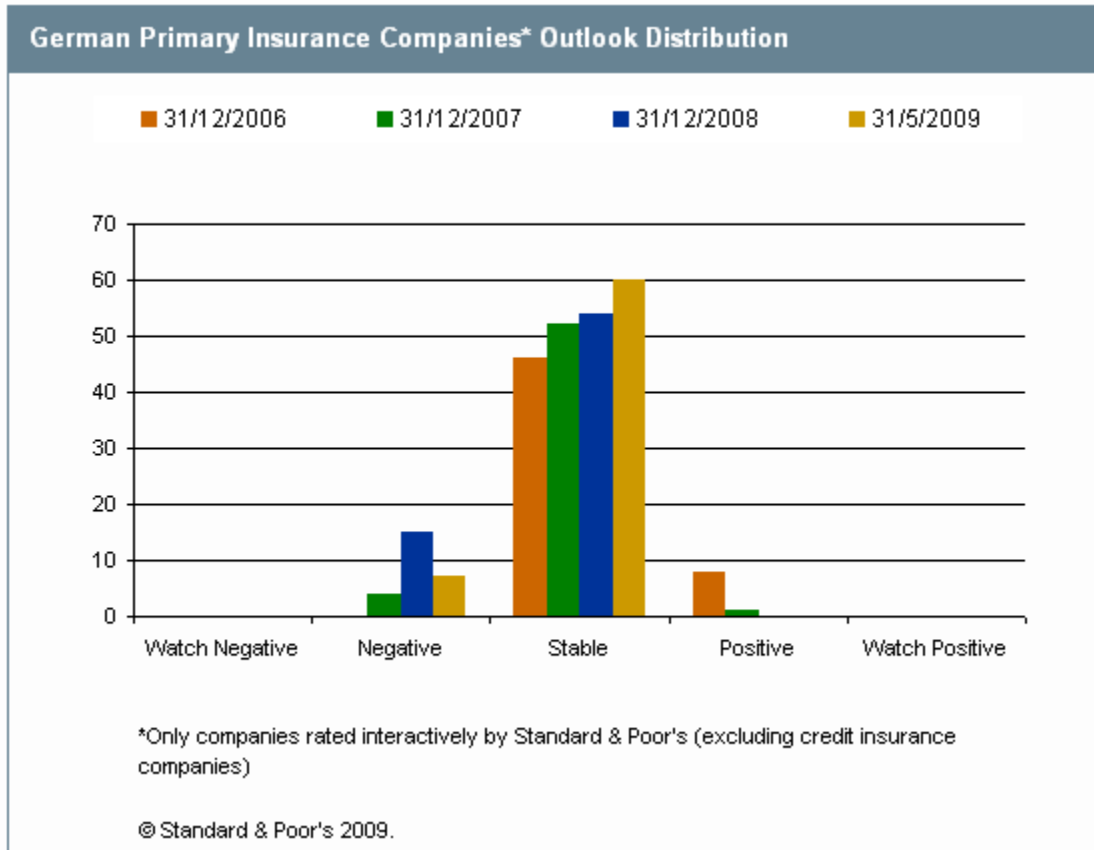
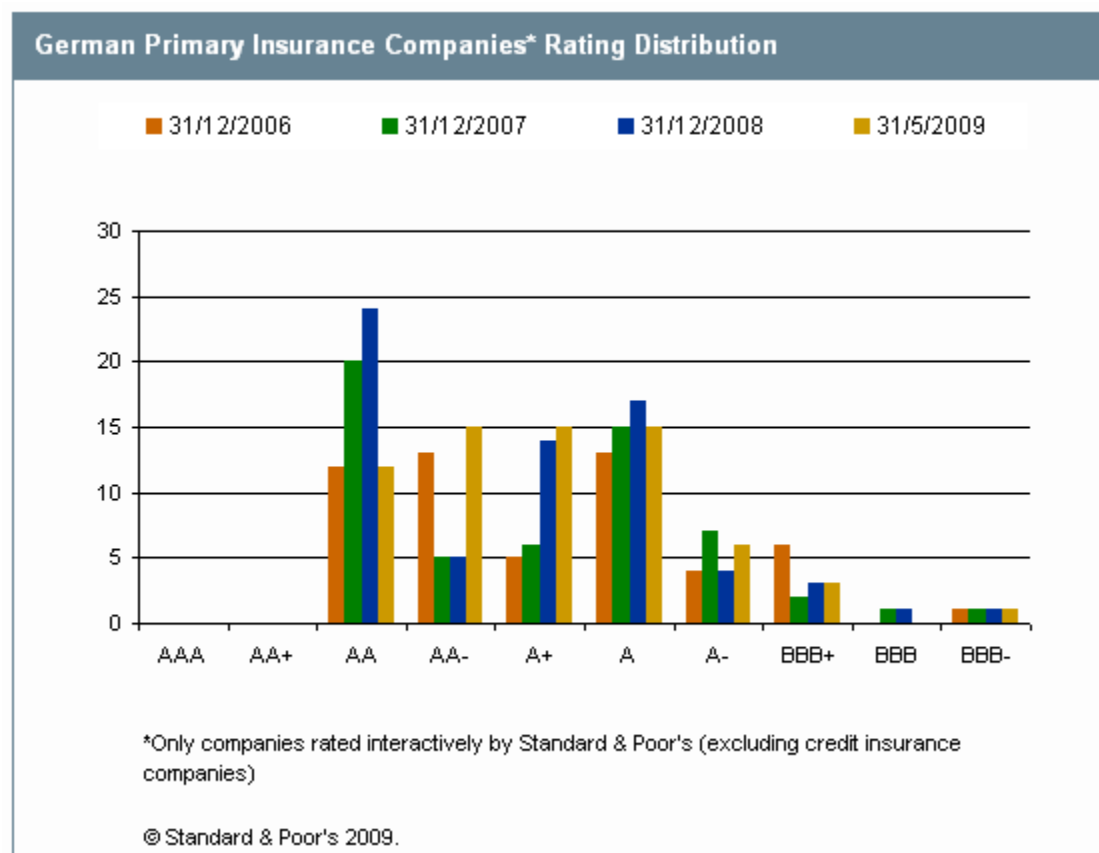


Chart 4



Since the beginning of 2009 the ratings on the core operating entities of two insurance groups have been revised: On Jan. 13, 2009, we lowered to 'A-' from 'A' our long-term counterparty credit and insurer financial strength ratings on life insurer Nuernberger Lebensversicherung AG and property/casualty insurer Nuernberger Allgemeine Versicherungs-AG, the core operating entities of the Nuernberger insurance group. The downgrade reflected our expectation that current operating conditions constrain the group's earnings prospects and will therefore make it difficult for the group to rebuild its capital adequacy, which has fallen to the low 'A' and upper 'BBB' rating categories.

On March 31, 2009, we lowered our long-term counterparty credit and insurer financial strength ratings on the core entities of Italy-based Generali group, which includes the main operating entities of the Generali Deutschland group, to 'AA-' from 'AA'. The downgrade reflected our assessment of Generali's deteriorating earnings and our view of weakened capital adequacy and financial flexibility owing to the decline in equity and credit markets.

Issuer Review

Company or group/Counterparty credit rating; insurer financial strength rating*/Outlook	Analyst
Allianz SE (AA/Stable/A-1+ [holding and operating company]; AA/Stable*) The stable outlook reflects our view of Allianz SE's continued capital resilience and our expectation of improving quarterly results in 2009. We expect AZSE's risk-based capital adequacy to remain comfortably in the 'A' category, and we expect the group's operating profits and ongoing balance sheet derisking to continue to support what we view as strong capitalization in 2009 and 2010. We	Ralf Bender

believe a comparably strong group solvency ratio of 159% at the end of first-quarter 2009 supports our view of AZSE's relative capital strength. AZSE's financial leverage should, in our opinion, remain at less than 30% and fixed-charge coverage should stay at about 7x. AZSE's first-quarter earnings were slightly below our expectations. A reported net combined ratio of 98.5% in the non-life segment and muted investment results, particularly in life business, which recorded a new-business margin of negative 0.1%, translated into an overall €1.4 billion operating profit and €0.4 billion of net income from continued operations. We will continue to monitor the group's performance against our key full-year targets, which include a €7 billion operating profit and a €3 billion net income. The property/casualty segment will, in our opinion, be the main earnings contributor, with what we assume will be about €5 billion. Assumptions regarding a combined ratio of 97% and a return on revenue in excess of 10% underpin our expectations. Operating profits in each of the life and asset-management segments should, we believe, remain close to €1 billion. Net income is likely to reach at least €3 billion in 2009 if investment conditions do not deteriorate much further. We would likely revise the outlook to negative if capitalization were to fall below the 'A' category or if the group's solvency ratio were to decrease to less than 130%. A negative outlook could also result, in particular, if further significant weakening of economic or financial market conditions were to materially impair the group's earnings prospects. We also recognize that AZSE's life insurance portfolio shows a higher sensitivity to a change in interest rates than some of its global multiline peers. A prolonged period of low interest rates could put pressure on the rating. We currently consider the possibility for a positive outlook unlikely.

Alte Leipziger Lebensversicherung a. G. (A-/Stable*)

The stable outlook reflects our view that Alte Leipziger Lebensversicherung a. G. has the potential to maintain its solid position in group life and disability and further expand in unit-linked markets. We expect capitalization to remain at least strong. A risk-conscious bonus philosophy, sound know-how for complex group life business, focus on service-oriented high-income clientele, and emphasis on improving cost efficiency should help the company maintain the value of its in-force book and achieve sound new business margins under further refined embedded-value methodology. Return on equity is likely to fall to 7%-8% due to low interest rates. A revision of the outlook to negative at this stage is unlikely, as the company has so far been relatively unaffected by the current financial market downturn and maintains solid capitalization. Ratings upside could occur over the medium term, if the company can demonstrate that it will emerge from the downturn with a strengthened business and financial profile relative to its peers.

Wolfgang Rief

Assicurazioni Generali SpA (AA-/Stable/-- [holding and operating companies]; AA-/Stable*)

The stable outlook on Generali Deutschland's various operating entities directly reflects that on its parent, Assicurazioni Generali SpA (Generali). The stable outlook reflects our opinion that what we consider as Generali's very strong fundamentals will allow the group to maintain what we believe is its very strong competitive position and resume its earnings capacity. We expect the group's operating result in 2009 to remain in line with 2008's level of close to €4 billion, with life normalized return on embedded value above 12%, new business margin on present value of future premiums above 2%, and the combined ratio below 98%. We could revise the outlook to negative if Generali does not meet these targets. We could revise the outlook to positive if the group shows a sustained improvement in performance and succeeds in rebuilding capitalization to what we consider a very strong level.

Johannes Bender

AXA (A+/Negative/A-1 [holding company]; AA/Negative*)

The negative outlook on AXA's various German operating entities directly reflects that on its parent AXA. AXA holds very strong competitive positions both in life and property/casualty in all of the main European markets. The German operations increased their weight within AXA group through the acquisition of DBV. In 2008 the German operations contributed about 11% to AXA group's premium income and about 10% to the group's underlying earnings. Like AXA group, bottom line results of the German operations deteriorated materially in 2008 including realized and unrealized losses on investments. The negative outlook on the entire AXA group reflects our opinion that it could be challenging for AXA to restore its historical levels of earnings and capital adequacy given the continuing downturn and its impact on AXA's businesses, particularly the life and asset management businesses. We may consider downgrading AXA if we believe the pace of recovery of earnings capacity and capitalization in 2009 and 2010 remains inconsistent with the current ratings. This would be the case if underlying earnings further deteriorated materially compared with levels observed in 2008, if life new business margins and life and savings operating returns on embedded value did not recover to the levels observed prior to 2008 (respectively more than 2% on a present value of new business premiums basis and 10%), if the property/casualty combined ratio were more than 97% with unchanged loss reserve strength, or if the group's assets were further materially impaired beyond what is already reflected in the balance sheet. We could consider revising the outlook to stable if the group showed improved underlying earnings compared with those in 2008, along with a capital adequacy restored, through internal or external capital sources, to levels consistent with a 'AA' rating.

Hiltrud Besgen

CiV Lebensversicherung AG (A/Stable*)

The stable outlook reflects our expectation that CiV Leben will remain strategically important to Talanx Primary Insurance Group, based on the continued successful execution of the exclusive distribution partnership with Citibank Privatkunden AG & Co. KGaA. It also reflects our expectation that CiV Leben's operating performance will remain strong, benefiting from its market leadership in credit life and high margins. The company's return on equity is expected to remain at least in line with the parent's minimum expectation of a risk free return plus 750 basis points. Capitalization is expected to remain strong. Because of its strategic importance, CiV Leben could benefit from group support up to three notches above its stand-alone credit profile, but is capped at one notch below the notional group operating credit profile, under our group methodology. A downgrade due to deterioration of the company's stand-alone financial strength is unlikely at this stage. The possibility that the company's exclusive bancassurance agreement could change adversely, though remote, could have negative rating implications.

Johannes Bender

Deutsche Aertzerversicherung AG (A+/Stable*)

The stable outlook reflects our expectation that Deutsche Aertzerversicherung AG will remain strategically important to the AXA group through the continued successful execution of its business model as a specialist provider of insurance services for the medical professions in Germany. We expect the company to defend its market-leading position in this segment. Moreover, we expect operating performance to remain well within the company's internal targets, namely, a new-business margin of 30% and administration and acquisition expense ratios of 3% and 5.5%-6.1%, respectively. Capitalization is likely to improve, supported by the continued financial commitment of the parent. We consider upside potential for the rating remote at this stage. Downside potential might arise if the company fails to meet our expectations for its competitive position, operating performance, and capitalization, or in the unlikely event that its strategic importance to its ultimate parent were to lessen. Johannes Bender

DEVK Rückversicherungs- und Beteiligungs-AG (A+/Stable/-- [holding and operating companies]; A+/Stable*)

The stable outlook reflects our expectation that DEVK insurance group will defend its strong competitive position in the railway sector, continue its successful low-cost private lines strategy, and further exploit its distribution partnership with Sparda-Bank. We expect the group to achieve moderate organic premium growth, despite a very competitive environment in motor. Operating performance should remain strong, with the combined ratio at significantly less than 100% in 2009, notwithstanding declining underwriting results in motor. We expect reserving to remain strong. Life expense ratios are likely to remain below the market average and the return on assets to be at about 300 basis points. We expect bottom-line performance to remain strong, with a return on equity of at least 10% in 2009. Capitalization should remain very strong. We would consider revising the outlook to negative should DEVK fail to perform to our expectations. If the group exceeds our targets for a sustained period, this could trigger an outlook revision to positive. However, we regard this possibility as remote at this stage. Johannes Bender

ERGO Versicherungsgruppe AG (A/Stable/-- [holding company]; AA-/Stable*)

The stable outlook on ERGO directly reflects that on its parent Munich Re. The ratings and outlook on ERGO's core primary operating entities move in tandem with those on Munich Re. We expect that ERGO, after moderate 2008 earnings, will remain focused on underwriting discipline in 2009, which should allow it to achieve its combined ratio target of 95% for the non-life segment. Our ratings assume that ERGO's performance will steadily improve towards the medium-term targets set out in its business plan, which runs until 2012, but we believe this will become much more challenging in light of the ongoing difficult economic environment. Its performance targets include a return on embedded value of at least 8%-9%, a combined ratio of less than 95%, and a return on equity of 12%-15%. This should be underlined by a strong, sustained competitive position and strong capitalization. Ralf Bender

Gothaer Allgemeine Versicherung AG/Gothaer Lebensversicherung AG/ Gothaer Krankenversicherung AG (A-/Stable*)

The stable outlook reflects our expectation that management will continue to pursue a profit-oriented strategy, backed by a continuously improving enterprise risk- and value-based management philosophy and strong investment performance. We expect the group to achieve a combined ratio of less than 100% in 2009, despite the market downturn. We expect short-term capital market effects to add volatility to the bottom-line results. However, the average return on equity for the consolidated group should be about 10% throughout the cycle, with limited reliance on exceptional items and realized investment gains. The group's capitalization should remain strong. A positive rating action appears unlikely in the near future, but might be considered if the group translates its multibrand strategy into profitable growth, particularly in the life business, where we expect market share to increase and newly introduced products to generate sound profit margins. In addition, Gothaer's expense ratios would need to become more closely aligned with those of peers. Negative rating pressure is limited at present, but an outlook revision could be triggered if management fails to stimulate life business growth or maintain non-life underwriting discipline in an increasingly competitive market. Ralf Kuerzdoerfer

KarstadtQuelle Lebensversicherung AG (A+/Stable*)

The stable outlook reflects that on the ultimate parent, Munich Re. As such, any change in the rating or outlook on Munich Re is likely to have an impact on the ratings or outlook on KarstadtQuelle Lebensversicherung AG. We expect that rating changes based on KQL's stand-alone characteristics are unlikely. We expect KQL to remain strategically important to Munich Re through further successful execution and as a competence center for direct insurance. Its operating performance is expected to remain strong, with operating returns on embedded value and new business margins to be above 3% and returns on adjusted shareholders' funds in excess of 20%. Capitalization is expected to remain strong. KQL is expected to expand its cross-selling initiatives and find new co-operation partners. Johannes Bender

Nuernberger Beteiligungs-AG (BBB/Stable/-- [holding company]; A-/Stable*)

The stable outlook reflects our expectation that management will defend the group's strong competitive position. In life insurance, this should translate into continued above-market-average growth of new business in 2009 and 2010, with sound new-business margins that exceed 10%. Financial market conditions are likely to slow the growth momentum seen in the recent past, however. In non-life, we expect increasing diversification into profitable nonmotor business, but lower overall premiums caused by a decrease in motor. We expect Nuernberger to achieve a combined ratio of about 100% in 2009 and a ratio of less than 100% in 2010, while maintaining its conservative reserving practices. The reported return on equity should recover to about 8% once capital markets stabilize. Losses from affiliated holdings in the auto industry are likely to be less than €6 million in 2009 and may decline further in 2010. We expect capitalization to be within the low single 'A' and upper 'BBB' rating categories. We expect NBG's leverage and fixed-charge coverage ratios to remain consistent with the current ratings. A positive rating action appears unlikely, but might be considered if Nuernberger significantly outperforms our rating expectations and similarly rated peers. The ratings might be lowered if the group failed to achieve our ratings targets. Ralf Kuerzdoerfer

R+V Versicherung AG (A+/Stable*)

The stable outlook on R+V Versicherung AG (RVV) reflects the expectation that the company will continue to benefit from the strong credit profile of the R+V primary insurance group (R+V). Capitalization should remain at least strong and financial leverage and interest coverage ratios are expected to remain well in excess of rating thresholds to support the zero-notch gapping. The group is expected to achieve an average net combined ratio close to 100% throughout the underwriting cycle and an overall return on equity for 2009 and 2010 estimated between 6% and 9% before recovering to the average target of about 10%. The stable outlook on RVV also reflects the outlook on DZ Bank. The ratings on DZ BANK are based on the aggregate financial strength of the entire German cooperative banking sector, which continues to enjoy a strong position in domestic retail banking, stable funding sources, and strong capitalization. A positive rating action on RVV could be driven by a positive rating action on the members of the cooperative sector, which is unlikely in the medium term. R+V itself would need to prove the strength of its business model by maintaining overall growth and financial strength, while consistently reaching superior performance relative to the market, especially in a difficult operating environment. A negative rating action might occur if both R+V's operational characteristics and the risk profile of the cooperative banking sector were to deteriorate. Pressure on R+V's financial strength is unlikely at present, but could emerge from substantially heightened price pressure in the German non-life market or catastrophic/reinsurance events that, in view of the group's high net retentions, would significantly affect the group's capitalization. Pressure on the cooperative banking sector's risk profile could result from accelerating price competition in German retail banking and pressure from increasing risk costs, if there were no offsetting effects from improved cross-selling of higher margin or fee-based products.

Wolfgang Rief

Swiss Life Holding (BBB-/Stable/-- [holding company]; BBB+/Stable*)

Germany is one of the core markets of Swiss Life group, contributing more than 10% of total premium income. The stable outlook on the entire group is based on our assumption that Swiss Life can maintain earnings at a level that sustains what we regard as good capitalization in 2009 and 2010, including strong risk-based capital adequacy. We also believe that the group will preserve what we consider to be its strong competitive position in its core markets. We will monitor Swiss Life's progress in exploiting its relationship with distribution partner, AWD, taking into account what we view as its ambitious targets for efficiency and the pace of change. We estimate that the operating return on equity could reach 6%-8% in 2009 and 2010. Both the operating return on embedded value and the new business margin (as a percentage of the annual premium equivalent) are likely to be close to 10%, and we believe that the contribution of new business value to value in force should remain stable. Underperformance with regard to the assumed earnings and capitalization targets could have negative rating implications. A positive rating action could occur if Swiss Life establishes a track record for realizing the synergies and growth expected from its partnership with AWD and if it outperforms the assumed overall earnings and capitalization targets.

Hiltrud Besgen

Talanx AG (A-/Stable/-- [holding company]; A+/Stable)**

The stable outlook reflects our expectation that Talanx Primary Group (TPG) will translate its strong and improved competitive position in non-life insurance into increasingly robust earnings. This expectation assumes that the integration of the Gerling companies will be completed smoothly, without further unexpected integration expenses, delays, or loss of key talent or support staff. The non-life combined ratio should remain at less than 100% and return on revenue higher than 10% on average, in the absence of extraordinary catastrophes. On the life side, we expect TPG to build its competitive position by exploiting its enlarged customer base and distribution network to achieve new business development at least in line with the market average and strong profit contributions. The operating return on embedded value should exceed 10% and the new business margin should be close to 3% of the present value of new business premiums, with the value of new business increasing its contribution to value in force. We expect consolidated earnings to remain strong, with post-tax return on equity of close to 12% over the cycle. Capitalization should also remain strong, benefiting from sound retained earnings. We will closely monitor the completion of the integration process because the group's failure to enhance its competitive position through the additional business and synergy potential could have negative rating implications. We may also revise the outlook to negative if the combined group were to significantly underperform relative to earnings and capitalization targets. Downside pressure on the ratings could occur if the bancassurance model with Citibank and Postbank proved unsustainable under the new ownership of one or both distribution partners. Upside potential is remote at this stage. The group has not yet disclosed actual results for 2008. Mainly due to TPG's conservative investment policy we expect that the group will be less affected by the capital market crisis and continue to report positive bottom-line results for full-year 2008, which we believe will not fall below the 2007 level. The underlying performance of the property/casualty segment is also likely to remain strong reflected in a combined ratio of clearly below 100%. In addition, the life insurance segment will, in our view, deliver a sound contribution to the group's overall results in 2008 despite the difficult capital market environment.

Hiltrud Besgen

Versicherungskammer Bayern Versicherungsanstalt des oeffentlichen Rechts (A/Stable/-- [holding and operating companies]; A/Stable*)

The stable outlook reflects our expectation that management will continue to pursue a strategy of profitable growth to protect its leadership positions in its regions and to continue its conservative financial management. This, in our view, should lead to above-market-average growth of about 3% in non-life and health gross premiums in 2009, while maintaining cost advantages. The group expects new life premiums to increase by at least 10% of total new premiums. Non-life insurance will continue to dominate earnings, with the group expected to achieve a net combined ratio of clearly less than 100% in 2009 and in 2010, while maintaining its prudent reserving policy. The life business should continue to maintain its cost advantages and produce sound profits from mortality, costs, and lapses. We expect the health underwriting profit ratio to improve to more than 3% in 2009 and to more than 5% in 2010. The group's overall bottom-line result should recover and the return on equity should approach 8% once capital markets stabilize. We expect capitalization to remain very strong and enterprise risk management to strengthen. The outlook could be revised

Ralf Kuerzdoerfer

to positive if the group were to continue to demonstrate the success of adapting its business model to the changing market environment, translating this into a stronger competitive position across all segments and positive earnings momentum. However, a negative action could follow the group's failure to maintain non-life underwriting discipline or to continue to comfortably meet its life insurance guarantee obligations, although we consider this unlikely at this stage. An unexpected weakening of the group's competitive position would also be negative for the rating.

VHV Holding AG (BBB+/Stable/-- [holding company]; A/Stable*)

The stable outlook is based on our assumption that the group will continue to pursue a profit-oriented and conservative financial strategy. Furthermore, we believe the group can sustain its strong competitive position, supported by its market focus and established brands. In view of the current limited growth potential of the non-life and life markets, we expect VHV to expand by only about 1% in 2009. For 2009, we estimate that the published consolidated net combined ratio could rise to more than 104%, mainly due to motor price competition. We also expect VHV to move toward its long-term combined ratio target of at most 100%, while continuing to adhere to a sound underwriting philosophy and very conservative reserving. Given the continuing pressure from the capital markets, we expect the return on assets of the life business to be at most 200 basis points in 2009. We expect capitalization to remain at least strong and financial leverage and coverage ratios to remain commensurate with the rating level. We believe the rating will remain stable over the next 12-24 months. We would consider a positive rating action if the group were to clearly outperform the market in terms of growth and profitability. A negative rating action could follow any failure to maintain non-life underwriting discipline or to comfortably meet life insurance guarantee obligations, although we consider this unlikely at this stage.

Ralf Kuerzdoerfer

Wuestenrot & Wuertembergische AG (BBB-/Stable/A-3 [holding company]; BBB+/Stable*)

The stable outlook reflects our assumption that Wuestenrot & Wuertembergische AG (W&W) will successfully complete a restructuring program by the end of 2009 and be able to further exploit the synergy potential among its operating entities. It also reflects our view that W&W's overall aftertax result is likely to improve slightly in 2009. However, we consider its original target of a posttax operating return on equity of 9% in 2009 to be ambitious, considering the difficult operating environment. We expect the group's capital adequacy to remain at least good. New life insurance business should increase at least in line with the market average, delivering a new-business margin of about 10% of the annual premium equivalent. In non-life insurance, the combined ratio should be lower than 100% in 2009, supported by conservative reserving. Although we believe the banking segment is implementing effective restructuring and is entering a profitable growth phase, results are likely to recover only in the medium term. We would consider a positive rating action if W&W demonstrated higher-than-expected operating earnings to support the achievement of its return on equity target, or if the group continued to show sustainable and profitable growth. Conversely, negative rating actions could follow unsuccessful restructuring, which could hamper profitability; W&W's failure to meet its life insurance guarantee obligations; worsening capitalization; or unexpected additional bonus payment adjustments of old Bauspar tariffs that negatively affect net interest income because of a protracted flat and low yield curve.

Ralf Kuerzdoerfer

*Insurer financial strength ratings on core operating entities. **Insurer financial strength ratings on core primary operating entities. All ratings as of May 31, 2009.

Contact Information

Credit analyst	Location	Phone	E-mail
Johannes Bender, Rating Specialist	Frankfurt	(49) 69-33-999-196	johannes_bender@standardandpoors.com
Ralf Bender, Associate Director	Frankfurt	(49) 69-33-999-194	ralf_bender@standardandpoors.com
Hiltrud Besgen, Director	Frankfurt	(49) 69-33-999-192	hiltrud_besgen@standardandpoors.com
Karin Clemens, Senior Director	Frankfurt	(49) 69-33-999-193	karin_clemens@standardandpoors.com
Ralf Kuerzdoerfer, Associate	Frankfurt	(49) 69-33-999-195	ralf_kuerzdoerfer@standardandpoors.com
Wolfgang Rief, Director	Frankfurt	(49) 69-33-999-190	wolfgang_rief@standardandpoors.com

Additional Contact:

Insurance Ratings Europe; Insurancelnteractive_Europe@standardandpoors.com

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June 24, 2009

Insurance-Linked Securities Market Adapts To Changing Conditions

Primary Credit Analyst:

Maren Josefs, London (44) 20-7176-7050; maren_josefs@standardandpoors.com

Secondary Credit Analyst:

David Harrison, London (44) 20-7176-7064; david_harrison@standardandpoors.com

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Insurance-Linked Securities Market Adapts To Changing Conditions

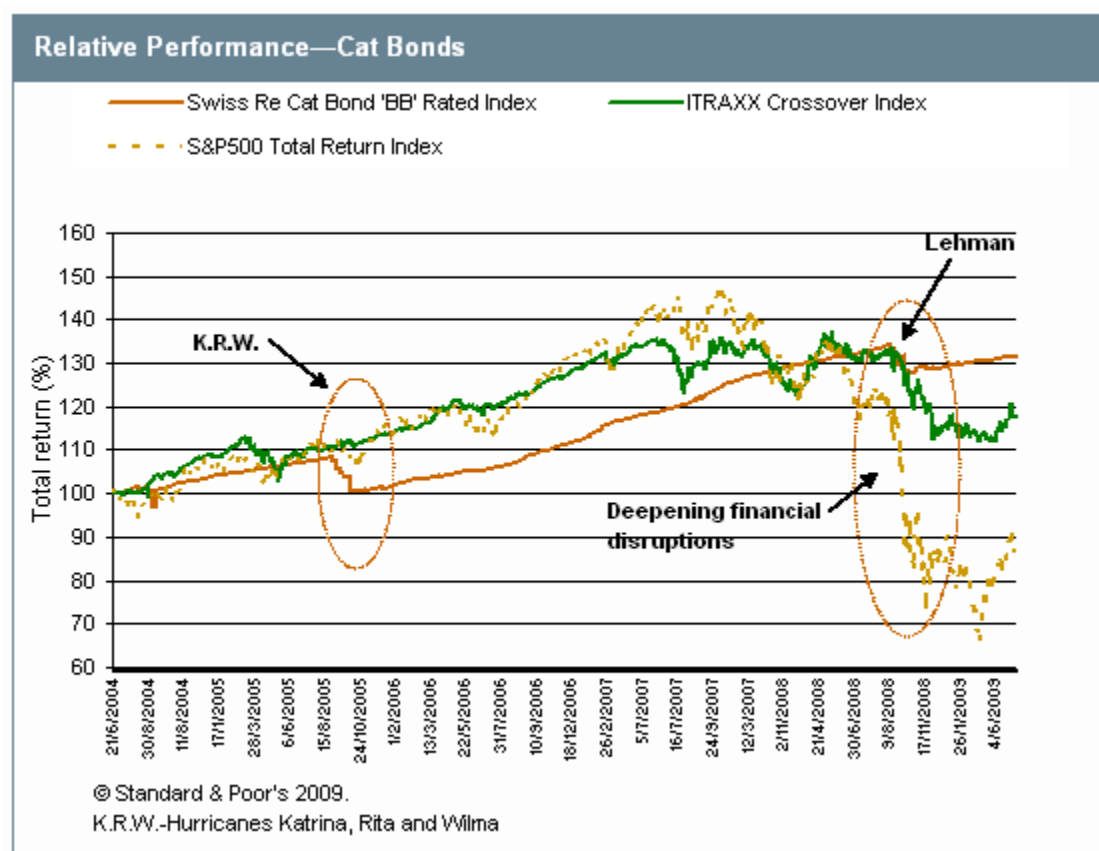
The insurance-linked securities (ILS) market has not emerged unscathed from the recent market disruptions. The collapse of Lehman, downgrades of sponsors and financial guarantee providers, and general investment losses have all had an impact. The result has been forced sales and limited new issuance, leading to an overall market contraction. Despite this backdrop, the market is beginning to re-emerge and adapt. Standard & Poor's Ratings Services has seen improvements in structural features and better disclosure and believes this establishes stronger foundations from which the ILS market will develop and grow.

New issuance of ILS has been under pressure. Since its peak in 2007—with more than \$12 billion in new securities—new issuance of ILS has slowed considerably. Several factors contributed to limited short-term growth expectations. The reinsurance market softened, disruptions in credit markets deepened, and then a few days before Lehman's collapse, hurricane Ike made landfall in the U.S., increasing uncertainty over potential losses. These events, together with the overall dislocation of bond prices (see chart 1), put a temporary halt to new issuance in the ILS market in the fourth quarter of last year.

However, 2009 has experienced a subdued recovery. In February this year, SCOR Global P&C SE was the first party to sponsor a transaction (Atlas V Capital Ltd.). Since then, issuers have launched nearly \$1.4 billion of new cat bonds (of which we have rated \$1.3 billion) and it's our understanding that the private market has been active as well.

Looking forward, we expect the ILS market to survive the current market difficulties and emerge stronger. We are already witnessing improvements in collateral structures and documentation disclosure, and we anticipate these will continue. As models keep evolving we expect new risk to be transferred and new players—both on the sponsor and investor side—to enter or re-enter the market. However, in the near term, we expect the recovery to remain somewhat subdued due to the broader capital market disruptions.

Chart 1

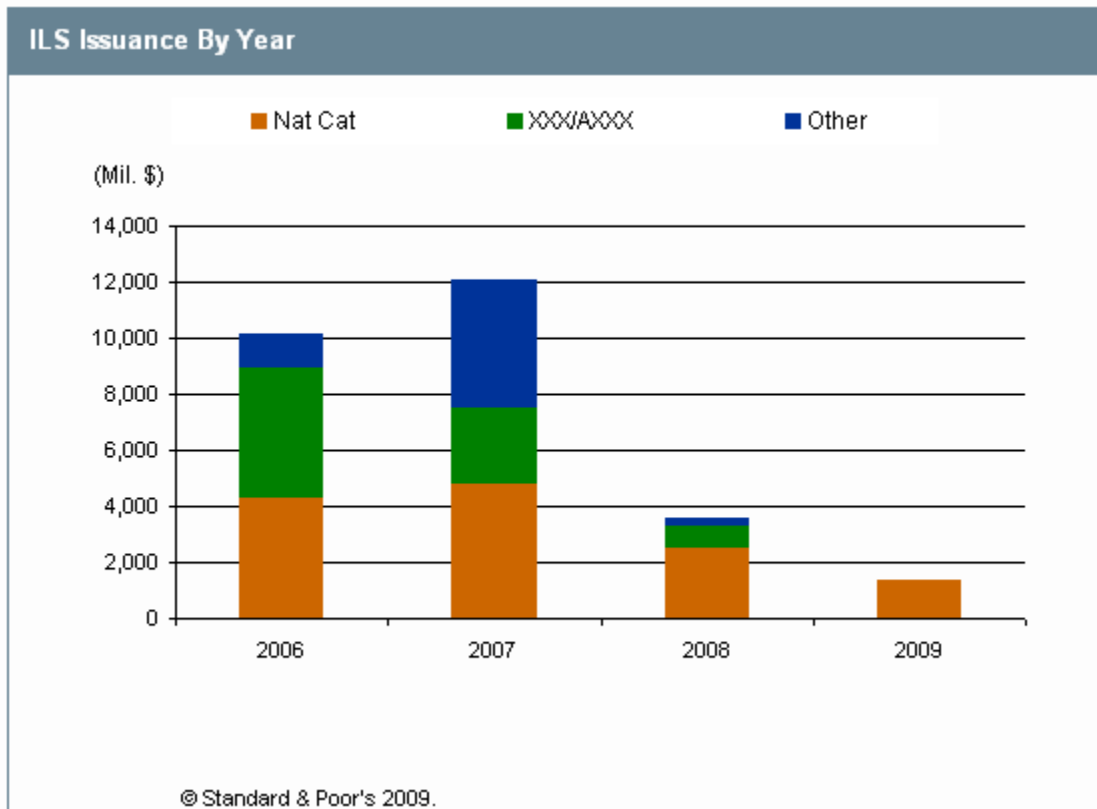


Concentration Of Investors In The ILS Market

We believe that the dislocation of the capital markets, coupled with the ILS market's relatively strong performance and its comparatively greater liquidity, led investors—especially opportunistic hedge fund investors—to deleverage their holdings to make up for losses in other parts of their portfolios. This may explain why the secondary market was very active during the latter part of 2008, in contrast to the dearth of new issuance. Since the beginning of this year, we believe the competition from traditional investments providing attractive returns has also reduced the need for these investors to put their money into a less well-known asset class. This has resulted in a concentration of investors in the ILS market, with dedicated ILS specialists left to make use of their knowledge of the market.

This could also be a reason why there have been fewer new cat bond issuances this year compared with earlier years (see chart 2). Ceding companies do not need to structure a public cat bond transaction to transfer their catastrophe exposure to these funds. Instead, the sponsors can enter into privately placed collateralized reinsurance or industry loss warranty agreements with an ILS fund given both parties' specialization in this space. We believe that ILS investors are aware that the reinsurance capacity has been decreasing as players are withdrawing from the traditional reinsurance/retro market and are in a position to demand higher returns for providing additional capacity.

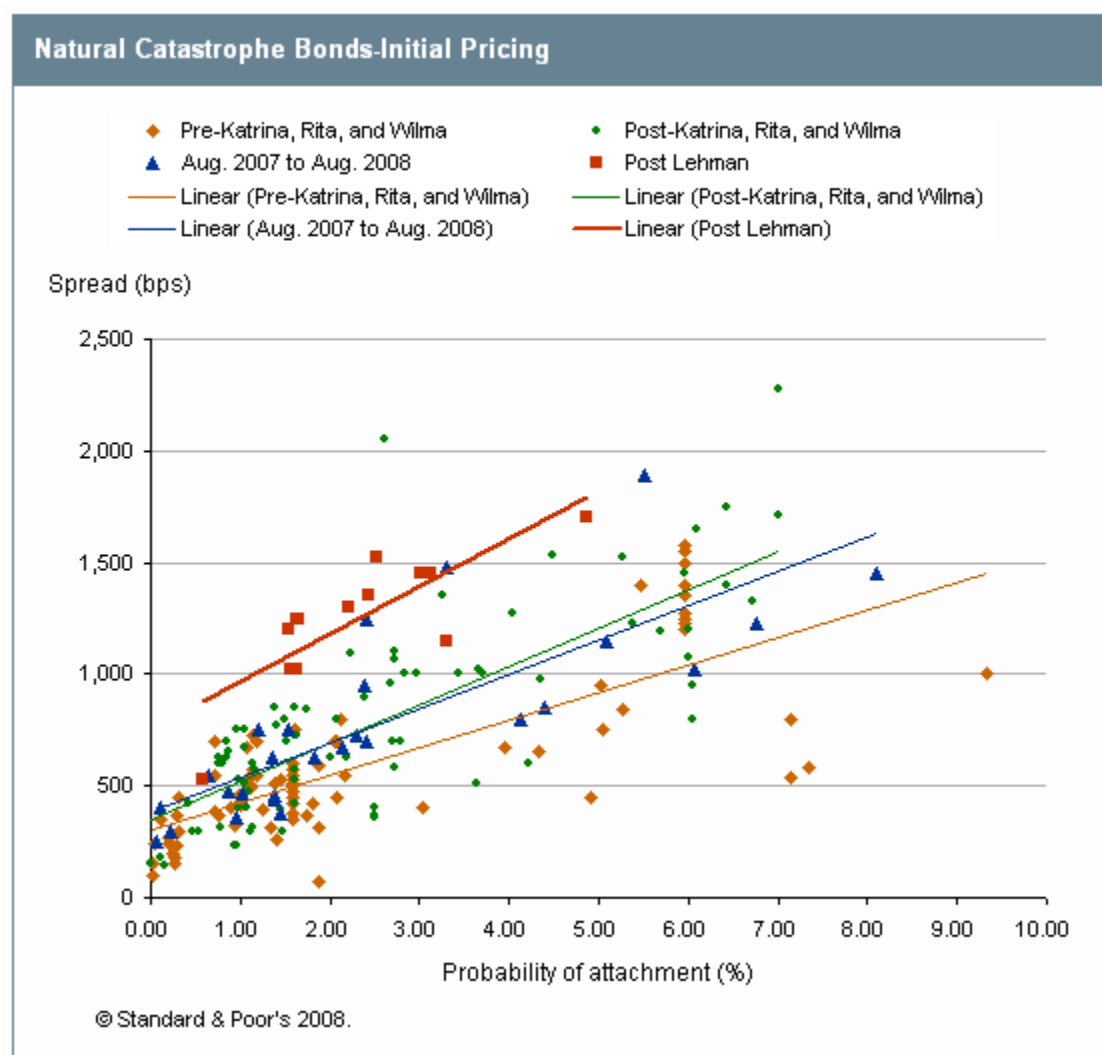
Chart 2



Concentration Of Peril Risks In 2009

To date this year, sponsors of new transactions have mainly sought protection against losses from only two perils, U.S. hurricanes and U.S. earthquakes. For investors, we understand this has created a more concentrated profile to specific U.S. perils. In compensation, we believe they are demanding higher spreads for each successive issuance. The issue spreads have generally been at least 30% higher than in previous years with the expected losses being at similar levels to previous years' issuances. Chart 3 shows the pricing levels in relation to the probability of a first dollar loss (the attachment probability). With the hurricane season now officially under way the available investment capacity is still tighter. It remains to be seen whether issues that transfer pure non-U.S. peak perils into the capital markets—such as European windstorms or Japanese earthquakes—will achieve better pricing for issuers.

Chart 3



Recent Lessons For The ILS Market From Lehman's Collapse

The collapse of Lehman had a direct effect on four nat cat bonds, as a result of which new transactions this year have included innovative structural changes. As the total return swap (TRS) counterparty in these four transactions, Lehman's role was to essentially replace investment risk in the collateral account and to provide cash flows that matched the bond payments to the investors and potential claims payments to the ceding insurers. However, Lehman's default brought to light certain problems with regards to the collateral, notably:

- A lack of transparency on the underlying investments in the collateral account;
- Too broad investment criteria for eligible collateral assets;
- A lack of collateral asset diversification;
- A maturity mismatch between the collateral assets and the nat cat bond;
- A lack of regular mark-to-market valuations of the collateral assets for most transactions; and
- No top-up provision for the TRS provider if the value of the assets fell below a certain threshold, or top-up

provisions linked to the rating on the TRS counterparty and not the value of the assets in the collateral account.

As a result of these factors, the market value of the assets in the collateral accounts of the four affected bonds was so low that issuers couldn't find a replacement for the TRS counterparty, exposing investors directly to the investment risk related to the collateral assets. Since then, two of the four nat cat bonds have defaulted. Willow Re Ltd.'s class B notes series 2007-1 defaulted because the assets in the collateral account did not generate enough cash flow to make a full interest payment and Ajax Re Ltd.'s class A principal-at-risk variable-rate notes series 1 defaulted because funds in the collateral account were not sufficient to fully repay the principal at maturity. For further information on the two other outstanding bonds (Carillon Ltd.'s class A-1 notes and Newton Re Ltd.'s class A series 2008-1), see "Three Natural Peril Cat Bond Ratings Removed From Watch; Affirmed On Timely Interest Payments" in "Related Articles."

New Transactions Seek Solutions To Reduce Collateral Investment Risk

We have seen various collateral solutions in new transactions this year. In the following paragraphs we will give a short overview of these solutions. For more details on this and our rating approach, refer to "Latest Nat Cat Bond Transactions Seek Solutions For Managing Investment Risk."

Improved collateral management when using a TRS counterparty

Most of the first nat cat bonds issued this year (Atlas V's series 1, 2, and 3, East Lane Re III Ltd.'s series 2009-I, Mystic Re II Ltd.'s series 2009-1, and Ibis Re Ltd.'s notes) used the traditional solution of contracting a TRS counterparty to guarantee the cash flow and value of the collateral assets and provide investors with a LIBOR-based return. At the same time, these TRS agreements incorporated improvements to reduce the investment risk within the collateral accounts by introducing more restricted investment guidelines, regular mark-to-market valuations, and top-up provisions tied to the value of the assets.

Investing bond proceeds in highly rated assets

The second collateral solution employed by two transactions that we rate (Blue Fin Ltd.'s series 2 and Calabash Re III Ltd.'s series 2009-1) does not involve a TRS. Instead, all the collateral assets comprise notes issued specifically for the nat cat bond by a 'AAA' rated government-guaranteed entity or supranational institution, such as KfW or the International Bank for Reconstruction and Development. The notes have the option to be put—or sold—at par to the issuing entity on each quarterly payment date (after an initial period). The legal maturity of the 'AAA' rated notes is either the scheduled redemption date or the final extension date and they pay a LIBOR-based return.

Investing in money market funds

Some of the nat cat bond transactions that we rate also have a feature whereby, for example, at the bond's scheduled maturity the TRS terminates or the 'AAA' rated notes mature. The collateral assets are then reinvested in money market funds if certain events occur, such as an extension of the maturity of the notes.

One transaction (Residential Reinsurance 2009 Ltd.'s series 2009-1, 2009-2, and 2009-4 notes) has come to market without a TRS but with the collateral assets invested solely in money market funds over the whole life of the transaction.

The transaction documents limit the eligibility criteria for the money market funds to those that have a Standard & Poor's Fund Services' principal stability funds rating (PSFR) of either 'AAAmG' or 'AAAm'. In these cases, investors will receive a return based on the yield generated by the money market fund.

Charts 4 and 5 show how the distribution of different collateral solutions used in nat cat bonds has changed from 2008 to 2009. Whereas the TRS route was the favored solution in 2008, 2009 will be known as the year of new or enhanced collateral solutions. We understand that investors welcome the diversity in solutions and the diversification in terms of counterparty risk being offered. At the same time, we understand there are two broad views in the investor market: The first who seek to have financial risk removed from the structure and accept a lower yield, i.e., a treasury-based return, and the other who would like to continue receiving the LIBOR-based return albeit with a reduction in the investment risk from previously used solutions. At the moment, we consider that both are catered for with different solutions being offered to them. It needs to be seen whether any one structure will emerge the preferred long-term solution.

Chart 4

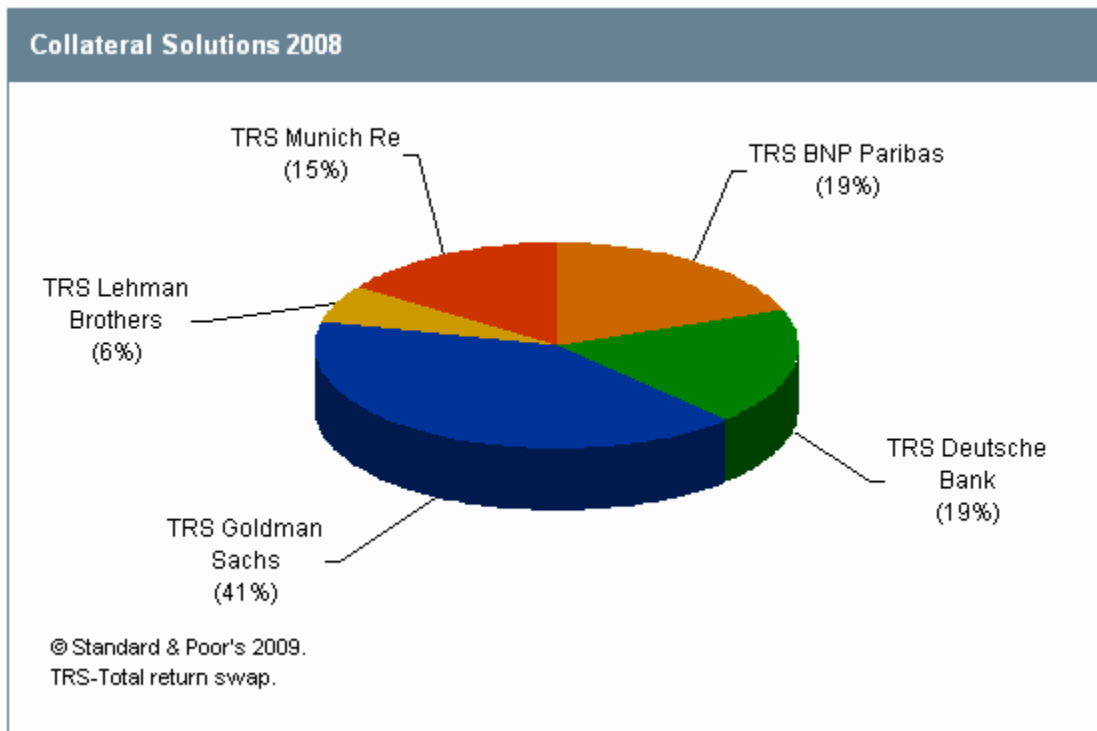
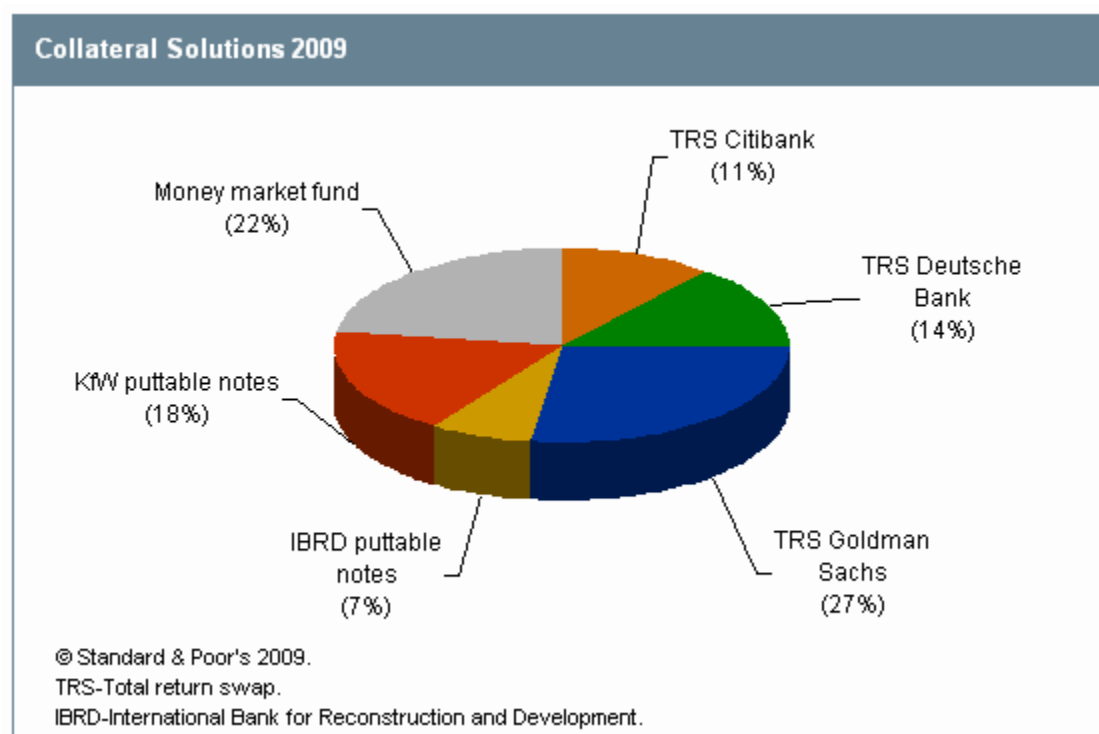


Chart 5



Areas For Further Improvements To The ILS Market

Increasing transparency is a current feature of the ILS market. We understand that the principal transaction documents (in addition to the offering circular) are now being made available to investors prior to pricing. At the same time, information about the assets in the collateral account is now also available to investors. However, the availability and distribution of this disclosure is restricted to holders of the notes. We would anticipate that broader disclosure would enhance the liquidity and overall transparency on transactions. Overall, we believe that increased transparency is a positive market development.

The capabilities of service providers are under scrutiny. As the market is focusing on reducing the collateral investment risk and increasing transparency, voices from the investor side continue to express concern about the various service providers involved in ILS transactions being able to perform their obligations in the speed expected by the market, especially following a major catastrophe. These concerns arose following Lehman's collapse when it was very difficult for investors to obtain information on the underlying assets in the collateral account.

Timeliness around disclosure following an event remains a concern. For example, publishing of loss estimates for various cat bonds in relation to hurricane Ike has taken several months, leaving investors with uncertainty about potential losses to their portfolio.

Investor representation in case of dispute appears to be limited. In the case of Avalon Re Limited, the outstanding decision on whether some of the claims are covered under the existing structure or not highlighted that no party exists in the transaction to actively represent the interest of noteholders in the case of a dispute.

The Credit Crunch And Its Effects On Specific Asset Classes

While ILS covers several insurance-related asset classes, the previous paragraphs primarily pertain to the natural catastrophe (nat cat) bond market. It has been the life securitization market that has suffered even more from the recent market dislocation, with investment losses primarily on a mark-to-market basis though there have been realized losses as well, downgrades of sponsors and financial guarantee providers (the monoline insurers), and investors retracting from the market.

XXX/AXXX

The regulation XXX/AXXX market was among the most negatively affected for the same reasons as are affecting the life market. Sponsors are working on finding workable solutions for both sides to resolve the current issues. In the past, investors were content for monoline insurers to take the risk on these deals. However, now that the monolines are confronted with their own financial challenges, we believe it will be more difficult for a sponsor to transfer these risks, particularly the non-financial related risks such as mortality or lapsation, to capital market investors.

Extreme mortality

The mortality cat bond market was also affected by the downgrades of various monoline insurers. In addition, we had another flu outbreak. Although, at present, we consider that the H1N1 outbreak has had negligible effect on mortality rates in the territories, ages, and genders covered by the mortality bonds we have rated. Typically, these bonds would default only if a high mortality rate is reached, regardless of its cause. Assuming deaths are distributed evenly across the territories, ages, and genders specified in the mortality cat bonds, then the number of additional deaths (in excess of historical trends) required to trigger the bonds and cause a loss of principal ranges from about 400,000 to almost 1,100,000. For further details, refer to "Mortality Catastrophe Bonds Are Currently Unaffected By Latest H1N1 Outbreak."

Longevity

Unexpectedly, it was the longevity risk transfer market that has seen new issuance recently. To date this year, some innovative privately placed transactions transferred the risk to the capital markets. In March 2009, Norwich Union transferred £475 million of longevity exposure to Partner Re and other capital market investors. This was followed by Babcock, the first pension fund to enter into a longevity swap directly with Credit Suisse, transferring £500 million of longevity exposure over a 50-year period to the capital markets. The market sentiment is that these types of transactions will gain in popularity.

Update on other non-life ILS asset classes

In terms of other asset classes, the motor securitization transactions sponsored by AXA have come off risk (FCC SPARC – France only) or will only be on risk for another year (FCC SPARC Europe – Senior). The latter has just been reset and we affirmed our rating on the senior notes in this transaction.

Sponsors have extended the maturities of the trade credit reinsurance bond, Crystal Credit Ltd., and the casualty bond, Avalon Re, even though the bonds are not providing protection for the 2009 underwriting year. Crystal Credit has experienced adverse claims development as a result of the worse-than-expected economic downturn and Avalon Re has seen various events occur in respect of the bond: Hurricane Katrina, an explosion at the Buncefield oil depot, a steam pipe explosion in New York City, a spill at a Lake Charles oil refinery, and exposure to lead paint claims in California. As a consequence, the sponsors of both transactions have decided to extend the maturity of the

bonds to allow for claims to develop. We understand that the sponsors believe that the likelihood of the bonds being triggered has increased.

For more details on the individual transactions, refer to our published articles below.

Future Growth Of ILS Market Depends On "Opportunistic" Players

This year, Assurant Inc. has been the only new entrant to the market. The remaining sponsors have previously transferred cat risk into the capital markets on various occasions. In our opinion, this group of sponsors taps the market for strategic reasons, i.e., they consider it as an important alternative within their risk management strategies, rather than for "opportunistic" reasons, i.e., because the pricing and availability in the traditional market is not advantageous. Given the current pricing levels in the capital markets, especially for the peak U.S. peril, and the lower-than-expected hardening of the reinsurance market prices, we do not expect many first entrants or opportunistic buyers to the market. As the hurricane season gets under way in the U.S., we expect the market to shift its risk transfer efforts to other perils, especially European windstorms. Depending on the pricing levels for these issues, we might see a new entrant, but most likely it will be strategic issuers who are replacing their existing coverages, which are maturing.

Investors have an appetite for diversifying risks

From the investor's perspective, we understand that there is not only a demand for diversifying perils being securitized but also for other asset classes—such as motor, mortality, or longevity—to come to the market. In particular, in the life market we have seen some increased activity. In the past few months we understand a number of privately placed transactions have been completed transferring longevity risk from one party to another. This appetite is underlined by investors setting or planning to set up pure ILS life funds.

Question remains about what opportunistic investors and sponsors will do in future

Whether the ILS market will reach similar issuance levels as in 2007 or not depends on many factors. One of them is the price development for traditional nat cat reinsurance and the ability of the ILS market to attract additional capital. If the reinsurance market continues to harden, this in our opinion will most likely attract new investors that seek to benefit from the additional returns they will be able to make. We expect that this increased capital supply will put pressure on current ILS prices and potentially close or at least reduce the pricing gap between the traditional reinsurance market and the ILS market. This way the ILS market could again become an attractive alternative for opportunistic sponsors and lead to increased issuance, in our view.

Appendix: 2009 Issuance Overview

European ceding companies (SCOR and Allianz Argos 14 GmbH) sponsored two of the U.S. peril transactions, the remainder were sponsored by U.S. companies (United Services Automobile Assoc., Assurant Inc., Liberty Mutual Insurance Co., Chubb Corp., ACE American Insurance Co., and Swiss Reinsurance Company Ltd.). In the current environment, investors seem to prefer simple and transparent structures, in our opinion. Here is a short overview of the features of the 2009 nat cat bond issues (for further details see the table below):

- A maturity of three years remains to be the standard.
- Atlas V uses an Irish special-purpose entity (SPE) whereas the rest of the SPEs are all based in the Cayman Islands.

- The transactions mainly feature first-event triggers, except for Atlas V's series 3, which has a second-event trigger.
- Most bonds were structured to be triggered on a per-occurrence basis. Two of the Atlas V classes have an "inner aggregate retention" and one Residential Re class has an "aggregate trigger."
- All of the transactions feature enhanced collateral solutions to improve the management of the investment risk inherent in the collateral trust.

Features Of The 2009 Nat Cat Bond Issues

Issuer	Series/class	Sponsor	Amount	Peril	Attachment probability (%)	Term (years)	Yield	Spread (bps)	Rating
Atlas V Capital Ltd.	1	SCOR Global P&C SE	50	U.S. hurricane/U.S. earthquake	3.01	3	3-month LIBOR	1,450	B+
Atlas V Capital Ltd.	2	SCOR Global P&C SE	100	U.S. hurricane/U.S. earthquake	3.30	3	3-month LIBOR	1,150	B+
Atlas V Capital Ltd.	3	SCOR Global P&C SE	50	U.S. hurricane/U.S. earthquake	5.35	3	3-month LIBOR	1,250	B
East Lane Re III Ltd.	2009-1	Chubb Corp.	150	Florida hurricane	1.57	3	3-month LIBOR	1,025	BB
Mystic Re II Ltd.	2009-1	Liberty Mutual Insurance Co.	225	U.S. hurricane/U.S. earthquake	1.53	3	3-month LIBOR	1,200	BB
Blue Fin Ltd.	2	Allianz Argos 14 GmbH	180	U.S. hurricane/U.S. earthquake	2.44	3	3-month LIBOR	1,350	BB-
Ibis Re Ltd.	A	Assurant Inc.	75	v	1.65	3	3-month LIBOR	1,000	BB
Ibis Re Ltd.	B	Assurant Inc.	75	U.S. hurricane	3.14	3	3-month LIBOR	1,425	BB-
Residential Reinsurance 2009 Ltd.	2009-1	United Services Automobile Assoc.	70	U.S. hurricane/U.S. earthquake	2.22	3	MMF	1,300	BB-
Residential Reinsurance 2009 Ltd.	2009-2	United Services Automobile Assoc.	60	U.S. hurricane/U.S. earthquake	4.87	3	MMF	1,700	B-
Residential Reinsurance 2009 Ltd.	2009-4	United Services Automobile Assoc.	120	U.S. hurricane/U.S. earthquake/other	1.66	3	MMF	1,250	BB-
Calabash Re III Ltd.	2009-1 (class A)	Swiss Reinsurance Co./ACE American Insurance Co.	86	U.S. hurricane/U.S. earthquake	2.53	3	6-month LIBOR	1,525	BB-
Calabash Re III Ltd.	2009-1 (class B)	Swiss Reinsurance Co./ACE American Insurance Co.	14	U.S. earthquake	0.59	3	6-month LIBOR	550	BB+

MMF-Money market fund. AIR-AIR Worldwide Corp. RMS-Risk Management Solutions Inc. TRS-Total return swap. IBRD-International Bank for Reconstruction and Development. ILW-Industry loss warranty.

Related Research

- Latest Nat Cat Bond Transactions Seek Solutions For Managing Investment Risk (published on June 11, 2009)
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- Three Natural Peril Cat Bond Ratings Removed From Watch; Affirmed On Timely Interest Payments (published on Dec. 22, 2008)

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Additional Contacts:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com
Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com

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Latest Nat Cat Bond Transactions Seek Solutions For Managing Investment Risk

Primary Credit Analysts:

Maren Josefs
London
(44) 20-7176-7050
maren_josefs@
standardandpoors.com

Samira Mensah
London
(44) 20-7176-8417
samira_mensah@
standardandpoors.com

Carmi Margalit
CFA
New York
(1) 212-438-2281
carmi_margalit@
standardandpoors.com

Additional Contacts:

Insurance Ratings Europe
InsuranceInteractive_Europe@sta
ndardandpoors.com

Structured Finance Europe
StructuredFinanceEurope@
standardandpoors.com

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Lehman's bankruptcy in September 2008, along with other troubles in the credit markets, gave the natural catastrophe (nat cat) bond market pause for thought. After a temporary halt in new issuance, rated nat cat bonds made a return in February 2009, but the market had changed. All of the seven nat cat bond transactions Standard & Poor's Ratings Services has rated since February have implemented one or more solutions to manage investment risk within their collateral accounts.

Various Solutions Attempt To Mitigate Investment Risk

Investment risk in nat cat bond transactions became prominent following the default of Lehman Brothers Holdings Inc., as the guarantor of Lehman Brothers Special Financing Inc., the total return swap (TRS) counterparty in four nat cat bonds. There were several problems with the collateral:

- Lack of transparency on the underlying investments in the collateral account;
- Broad eligible investment criteria for collateral assets;
- Lack of collateral asset diversification;
- Maturity mismatch between the assets in the collateral account and the nat cat bond;
- Lack of regular mark-to-market valuations of collateral assets for most deals; and
- No top-up provision for the TRS provider if the value of the assets fell below a certain threshold, or top-up provisions linked to the rating on the TRS counterparty and not the value of the assets in the collateral account.

As a result, the market value of the assets in the collateral accounts of the four affected bonds was so low that no replacement for the TRS counterparty could be found for any of them, exposing investors directly to the investment risk related to the collateral assets. Since then, two of the four nat cat bonds have defaulted. Willow Re Ltd.'s class B notes series 2007-1 defaulted because the assets in the collateral account did not generate enough cash

flow to make a full interest payment and Ajax Re Ltd.'s class A principal-at-risk variable-rate notes series 1 defaulted because funds in the collateral account were not sufficient to fully repay the principal at maturity. For further information on the two other outstanding bonds (Carillon Ltd.'s class A-1 principal-at-risk variable-rate notes and Newton Re Ltd.'s class A 2008-1 principal-at-risk variable-rate notes), see “Three Natural Peril Cat Bond Ratings Removed From Watch; Affirmed On Timely Interest Payments” in “Related Articles”.

Improved collateral management when using a TRS counterparty

Most of the first nat cat bonds issued this year (Atlas V Capital Ltd.'s principal at-risk variable-rate notes series 1, 2, and 3, East Lane Re III Ltd.'s class A principal-at-risk variable-rate notes series 2009-I, Mystic Re II Ltd.'s principal at-risk variable-rate notes series 2009-1, and Ibis Re Ltd.'s class A and B principal-at-risk variable-rate notes) used the traditional solution of contracting a TRS counterparty to guarantee the cash flow from and the value of the collateral assets. At the same time, these TRS agreements incorporated improvements to reduce the investment risk within the collateral accounts by introducing more restricted investment guidelines, regular mark-to-market valuations, and top-up provisions.

Investing bond proceeds in highly rated assets

The second collateral solution employed by two transactions that we rate (Blue Fin Ltd. series 2 and Calabash Re III Ltd. class A and B notes series 2009-1) does not involve a TRS. Instead, all the collateral assets comprised notes issued specifically for the nat cat bond by a ‘AAA’ rated government-guaranteed entity or supranational institution. The notes have the option to be put—or sold—at par to the issuing entity on each quarterly payment date (after an initial period). The legal maturity of the ‘AAA’ rated notes is either the scheduled redemption date or the final extension date.

Investing in money market funds

Some of the nat cat bond transactions that we rate also have a feature whereby the TRS terminates or the ‘AAA’ rated notes mature and the collateral assets are reinvested in money market funds if certain events occur, such as an extension of the maturity of the notes.

One transaction (Residential Reinsurance 2009 Limited's series 2009-1, 2009-2, and 2009-4 notes) has come to market without a TRS but with the collateral assets invested solely in money market funds over the whole life of the transaction. The transaction documents limit the eligibility criteria for the money market funds to those that have a Standard & Poor's Fund Services' principal stability funds rating (PSFR) of either ‘AAA_mG’ or ‘AAA_m’.

The following table provides an overview of the collateral solutions used by the seven transactions that we have rated since February this year.

Nat-Cat Bond Issuers And Their Solutions			
Issuer*	Total return swap	'AAA' rated notes	Money market fund
Atlas V Capital Ltd.	X		X (during extension)
East Lane Re III Ltd.	X		
Mystic Re II Ltd.	X		X (certain cases)
Blue Fin Ltd.		X	X (certain cases)
Ibis Re Ltd.	X		X (during extension)
Residential Reinsurance 2009 Limited			X
Calabash Re III Ltd.		X	X (during extension)

*Rated between February and June 2009.

Factoring the risks in each solution into our rating analysis

This article looks at each collateral solution in more detail and explains how we factor the risks inherent in each solution into our opinion to arrive at a rating on the nat cat bond. It also provides a short overview of what PSFRs address and what surveillance we perform on the rated funds.

When rating nat cat bonds we continue to use our “weak-linked” approach, i.e., we typically base the rating on the bond on the lowest of three ratings: (i) Our implied rating on the catastrophe risk, (ii) our rating on the ceding insurer, and (iii) our view of the quality of the collateral investments, unless the value and the return on the collateral assets are guaranteed by a third party (such as a TRS counterparty), in which case we instead focus on our rating on this guarantor. For more details on our rating methodology for nat cat bonds see “ Methodology And Assumptions For Rating Natural Catastrophe Bonds” in “Related Research”.

TRS With Improved Collateral Management Arrangements

As stated above, the first few transactions that entered the market in 2009 continued to have a TRS guaranteeing the value and the return on the collateral assets. However, there were some improvements in collateral management, in our opinion.

Improved transparency and quality.

The TRS counterparty discloses to investors the assets that are held in the collateral account and there is an explicit focus on the credit quality of the assets, typically by setting eligibility criteria that limit these assets to government-issued or government-guaranteed debt. The latest nat cat bonds that we have seen had their collateral invested in notes guaranteed by the Federal Deposit Insurance Corp. as part of the U.S. government’s temporary liquidity guarantee program, which allows the nat cat bond to pay a LIBOR-based return on U.S. government-guaranteed paper.

Improved maturity matching.

The maximum maturity of any investment is currently five years, improving (but not mirroring) the match of the collateral’s maturity with the maturity of the nat cat bond.

Regular mark-to-market valuation.

The final improvement we have seen involves the collateral being marked-to-market regularly, with the interval ranging from daily to monthly. Further, the TRS counterparty is obliged to top up the assets in the collateral account if the market value of these assets falls below a certain threshold.

Rating nat cat bonds with a TRS

As mentioned above, for nat cat bond transactions involving a TRS, we incorporate in our analysis our rating on the TRS counterparty using a weak-linked approach. Further, we consider the nature of the assets in the collateral account and include our opinion on their credit quality in our

published reports for each nat cat bond issue. We also give an overview of the eligibility investment criteria and any mark-to-market and top-up provisions. However, as long as the TRS counterparty is the sole entity responsible for the return and preservation of the funds, the quality of the collateral is not a ratings driver.

‘AAA’ Rated Puttable Notes

Since February, we have also seen nat cat bond transactions in which the issuer of the bonds invests the proceeds it receives in ‘AAA’ rated government-guaranteed entities or supranational institutions. KfW was the first entity to issue a note, which Blue Fin Ltd. included in the collateral account of its series 2 issue. Under its medium-term note program, KfW issued the note with a put option exercisable at par on each quarterly payment date (except for the first payment date) up to the final extension date of the nat cat bond. The interest on the notes is three-month LIBOR minus a margin. The ceding insurer pays the difference up to LIBOR so that investors receive a LIBOR-based return. The duration of the assets in the collateral account match the duration of the nat cat bond but there is no diversification of assets in the collateral. The International Bank for Reconstruction and Development (IBRD) has also entered the market. It issued notes which Calabash Re III invested all its collateral assets in. The IBRD notes pay six-month LIBOR minus a margin quarterly. The notes mature two days before the nat cat bonds’ scheduled maturity, but are not puttable for the first year they are outstanding.

Rating nat cat bonds with collateral invested in ‘AAA’ rated puttable notes

We examined each transaction’s collateral investments and usage guidelines and determined that they are appropriate under our eligible investment criteria for ‘AAA’ rated structured transactions (see “Related Research” below). Since we rated KfW’s nat cat bond rated ‘BB-’, and the two Calabash Re III nat cat bonds rated ‘BB-’ and ‘BB+’, the collateral’s suitability for a ‘AAA’ rating meant it would not be a limiting factor in our weak-linked methodology.

Money Market Funds

Another collateral solution we have seen involves issuers investing the nat cat bond proceeds in money market funds. In transactions we have rated, the yield to investors on the nat cat bond equals the yield on the money market investment plus the protection spread (interest or extension spread) paid by the ceding insurer to the issuer in line with the risk transfer contract entered into between the two parties. The transaction documents usually contain investment guidelines as to which money market funds are eligible for the collateral to be invested in over the life of the bond. For the nat cat bonds we have rated, the transactions’ documents have required the funds to have a PSFR of ‘AAAm-G’, or if there are not any eligible funds with a ‘AAAm-G’ rating then a PSFR of ‘AAAm’.

What does our principal stability fund rating (PSFR) address?

A PSFR (also known as money market fund rating) addresses our opinion of a fund’s ability to maintain principal stability and to limit its exposure to market, credit, and/or liquidity risks. A PSFR is assigned to money market funds that aim to maintain a stable principal value and exhibit a stable net asset value (NAV) per share, or a rising NAV in the case of accumulating funds. The rating categories range from ‘AAAm’ to ‘Dm’. The ‘m’ distinguishes the PSFR from our traditional debt ratings, which are usually not subscripted and which generally indicate a borrower’s ability to

repay principal and interest on a timely basis. We assign a 'AAAm-G' PSFR to a fund's portfolio consisting entirely of direct investments in U.S. government securities.

Under our fund ratings criteria, 'AAAm' rated funds invest only in high credit quality underlying instruments. At least 50% of a fund's holdings are rated 'A-1+' and the remaining assets are invested in securities rated 'A-1'. The credit quality of 'AAAm-G' funds is even higher as their credit exposure is limited to U.S. government securities or/and U.S. government agencies.

In assessing a fund's market price exposure, we examine a fund's sensitivity to rising interest rates. The fund's weighted-average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more sensitive the fund is to rising interest rates. For the 'AAAm' rating category, our criteria call for a maximum WAM of 60 days. Liquidity of a money market fund's portfolio is critical to maintaining a stable NAV, in our opinion. Our PSFR criteria call for 'AAAm' rated funds to maintain at least 90% of their assets in highly liquid money market instruments, thus limiting their exposure to limited liquidity and/or illiquid securities to no more than 10% of a fund's holdings.

While we analyze the maturity structure to determine the fund's ability to meet potentially large redemptions, we also apply strict diversification guidelines per issuer to both 'AAAm' and 'AAAm-G' funds. However, for 'AAAm-G' funds invested exclusively in U.S. government instruments or/and U.S. government agencies, we apply slightly different diversification limits. For instance, 'AAAm-G' funds are allowed to invest in government agencies beyond the established diversification thresholds as long as the amounts in excess of the thresholds mature within 30 days, which has the effect of limiting the WAM to a level commensurate with our rating.

This section and the next one are taken from our PSFR criteria. For more details on our rating methodology for money market funds see "Principal Stability Fund Ratings Criteria Updated" in "Related Research" below.

How do we monitor PSFRs?

Our PSFR criteria guidelines are based on the assumptions that money market funds presenting the following characteristics are less likely to experience significant unexpected deviation of their NAV:

- High credit quality;
- Diversified portfolio;
- Maximum WAM of 60 days; and
- Weekly mark-to-market valuation.

As part of our fund surveillance process, on a weekly basis we review key statistical information, such as the fund's NAV per share, portfolio credit quality, WAM, asset flows, and the full portfolio holdings. Each particular aspect can affect a fund's ability to maintain a stable principal or NAV. NAV per share of 'AAAm' and 'AAAm-G' rated money market funds cannot deviate by more than 25 bps and must stay between 0.9975 and 1.0025.

Money market funds usually value their assets using the amortized cost method due to the nature of their investments. We require the money market funds we rate to carry out an additional mark-to-market valuation at least weekly to determine if the fund's NAV per share calculated on an amortized cost basis deviates materially from the NAV per share computed on a mark-to-market basis. We expect fund managers to have measures in place to address any significant deviation between the two valuation methods. When the NAV deviation is greater than 25 bps, we require rated PSFR funds to perform a daily market valuation of their assets. For stable NAV funds, we monitor that the marked-to-market NAV evolves within a range of 0.99850 to 1.00150 at all times.

Active discussions with fund management take place well before the NAV reaches the breaking threshold of 0.995 (where the fund would be downgraded to ‘Dm’) and we typically take rating action when the NAV falls below 0.9975. For more details on deviation ranges see “Standard & Poor’s Comments On Its Principal Stability Fund Ratings Methodology” in “Related Research”.

Rating nat cat bonds with collateral invested in money market investments

In a similar fashion to the ‘AAA’ puttable notes example above, the transactions’ collateral guidelines for eligible money market funds are commensurate with the eligible investment criteria for ‘AAA’ rated structured transactions (see “Related Research” below).

Other Collateral Arrangements

We have yet to see a cat bond structure that, in our view, has effectively removed all counterparty and investment risk. However, we will examine any proposed structural features to determine if they meet the relevant criteria and what their effect would be on the ratings on a transaction.

Related Research

- Methodology And Assumptions For Rating Natural Catastrophe Bonds (published May 12, 2009)
- Criteria | Structured Finance | General: Methodology And Assumptions: Update And Clarification To Counterparty Criteria For Interest Rate Swap Counterparties In ‘AAA’ Rated Transactions (published April 1, 2009)
- Principal Stability Fund Ratings Criteria Updated (published March 10, 2009)
- Standard & Poor’s Comments On Its Principal Stability Fund Ratings Methodology (published March 10, 2009)
- Three Natural Peril Cat Bond Ratings Removed From Watch; Affirmed On Timely Interest Payments (published on Dec. 22, 2008)
- Criteria | Structured Finance | General: Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of ‘A-2’ Counterparties Removed In ‘AAA’ Transactions (published Oct. 22, 2008)
- Revised Framework for Applying Counterparty and Supporting Party Criteria (published May 8, 2007)
- Eligible Investment Criteria for ‘AAA’ Rated Structured Transactions (published June 25, 2001)
- New Issue: Atlas V Capital Ltd. (published on Feb. 19, 2009)
- East Lane Re III’s \$150 Million Principal-At-Risk Variable-Rate Notes Series 2009-I Class A (published on March 11, 2009)
- Mystic Re II Ltd.’s \$225 Million Series 2009-1 Principal At-Risk Variable-Rate Notes (published on March 13, 2009)
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Mortality Catastrophe Bonds Are Currently Unaffected By Latest H1N1 Outbreak

Primary Credit Analysts:

Stephen Hadfield
London
(44) 20-7176-7059
stephen_hadfield@
standardandpoors.com

Secondary Credit Analyst:

David Harrison
London
(44) 20-7176-7064
david_harrison@
standardandpoors.com

Additional Contact:

Insurance Ratings Europe
InsuranceInteractive_Europe@sta
ndardandpoors.com

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At the time of publication, the outbreak of H1N1 (or swine influenza) had spread to about 40 countries and infected almost 9,000 people. While, thankfully, fatalities (around 75) have so far been relatively light, the increasing spread of disease raises concerns, and heightened awareness, of pandemic risk. This article provides an update on this latest pandemic threat and also discusses the potential risk to mortality catastrophe bonds (MCBs), a relatively new tool used by life insurers and reinsurers to transfer extreme mortality risk to the capital markets.

At present, Standard & Poor's Ratings Services considers that the latest H1N1 outbreak has had negligible impact on mortality rates in the territories, ages, and genders covered by MCBs. Typically, these bonds would default only if a high mortality rate (regardless of its cause) was reached. Assuming deaths are distributed evenly across the territories, ages, and genders specified in the MCBs rated to date, then the number of additional deaths (in excess of historic trends) required to trigger the bonds (and therefore cause a loss of principal) ranges from around 400,000 to almost 1,100,000.

Mortality Catastrophe Bonds

MCBs are a relatively recent type of risk transfer structure, similar to natural catastrophe bonds. They can be viewed as a form of reinsurance against extreme mortality risk, which can include pandemic risk, mortality risk resulting from terrorism events, and significant adverse changes in mortality trends. Life insurers and reinsurers have used MCBs to transfer this mortality risk to the capital markets. Principal and interest payments on MCBs are exposed to the risk of adverse mortality that could be experienced by a portfolio of lives.

For information on the structure of MCB transactions, in addition to the methodology applied by Standard & Poor's Ratings Services in rating these transactions, please see

“Guide To Rating Insurance-Linked Mortality Catastrophe Bonds,” published Sept. 11, 2008.

MCB transactions usually cover extreme mortality risk in a specific range of territories and affecting a population with predetermined age and gender distributions within each country. The insurer/cedant typically selects the mix of countries and populations to be covered by the MCB with a view to minimize its basis risk by trying to replicate the underlying insured portfolio. We believe that the cedant retains significant basis risk, however, as it is highly unlikely that the mortality of an insured pool of lives will be closely replicated by the experience of a population. In addition, while the composition of the index is fixed at the outset of the transaction, the mix of lives insured by the cedant will change over the risk period.

Some MCB transactions have been structured with multiple tranches of debt with different trigger levels. This would allow an insurer to obtain more comprehensive risk coverage, while offering investors a choice of bonds of varying risks and return. Each tranche of the MCB issuance would cover the same pool of lives (identical geographical, age, and sex distribution), but the tranches would cover varying amounts of mortality risk and therefore expose principal to varying risk of loss at different rates of mortality.

The transaction-specific mortality index selected by the insurer for the MCB has to increase above an attachment point, or trigger level, in reference to a specified measurement period, for the bonds to be written down. In the MCB transactions rated by Standard & Poor’s to date, the structures provide for an increase in the index that is averaged over a measurement period, typically two years, to smooth out any random events. Attachment points on rated transactions have ranged from 106% (class D notes issued under Osiris) to 125% (certain classes of the Vita II and Vita III transactions). In the first case, a mortality increase in excess of 12% in a single year over the measurement period would cause principal to be written down; in the second case, a mortality increase of at least 50% in a single year over the measurement period would cause principal to be written down.

Transaction Specifics

The number of fatalities from the swine influenza outbreak has remained relatively low to date and the current financial cost to insurers is not expected to be material. However, there is considerable uncertainty regarding the evolution of the H1N1 virus and the ultimate impact it will have on mortality rates. On May 19, 2009, the MCBs we have rated have not been triggered by the outbreak and there is still significant headroom for further mortality increases within the transactions before the bonds would default. We will continue to monitor the development of the outbreak and the potential impact on insurers, reinsurers, and MCBs.

By specifying the index, the insurer attempts to minimize basis risk by trying to replicate its underlying insured portfolio. The table below illustrates the territories that have been included in transactions rated to date and highlights the relatively narrow range of countries covered. The territories covered are generally anticipated to have higher levels of preparedness to pandemics than less developed countries.

S&P-Rated Mortality Catastrophe Bonds By Territory	
Name	Territories covered
Vita Capital II Ltd.	U.S.: 62.5% / U.K. (England and Wales only): 17.5% / Japan: 7.5% / Germany: 7.5% / Canada: 5.0%
Vita Capital III Ltd.	U.S.: 62.5% / U.K. (England and Wales only): 17.5% / Japan: 7.5% / Germany: 7.5% / Canada: 5.0%
OSIRIS Capita PLC	France: 60% / Japan: 25% / U.S.: 15%
Nathan Ltd.	U.S.: 45% / U.K. (England and Wales only): 25% / Canada: 25% / Germany: 5%

MCBs that we rate have included populations that are higher weighted toward male lives and with age distributions concentrated in the range of 25-55 years of age. This may be viewed as a potential risk mitigant as influenza epidemics often affect the elderly, weak, or young children disproportionately. However, the 1918-1920 H1N1 influenza strain caused an overactive immune system response in young adults—the ‘cytokine effect.’ This resulted in an unusually high fatality rate in previously healthy young adults.

In addition, due to the extreme levels of mortality covered by rated MCBs, the bonds generally would not be triggered, even if a significant past event were to be repeated. For example, while events such as 20th century wars and the 1918 influenza pandemic caused large-scale fatalities, in our view they would not usually trigger the higher tranches of debt of rated transactions, illustrating the remote levels of protection typically offered by these transactions.

Capital Impact

MCBs issued to date have not received any credit in Standard & Poor’s risk-based capital model because of the significant model risk in these transactions; the extreme nature of the risks being covered; the basis risk (for parametric deals); and the relative size of the transactions compared to insurer exposure. However, the issuance of MCBs can be viewed positively from an enterprise risk management, liquidity, and financial flexibility perspective.

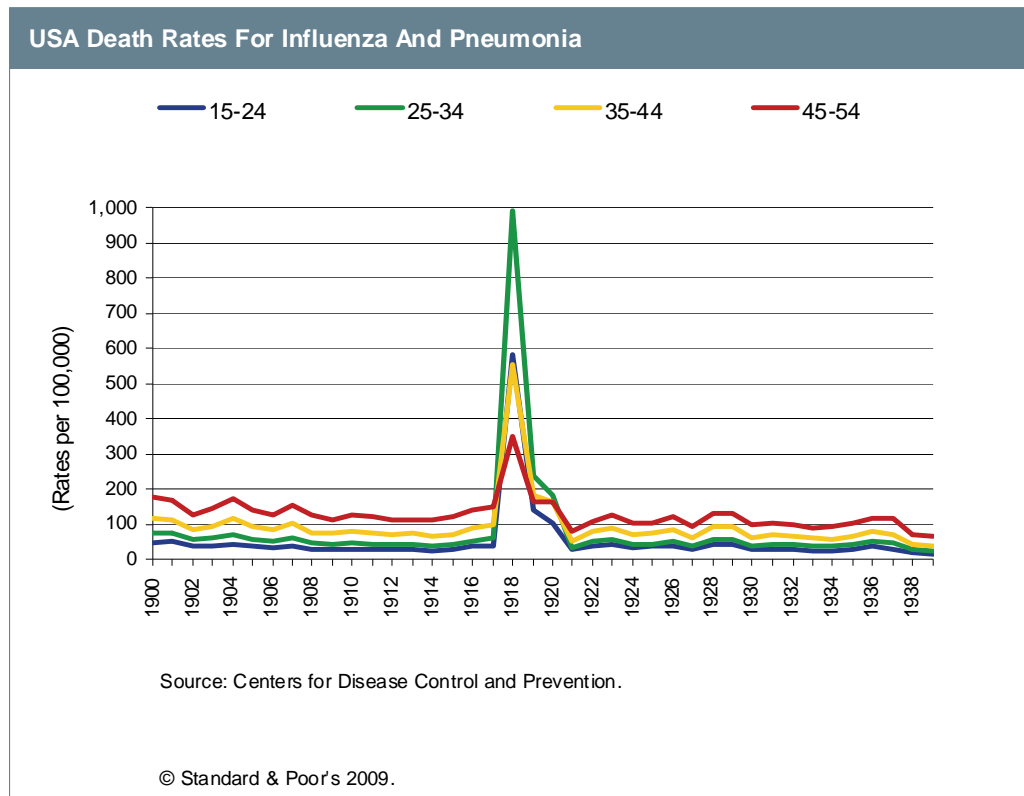
Current Outbreak

The following information has been sourced from articles produced by the Centers for Disease Control and Prevention (CDC), World Health Organization (WHO), and British Broadcasting Corporation (BBC).

Swine Influenza (swine flu) is a respiratory disease caused by the type A influenza virus that regularly causes influenza outbreaks in pigs. Swine flu causes high levels of illness and low death rates in pigs, but the virus does not usually infect humans. The CDC reports that human swine flu infections occur every one or two years in the U.S., although 12 cases have been reported from December 2005 to February 2009. Human symptoms are similar to seasonal flu and diagnosis of the disease requires laboratory testing of a “respiratory specimen” of the potential victim.

Government health organizations have been treating infected and potentially infected cases with anti-viral medication (such as Tamiflu™ and Relenza™). While there is currently no vaccine to the outbreak, the WHO says that it has already been in contact with vaccine manufacturers to work to develop a vaccine. The time taken to produce a vaccine is not yet known but experts have speculated that this could be at least three months-six months. In the U.S. alone, seasonal flu causes an estimated 25 million-40 million cases resulting in around 30,000-40,000 deaths per year.

The chart below shows mortality rates in the U.S. from influenza and pneumonia from 1900 to 1939 for four age bands. The chart illustrates both the severity of the 1918-1920 Spanish flu and the particular age bands most affected by the disease.



Although the crude death rate for the current swine flu outbreak appears relatively high, in our opinion this is a very rough measure based on a limited sample size and with limited volumes of accurate information available. These data issues also mean that it remains difficult to assess the current and potential future impact of the outbreak.

In our opinion, one of the main risks with the current outbreak is that the latest wave of disease is not the only incidence of infection and that the disease may lie dormant or continue to cause relatively few casualties before returning in a much more deadly form. Dr Margaret Chan, Director General of the WHO said on May 4, 2009, “Historically, influenza pandemics have encircled the globe in two, sometimes three, waves. During the previous century, the 1918 pandemic, the most deadly of them all, began in a mild wave and then returned in a far more deadly one. In fact, the first wave was so mild that its significance as a warning signal was missed.”

In addition to the current H1N1 outbreak, experts continue to fear an outbreak of H5N1 (or avian or bird flu) due to its ability to rapidly mutate.

Methodology And Assumptions For Rating Natural Catastrophe Bonds

Primary Credit Analysts:

Maren Josefs
London
(44) 20-7176-7050
maren_josefs@
standardandpoors.com

Secondary Credit Analysts:

Gary Martucci
New York
(1) 212-438-7217
gary_martucci@
standardandpoors.com

Cameron Heath
London
(44) 20-7176-7053
cameron_heath@
standardandpoors.com

Carmi Margalit
CFA
New York
(1) 212-438-2281
carmi_margalit@
standardandpoors.com

Criteria Officer: Rob Jones
London
(44) 20-7176-7041
rob_jones@
standardandpoors.com

Additional Contacts:

Insurance Ratings Europe
InsuranceInteractive_Europe@sta
ndardandpoors.com

Structured Finance Europe
StructuredFinanceEurope@
standardandpoors.com

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Standard & Poor's Ratings Services is refining and adapting its methodology and assumptions for rating natural catastrophe (nat-cat) bonds. We are publishing this article to help market participants better understand our approach to analyzing nat-cat bonds. This article supersedes the relevant articles listed below in "Related Research".

In this article we address the principles discussed in "Principles-Based Rating Methodology For Global Structured Finance Securities" and in "Principles Of Corporate And Government Ratings" (see "Related Research").

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

The Changing Landscape Of The Nat-Cat Bond Market

Since we first rated a nat-cat bond, this market has seen significant developments, and we have been updating our criteria accordingly. For example, the roster of natural perils now supported by accepted models has increased significantly. Similarly, coverage by geographic area has expanded to reflect the increase in insurable exposure around the world. At the same time, transactions have also evolved beyond what was once considered the traditional single-event, single-peril nat-cat bond to include multi-peril and multi-event structures, "sidecars", loans, and even collateralized debt obligations of nat-cat bonds. Because these various structures often overlap, in this article we use the term "nat-cat bond" to refer to any of these structural alternatives, unless otherwise noted.

What does a nat-cat bond rating address?

Our nat-cat bond ratings reflect our opinion of the likelihood of timely payment of interest and ultimate return of principal no later than the legal final maturity date, in each case

according to the transaction terms. When rating a nat-cat bond, we look at the different sources of risk that we believe could affect the timely payment of interest or the ultimate return of principal. Interest payments usually depend on the creditworthiness of the ceding company in making premium payments and the cash generated by the collateral investments. In transactions where these cash flows have been guaranteed by a third party, typically in the form of a total return swap (TRS), we usually look at the creditworthiness of the third party. The return of principal depends on whether a covered nat-cat event occurs during the risk period and on the quality of the collateral investments—unless their value has been guaranteed by a third party, in which case we look at the creditworthiness of the third party.

In rating a nat-cat bond structure, we typically base the rating on the bond on the lowest of three ratings: (i) Our implied rating on the catastrophe risk (described in further detail below), (ii) our rating on the ceding insurer, and (iii) our view of the quality of the collateral investments, unless the value and return of the collateral assets are guaranteed by a third party, in which case we instead focus on our rating on this guarantor. This is a “weak-link approach” in line with our criteria (see “Revised Framework For Applying Counterparty And Supporting Party Criteria”). The lowest of the aforementioned three ratings is typically our implied rating on the catastrophe risk.

An example of this would be a nat-cat bond that covers a peril with an implied rating of ‘BB’, with a ceding insurer rating of ‘AA’, and a TRS counterparty rating of ‘A’. If it is a typical nat-cat bond structure, the ceding insurer pays premiums to the issuer (which provides reinsurance to the ceding insurer) equal to a portion of the interest on the bonds, while the TRS counterparty agrees to pay the balance of the interest and to provide a hedge against exposure to investment risk on the assets held in the collateral accounts. In this example, applying our “weak-link approach” would result in a nat-cat bond with a rating of ‘BB’, because we consider the peril as having the greatest likelihood of occurring.

Because catastrophic events can occur with low frequency but with high severity, the ratings transition can vary significantly from other asset classes upon the occurrence of a covered event. In our analysis, we usually treat a triggering event for a nat-cat bond similarly to a period of severe economic stress. The typical process for determining if an “attachment point” (defined as the potential of a missed principal or interest payment) may be reached is for the cedant (via the issuer) to request an event report from the calculation agent upon the occurrence of a covered event. Therefore, we typically place the bonds on CreditWatch Negative upon the request of an event report or as soon as we receive information giving us reason to believe that there is a probability that losses may exceed the attachment point. This rating action would normally also include the expected ratings outcome.

In our opinion, bondholders should anticipate that if the event report indicates losses in excess of the attachment point, a reduction in the outstanding principal balance of the bonds is likely to result, and the bonds will likely be lowered to ‘D.’ The period of time between the initial CreditWatch action and any lowering of the bonds’ rating to ‘D’ would usually depend on the trigger for the particular transaction, with a “parametric” trigger expected to be resolved the quickest, and an “indemnified” trigger taking the longest. Because there is time between notification that the bonds have exceeded the attachment point and the actual reduction in the outstanding principal balance, the bonds would likely be rated ‘CC’ during that interval, indicating that default is likely. Furthermore, we do not differentiate between the degrees of loss, whether it is \$1 or a total loss of principal. In addition, the rating does not include the potential for any

recovery. Bondholders should be aware that a similar ratings transition is anticipated in the event that any other party to which the bonds have credit exposure were to default.

Assessing The Catastrophe Risk

Peril modeling

In rating nat-cat bonds, we typically rely on modeling performed by recognized third parties. To date, we have not rated a transaction in which the ceding company used a model other than one provided by either Risk Management Solutions Inc., EQECAT Inc., or AIR Worldwide Corp., although some sidecars have included certain risks (for example, crop insurance) that were not modeled by these companies. These particular risks, however, corresponded to an insignificant level of losses relative to the trigger point of the rated debt, in our opinion.

While we do not endorse the use of any modeling agency over another, we do consider it significant that these three modeling agencies have achieved a general level of acceptance in the greater insurance market. In addition to taking into consideration their years of experience, we periodically meet these companies to discuss and better understand both the strengths and weaknesses of current models, updates to models, and new models in development to cover new perils or geographic areas. Where a modeling agency provides more than one view of expected losses on a portfolio of catastrophe risk, we typically use the more conservative view in developing our opinion of the bonds' probability of attachment.

We have rated transactions, primarily sidecars, in which the cedant is responsible for running the vendor model itself. These structures have included the participation of a third party, usually the modeling agency, to confirm modeled results as calculated, as well as the verification of losses when an event occurs. As with typical nat-cat bond transactions, we review and assess any adjustments made and factor them into our ratings decision. We do not anticipate altering our current policy, namely that we do not rate nat-cat bonds that rely solely on the output of a cedant-generated model.

Risk factors

Each nat-cat bond transaction we have rated is unique and is rated on its individual merits. However, we believe a number of risks are common to transactions of the same type and we consider each of these when assigning a rating.

All nat-cat bonds are, of course, exposed to the risk of one or more nat-cat events happening. Each peril in each region occurs with differing frequency and severity, and these two factors are the primary drivers to the risk assessment underlying our rating. The cedant's initial estimate of this risk is based on one or more catastrophe models; however, it is important to note that the output of these models is only an estimate and not definitive.

Therefore, we adjust the probability of attachment based on the risk factors detailed in this section. The amount of that adjustment is subject to quantitative and qualitative factors, so it is not unusual, for example, for us to make different adjustments to similar indemnified transactions, based on transaction-specific features.

Model risk

Model risk captures the possibility of the catastrophe model misestimating the frequency and/or severity of catastrophic events. All models, by definition, are simplifications of reality and their ability to accurately predict future events depends on many factors. The three modeling agencies

mentioned have considerable experience and demonstrated skill. Our inclusion of modeling risk when assigning a rating should not be taken as an indictment of the models. Rather, it reflects our belief that a level of uncertainty must occur when modeling tail events, and certain inputs have a significant impact (for example, demand surge). Similarly, the complexity of each hazard varies; and certain factors are often difficult to allow for, either because of a lack of data or because their impact is difficult to quantify (for example, the impact of the North Atlantic Oscillation).

Model risk includes a number of components, some or all of which may be present in a particular transaction structure. While industry loss triggers require the use of all modules from the model, parametric triggers use fewer modules, only up to the estimation of the hazard value. Modeled loss triggers use all modules, but use the same modules for the pre- and post-event loss calculation. In other words, investors in industry loss transactions generally face additional model risk compared with investors in parametric or modeled loss transactions, in our opinion. The loss estimates as modeled for industry loss transactions incorporate assumptions about the severity of damage to insured buildings and the financial cost of this damage if a natural disaster occurs. If these assumptions underestimate the severity of damages, we believe the true probability of attachment is greater than the modeled probability of attachment for these types of trigger.

We also believe there is a risk in connection with data collection and interpretation related to the peril. While technological advances have allowed for much improved data collection, this is a recent phenomenon. For example, 50 years ago, the measurements of hurricanes in the U.S. and windstorms in Europe were not as accurate as they are now, which increases the variability in the historical catalogue of each modeling agency. When reviewing earthquake models, one company may argue for time-dependency (that is, each year without an earthquake increases the likelihood of an earthquake in the future) while another one may not include this element. From a ratings perspective, these issues, and others like them, serve to increase the adjustment to the related model output when arriving at a ratings decision.

Typically, we would anticipate applying a smaller stress to the model-output for transactions in which personal lines (as opposed to commercial lines) make up most of the subject portfolio. One relevant transaction defaulted because the cedant experienced unexpectedly large losses on the excess lines element of its commercial exposure. The rupture of the New Orleans levees during Hurricane Katrina caused significant flooding in the covered area and payments from the cedant, where none had been modeled, subsequently triggered principal reductions on the bonds as collateral was paid to the cedant. Furthermore, statistical theory suggests that a smaller number of larger risks is inherently more risky than a larger number of smaller risks.

Data risk

Indemnified structures not only use the full output from the model, but also depend heavily on the quality and completeness of the cedant's underwriting data, which is used to populate the model. We consider that these models are highly complex and reliant on the quality of data input into them. For example, we believe that it is easy for errors to creep into the collection of the insured property data. Entering an incorrect property code could mean a commercial building being coded as residential, or a wood frame property being coded as brick. We are not implying that a cedant would intentionally mislead, but we must allow for human error. Additionally, the further removed the ceding company is from the primary risk, the greater the potential for data risk to become a factor.

When applied to a complex model, data risk can form a significant portion of an investor's total risk in this type of transaction. Furthermore, indemnified structures rely on the claims handling and

actuarial estimating skill of the cedant and its agents, which adds a moral hazard component to the analysis.

A related risk arises because the probability of attachment is based on a portfolio as of a certain cut-off date. The cedant determines the probability of attachment, exhaustion, and expected loss, either at issuance or reset, based on the portfolio at that time. The actual ceded portfolio will likely be different, and although this difference may be minimal, this introduces another level of uncertainty.

Other risks

A number of other factors may affect the level of stress applied to the individual transaction. The list below is not exhaustive and, like the trigger type, each of these factors has a different impact on the individual transaction and, consequently, suggests a different level of stress test.

When compared with per-event or single-year structures, or those in which losses incurred by the transaction are reset annually, we believe multi-year aggregate structures are more prone to model error. Any imperfections in the underlying model are compounded over the term of the transaction. However, this may be offset to an extent if less severe events trigger these structures.

The skill of the modeler running the catastrophe model is important, as this is not a mechanical process. Ensuring that codes in the underlying data (for example, geographic, construction type, roof material) are correctly mapped to those used in the model requires skill and experience; as does interpreting and checking the model output. It is essential in our view that these processes be performed correctly—there is little benefit in having complete, good-quality data if it is not used correctly.

The annualized probability of attachment is important beyond a pure assessment of the likelihood of a nat-cat bond defaulting. All models contain errors in our view and the further into the tail the results are, the more the assumptions underlying any model tend to break down. For the most remote risks, there may be no recent events against which to compare models. Consequently, the more remote the risk, the greater the potential for model error.

Although sidecars are basically indemnity structures, they are also subject to business risks. The quota share agreement places restrictions on the type of business that the sidecar will reinsure, but the cedant has some latitude in defining the portfolio of risks. The modeled probability of attachment for debt issued by a sidecar is based on the expected portfolio, but changes in strategy by the cedant and conditions in the market could cause the actual portfolio of risks to differ from our expectations. The modeled probability of attachment is also based on assumptions for premium and expenses. We believe an unfavorable variance in these assumptions increases the probability of attachment—all else being equal.

Additionally, sidecars sometimes contain potential losses from perils that are not modeled. Sidecars usually follow the fortune of the cedants on the covered business, which sometimes includes policies that cover losses from perils or events that are not simulated in a model. For these unmodeled risks, we examine the cedant's historical losses and industry experience of the volatility of these types of losses. Then, we increase the estimate for modeled losses by the amount of expected losses that would not be included in that estimate.

When rating indemnified transactions, we would also look for additional information, much of which we obtain through the interactive ratings process, such as: How does the company's catastrophe-linked losses compare with its competitors?, has it completed any reviews of its exposures?, how has it scored on our analysis of enterprise risk management (ERM)?, and so on. This assessment factors into our final ratings decision. For further details about our rating

approach for indemnified nat-cat bonds, please refer to our article “Approach To Rating Indemnified Natural Catastrophe Insurance-Linked Securities” (see “Related Research”).

Stress testing

We assign ratings to nat-cat bonds based on our view of the revised probability of attachment, which represents the relative potential of a missed principal or interest payment. The revised probability of attachment equals the modeled probability of attachment plus an adjustment to address the possibility of error in the modeling process, whereby we consider all the risk factors mentioned above and make transaction-specific adjustments to reflect our view of these risks. To perform this analysis, we ask the cedant and the modeling agency to provide us with the full aggregate exceedance probability (AEP) or occurrence exceedance probability (OEP) curves, whichever is applicable for a given transaction, for each peril and on a combined basis for a multi-peril transaction. In addition, we request the table that summarizes the losses for each simulated event. For aggregate multi-year transactions, we also request the AEP curves for each time period. For example, if the maturity of the bonds is three years, we request the one-, two-, and three-year AEP curves.

We make an allowance for the above risks in our ratings by applying stress tests to the AEP or OEP curves, as appropriate, before assigning a rating. The adjustments usually vary according to the type of structure and the individual characteristics of the transaction under review. The allowance for potential modeling error increases as the number and magnitude of risks present in a particular transaction increase. While it is extremely rare for transactions to be directly comparable, the paragraphs below are intended to give an indication of the relative magnitude of the risk inherent in different types of trigger mechanism on a like-for-like basis.

Parametric-based transactions, which use the output from a catastrophe model only up to the hazard-generation stage, would typically receive a lower stress test than industry loss or indemnified loss transactions, each of which use all modules in the catastrophe model to generate the probability of attachment and related exceedance probability curves.

An industry-loss-based transaction would likely receive a less onerous test than an indemnity-based transaction, which uses the full output from a catastrophe model and relies on the quality of the cedant’s underwriting data to populate the model.

Similarly, an indemnity-based transaction would likely receive a less onerous test than a sidecar-style transaction, which uses the full output from a catastrophe model up to the financial-loss-generation stage, relies on the quality of the cedant’s underwriting data, and contains other nonmodeled risks.

To provide the market with some guidance, table 1 gives indicative incremental stress levels that we would apply to the AEP or OEP curve of a nat-cat bond. Note that these levels are indicative only, as we tailor the actual adjustment applied when rating each nat-cat transaction to reflect the transaction’s individual characteristics, and adjustments may exceed or, more typically, fall short of this figure. It is important to note that when asked to rate transactions linked to: (i) U.S. hurricane, we rely on the more conservative of the modeling agencies’ near term and historical results, and (ii) earthquake, we ask for results on a time dependent basis if not supplied in the initial ratings submission package.

Table 1

Incremental Stress Test Levels	
Type of structure	(%)
Parametric	5

Table 1

Incremental Stress Test Levels	
Type of structure	(%)
Modeled loss	5
Industry loss	10
Indemnity	20

Assigning the implied rating to the catastrophe risk

Specific to nat-cat bonds, we assign a rating to the catastrophe risk part of the bonds by comparing two rows of table 2 below. The first row corresponds to the maturity of the bond (or, in the case of a re-setting bond, the re-set term which is most likely one year); the second is a surrogate for the instantaneous stressed probability of attachment. We compare the bonds’ lifetime and stressed annual probabilities of attachment with the appropriate maturities and locate in each row the first rating category for which the likelihood of default exceeds the corresponding probability of attachment. The lower of these ratings is the maximum possible rating on the catastrophe risk.

We review this default table to determine whether actual results are consistent with expectations. Therefore, the table could be subject to future periodic revisions, although we do not expect frequent changes. We published table 2 in May 2008, which was the first update since we published the initial default table for rating nat-cat bonds in 1998. A portion of the default table follows. To see the full table, refer to “ Default Table Used To Rate Insurance-Linked Securitizations Updated,” published May 8, 2008.

Table 2

Cumulative Default Probabilities (%)									
<i>Default table for insurance-linked securitizations</i>									
Maturity (years)	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
1	0.003	0.010	0.015	0.025	0.040	0.060	0.085	0.234	0.353
2	0.027	0.048	0.074	0.106	0.150	0.200	0.264	0.514	0.825
3	0.052	0.085	0.133	0.188	0.260	0.340	0.443	0.850	1.405
4	0.076	0.123	0.191	0.269	0.370	0.480	0.621	1.246	2.073
5	0.100	0.160	0.250	0.350	0.480	0.620	0.800	1.704	2.812
	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	
1	0.547	1.632	2.525	3.518	4.51	5.824	8.138	23.582	
2	1.279	3.211	4.946	6.915	8.885	11.751	16.674	38.104	
3	2.177	4.758	7.23	10.095	12.96	17.152	24.004	46.752	
4	3.213	6.276	9.38	13.037	16.694	21.921	30.025	52.288	
5	4.359	7.763	11.403	15.745	20.087	26.089	34.945	56.158	

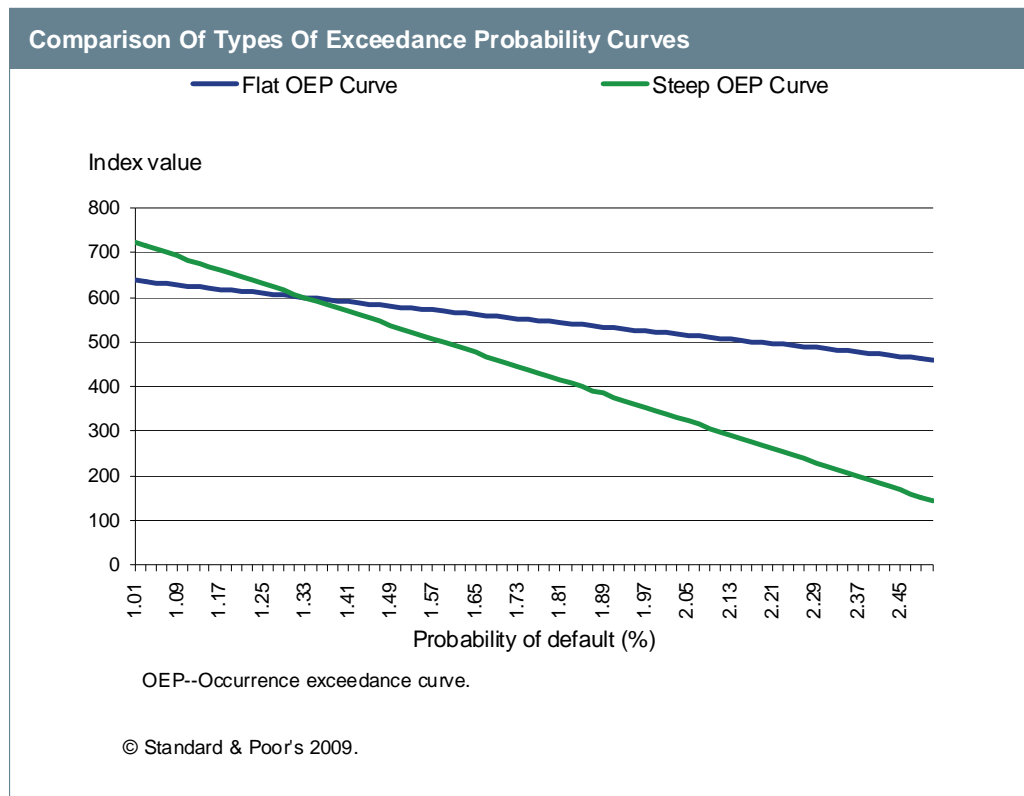
The following example illustrates how we would apply the adjustment for a nat-cat bond linked to industry losses on a per-occurrence basis with an annual reset, an attachment level of \$600 million, and a modeled probability of attachment of 1.33%, which equates to a one-in-75-year event.

We might apply an adjustment of, for example, 9%, which decreases the attachment level to \$546 million. This adjustment incorporates the trigger type, the data risk, the coverage type (that is, occurrence or aggregate), the remoteness of the event, the perils and regions being covered, the lines of business covered (residential versus commercial), and any additional factors (for example, the cedants’ historical loss performance on previous catastrophes versus the industry) that are

relevant to the specific transaction. The OEP curve supplied by the modeling agency then indicates that the new probability of attachment is 1.79%, which equates to a one-in-56-year event (illustrated by the Flat OEP curve in chart 1). We compare this revised probability of attachment to the default table used to rate nat-cat bonds. If this were the sole metric we use to assign a rating, we would assign the bonds a rating of ‘BB’.

Had the adjusted OEP curve generated a probability of 1.47%, then the rating outcome for this metric would have been ‘BB+’. If we were to plot an OEP curve with probability of default along the X axis and index/loss value along the Y axis, clearly a steep curve would be expected to minimize ratings volatility and a flat curve would likely intensify it (see chart 1).

Chart 1



It is important to note that the revised probability of attachment is not the sole metric for rating nat-cat bonds. Qualitative features not addressed here may cause the rating assigned to the bonds to differ, such as, transaction features, quality of the ceded portfolio, risk management practices, and so on.

Ratings caps

Under our current criteria, single-event natural peril catastrophe bonds are subject to a ratings cap of ‘BBB+’. For a bond to receive this rating, the one-year probability of attachment must not exceed 20 basis points (bps). A bond may be rated ‘BBB-’ if the probability of attachment doesn’t exceed 40 bps. Given the attachment probabilities, we typically rate single-event bonds below investment-grade. Multi-event bonds have ratings caps as well. Second-event bonds are capped at ‘BBB+’, a third-event catastrophe bond may be rated as high as ‘A+’, and a fifth-event catastrophe bond may be rated ‘AA’. For a bond to be rated ‘AA’, we would expect there to be limited correlation among the modeled perils. In addition, as long as the bonds have an investment-grade rating, the transaction must be able to withstand a trigger event without the event resulting in a

downgrade, based on the probability of attachment, of more than one rating category. We have discussions with the modeling agency to verify the methodology and results.

Assessing The Counterparties' And Collateral Risks

As stated above, the rating assigned to a nat-cat bond incorporates the rating on the cedant and those on the collateral or the collateral counterparty.

Ceding (re)insurer

In most nat-cat transactions, the ceding insurer makes a quarterly premium payment to the issuer, which it uses to pay a portion of the interest on the bonds. The expectation is that if the ceding insurer fails to make a payment, the bonds would no longer be at risk to the covered peril, and the transaction would unwind, as set forth in the transaction documents. As a result, we believe the investors may lose the related interest portion on one to two payments. If the cedant fails to make any payment, resulting in a shortfall in interest or principal payments, we would downgrade the bond to 'D'.

Collateral

Depending on how a nat-cat bond is structured, the quality of the collateral could be a ratings driver. Where no rated third party guarantees the cash flow obligations under the bonds, we look at the collateral's ability to generate the cash for the interest payments on the bonds to account for any mismatch that might affect bondholders. In addition, we focus on the investment risk of the collateral and its ability to provide sufficient funds to meet the bonds' principal repayment obligation at legal final maturity. For further details on the eligibility investment criteria, refer to "Eligible Investment Criteria For 'AAA' Rated Structured Transactions" (see "Related Research").

Collateral counterparty

The most common collateral arrangement we have seen has been in the form of a TRS. In our rating analysis for these transactions, we focus exclusively on the rating on the TRS counterparty and not on the underlying investments purchased with the net proceeds of the bond issuance. The purpose of the TRS is to essentially replace the investment risk associated with holding the collateral and to provide the transaction with cash flow that matches the bond payments and claims payments to the ceding insurer.

Many swaps have a downgrade trigger, requiring that a downgraded TRS counterparty be replaced. Typically, the swap agreement requires the replacement TRS counterparty to have a rating of at least 'A-'. Although our rating methodology for nat-cat bonds does not assume that such a replacement will be found, we take it into account when reviewing our rating if one is found. For further details on our counterparty criteria, refer to "Methodology And Assumptions: Update And Clarification To Counterparty Criteria For Interest Rate Swap Counterparties In 'AAA' Rated Transactions" and "Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of 'A-2' Counterparties Removed In 'AAA' Transactions" (see "Related Research").

Even if there is a collateral counterparty, we generally comment on the nature of the assets in the collateral account in our published reports for each nat-cat bond issue.

Other collateral arrangements

We have yet to see a catastrophe bond structure that, in our view, has effectively removed all counterparty and investment risk. However, we examine any proposed structural features to

determine whether we believe they sufficiently mitigate the counterparty risk in future transactions. When presented with these proposed solutions, we assess the marginal risk, if any, these bring to the transactions, and we determine the potential impact on our rating analysis.

We will continue to review any proposed changes to the typical nat-cat bond structure and, to the extent necessary, will determine whether applying our existing criteria is appropriate.

Legal issues

In catastrophe bonds structures we have seen, the issuer—typically a newly created, bankruptcy-remote, special-purpose entity—accepts through reinsurance or retrocession a portion of the cedant’s risk. The issuer is usually capitalized by a combination of equity and the proceeds of the rated debt. Investors expect to receive interest income unless a covered event occurs for which the issuer is liable under the reinsurance agreement. The issuer’s assets, acquired with the proceeds of the issuance, are typically held by a collateral agent to be applied against the issuer’s reinsurance obligations or paid back to investors as principal if no insurable event occurs during the term of the transaction. The range of assets that are eligible to be held as collateral are usually specified in the documentation, with final asset selection being subject to agreement between counterparties, normally the TRS provider and issuer. The bonds are typically secured by a pledge of these assets and various funds and accounts. Depending on the particular transaction structure, we review the bankruptcy-remoteness of the issuer and generally look for the following legal comfort:

If the issuer is an offshore entity, we look for an opinion addressing, among other things, the due organization of the issuer, the enforceability of the transaction documents against the issuer, and the validity of the choice of the law selected to govern the transaction.

If the issuer is an offshore entity, we request opinions to the effect that the entity would not, for tax purposes, be deemed to be engaged in a trade or business in the U.S. or taxable in other jurisdictions, as applicable.

We look for an opinion to the effect that the rated obligations are not subject to regulation of contracts of insurance or reinsurance under applicable state law and that the holders of such bonds should not be subject to regulation as providers of insurance or reinsurance.

As applicable, we request inclusion of the applicable UCC article 9 representations and warranties as to the creation, perfection, and priority of the security interest of the indenture trustee in the collateral for the benefit of the bondholders, and/or an opinion under the laws of any relevant non-U.S. jurisdiction on these subjects.

In addition, depending on the specific features of the transaction, we might request additional legal comfort in the form of opinions or otherwise. It is expected that the legal construct would be ratings neutral at best and the criteria set forth in this article would determine the rating assigned to an issuance.

Surveillance

During the lifetime of a nat-cat bond we conduct surveillance to assess whether all the conditions to maintain our current rating are still in place. We expect to receive a copy of any report or notice that is being sent between the transaction parties. We review each report or notice to decide whether this may have any rating impact. Depending on the nature of the surveillance carried out, we typically consider the same risk factors and corresponding adjustments as at closing. However, if there are significant changes to the risk factors due to, for example, the release of a new model, we revisit the adjustments we made to arrive at our prior rating. If this results in a rating change, we typically comment on this in our corresponding rating publication.

The following sections outline the most common components of our surveillance process.

Occurrence of a catastrophe event

If a covered event occurs, we revisit our rating on all outstanding bonds that might be affected. Based on the information that has been provided to us before closing (loss event tables and, for multi-year aggregate deals, the respective AEP curves for each time period, that is, one-, two-, or three-year, and so on) in combination with information on the actual event, we ascertain the likelihood of any bonds being triggered. We also reach out to the transaction parties to obtain any information that is missing for our analysis.

We generally place the potentially affected bonds on CreditWatch Negative or downgrade them as soon as we have knowledge that the issuer has sent an event notice to the calculation agent. We attempt to obtain further information on the potential losses related to the event from the cedant and the calculation agent. We may then take further rating action when we receive the event report. It is possible that a cedant could request that an event report be generated even though their expectation is that the event would not trigger the bonds.

For aggregate transactions, we also expect to receive a new attachment probability following an event. Since an aggregate-loss transaction covers small and large losses, the covered event may not be significant enough to affect the current rating if the loss is minimal. However, if we believe that the loss would affect the ratings, then we would likely place the bonds on CreditWatch Negative or downgrade them immediately, depending on how much information is made available to us at the time.

Model-based reset

It has been the general practice that the model used by the calculation agent for the risk analysis of a nat-cat bond at issuance is escrowed for the life of the transaction. However, some nat-cat bond transactions require the attachment and the exhaustion points of each class of bonds to be reset following a release of an updated version of the calculation agent's catastrophe model. We expect to receive a copy of the reset report that should contain the updated attachment probability and expected loss for each class. We may ask to receive an updated AEP/OEP curve as well. Depending on the impact, we may also seek to have a dialogue with the calculation agent prior to the publication of the reset report. Unless we believe a rating action is warranted, we generally do not publish an update upon reset. If the parties to the transaction commit to an updated model for subsequent resets, then we analyze the transaction based on the results of the latest model and determine if a rating action is warranted. The reason for this is that the cedant should not have the option of choosing results from different models.

Portfolio-based reset

In multi-year transactions, the transaction terms generally give cedants the option to request a reset annually to align the attachment and exhaustion point of the issued bonds to its actual exposure. This can be done in various ways depending on the trigger of the transaction using the calculation agent's updated industry portfolio or the cedant's actual portfolio. Unless a rating action is warranted, we generally do not publish an update upon reset.

Change in rating on any of the parties to the transaction or the collateral

Generally the ratings on the cedant, the collateral, or the collateral counterparty are higher than the rating on the nat-cat risk. According to our rating approach, we base our rating on the bond on the

lowest of the implied catastrophe risk rating, the rating on the cedant, and the rating on the collateral/collateral guarantor. The lowering of any of these ratings might lead to a downgrade of the nat-cat bond. In addition, transaction documents might require a certain action if the rating on either party or the collateral falls below a certain threshold. In this case, we determine the impact any action would have on the current rating on the bond.

Release of a new model

If a modeling company issues an updated model and we believe there are significant changes in our perception of the risk for such peril, we may change the rating on any outstanding bonds even if there is no model-based reset in the terms of any of the bonds concerned.

Related Research

This criteria article supersedes the following:

- “Clarifying The Framework For Rating Natural Catastrophe Bonds,” published Nov. 26, 2008.
- “Methodology And Assumptions Used For Rating Natural Catastrophe Insurance-Linked Securities,” published Sept. 11, 2008.
- “Framework For Rating Natural Peril Catastrophe Bonds,” published July 5, 2007.

Related Articles

- “Principles of Corporate and Government Ratings,” published on June 26, 2007
- “Principles-Based Rating Methodology For Global Structured Finance Securities,” published May 29, 2007
- “Approach To Rating Indemnified Natural Catastrophe Insurance-Linked Securities,” published Sept. 15, 2008
- “Default Table Used To Rate Insurance-Linked Securitizations Updated,” published May 8, 2008.
- “Revised Framework For Applying Counterparty And Supporting Party Criteria,” published May 8, 2007
- “Eligible Investment Criteria for ‘AAA’ Rated Structured Transactions,” published June 25, 2001
- “Methodology And Assumptions: Update And Clarification To Counterparty Criteria For Interest Rate Swap Counterparties In ‘AAA’ Rated Transactions,” published April 1, 2009
- “Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of ‘A-2’ Counterparties Removed In ‘AAA’ Transactions,” published Oct. 22, 2008
- “Methodology For Rating Non-Catastrophic Property/Casualty Insurance-Linked Securities” published May 12, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor’s Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor’s numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor’s Ratings Services’ assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a

result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

Methodology For Rating Non-Catastrophic Property/Casualty Insurance-Linked Securities

Primary Credit Analysts:

Cameron Heath
London
(44) 20-7176-7053
cameron_heath@
standardandpoors.com

Gary Martucci
New York
(1) 212-438-7217
gary_martucci@
standardandpoors.com

Criteria officer:

Rob Jones
London
(44) 20-7176-7041
rob_jones@
standardandpoors.com

To date, securitizations of non-catastrophic property/casualty risks have been relatively few. However, growing new issuance, allied to an observed increase in demand for diversification away from catastrophic risks by specialist insurance-linked security (ILS) investors, demonstrates a growing maturity in this relatively new credit market.

In the past few years, Standard & Poor's Ratings Services' has assigned ratings to four transactions: AXA's FCC SPARC and FCC SPARC Europe (Junior and Senior) motor transactions, Swiss Reinsurance Company Ltd.'s Crystal Credit Ltd. transaction, and Hannover Rueckversicherung AG's reinsurance recoverable transaction Merlin CDO I B.V.

To further issuers' and investors' understanding of our rating process and help them interpret our ratings, this article outlines the general approach we take in our analysis. However, it is important to note that each of these transactions is highly individual; as such, we describe high-level concepts rather than transaction-specific information. Furthermore, this is not an exhaustive list—innovative transactions may bring with them the need for additional analysis to understand and quantify the risk inherent within it. We are always willing to have an initial discussion with any potential issuer to clarify how our criteria apply to a specific transaction.

The information we typically would request to analyze an ILS risk generally includes information similar to that sought by an underwriter looking to price that risk in the traditional reinsurance market. Our rating depends heavily on our view of the likelihood of an event or set of events occurring and the impact it/they would have on the timely payment of principal and/or interest. Furthermore, in line with other types of ILS transactions we typically publish a written report outlining our rationale for assigning our ratings, including our opinion on the insurance risks, the legal structure, and the collateral backing the transaction. As such, there are often instances where we look for more detail and/or take a different focus in our analysis of the insurance risk.

Publication Date

May 12, 2009

Leaving aside the legal, structural, and collateral issues, which are largely similar for all ILS transactions and which we discuss in separate articles (see “Related Research” below), we focus here on the insurance risk. In particular, we describe the typical information we look for, our analysis of that data, the modeling we perform, and ultimately the results that are likely to form the basis of our rating decision.

We do not cover in this article any possible capital relief from the use of such transactions as risk mitigation techniques, as calculated in Standard & Poor’s Risk-Based Insurance Capital Model. In our view, each transaction is unique and so it would be impossible to give an indication of any potential relief without considering the individual characteristics on a case-by-case basis. We will focus on our rating approach for ILS transactions.

In this article we address the principles discussed in “Principles-Based Rating Methodology For Global Structured Finance Securities” and “Principles Of Corporate And Government Ratings” (see “Related Research”). We are publishing this article to help market participants better understand our approach to analyzing non-catastrophic property/casualty risks.

This article is part of a broad series of initiatives we announced to enhance our governance, analytics, dissemination of information, and investor education. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

Collecting Data And Information

The starting point for our analysis of an insurance risk transaction is typically the collection of relevant data and other information.

As with any rating analysis, we look to the sponsor to supply internal data and information about the risk. There is no simple answer to how much or what type of data we may request to rate a transaction. It depends on the characteristics of the particular transaction. However, we can provide a guide based on typical requests we have made to date.

We would normally expect to be supplied with at least seven to 10 years of stable data in a single, consistent format. What is most important is that the past data should be highly representative of the risk being securitized. However, “stable” doesn’t have to mean the portfolio is completely unchanged over the time period covered. Data provided to us should allow for material changes in the portfolio both in terms of excluding data from policies no longer included and also making full allowance for future risks.

Beyond the data’s depth and breadth being sufficient, to enable us (or another third party) to perform a detailed analysis it should be at an adequately “individual” level, such that we can decompose, analyze, and aggregate it in multiple ways. Furthermore, where the development of the claims over a period of time is relevant, we would expect the sponsor to supply data that enables an independent assessment of that development (e.g., by us or an independent actuarial firm).

We also generally expect the data to be reconciled to any relevant financial statements and checked to ensure accuracy and consistency, with the results of these processes supplied to us. We do not audit the data we receive but rely on it being a true reflection of the underlying risk. We would expect it to be of adequate quality to allow us, or another independent third-party, to perform some basic validation checks.

To assist the interpretation of this data, we typically request information about any internal or external factors that have had an effect on past data or may have one on future exposures, e.g., systems updates, portfolio changes, and regulatory changes. In particular we would want to

understand which changes are temporary and which can be expected to have an ongoing effect on the nature of the claims made.

Additionally, we usually supplement any internal company data and information with external information. This might include industry data and changes in industry practice, for example, changes in coverage or other policy terms, or legal or regulatory changes, such as the introduction of the Ogden tables in the U.K., which changed the level of motor bodily injury claim payments.

Analysis Of Data And Other Information

Before we begin to analyze the data and information collated from various sources, we typically estimate some high-level expectations of what the results of our analysis might be at the mean and at various confidence levels—up to and including the proposed rating level. These expectations serve as a guide to validate the results we derive from the models and/or scenarios.

The ultimate aim of our analysis of the data and the adjustments we make to it is to generate a sufficiently large body of data to allow realistic modeling that we believe is representative of the risk that is being securitized. In particular, we aim to fully reflect any changes in the risk in the past data by removing temporary features and adjusting for longer-term trends. Further, we explicitly document and factor in future expectations.

An important feature of any body of data is consistency. We look for evidence that the data is consistent both within itself but also with any external data and with any qualitative information.

We generally view favorably the participation of a third-party in the review of the data used to generate the modeled probabilities of attachment. In our opinion, the participation of a third-party in the data review process could significantly mitigate the risk of any moral hazard related to selective information disclosure that might skew modeled results.

We expect to receive a copy of both the scope of the review as well as a copy of the results generated in this review process. It is anticipated that any third-party reviewer would choose any representative sample analyzed. Furthermore, we would expect the reviewer's analysis to include a discussion of the sample size used, as well as an assessment of the potential sampling error and/or statistical significance of the results.

Modeling The Risk

The outputs of the modeling process are inevitably an important consideration in the rating of any ILS transaction. However, it is often the case that the inputs and assumptions are just as important as the outputs. All models are simplifications of reality and their results become less reliable at the extremes. As such, we identify key uncertainties and assumptions, and sensitivity test them to identify where modeled results might be less reliable.

Depending on the complexity of the transaction and the underlying risk we might typically use one or more of the following model types to evaluate the risk:

- A simplified “one page” calculation giving a point-estimate result under a single scenario, with a list of the key risks and assumptions.
- A more complete deterministic model, which gives a single point-estimate but which allows the user to apply different scenarios that represent different rating categories, to estimate the outcome under stressed situations. We would typically present the results with the scenario, associated assumptions, and uncertainties.
- A detailed stochastic model, giving a range of results, which can be compared with our default statistics. We would typically present the distribution of results with the main uncertainties and

assumptions; further, we would quantify the effect of these where possible through sensitivity testing or otherwise, as appropriate.

In all cases, we consider that it is essential that the model is transparent and not a “black box.” In the rating reports we publish on transactions we rate, we comment on the main factors behind the rating assigned by the committee and our view of the key uncertainties.

Review Of The Modeling Results

Clearly it is not just the results of a modeling exercise that are important but the process by which those results were derived. We need to be comfortable with any third-party if they have performed the modeling, the modeling techniques, and any modeling software used. This review would need to meet the standards specified in our model review policy.

While we cannot specify what is acceptable to us in terms of modeling technique and software, we believe that models that have been vetted by an independent third party, e.g., an actuarial firm, are more reliable. The following list ranks the types of modelers in order of least concern to most concern, in our view:

- Specialist modeling agency;
- Reinsurer/insurer with a high ranking from an expert;
- Reinsurer/insurer with a reputation for expertise and a strong track record;
- Reinsurer/insurer that passes an audit by an expert; and
- Unrated reinsurer/insurer without an expert opinion (we usually would not be able to rate transactions where the model is provided by such an insurer).

Assigning A Rating

It is normal practice for the primary analyst for a particular transaction to consider multiple scenarios when recommending a rating to the committee. The committee typically reviews the results of specific scenarios in conjunction with the results of any stochastic model, especially at extreme rating levels, where model assumptions tend to become less reliable.

The primary analyst compares these results with the ILS default table (see “Default Table Used To Rate Insurance-Linked Securitizations Updated” under “Related Research” below) and presents them to the rating committee along with the rationale for that rating recommendation, the key sensitivities, and the results on the scenarios. This is designed to make the committee members fully aware of the context of the results.

Scheduled Surveillance

The transaction documents typically provide that copies of any relevant reports related to the transaction be provided to us during the life of the transaction.

Depending on the structure of the transaction, we typically review quarterly and annual reports of performance. We monitor transactions with annual resets of the attachment and exhaustion point, and in particular we focus on any change in the probability of attachment.

Event-Driven Surveillance

Following the occurrence of a potential covered event, we generally revisit all outstanding rated securities that we believe might be affected. To ascertain the likelihood of the notes being triggered, we typically contact the cedant of the transaction as a first step. Similar to the periodic reports generated during the life of the transaction, the transaction documentation usually stipulates that certain post-event information be provided to us to allow this full analysis.

Typically, these transactions trigger a default when the aggregate losses exceed a certain level. Conversations with the modeling agent will be one of the steps we take to determine the extent of losses. If we believe the loss may have a ratings effect, then we would typically put the ratings on the notes on CreditWatch Negative.

Related Research

- Methodology And Assumptions For Rating Natural Catastrophe Bonds (published on May 12, 2009)
- Guide To Rating Process For Insurance-Linked Securities (published on Sept. 5, 2008)
- Principles Of Corporate And Government Ratings (published on June 26, 2007)
- Principles-Based Rating Methodology For Global Structured Finance Securities (published on May 29, 2007)
- New Issue: Merlin CDO I B.V. (published on Aug. 18, 2008)
- New Issue: FCC SPARC Europe (Junior) (published on July 8, 2008)
- New Issue: FCC SPARC Europe (Senior) (published on April 23, 2008)
- New Issue: Crystal Credit Ltd. (published on March 2, 2006)

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Europe's Insurers Feel The Strain, But The Sector Retains Its Strength

Industry Credit Outlook

European insurers have, in Standard & Poor's Ratings Services' view, experienced mounting pressure since our previous report card published on Dec. 11, 2008 ("European Insurance Sector Ratings Remain Stable Despite Poor Results In The Third Quarter"). For many insurers in the first quarter of 2009, the cumulative effects of the events and market conditions over the past 18 months have eroded the headroom in ratings that we commented on in that report. However, most rating actions were limited to one notch. We continue to believe that the fundamentals of Europe's insurers are sound despite the market value-based indicators, which may imply otherwise.

Among the leading insurers, this year AEGON N.V. (AEGON), ING Group N.V. (ING), Assicurazioni Generali SpA (Generali), Aviva PLC, Legal & General Assurance Society Ltd., and Swiss Reinsurance Company Ltd. sustained downgrades. AXA and Zurich Financial Services (ZFS) acquired negative outlooks. However, Standard Life and SCOR were upgraded. This pattern is reflected more broadly in our rating actions and outlooks on all 160 of our rated insurance groups in EMEA, 6% of which have been downgraded in 2009 and only 2% upgraded. This negative bias is also reflected in our outlooks with 78% of our ratings being stable, 19% negative, and 3% positive.

Negative rating action and our negative outlooks appear mainly associated with insurers with a life insurance bias, especially those with large U.S. subsidiaries, or a large exposure to structured credit or equity risk (exemplified by AEGON). Maintenance of stable outlooks or positive rating actions were mainly associated with insurers having a European non-life bias, especially reinsurers. The exception to this appears in cases where these non-life insurers have a large exposure to equities, such as in the Gulf region.

Primary Credit Analysts:

Rob Jones
London
(44) 20-7176-7041
rob_jones@
standardandpoors.com

Secondary Credit Analysts:

Simon Marshall
London
(44) 20-7176-7080
simon_marshall@
standardandpoors.com

Yann Le Pallec
Paris
(33) 1-4420-6725
yann_lepallec@
standardandpoors.com

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Significant rating actions in first-quarter 2009

In the current environment, as well as continuing our ongoing surveillance of all rated insurers individually, we are conducting an increasing number of portfolio reviews. The most recent of these was our review of the seven Europe-based global multiline insurers (GMIs), which followed an earlier review of U.K. life insurers. Together, the insurers covered by these reviews were most directly affected by the risk profiles referred to above. Other significant rating actions were the downgrades of Swiss Re, where structured credit exposure was the dominant influence, and the trade credit insurer Atradius, the only pure-play trade credit insurer.

Several GMIs suffered downgrades

On March 31, 2009, we announced the completion of our review of the European GMIs. As a result, we lowered the counterparty credit and insurer financial strength ratings on various operating entities of AEGON, ING, and Generali. In addition, we lowered the counterparty credit ratings on the holding companies of AEGON, ING, and Aviva. At the same time, we revised the outlook on various operating entities of the ZFS insurance group to negative from stable. Both AXA's negative outlook and Allianz's stable outlook were maintained.

The review took place against the backdrop of the continued weakness of financial markets and the rapid downswing of the world economy, which together weigh significantly on GMIs' capital adequacy and earnings prospects (as they do for many of Europe's insurers). We are of the opinion that the deteriorating outlook for credit risk, combined with continued volatility and weakness in equity markets, will remain a key rating sensitivity for GMIs in 2009 and potentially into 2010. The ratings remain supported by our view of GMIs' very strong competitive positions, generally sound business fundamentals, and robust liquidity. We also believe that GMIs entered this period from a position of relative strength with robust balance sheets supported by improved risk management.

Capital adequacy has become a relative weakness to the rating for the majority of GMIs. The exceptions are AEGON and ING, which both, in our view, continue to show very strong risk-based capital adequacy partly as a result of securing capital injections of €3 billion and €10 billion (in the case of ING, mainly in respect of the bank), respectively, from the State of The Netherlands in order to bolster capitalization. We do not factor in any extraordinary future state support in respect of any of the entities covered by the GMI review. Our criteria permits a degree of latitude for highly rated insurers operating with lower capitalization levels than usual for their ratings to the extent that we believe that an insurer's earnings capacity is still sufficient to bring its capital adequacy close to a level consistent with its rating over the next two years. Where this convergence of capital adequacy and rating is uncertain, the ratings generally carry a negative outlook.

Amid what we consider to be a daunting financial landscape, the ability of GMIs to raise capital is more restricted than would have previously been the case. Despite their reduced financial flexibility, we view GMIs' refinancing risks at an aggregate level as manageable and believe that they are adequately positioned to meet their near-term debt maturity and interest payment requirements through healthy operational cash flows and sufficient levels of liquidity. The widening in the gapping of the respective holding companies of Aviva and AEGON from respective operating subsidiaries reflects our view of greater structural subordination and lower holding company inflows due to the current challenging operating and financial market conditions.

Operating performance faltered during 2008 and our ratings generally factor in a further decline in GMIs' top-line growth and earnings in 2009. Life operating profits will in our view be under greater pressure, reflecting their relatively higher correlation to economic and financial market

conditions. Declines in asset values will continue to reduce underlying earnings in equity-linked products. At the same time, long-term interest rates have contracted significantly, increasing the cost of options and guarantees. Increased costs of hedges and ineffective hedging may place further pressure on earnings. The ratings on GMIs with a property/casualty (P/C) insurance bias are, we believe, more resilient because of healthy underwriting profits in 2008, although partly aided by reserve releases related to prior years. Their future resilience depends on their continued ability to maintain pricing discipline. Our current ratings are underpinned by our view that GMIs active in P/C insurance should be able to continue to effectively manage the cycle, translating into a combined ratio comfortably below 100% (barring major catastrophic losses and without substantially reducing loss reserve strength) in 2009 and 2010.

Two down, one up for U.K. life companies

The uncertainties affecting life insurance referred to above were also reflected in our Feb. 25, 2009, review of U.K. life insurers. As a result of the review, we lowered the counterparty credit and insurer financial strength ratings on Legal & General Assurance Society Ltd. and Norwich Union Life & Pensions Ltd. At the same time, we raised the counterparty credit and insurer financial strength ratings on Standard Life Assurance Ltd. Later actions involved the subsidiaries of certain U.K. banking groups with Clerical Medical and Scottish Widows being downgraded. As a result of these and other recent rating actions, the long-term ratings on 50% of the U.K. life sector now carry a negative outlook.

In our view, the weak U.K. economic outlook, depressed asset values, and the correction in the property market will hamper new sales in 2009. Our current forecast for 2009 is for real GDP to contract by 3.1%, unemployment rates to increase to 8.9%, and house prices to decline by more than 10%. This outlook will likely add to existing pressures on sales from households' leveraged balance sheets and low savings rates. In this climate, we believe new sales are likely to be down by 5% to 15% this year, while the sales outlook for 2010 remains highly uncertain.

Losses on equity, property, and corporate bond investments—assets that account for about 70% of nonlinked assets for the sector—have significantly weakened balance sheets, albeit from robust levels. The direct exposure to equity and property assets is largely held in with-profits funds where insurers have the flexibility to manage liability values to partly mitigate asset risk. Standard & Poor's believes, however, that this flexibility has reduced significantly during 2008, increasing the risk related to minimum guarantees. Liability risks have also increased owing to lower long-term gilt yields over the past year.

In our view, the U.K. life sector generally adopts a conservative approach to credit risk, with significant holdings in government and highly rated corporate bonds. Nevertheless, credit risk is increasing as the economic and credit outlook weakens. We note that a number of the major annuity writers have already strengthened their balance sheet reserves for increased default risk on bond holdings. In our opinion, the increased risk of ratings migration represents a risk factor for the sector.

The impact of significant "falls" in asset values since September 2008 will increasingly emerge through lower cash earnings on unit-linked business during 2009. We believe this will increase pressure on the sector to manage down costs to mitigate the adverse impact of lower fee income. Unit-linked business accounts for about 50% of liabilities across the sector, highlighting its importance to future earnings and cash flows.

Longer term, we believe the sector faces a number of strategic challenges relating to pension reform and regulatory-driven changes to distribution. Although we view favorably the proposals to

end commission bias in product sales, we are concerned about the potential impact on the IFA sector and sales volumes.

We view financial market developments as a key near-term sensitivity for the sector given the extent of asset value declines experienced in recent months. Standard & Poor's ongoing surveillance of the U.K. life sector will continue to assess the resilience of earnings and balance sheets through this period of heightened stress with a particular focus on the strength of both strategic and financial risk management. We believe leadership in this area will translate into greater stability in financial strength.

Non-life insurers mainly stable

Our ratings on western European insurers with a strong non-life bias are predominantly stable. Reinsurers are best placed at present with positive, albeit single-digit percentage, momentum in pricing. We expect that this will trickle down into primary markets during the course of the year. This is coming from a price adequacy base in 2008, which was reasonable in most lines of business, but with some notable exceptions. We expect discipline to be reinforced by the low levels of investment return and the likely cost of reloading capital after a major catastrophic event. Reinsurer ratings may be more volatile if a KRW (hurricanes Katrina, Rita, and Wilma)-like event were to occur in 2009.

Non-life insurers' balance sheets in Europe tend to be devoid of structured credit, high in credit quality and low on equities. Bond durations also tend to be low since liability durations are low and close matching of assets and liabilities less achievable than in life insurance.

Insurers' hybrids are under the microscope

Insurers' hybrid instruments have recently been in the spotlight. Some insurers are opportunistically buying back their hybrids and others are considering exchange offers. Some have chosen not to call their hybrids, as they are permitted to. As well as considering the positive impact of these actions on capital adequacy, we consider the potential negative impact on the insurers' standing in capital markets in terms of the effect on their future financial flexibility. To our knowledge, no insurer rated by Standard & Poor's in Europe has deferred on hybrid interest payments (even where permitted by the terms of the issue), an action which would under our criteria cause us to lower the rating on the issue to 'C'. We believe that deferral remains a remote possibility for most hybrid issuers, even for issues with mandatory deferral triggers. Although deferral is permitted by the terms of most hybrid issuance, the financial flexibility implications weigh on the issuers' deliberations. We also believe that most insurance supervisors also take this issue into consideration when discussing solvency levels with insurers.

The uncertainty that surrounds hybrids has, in our view, left it as a subdued asset class. In our opinion, the prospects for significant capital raising in public markets look uncertain. However, some hybrid capital raising is now taking place in forms that do not qualify for equity content in our capital adequacy analysis, or are being executed on a bi-lateral basis.

Financial flexibility has improved in the first quarter

Other aspects of financial flexibility have also improved during the first quarter of 2009. Some highly rated insurers have raised senior debt at reasonable cost. Furthermore, catastrophe bonds have made a return in the aftermath of the Lehman failure, and issuance prospects look good for the remainder of 2009. Equity capital raising has returned albeit mainly among smaller insurers, notably Lloyd's businesses (with varying degrees of discount). More recently, ZFS was successful in

placing shares in order to finance its acquisition of AIG's U.S. Personal Auto Group. Some governments have made it clear that they stand ready to support the insurance sector (France, for instance) if required. However, we believe that the circumstances that would require this are remote at the current time.

Supervisors are conscious of the pro-cyclicality of solvency rules

As is common in times of stress, several insurance supervisors have considered, or are considering, the pro-cyclical nature of some of their solvency requirements. Possible actions include adjusting capital requirements, modifying stress tests, recognizing the value of life insurance in force or recognizing the hidden strength within insurers' non-life loss reserves. If necessary, we expect supervisors to use these actions to avoid large-scale interventions in fundamentally sound businesses, although outliers where the fundamentals are less sound may attract greater attention.

Solvency II on target for 2012

The Solvency II Directive looks set to progress now with implementation scheduled for Oct. 1, 2012. The cost of keeping to this timetable was the jettisoning of the EC's group support proposals (championed by the Polish and Spanish governments) and the reduction of the impact of the Solvency Capital Requirement for holding equity investments (championed by the French government).

We welcome the fact that Solvency II is progressing, even in the absence of group support, since Solvency I is no longer fit for purpose, in our view. The large European groups will be disappointed with the absence of group support provisions, since it will restrict their ability to exploit material group diversification benefits. In response, we expect the rationalization of legal entities of these groups to be accelerated, with the creation of more branch operations in place of local subsidiaries. This was recently exemplified by ZFS' announcement that the Swiss group was to turn its German subsidiary into a branch of its Dublin-based platform.

See "Solvency II: Wounded, But Still Alive And Kicking," published Feb. 12, 2009, for our latest commentary on this subject.

Insurers' financial reporting continues to frustrate investors

The accounting for financial instruments is in flux and in our opinion this compounds the pre-existing inconsistencies between the treatment of assets and liabilities on an insurer's balance sheet. These inconsistencies were highlighted by financial market conditions reflected in 2008 insurer balance sheets. Furthermore, the introduction of the Market Consistent Embedded Value (MCEV) methodology, and the MCEV results of some insurers has added to investors' long-held frustration with the sector's financial reporting. Taken together with the economic and financial sector uncertainties, the market capitalization of most insurers is severely depressed as investors look for safer havens.

We continue to conduct our analysis using information available to us. In order to assess operating performance, we use sources and make adjustments, which we believe are consistent with the underlying earnings of the insurer. In order to assess capital adequacy we make adjustments, for example, to reverse some of the volatility created by credit spread movements and to reflect the benefits of hedging arrangements and active asset-liability mismatch management.

Chart 1

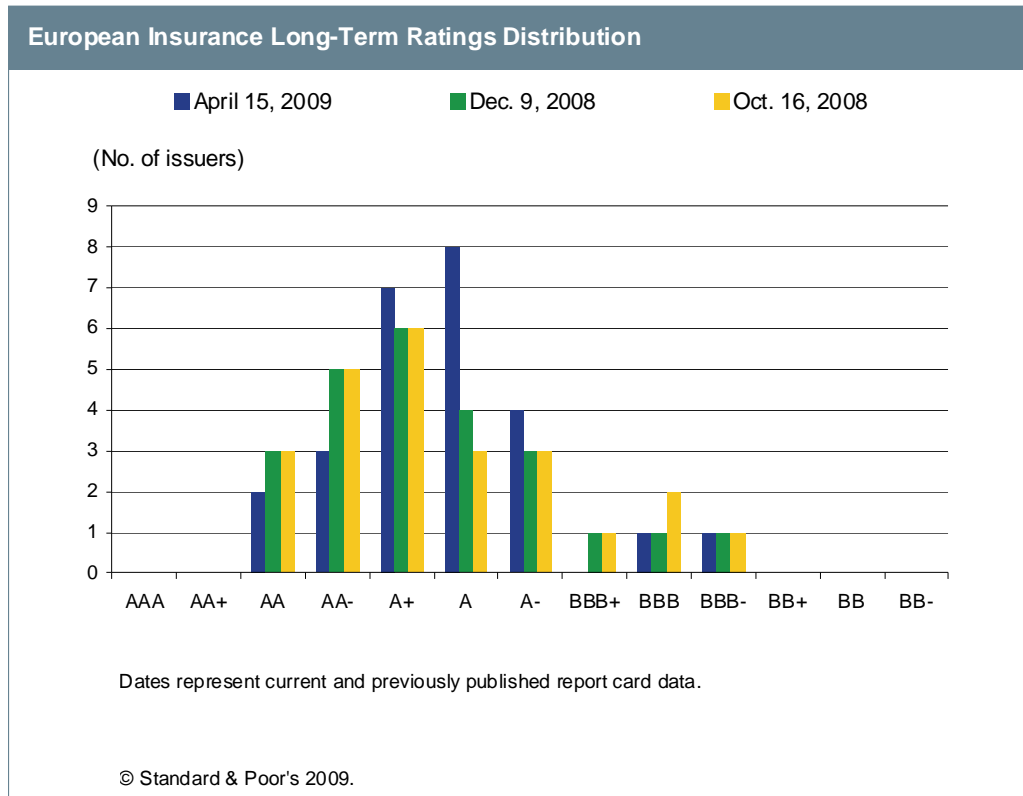
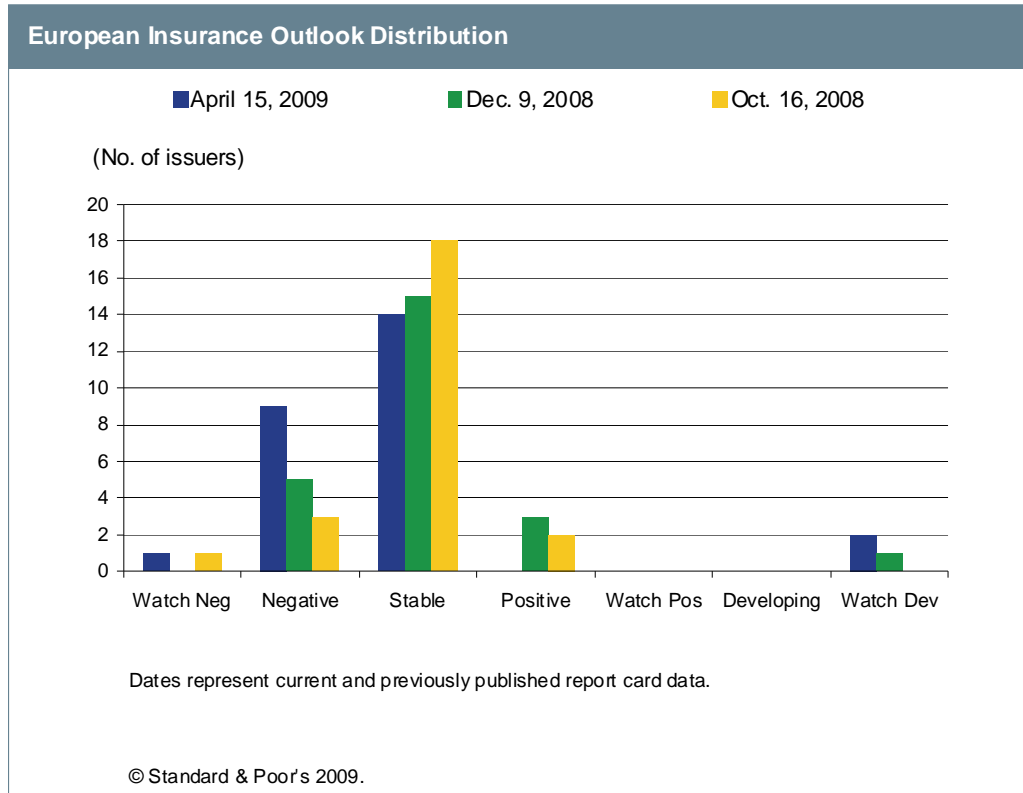


Chart 2



Issuer Review

Table 1

European Insurance				
Company or Group	Counterparty credit rating; insurer financial strength rating*	Analyst	Comments	Country
AEGON N.V.	A-/Negative/A-2; AA-/Negative*	Mark Button	<p>On March 31, 2009, we lowered the ratings on AEGON N.V. by two notches and the ratings on its core operating subsidiaries by one notch. The downgrade of the operating companies reflects the higher-than expected investment-related losses in 2008, the continued weakness in financial markets in 2009, and our opinion that certain de-risking and capital preservation actions will reduce future underlying earnings. We believe that these pressures are most acute in AEGON's U.S. business where the group has material equity and credit risk exposures. The deteriorating outlook for credit risk, combined with continued weakness and volatility in equity markets, is likely, in our view, to constrain the near-term dividend capacity of AEGON's primary business unit in the U.S., resulting in lower holding company cash inflows. Although we recognize the diversity provided by AEGON's European businesses, in our opinion, these pressures on U.S. dividend flows somewhat increase risk for holding company creditors and were reflected in our two-notch downgrade of the holding company. The negative outlook reflects our view of the risk that AEGON may fail to meet our expectations owing to the sensitivity of its business to investment markets during a period of heightened risk and volatility. The ratings may be lowered if adverse trends in net flows emerge, underlying earnings decline more than 20% in 2009, or investment-related losses exceed €2 billion this financial year. Maintenance of the ratings also depends on AEGON executing on a number of capital management transactions before the end of the year to improve both the capital and cash flow position of the group. AEGON is also expected to continue to reduce risk on its balance sheet to support capital adequacy and financial flexibility. Maintenance of capital adequacy at 'AA' levels and financial leverage below 15% are key expectations embedded in the ratings. A revision of the outlook to stable is likely to be based on an easing in the economic and financial market environment and delivery on certain risk reduction and capital management transactions, combined with resilience in AEGON's underlying performance, as measured by new sales, persistency, and underlying operating earnings. AEGON reported a 20% decline in new life business and an 8% decline in deposits in 2008 (11% and 3% decline, respectively, at constant currency), and an internal rate of return on new business of 16.5% during fourth-quarter 2008, down from 18% in fourth-quarter 2007. Pretax underlying earnings decreased by 37% at constant currency in 2008 to €1,573 million, reflecting reserve strengthening for minimum guarantees and accelerated amortization of deferred acquisition costs owing to significant equity market falls. AEGON reported a net loss of €1,082 million in 2008 (profit of €2,551 million in 2007), reflecting the lower underlying earnings, significant underperformance of fair value items, lower realized investment gains, and elevated impairment charges.</p>	The Netherlands

Table 1

European Insurance (cont.'d)				
Allianz SE	AA/Stable/A-1+	Ralf Bender, CFA	The stable outlook reflects our assumption that AZSE's operating performance, capitalization, and coverage ratios will meet the following expectations. While we expect AZSE's risk-based capital adequacy to have fallen to the 'A' category during the first quarter of 2009, we expect the group's very strong operating profits to continue to support what we view as strong capitalization in 2009 and 2010 and have considered in our analysis management's indications that it is committed to further derisking its balance sheet. We believe a comparably strong group solvency ratio of 159% in mid-February 2009 also supports our view of AZSE's relative capital strength. AZSE's financial leverage should, in our opinion, remain at less than 30% and fixed-charge coverage should stay at about 7x. AZSE's operating profits have appeared resilient relative to that of many of its peers in the current market conditions. The rating analysis assumes that the group will be able to achieve an operating profit of about €7.0 billion in 2009 and 2010. The property/casualty segment will, in our opinion, be the main contributor, with what we assume will be about €5.0 billion. Assumptions regarding a combined ratio of 97% and a return on revenue in excess of 10% underlie our expectation. Operating profits in each of the life and asset-management segments should, we believe, remain close to €1.0 billion. Net income is likely to reach at least €3 billion in 2009 if investment conditions do not deteriorate much further. We would revise the outlook to negative if capitalization were to fall below the 'A' category or if the group's solvency ratio were to decrease to less than 130%. A negative outlook could also result if further significant weakening of economic or financial market conditions were to materially impair the group's earnings prospects. We also recognize that AZSE's life insurance portfolio shows a higher sensitivity to a change in interest rates than some of its global multiline peers. A prolonged period of low interest rates may therefore also put pressure on the rating. We consider the possibility for a positive outlook remote.	Germany
ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. (formerly part of Fortis Insurance Netherlands)	A/Watch Dev	Lotfi Elbarhdadi	The developing implications take into account the potential upside due to the support from the Dutch state. They also include a downside potential arising from the pressure on the stand-alone creditworthiness of ASR, because of the current market environment and the possible consequences of the restructuring ASR is undertaking to complete its disentanglement from Fortis. We believe that it is possible that, if needed, the Dutch state may provide extraordinary support to ASR until it returns to the private sector. Because ASR is likely to remain under state ownership for the next two to five years, our ratings may include an explicit uplift for government ownership. We believe this support to be limited, however, as the ownership is temporary and exceptional. Other factors limiting government support are the independence of ASR's structure and its role as an insurer competing with other private players in The Netherlands. We aim to resolve the CreditWatch within one month. To resolve the CreditWatch placement, we will review the stand-alone creditworthiness of ASR in light of its year-end 2008 results, as well as its current stand-alone solvency. If we ultimately lower the ratings, it is likely to be by one notch. If we raise the ratings, it is also likely to be limited to a one-notch upgrade.	Belgium/The Netherlands

Table 1

European Insurance (cont.'d)				
Assicurazioni Generali SpA	AA-/Stable/—; AA-/Stable*	Paola Del Curatolo	The stable outlook reflects our opinion that what we consider as Generali's very strong fundamentals will allow the group to maintain what we believe is its very strong competitive position and resume its earnings capacity. We expect the group's operating result in 2009 to remain in line with 2008's level of close to €4.0 billion, with life normalized return on embedded value above 12%, new business margin on present value of future premiums above 2%, and the combined ratio below 98%. We could revise the outlook to negative if Generali does not meet these targets. We could revise the outlook to positive if the group shows a sustained improvement in performance and succeeds in rebuilding capitalization to what we consider a very strong level. Bottom-line results declined 70% to €861 million at year-end 2008, mainly due to €5 billion of asset impairments (before taxes and policyholders' share). Life operating profit was €1.98 billion, down from €2.75 billion at year-end 2007, reported impairment losses of €3 billion offsetting what we view as strong technical results. The value of life new business decreased 9.8% to €971 million, still accounting for a sizable 8.8% of value in-force (8% in 2007). The new business margin (based on the present value of new business premiums) stood at 2.2%, down from 2.8% in 2007. The reported combined ratio remained in our view strong at 96.4% at year-end 2008, but was higher than the 95.8% at year-end 2007.	Italy
Aviva PLC	A/Negative/—; core subsidiaries AA-/Negative*;	Charis Adu-Kwapong	The negative outlook reflects our view that Aviva's ability to achieve capital adequacy consistent with the rating level in the medium term is constrained. We believe that further weakness in financial markets will likely limit Aviva's ability to rebuild capital adequacy and reduce double leverage. The ratings are likely to be lowered if we believe Aviva is unlikely to retain earnings in 2009, or capital adequacy is pressured by elevated equity risk. Based on current information, we would anticipate a combined ratio of no more than 98% in 2009. Financial leverage would be expected to be managed at less than 30%, and International Financial Reporting Standards (IFRS) fixed-charge cover of about 6x. Improvements in underlying earnings will, we believe, be constrained by reduced growth ambitions and the challenging operating environment in key markets, owing to current adverse financial market and economic conditions. IFRS operating profits are likely to be lower in 2009, but we expect them to be down by less than 15% compared with 2008. A revision of the outlook to stable would, among other things, be predicated on Aviva demonstrating strong progress in rebuilding capital adequacy and managing down double leverage, without impairing its underlying earnings capacity. An outlook revision to stable is also likely to be dependent on an easing in financial market conditions. Aviva reported pretax operating earnings of £2.3 billion for 2008, up 4% from 2007, and in line with our expectations. Investment-related losses and balance sheet reserve strengthening, however, led to a reported bottom-line loss of £885 million for the year.	U.K

Table 1

European Insurance (cont.'d)

AXA	AA/Negative (operating entities financial strength rating); A+/Negative/— (holding company counterparty credit rating)	Lotfi Elbarhdadi	<p>The negative outlook reflects our opinion that it could be challenging for AXA to restore its historical levels of earnings and capital adequacy given the continuing financial turmoil and its impact on AXA's businesses, particularly the life and asset management businesses. Current market conditions are weighing significantly on AXA's capital adequacy, with substantial reductions in unrealized gains and life insurance in-force values. Capitalization was good at year-end 2008, and would remain good even after a further 30% fall in equity values and a doubling of corporate default rates. We may consider downgrading AXA if we believe the pace of recovery of earnings capacity and capitalization in 2009 and 2010 remains inconsistent with the current ratings. This would be the case if underlying earnings further deteriorated materially compared with levels observed in 2008, if life new business margins and life and savings operating returns on embedded value did not recover to the levels observed prior to 2008 (respectively more than 2.0% on a present value of new business premiums basis and 10%), if the property/casualty combined ratio were more than 97% with an unchanged loss reserve strength, or if the group's assets were further materially impaired beyond what is already reflected in the balance sheet. We could consider revising the outlook to stable if the group showed improved underlying earnings compared with those in 2008, along with a capital adequacy restored, through internal or external capital sources, to levels consistent with a 'AA' rating. AXA reported that bottom-line results fell 83% to €923 million because of asset impairments and mark-to-market impacts, particularly in its corporate bond portfolio. We believe that, overall, the group's earnings show a good resilience in troubled markets. However, particularly in life and asset management businesses, we observe that earnings generation capacities are materially reduced, mainly due to lower asset bases. This is particularly reflected in the reported decline in embedded value figures and in new business values (down 44% to €985 million) and margins (14.5% versus 23%). In our view, AXA's published figures for year-end 2008 show good revenue resilience because of the group's highly diversified risk, product, and geographic coverage. The revenue decline was contained at 2% on a comparable basis (€91.2 billion), uplifted by what we see as sound growth in P/C (2.9%) and international insurance (6.9%). This growth appears to have partly offset the decline in life and savings (down 3.8%) and asset management (down 13.8%).</p>	France
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Table 1

European Insurance (cont.'d)				
CNP Assurances	AA/Negative/— ;AA/Negative*	Virginie Crepy	France	The negative outlook reflects the current pressure on CNP's long term capital adequacy due to depressed equity markets. As expected, the capital market turmoil also weakened the group's earnings generation capabilities, and therefore its ability to organically restore capitalization in the medium term. This is evidenced by the decline of reported Embedded Value figures, and new business margins, although still strong, which deteriorated to 12.4% in 2008, versus 13.9% in 2007. The group continues to benefit, however, from a very strong long-term financial flexibility, arising from ongoing support of shareholders, which alleviates our concerns about the group's weakened capitalization. The ratings on CNP also continue to reflect the group's very strong competitive position in the French life insurance market. The 10% decline of CNP's total premium income in 2008 was in line with our expectations, reflecting the competitiveness of short-term deposits at the expense of saving policies. CNP nevertheless continued to report large positive net inflows in 2008 (€7.3 billion for CNP Assurances). We expect any acquisition or other long-term pressure to be funded in a way to preserve capitalization. We could downgrade the ratings if pressure on CNP's profile intensifies, such as a further worsening of capital adequacy, significant additional provisioning needs, or a deterioration of the group's earnings beyond our expectations. Conversely, we could revise the outlook to stable if CNP restores its capital adequacy more quickly than we currently expect.
Eureko B.V.	A+/Negative (operating company); A-/Negative/— (holding company)	Paul Bradley	The Netherlands	The negative outlook reflects continued challenging conditions in Eureko's core market. The ratings may be lowered if Eureko cannot improve its operating performance to levels comparable with its peers, in life and non-life insurance in The Netherlands, in 2009. Any improvements are expected to be through greater efficiencies and not at the expense of market positions. Notwithstanding a comparison with peers, we should expect the following minimum standards to be achieved: non-life insurance to produce a combined ratio under 97%; life insurance to produce new business margins in excess of 1.2%; basic health insurance to show a reduced expenses ratio; and supplementary health insurance to show a combined ratio under 95%. A revision of the outlook to stable is likely if Eureko produces results for 2009 that are at least in line with its major peers in the Dutch market.

Table 1

European Insurance (cont.'d)				
Fortis Insurance Belgium (FIB)	A/Watch Neg	Lotfi Elbarhdadi	The CreditWatch with negative implications reflects the uncertainties about the ultimate organization of Fortis group and its resulting creditworthiness. The negative implications indicate also that we believe, as we review the stand-alone credit profile of FIB, that the possibility for an upgrade is remote. The non-investment-grade ratings on the holding companies of Fortis reflect our view of the heightened financial and legal risks that the Fortis group shareholders voted on Feb. 11, 2009, against the amended versions of agreements with the Belgian Government and BNP Paribas. The gap between the ratings on the holding companies and the financial strength ratings on FIB reflect our opinion that financial and legal risks are concentrated at the holding companies and that these risks are likely to have only a limited impact on FIB. On March 7, the Belgian Government, BNP Paribas, and Fortis agreed on a revised version of the agreements, which are subject to shareholders approval on April 28. We expect to resolve or update the CreditWatch on FIB in the coming weeks. Our decision will depend on results of our stand-alone review of FIB and our view of the effects of the developments at the holdings level. Our decision will also depend on whether the Belgian government would provide support if the shareholders reject the proposed agreement. If we come to negative conclusions in these areas, we could downgrade FIB by one or two notches. We intend to resolve or update the CreditWatch on the holdings once the uncertainties on the executions of the agreements subject to shareholders' approval, and their impact on Fortis group's cash position and risk profile, are alleviated. We may affirm the 'BB' ratings on the holding companies or raise it by one or two notches, depending, among other things, on our review of operating insurance companies stand-alone credit profiles, the impact of legal risks, and the impact of the non-insurance assets and liabilities of the holdings. We may downgrade the holdings several notches in a worst-case scenario.	Belgium/The Netherlands

Table 1

European Insurance (cont.'d)				
Groupama S.A.	A+/Negative	Virginie Crepy	<p>The negative outlook reflects our view of the increased pressure on Groupama's capitalization mainly because of the sharp decline in the market value of its equity holdings over the past year, which has led Groupama to report substantial unrealized capital loss positions and which, in our view, is weighing on Groupama's risk-based capital adequacy. Increased goodwill due to self-funded acquisitions (up 34% to €3.5 billion last year) also, in our view, contributed to the weakening of Groupama's risk-based capital adequacy. Groupama's capital adequacy also declined due to lower present value of future profits in its life business and lower deferred profit-sharing reserves, which declined partly to fund credited rates in saving policies in 2008. Groupama's credited amounts were in our view somewhat higher than its peers'. We believe Groupama's earnings fundamentals remain strong, benefiting in particular from its solid competitive position in the property/casualty (P/C) business, but we also believe the operating environment is adversely affecting investment returns and life insurance earnings. In 2008, Groupama reported strong technical results in its P/C business, with what we view as a solid and stable net combined ratio of 99% in 2008 thanks to a benign claims environment. We observe, however, a decline in life underlying earnings due to current market conditions, as evidenced by the decrease of Groupama's embedded value figures (down 45% to €2.7 billion) and in new business margins (1% versus 1.5%). Overall, Groupama's net result also fell 63% to €342 million in 2008 because of much lower realized gains, the negative impact of the trading portfolio, and asset impairments. We could consider a downgrade in the coming months if Groupama's net combined ratio, including the negative impact of the Klaus windstorm in 2009, increases to more than 102%—excluding the impact of any release of prudential margins in technical reserves—if life earnings further deteriorate and lead to a decline in new business margins below 1%, or if Groupama's unrealized loss positions deteriorate. Furthermore, if Groupama exercises the call attached to its €750 million subordinated debt in July 2009, this could result in a rating action as it will in our view further weaken Groupama's capital adequacy. We could revise the outlook to stable if Groupama exceeds our earnings expectations as stated above and if it restores capitalization to what we consider as strong levels, either through improving investment markets, through risk mitigation, or through a capital raising.</p>	France

Table 1

European Insurance (cont.'d)				
Hannover Rueckversicherung- AG	AA-/Stable/—	Hiltrud Besgen	We affirmed the rating and the outlook on Hannover Rueckversicherung AG on Jan. 23, 2009, following the group's announcement that it intends to acquire the ING Individual Life Reinsurance Business, a major U.S. life reinsurance portfolio from Scottish Re Group Ltd. (Scottish Re, CC/Negative/—). The transaction will in our view not materially adversely impact Hannover Re's very strong liquidity and capital adequacy. The stable outlook reflects our expectation that in 2009 and beyond, Hannover Re will maintain its very strong operating performance throughout the cycle by adhering to strict underwriting discipline and a conservative investment strategy. The group's profitability, adjusted for its conservatism regarding loss reserve confidence levels, should be at least in line with that of peers of the same financial strength. In particular, we expect the non-life combined ratio to remain less than 100% throughout the cycle and the operating return on embedded value in life and health reinsurance to reach about 12%. In addition, the group should post a consolidated return on equity of close to 15%. The retrocession utilization ratio should not exceed 15%. We expect capitalization to remain strong and capital adequacy to remain very strong. Hannover Re should benefit from the support of Talanx if a stress scenario occurs because it is core to the parent. However, we consider that Talanx may remain reluctant to provide additional capital to finance Hannover Re's business growth. The ratings could come under pressure if Hannover Re fails to meet our expectations. In particular, a negative rating action could occur if capital were to erode materially through further investment losses or if pricing for risks underwritten within the non-life segment fail to reflect the more challenging operating environment that lies ahead. We consider an outlook revision to positive remote over the next 12-24 months.	Germany

Table 1

European Insurance (cont.'d)				
If P&C Insurance Ltd. (publ)	A/Stable/—; A/Stable*	Anna Glennmar	If continued to report strong underwriting performance in 2008 with a combined ratio of 91.8% and a €548 million technical profit, compared to 90.6% and €565 million, respectively, in 2007. If reported a pretax IFRS operating profit of €554 million in 2008 (€541 million in 2007), but the fall in the market value of both its fixed income and equity investment portfolios caused it to report a negative fair value reserve of €414 million at the end of December 2008 (€0 at the end of December 2007). The stable outlook reflects our expectation that If will be able to sustain its recent trend of strong earnings and capital management. We expect earnings in excess of those required to satisfy If's 'A' range capitalization target to be paid to Sampo PLC. Should If demonstrate greater resilience to the market downturn, which is likely to have a negative impact on premium growth, than peers on account of its portfolio diversity, improved risk discipline, and cost rationalization, positive rating actions may follow. This would be contingent on a similarly positive assessment on the Sampo Group's financial strength, its utilization of the €4.1 billion cash proceeds of the Sampo Bank divestiture, and the relative importance of asset-liability management issues at Mandatum Life Insurance Company Limited (not rated) diminishing. Future group strategy and its implications for the ratings on If remain unclear at this stage given the varied options available to the Sampo Group and its fluid financial interests. The Sampo Group has been building a stake in Nordea Bank AB (AA-/Stable/A-1+), reaching 15.0% as at March 11, 2009, and in Topdanmark A/S (main operating entity, Topdanmark Forsikring A/S, rated BBp/—/—), reaching 11.1% as at Dec. 31, 2008. In October 2008, Sampo PLC also repurchased 1.7% of Exista's (not rated) total 19.98% stake in the group. The remaining 18.28% stake was purchased by more than 150 institutions, with no investor allocated more than 10% of the shares sold. Negative rating action could follow an increase in the Sampo Group's risk or financial profile related to its future acquisition or capital management strategy, or a significant downturn in If's operating performance following widespread pricing weakness or increased claim frequency in the region.	Sweden

Table 1

European Insurance (cont.'d)				
ING Groep N.V., ING Verzekeringen N.V.	A+/Negative/A-1; AA-/Negative*	Mark Button	On March 31, 2009, we lowered the counterparty credit and insurer financial strength ratings on ING by one notch. The downgrade reflected our concern of significant pressures on group earnings in 2009 arising from investment-related losses in the insurance division. Bank earnings are expected to be pressured by higher credit losses. The risk-transfer facility (Illiquid Asset Back-up Facility; IABF) with the Dutch state announced in January 2009 for the group's Alt-A securities portfolio, removes, in our opinion, one of the drags on earnings seen in 2008. The negative outlook continues to reflect our view of the downside risks to group performance in 2009 from the tough operating environment including equity market weakness and volatility and heightened impairment risk, combined with low interest rates and elevated credit losses. We believe that this may result in a net loss at the group level. Key areas which we anticipate may be a drag on performance in 2009 are investment fluctuations and impairments in the insurance division and escalating credit losses at the bank. The ratings could be lowered if earnings weakness is indicative of deterioration in ING's underlying performance, or higher-than-expected investment-related losses push the group to a full-year loss in 2009. Failure to manage hybrid and debt leverage ratios within expectations could also lead to a rating downgrade. The outlook could be revised to stable if the group demonstrates a high level of resilience in underlying performance over the coming quarters, in both the banking and insurance operations, as measured by new sales, margins, client balances, and underlying profits. An outlook revision to stable would also be predicated, all other things being equal, on ING maintaining its capital strength, executing on derisking initiatives, and managing down hybrid and debt leverage. ING reported a 10% decrease in new life sales in 2008 (2% decrease at constant currency) and an IRR on new business of 13.9%, down from 14.3% in 2007. ING reported a net loss for the insurance business in 2008 of €1,183 million (profit of €5,603 million in 2007), reflecting accelerated amortisation of deferred acquisition costs, impairments on debt and equity securities, negative fair value changes, and a lower level of realized gains on equities.	The Netherlands
Legal & General Group PLC	A+/Negative/A-1; AA-/Negative*	Charis Adu-Kwapong	The negative outlook reflects our opinion of the continuing challenging market conditions and the potential adverse impact this may have primarily on L&G's capitalization and to a lesser extent on competitive position and operating performance. The ratings may be lowered should L&G's capitalization fall below its current very strong level. We expect that gross new business margins will remain about 3% and the scale of the value of new business about 10% (defined as new business contribution divided by value in force), on a pretax basis, over the rating horizon. An outlook revision to stable would most likely be based on an easing in the economic and financial market environment and/or demonstration of resilience in L&G's capitalization and underlying operating performance. L&G group reported new business contribution of £297 million for the full year 2008, down by 17% compared with 2007. New life and pensions business fell by 4% during 2008, compared with 2007. New business margins reduced to 3.1%, compared with 3.7% for 2007. L&G reported an IFRS operating loss of £189 million, reflecting the cost of the £650 million reserve for increased short-term annuity credit default assumptions.	U.K.

Table 1

European Insurance (cont.'d)				
The Society of Lloyds	A+/Stable/— ;A+/Stable*	Peter Grant	The full-year results reported by the Market for the financial year ended Dec. 31, 2008 were better than Standard & Poor's had anticipated. We had been anticipating a combined ratio for the full-year in the range of 94%–99% and a pretax profit of between £0.5 billion-£1.0 billion. Lloyd's reported a pretax profit of £1.9 billion (£3.8 billion in 2007) at a headline combined ratio of 91.3% (84.0% in 2007). This represents a very solid performance in a year characterized by heavy catastrophe losses and extreme volatility in global financial markets. The headline combined ratio benefited from foreign exchange gains, a significant proportion of which can be expected to reverse, due to timing differences, in 2009. Excluding this effect, the calendar year combined ratio would have been 94.0%. This comprises a combined ratio for the 2008 accident year of 103.2% (90.5% in 2007) offset by a 9.2% (6.5% in 2007) positive impact from the release of reserves held in respect of previous years. Lloyd's also reported an investment return of 2.5% for the year, reflecting the high quality of its asset portfolio. The investment return for the full-year benefited significantly from unrealized gains on government securities as a result of further interest rate reductions seen during the fourth quarter. Lloyd's strong capital position has proven its resilience in a very challenging environment. Standard & Poor's believes that this leaves the Market well placed to capitalize on the more favorable operating environment ahead.	U.K.
Munich Reinsurance Co.	AA-/Stable	Ralf Bender, CFA	The stable outlook on Munich Re reflects our expectation that the group's capital position and underlying earnings should continue to prove relatively resilient to potential further volatility in the capital markets and that underwriting performance will remain strong. The ratings have remained unaffected by the withdrawal of the group's 2010 earnings target, and we expect Munich Re to return to steady earnings growth once capital markets stabilize, supported by strong underlying business fundamentals and successful implementation of its Changing Gear program. In particular, the ratings are based on the expectation that management will adhere to underwriting discipline and conservative investment practices. Munich Re's very strong competitive position in reinsurance coupled with very strong capitalization should allow it to take advantage of current market conditions. The challenge Munich Re faces in effectively exploiting its primary life insurance business model remains, in our view, an offsetting factor. We expect the reinsurance combined ratio (assuming a normalized level of catastrophe losses of 6.5%) to remain close to 100% in 2009 and to start improving again from 2010 onward. In addition, we expect the group's life reinsurance operations to expand, with the operating return on embedded value (ROEV) reaching at least 8%-9%. The combined ratio in property/casualty primary insurance will remain at 95% or lower, with a return on revenue (ROR) of at least 10%. An outlook revision to negative could emerge if Munich Re failed to effectively manage the soft cycle, causing earnings to fall significantly below our expectations, or if the group significantly underperformed relative to similarly rated peers. We would consider revising the outlook to positive if Munich Re significantly outperformed our earnings expectations.	Germany

Table 1

European Insurance (cont.'d)				
Prudential PLC	A+/Stable/A-1; core subsidiaries AA/Stable*; U.K. life core subsidiaries AA+/Negative*	Mark Button	The stable outlook on Prudential PLC reflects the expectation that the group will continue to benefit from the very strong and stable cash flows from PAC and it will maintain its very strong capitalization. Standard & Poor's expects group fixed-charge coverage to be above 8x on a European Embedded Value basis, and to be maintained above 6x on an International Financial Reporting Standards (IFRS) basis. The U.K. with-profits transfer is expected to be around £250 million per year over the rating horizon, which compares favorably with the annual debt-servicing requirement. The stable outlook also reflects Standard & Poor's expectations that Prudential PLC will maintain a significant buffer above the Insurance Groups Directive requirement over the rating horizon, and that holding company cash flows will be marginally positive. Failure to execute successfully the U.K. strategic repositioning may weaken future ratings. The negative outlook on the U.K. life core subsidiaries reflects our expectation that the ratings could be lowered if actions taken to manage the strength of the with-profits fund in response to current market conditions prove insufficient to prevent a deterioration of PAC's capital adequacy or have an adverse impact on PAC's competitive position. If both capital adequacy and competitive position prove resilient, the outlook could be revised to stable. In addition, we expect that new retail sales will continue to be robust relative to the market, gross new business margins will remain above 3%, and PAC's overall capitalization (including the nonprofit fund) will remain at least very strong. The ratings could come under pressure if these expectations are not met or if the competitive or market environment in PAC's key markets of annuities and with-profits were to deteriorate. Prudential reported a 6% increase in new business (1% at constant currency) and an 8% increase in new business profit (2% at constant currency) in 2008. Pretax new business margins on a PVNBP basis improved to 5.8% in 2008 from 5.7% in 2007. Prudential's IGD position remains robust with a surplus of £1.7 billion at Dec. 31, 2008 (Dec. 31, 2007: £1.9 billion). On an IFRS basis, Prudential reported a loss of £396 million for 2008 (profit of £947m in 2007) owing to weak investment markets.	U.K.
Royal & Sun Alliance Insurance PLC	A/Stable/A-1 (foreign currency); A/Stable/— (local currency); A/Stable*	Nigel Bond	The ratings and outlooks on the core operating entities of the U.K.-based non-life insurer RSA Group (main operating entities rated A/Stable/—) were unchanged following the release of the group's 2008 results. The results met Standard & Poor's expectations, and demonstrated continued strong underwriting performance (net combined operating ratio of 94.5% compared with 94.9% for 2007), above-target return on equity (18.5% compared with 21.3% for 2007), and resilient capital adequacy (economic capital surplus of £1.8 billion at Dec. 31, 2008, compared with £2.2 billion a year earlier) in the face of very difficult investment conditions.	U.K.

Table 1

European Insurance (cont.'d)			
SCOR SE	A/Stable/A-1; A/Stable*]	Mark Coleman	The ratings on SCOR SE and its core guaranteed subsidiaries France were raised by one notch to 'A' with a stable outlook on March 13, 2009. The upgrade reflected our view of the continuing positive trend in SCOR's non-life underwriting performance and recognizes the resilience of SCOR's financial and business profile to major financial shocks. We believe that SCOR has, over time, successfully restored its financial strength and has reduced and diversified its risk profile, and this appears evident amid the current financial turmoil. Added to this, the January reinsurance renewals indicate a positive trend in pricing adequacy, which we believe will provide further earnings momentum over the ratings horizon and will offset some of the decline in investment yields. The ratings also reflect our view of SCOR's strong competitive position, strong capitalization, strong liquidity and invested asset quality, and commitment to building a strong enterprise risk management (ERM) program. The outlook on all of the ratings is stable. In 2009, we expect SCOR to lower its combined ratio to below 99%, to earn a non-life return on revenue of at least 9%, and to maintain positive new business margins. We expect capital adequacy to remain at least in the 'A' range, and do not anticipate any capital raising needs except following a major catastrophic event or a series thereof. We do not expect any material aggregate reserve strengthening, and we expect SCOR to actively manage its proportional treaty portfolio should there be any increase in claims frequency or erosion of pricing adequacy in the primary markets. We do not anticipate any upward rating movement over the rating horizon. The ratings may be lowered if the resolution of the outstanding material litigation issues is significantly negative to SCOR's capital position, or if there is a steep decline in the credit quality of SCOR's fixed income portfolio.
Standard Life PLC	A+/Stable (operating company), A-/Stable (holding company)	Paul Bradley	Standard Life Assurance Ltd. and Standard Life PLC were upgraded by one notch on Feb. 25, 2009. Standard & Poor's expects that new business profitability, in terms of new business margin and internal rate of return, will hold up comparatively well in 2009 and 2010, while new business volumes continue to trend upward. Standard & Poor's expects Standard Life to continue to maintain its very strong capital position. We believe that there is little potential for a positive rating action in the short to medium term. The outlook may be revised to negative if Standard Life's performance falls below our expectations for the U.K. operations, namely that the capitalization remains very strong, the gross new business margins remain above 1.5%, IRR on new business remains above 10%, positive sales growth in 2009, and gross scale value of new business (defined as new business contribution divided by value in force) remains above 10%.

Table 1

European Insurance (cont.'d)				
Swiss Life Holding	BBB+/Stable (operating company); BBB-/Stable (holding company)	Hiltrud Besgen	We affirmed the ratings and the outlook on Swiss Life Schweizerische Lebensversicherungs- und Rentenanstalt and on Swiss Life Holding following the group's recent disclosure of its 2008 annual results and the announcement of its planned strategic cooperation with the Germany-based Talanx insurance group (core primary insurance companies rated 'A+'). The stable outlook is based on our assumption that Swiss Life can maintain earnings at a level that sustains what we regard as good capitalization in 2009 and 2010, including strong risk-based capital adequacy. We also believe that the group will preserve what we consider to be its strong competitive position in its core markets. We will also monitor Swiss Life's progress in exploiting its relationship with distribution partner, AWD, taking into account what we view as its ambitious targets for efficiency and the pace of change. We estimate that the operating return on equity could reach between 6% and 8% in 2009 and 2010. Both the operating return on embedded value and the new business margin (as a percentage of the annual premium equivalent) are likely to be close to 10%, and we believe that the contribution of new business value to the value in force should remain stable. Underperformance with regard to the assumed earnings and capitalization targets could have negative rating implications. A positive rating action could occur if Swiss Life establishes a track record for realizing the synergies and growth expected from its partnership with AWD and if it outperforms the assumed overall earnings and capitalization targets.	Switzerland

Table 1

European Insurance (cont.'d)

Swiss Reinsurance Company Ltd.	A+/Stable/A-1; A+/Stable*	Peter Grant	<p>The ratings on Swiss Reinsurance Company Ltd. (Swiss Re), Switzerland and its core subsidiaries, were lowered by one notch to 'A+/Stable' on Feb. 18, 2009. The downgrade was in response to the greater-than-anticipated capital depletion seen at Swiss Re during 2008, the capital raising this has necessitated, and the potential adverse flow-on effects that Standard & Poor's believes this could have, particularly on the group's future earnings and financial flexibility. Over the past year, a combination of largely unrealized losses on its Swiss franc (CHF) 32.5 billion asset-backed security (ABS) portfolio and losses on a number of its, now discontinued, financial markets businesses led to a much greater deterioration in Swiss Re's capital position than we had anticipated. During this time, when calibrated at a 'AA' level measured in accordance with Standard & Poor's risk-based model, the group's capital position declined from a surplus in excess of CHF7 billion at Dec. 31, 2007, to a shortfall of approximately CHF1.5 billion at year-end 2008. In addition, for the foreseeable future, the group's capital adequacy will in our view continue to be susceptible to further volatility in the market valuations attributed to its investment portfolio, particularly in respect of its ABS portfolio. As a result, the group intends to raise an additional CHF3 billion of capital in the form of perpetual convertible subordinated notes to be issued to Berkshire Hathaway Inc. (Berkshire Hathaway; AAA/Stable/A-1+) and entered into an adverse development cover with Berkshire Hathaway on the group's total property and casualty reserves. The stable outlook reflects our expectation that Swiss Re's already robust capital and liquidity positions will be further reinforced through the successful completion of the group's proposed CHF3 billion capital increase. The outlook also reflects our belief that the group has largely maintained its very strong competitive position in reinsurance markets. Consequently, we expect the group's underlying earnings on its core business to prove resilient to the financial challenges we anticipate will continue to confront the group over the medium term. Aggregate operating income within the property and casualty and life and health segments is expected to exceed CHF3 billion in both 2009 and 2010.</p>
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Table 1

European Insurance (cont.'d)				
Talanx Primary Group	A+/Stable (operating company); A-/Stable/— (holding company)	Hiltrud Besgen	The stable outlook reflects our expectation that Talanx Primary Group (TPG) will translate its strong and improved competitive position in non-life insurance into increasingly robust earnings. This expectation assumes that the integration of the Gerling companies will be completed smoothly, without further unexpected integration expenses, delays, or loss of key talent or support staff. The non-life combined ratio should remain at less than 100% and ROR higher than 10% on average, in the absence of extraordinary catastrophes. On the life side, we expect TPG to build its competitive position by exploiting its enlarged customer base and distribution network to achieve new business development at least in line with the market average and strong profit contributions. The operating return on embedded value should exceed 10% and the new business margin should be close to 3% of the present value of new business premiums, with the value of new business increasing its contribution to the value in force. We expect consolidated earnings to remain strong, with a post-tax ROE of close to 12% over the cycle. Capitalization should also remain strong, benefiting from sound retained earnings. Standard & Poor's will closely monitor the completion of the integration process because the group's failure to enhance its competitive position through the additional business and synergy potential could have negative rating implications. We may revise the outlook to negative if the combined group were to significantly underperform relative to earnings and capitalization targets. Downside pressure on the ratings could also occur if the bancassurance model with Citibank and Postbank proved unsustainable under the new ownership of one or both distribution partners. Upside potential is remote at this stage. The group has not yet disclosed actual results for 2008. Mainly due to TPG's conservative investment policy we expect that the group will be less affected by the capital market crisis and continue to report positive bottom line results for full-year 2008, although somewhat lower than in 2007. The underlying performance of the property/casualty segment is likely to remain strong reflected in a combined ratio of clearly below 100%. Contribution from the life insurance segment will in our view decrease in 2008 and will deliver a sound contribution to the group's overall results in 2008.	Germany

Table 1

European Insurance (cont.'d)				
Unipol Gruppo Finanziario SpA	BBB/Stable/—; A-/Stable*	Paola Del Curatolo	Italy	<p>The stable outlook reflects our expectation that UGF will maintain its strong competitive position in the Italian market and its strong operating performance. However, we expect pressure on earnings due to competitive pressure on motor rates in Italy and the continuing financial market turmoil. We could revise the outlook to negative if we witnessed a further deterioration of earnings or capital, or if the bank is not successful in reversing its recent operating performance. A positive rating action in the short term is unlikely given our expectations of deteriorating market conditions. UGF reported bottom line results of €107 million at year-end 2008, down 75% from 2007. Earnings' deterioration is due to €96 million of asset impairments, the impact of the Lehman Brothers Holdings Inc. default, declining performance in property/casualty (P/C) operations, and loss-making banking activities. The reported net combined ratio weakened to 99.2% at year-end 2008 (versus 94.4% at year-end 2007), due to major claims following storms in Northern Italy and to the declining performance of the motor business. UGF bank has been weighing negatively on the group's overall profitability, absorbing considerable capital and posting negative performances. The banking business reported €89 million in losses, as it was hit by €99 million net in write-downs reflecting deterioration of the loan portfolio. Although we think that business fundamentals in the group's insurance operations remain strong, the difficult market environment, the downturn of the Italian motor market, and the important rise in the cost of credit risk in banking operations will reduce UGF's earning generation capabilities.</p>

Table 1

European Insurance (cont.'d)

<p>Zurich Group Holding, AA-/Negative Zurich Insurance Co. (operating company); A/Negative/— (holding company)</p>	<p>Hiltrud Besgen</p>	<p>The outlook was revised to negative following our review of Switzerland European global multiline insurers announced on Feb. 24, 2009. The revision is based on our opinion of the weakening of the group's risk-based capital adequacy as of year-end 2008, according to our model, amid the continued difficult financial market conditions. ZFS' capital adequacy remains good in our view, even under a scenario in which the value of the group's equity portfolio were to fall by 30% compared with year-end 2008 or if we were to double our investment credit-risk capital requirements. In our opinion, however, the group will find it difficult to rebuild its risk-based capital adequacy in the short to medium term. Although we believe it likely that earnings will restore capital adequacy to a level consistent with our rating by 2010, there are a number of uncertainties which may hamper the group's efforts. The affirmation of the rating is based on our expectation that ZFS will maintain what we consider to be very strong profitability. This is likely, in our view, to be reflected in a BOP of between \$4 billion and \$5 billion and a BOP aftertax return on equity of close to 16% in 2009 and 2010, which we anticipate should stay at least at 12% over the cycle. We estimate that the non-life return on revenue should exceed 10% and the non-life combined ratio should remain between 95% and 97% for 2009 and 2010 in the absence of extraordinary catastrophe events. Furthermore, we believe that profit contributions from life insurance should remain sound. In our opinion, ZFS should be able to demonstrate progress toward its target of \$1.2 billion of new business in 2010, supported by the successful implementation of its recently revised "Global Life" strategy. The operating return on embedded value is likely to be well above 10%, in our view, and the new-business margin close to 3% of the PVNBP. The ratings on ZFS also reflect what we regard as the group's strong enterprise risk management and very strong competitive position, underpinned by market-shaping positions in its three key markets, the U.S., the U.K., and Continental Europe. The negative outlooks reflect our assessment that the currently difficult operating environment and ZFS' relatively higher exposure to volatile commercial and industrial lines business will test its ability to rebuild its risk-based capital adequacy to a level that we consider commensurate with the current rating by 2010. We would expect to lower the ratings if the group fails to meet our earnings and capitalization expectations outlined above. Conversely, we would consider revising the outlook to stable if ZFS demonstrated strong progress in rebuilding its capitalization through very strong and resilient underlying earnings.</p>
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Ratings as of April 16, 2009. *Insurer financial strength rating on core operating entities.

Quarterly Rating Activity

Table 2

Recent Rating/Outlook/CreditWatch Actions				
Company or Group	To*	From*	Date	Reason
AEGON N.V.	A-/Negative	A+/Negative	March 31, 2009	The downgrade of the operating company reflects the higher-than expected investment-related losses in 2008, the continued weakness in financial markets in 2009, and our opinion that certain de-risking and capital preservation actions will reduce future underlying earnings. We believe that these pressures are most acute in AEGON's U.S. business where the group has material equity and credit risk exposures. The deteriorating outlook for credit risk, combined with continued weakness and volatility in equity markets, is likely, in our view, to constrain the near-term dividend capacity of AEGON's primary business unit in the U.S., resulting in lower holding company cash inflows. Although we recognize the diversity provided by AEGON's European businesses, in our opinion, these pressures on U.S. dividend flows somewhat increase risk for holding company creditors and are reflected in our two-notch downgrade of the holding company.
Assicurazioni Generali SpA	AA-/Stable	AA/Stable	March 31, 2009	The downgrade reflects Standard & Poor's assessment of Generali's deteriorating earnings and our view of weakened capital adequacy and financial flexibility owing to the decline in equity and credit markets. We believe that the continuing financial market turmoil will likely reduce Generali's medium-term earnings generation and consequently hamper the restoration of what we would consider as very strong capital adequacy in the short to medium term.
Aviva PLC	A-/Negative	A+/Stable	March 31, 2009	The rating actions reflect our view that current challenging operating and financial market conditions have put pressure on certain key credit fundamentals supporting the nonstandard "one notch" difference between the rating on Aviva PLC and that on its core operating subsidiaries. These fundamentals include reduced cash flows from subsidiaries, increased double leverage, and a holding company debt structure benefiting only from limited upstream guarantees. In our opinion, the quantum and diversity of cash flows from subsidiaries is expected to come under pressure during 2009 and 2010 due to adverse investment market conditions. In particular, we expect material subsidiaries in The Netherlands, France, Ireland, and the U.K. to generate reduced cash flows to the group over the next two years. Our expectation of a higher level of double leverage in 2009 and 2010 is also indicative of reduced cash flows from Aviva's operating subsidiaries. The rating action also reflects our view of the reduced importance of the upstream guarantees from All for all Aviva PLC's senior debt obligations. Historically, we have viewed the upstream guarantees as a supporting factor in the nonstandard one notch gap between the rating on the holding company and the ratings on the core operating subsidiaries. However, the importance of these guarantees has reduced in recent years as Aviva has reshaped its funding profile, substituting guaranteed holding company senior debt with unguaranteed subordinated debt instruments.
AXA	A-/Negative	A+/Stable	Feb. 19, 2009	The outlook revision reflects our view of prospects for a material decline in profits over the medium term at AXA group's life and savings and asset management businesses, as well as weakened capital adequacy owing to the decline in equity and credit markets.
Fortis Insurance Belgium (FIB)	A/Watch Negative	A/Watch Developing	Feb. 10, 2009	The negative implications reflect increasing uncertainties about the ultimate organization of Fortis group and its resulting creditworthiness, and our belief, as we review FIB's stand-alone credit profile, that the possibility for an upgrade is remote.

Table 2

Recent Rating/Outlook/CreditWatch Actions (cont.'d)				
Company or Group	To*	From*	Date	Reason
Groupama S.A	A+/Negative	A+/Stable	April 7, 2009	The negative outlook reflects our view of the increased pressure on Groupama's capitalization mainly because of the sharp decline in the market value of its equity holdings over the past year, which has led to Groupama to report substantial unrealized capital loss positions and which, in our view, is weighing on Groupama's risk-based capital adequacy. The ratings on Groupama reflect our view of its strong competitive position in France, as well as its strong, although pressured, operating performance. Offsetting factors are Groupama's capital adequacy that we see as not in line with the current ratings and its exposure to equity holdings.
ING Groep N.V.	A+/Negative	AA-/Stable	March 31, 2009	The downgrade reflects our concern of significant pressures on group earnings in 2009 arising from investment-related losses in the insurance division. Bank earnings are expected to be pressured by higher credit losses.
Legal & General Group PLC	A+/Negative	AA-/Negative	Feb. 25, 2009	This action reflects Standard & Poor's opinion with regard to two main areas: capitalization and risk profile. We believe the current financial market and economic conditions have adversely affected L&G's capitalization. Capitalization, while remaining very strong, has in our opinion weakened significantly in 2008. Standard & Poor's has traditionally viewed capitalization as an explicit strength relative to the rating, and has been a significant factor in L&G being rated somewhat higher than most of its U.K.-based peers. In our opinion, both currently and prospectively, we expect L&G management to operate with a somewhat weaker financial profile, although remaining very strong. The ratings action also reflects Standard & Poor's view that L&G's risk profile has increased. Credit risk, leverage, and longevity exposure have all increased. The average credit quality of the corporate bond portfolio reduced in 2008, albeit to a strong level. Debt issuance has increased, although debt leverage and fixed-charge coverage remain consistent with the ratings. We observe that the innovative Tier 1 hybrid issuance in 2007 effectively replaced about 75% of the capital used in the share buyback program. In addition, we note that in recent years, annuities sales, which have helped LGAS to sustain its growth momentum, have also increased the liability risk profile and capital requirements. We view the operating and financial market environment for the U.K. life sector as negative, with the potential to adversely impact both new business and L&G's balance sheet.
SCOR SE	A/Stable	A-/Positive	March 13, 2009	The upgrade reflects our view of the continuing positive trend in SCOR's non-life underwriting performance and recognizes the resilience of SCOR's financial and business profile to major financial shocks. We believe that SCOR has, over time, successfully restored its financial strength and has reduced and diversified its risk profile, and this appears evident amid the current financial turmoil. Added to this, the January reinsurance renewals indicate a positive trend in pricing adequacy, which we believe will provide further earnings momentum over the ratings horizon and will offset some of the decline in investment yields.
Standard Life PLC	A-/Stable	BBB+/Positive	Feb. 25, 2009	The rating action reflects Standard & Poor's opinion that strong execution of tactical initiatives over the past three years, repositioning the business model in the U.K., places SLAL in a relatively strong position in the current downturn and beyond.
Swiss Reinsurance Company Ltd.	A+/Stable	AA-/Stable	Feb. 18, 2009	These rating actions come in response to the much greater-than-anticipated capital depletion seen at Swiss Re during 2008, the capital raising this has necessitated, and the potential adverse flow-on effects that Standard & Poor's believes this could have, particularly on the group's future earnings and financial flexibility.

Table 2

Recent Rating/Outlook/CreditWatch Actions (cont.'d)				
Company or Group	To*	From*	Date	Reason
Unipol Gruppo Finanziario SpA	BBB/Stable	BBB/Positive	March 20, 2009	The outlook revision follows full-year 2008 results that were worse than expected and reflects our anticipation that results will be constrained over the medium term. As a result, we do not now expect UGF's financial profile to support an upgrade of the insurer financial strength rating to 'A' over the coming two years.
Zurich Group Holding	A/Negative	A/Stable	March 31, 2009	The outlook revision is based on our opinion of the weakening of the group's risk-based capital adequacy as of year-end 2008, according to our model, amid the continued difficult financial market conditions.

Selected Articles

Table 3

Previously Published European Insurance Articles		Published date
Article title		
Bond Insurer Ratings: Current List		April 15, 2009
Growing Supply Chases Slowing Demand In The Jordanian Insurance Market		April 8, 2009
Various Rating Actions On European Global Multiline Insurers After Portfolio Review		March 31, 2009
Criteria / Insurance / Specialty: Standard & Poor's Approach To Rating Takaful And Retakaful (Islamic Re/Insurance) Companies		March 30, 2009
Interpreting Insurer Financial Strength Ratings In Light Of Improving Insurer Supervision		March 20, 2009
Heightened Financial And Economic Risk Places Downward Ratings Pressure On U.K. Life Insurance Sector		March 5, 2009
For Bond Insurers, The Future Depends On Investor Confidence		Feb. 25, 2009
Solvency II: Wounded, But Still Alive And Kicking		Feb. 12, 2009
Insurance Industry Risk Analysis: Ratings On International Group Clubs Are Under Moderate Downward Pressure		Feb. 10, 2009
A Testing 2009 For The Irish Non-Life Insurance Market, Despite Fundamental Strengths		Feb. 4, 2009
Tough Times Will Challenge Russian Insurers In 2009-2010		Feb. 3, 2009
Criteria Clarification On Replacement Provisions In Hybrid Securities		Dec. 12, 2008

Articles are available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com.

Contact Information

Table 4

Contact Information			
Credit analyst	Location	Phone	E-mail
Charis Adu-Kwapong, Associate Director	London	(44) 2-7176-7062	charis_Adu-kwapong@standardandpoors.com
Ralf Bender, Associate Director	Frankfurt	(49) 69-33-999-194	ralf_bender@standardandpoors.com
Hiltrud Besgen, Director	Frankfurt	(49) 69-33-999-192	hiltrud_besgen@standardandpoors.com
Nigel Bond, Director	London	(44) 20-7176-7063	nigel_bond@standardandpoors.com
Paul Bradley, Director	London	(44) 20-7176-7054	paul_bradley@standardandpoors.com
Mark Button, Director	London	(44) 20-7176-7045	mark_button@standardandpoors.com
Mark Coleman, Director	London	(44) 20-7176-7006	mark_coleman@standardandpoors.com
Virginie Crepy, Associate	Paris	(33) 1-4420-7330	virginie_crepy@standardandpoors.com
Paola Del Curatolo, Associate Director	Milan	(39) 0272-111-228	paola_del_curatolo@standardandpoors.com
Lotfi Elbarhdadi, Director	Paris	(33) 1-4420-6730	lotfi_elbarhdadi@standardandpoors.com

Table 4

Contact Information (cont.'d)			
Credit analyst	Location	Phone	E-mail
Anna Glennmar, Associate	London	(44) 20-7176-7236	anna_glennmar@standardandpoors.com
Peter Grant, Director	London	(44) 20-7176-7086	peter_grant@standardandpoors.com
Rob Jones, Managing Director	London	(44) 20-7176-7041	rob_jones@standardandpoors.com
Simon Marshall, Senior Director	London	(44) 20-7176-7080	simon_marshall@standardandpoors.com

Solvency II: Wounded, But Still Alive And Kicking

Primary Credit Analysts:

Rob Jones
London
(44) 20-7176-7041
rob_jones@
standardandpoors.com

Secondary Credit Analysts:

Wolfgang Rief
Frankfurt
(49) 69-33-999-190
wolfgang_rief@
standardandpoors.com

Yann Le Pallec
Paris
(33) 1-4420-6725
yann_lepallec@
standardandpoors.com

Additional Contact:

Insurance Ratings Europe
InsurancInteractive_Europe@sta
ndardandpoors.com

Publication Date

February 12, 2009

The European Commission's (EC's) November 2008 target for adopting the Solvency II framework directive was missed. Standard & Poor's Ratings Services believes that the earliest implementation date is now likely to be Jan. 1, 2013, instead of Oct. 1, 2012. In our opinion, Solvency I is no longer fit for purpose and is implemented by national supervisors in many different ways around Europe. Solvency II holds out the prospect of a radical Europe-wide modernization of insurance supervision, putting it on a much more risk-sensitive footing than most other supervisory regimes around the world. Some commentators have cited the current turmoil in investment markets as reason to pause before embarking on Solvency II. Our opinion is the contrary; we believe that the turmoil highlights the urgency of implementing Solvency II. The focus is now to adopt the directive by April 2009, before the European Parliament (EP) elections in June. If that target is missed, a 2013 implementation would in our view be challenging.

Solvency II remains controversial and we commented on the features that gave rise to the controversy in our article published on March 12, 2008, titled "One In Four Of Europe's Insurers Could Face Major Strategic Decisions Under Solvency II." This article updates our commentary for recent political, supervisory, and economic developments under the following headings:

- Group support
- Equity risk
- Minimum capital requirement (MCR)
- Market impact

We also comment below on:

- Annuity products in the U.K.
- Bonus reserves in Germany
- Diversification effects
- Standard solvency capital requirement (SCR) calibration

- Internal models
- Implications for ratings
- Convergence with International Financial Reporting Standards (IFRS)

Since our earlier commentary, The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has produced its fourth Quantitative Impact Study (QIS 4) and the draft Directive has been debated extensively in the EP and the Council Of Ministers. The EP position on the Directive was supported by the EC, but proved to be unacceptable to the Council. As anticipated, group support proved to be the main stumbling block, although the French presidency was also concerned with equity risk. The group support provisions were deleted by the Council and revisions were made to the equity risk provisions. These changes were not acceptable to the EC or EP. The Czechs (who hold the rotating EU Presidency), the EP, and the EC are seeking a compromise before the EP elections in June 2009.

What Is Solvency II?

Solvency II is intended to completely overhaul supervision of insurance within the EU. In our view, it offers a realistic prospect of moving Europe's insurance supervision onto a modern, risk-sensitive platform far superior to that of the existing regime and most other approaches currently in use around the globe. However, many insurers will find the transition painful because the current Solvency I regime has changed little since it was instigated more than 30 years ago. Solvency II consists of three pillars:

- Pillar 1: Quantitative requirements;
- Pillar 2: Supervisory review; and
- Pillar 3: Disclosure requirements.

The EC's consultation process has included a series of quantitative impact studies (QIS) undertaken by CEIOPS, the fourth of which was reported on in November 2008 (a fifth is expected, but not until 2010).

Group Support: The Main Stumbling Block

Group support was the key issue on which the Directive failed to be adopted. The relevant provisions in the EP's position envisaged that subsidiaries of groups would only need "local" capital sufficient to cover their Minimum Capital Requirement (MCR), with the deficit on the Solvency Capital Requirement (SCR) potentially being covered by group support, possibly in the form of a limited guarantee. The impact would be significant since the drafts of the Directive would result in insurer SCRs being a multiple of between 2x and 5x the MCRs. Smaller member states led by Poland and Spain were concerned about the potential significant delegation of powers to a lead supervisor in another state and a consequent loss of influence over their home insurance markets. A particular and understandable concern in our view held by this group relates to the potential supervisory response when a local subsidiary and the relevant group are both under stress, i.e., how much of the group support would be available to the subsidiary? They are also concerned about their potential role as lead supervisor and their ability to effectively supervise insurers in markets other than their own, where they may have little knowledge of local products and market practices.

While the group support provisions were deleted by the Council, the group solvency provisions remained. However, in our view, these provisions would be undermined by the absence of group support. Therefore, the computation of group solvency may be irrelevant for many groups with several subsidiaries across Europe since there would be no means to downstream the group

diversification benefits (which were retained by the Council). The diversification effect is illustrated in QIS 4 by the average group SCR being 21% lower than the sum of subsidiary SCRs. It would also mean that groups would need to seek approval to use their internal model for each entity from the relevant supervisor (rather than have only the lead supervisor validate it), which would be a major burden on all parties. Furthermore, the proposed college of supervisors would become a less meaningful forum.

A potential solution we believe to be under consideration would allow member states to “opt in” to the group support provisions, i.e., to allow local supervisors to recognize group support as contributing toward SCR coverage for all subsidiaries of European groups under their supervision in collaboration with the relevant lead supervisor. This would allow the smaller states to retain more influence over the relevant subsidiaries and, assuming the larger member states do opt in, would allow large groups to downstream the majority of their group diversification benefits.

Group support is a fundamental element of Solvency II as conceived by the EC. The industry (represented by the CEA), the EC, and the EP want group support to be included in the Directive. However, if that proves to be politically impossible, Standard & Poor’s believes that the Directive should not be sacrificed completely for the sake of group support. In other words, Solvency II without group support would be disappointing from a market efficiency standpoint, but no Solvency II at all would be a huge setback for the European insurance industry.

As a result of these uncertainties, we are already seeing that international groups are rationalizing their group structures and transferring business to branches and closing down subsidiaries wherever possible.

An open question, however, is whether the prominence of group support concealed a host of other concerns that have been elevated during the recent turmoil. Market consistency, internal models, and fair value are all concepts which feature heavily in Solvency II, all of which have been tarnished, albeit unfairly in many respects in our opinion. Furthermore, prospective changes to the capital requirements for banks under Basel II and the Capital Requirements Directive may further complicate the passage of Solvency II.

Equity Risk SCR: A Critical Issue For France

The compromise wording produced by the Council was also significantly amended for equity risk. The original calibration had an SCR of 40% of the market value of equity investments (QIS 2). By QIS 3, this had been reduced to 32%. QIS 4 retained the 32% SCR, but also tested an “equity dampener” based on the notion that the percentage equity capital requirement should be reduced as equity values declined. Based on QIS 4, the effect of the equity dampener was to reduce the effective average equity capital requirement to 29% (based on year-end 2007 balance sheets, which were the subject of QIS 4). Based on 2008 balance sheets the charge would have been considerably lower. According to the QIS 4 report, most companies and supervisors thought that the 32% equity SCR was too low and they questioned the credibility of the equity dampener. For the 160 insurance entities submitting an internal model, the average equity SCR was 39%. For the 15 groups submitting group internal model results, each had an equity SCR in excess of 40%.

The key to the issue lies mainly in pensions. France has great difficulty with the equity SCR and was instrumental in the Council’s compromise wording (France held the presidency of the EU during the second half of 2008). A large proportion of French pension liabilities reside on insurer balance sheets, and are therefore within the scope of Solvency II. In most other member states, pension liabilities reside on corporate balance sheets or within occupational pension schemes outside the scope of Solvency II. Imposition of a Solvency II-type capital requirement for

noninsurer equity risk backing pensions would have a dramatic impact in many member states. The effect of the equity dampener in France was to reduce the SCR by 22%, compared to 10% as a whole for Europe.

The solution may lie in Pillar 2 measures. In its November report on “Addressing The Pro-cyclical Nature Of Solvency II,” the CRO Forum proposed that a shadow SCR be included in the Directive whereby the threshold for regulatory intervention could be temporarily reduced in distressed investment markets. Alternatively, French insurers may be granted a differentiated treatment.

Annuity Products: Concerns In The U.K.

QIS 4 results for life insurers operating in the U.K. continue to show a high proportion (greater than 20%) of companies failing to meet the SCR. One of the key issues for this sector relates to annuity business. Specifically, the absence of any liquidity premium in the discount rate applied to liabilities, together with a high risk margin and onerous longevity stress, result in a large proportion of annuity writers disclosing insufficient capital to meet the SCR. Results in the U.K. are also depressed by the capital requirements for credit risk relating to often unrated intra-group reinsurers. Standard & Poor’s believes there will be significant pressure from the industry to recalibrate the reserve and capital requirements for annuity business given its size and importance to the sector. The proposals as they stand would significantly impact on the economics of this product line in the U.K.

The Economic Value Of Free Policyholders’ Bonuses And Terminal Bonuses Is A Vital Pillar For German Life Insurers

Under Solvency I, the free policyholders’ bonuses (free RfB) and terminal bonuses represent the bulk of regulatory capital for German life insurers, both being viewed as tier 1 surplus funds. Discretionary bonuses are allocated toward these surplus funds and act as a buffer between creation and distribution of profits in order to flatten annual volatility in results and to allow more stable allocations toward policyholders over time.

Under the economic view of Solvency II/QIS 4 all policyholders’ outgoings are treated as—discounted—liabilities, including future surplus distributions. The future surpluses are split into shareholder and policyholder components, the split being based on the current supervisory rules for surplus participation. The policyholder part includes the so-called going-concern reserve, which forms part of the available solvency capital. The going-concern reserve is based on the notion that the profits from business in force are partly being used to fund solvency requirements. The solvency capital that is attributed to future policyholders is not a liability of current policyholders and therefore does not represent a liability. The German approach to QIS 4 assumes that this going-concern reserve equals approximately the MCR (although further refinements are expected).

It is important to note that a part of the future policyholder surplus (going-concern reserve) is included in the available solvency capital, and that the other part although shown as a liability still has risk absorbing potential and reduces the SCR in stress scenarios.

The German QIS 4 approach, in Standard & Poor’s opinion, is a positive development as it addresses the main weaknesses of the German QIS 3 approach (total free RfB and terminal bonuses were treated as available solvency capital; the best estimate—discounted—technical reserves did not reflect requirements for options and guarantees).

Other Risks May Need Their SCRs Recalibrated

The SCR required by the standard model exceeded the SCR required by insurers' internal models for most risks, as expected. The reverse was true for equity risk where the median internal model SCRs exceeded the QIS 4 standard model SCRs by 8% (see above). This was also the case for property investment risk (7%), mortality risk (30%), and operational risk (33%). So the incentive to provide internal models is limited for certain risks if it is influential in the overall outcome. CEIOPS is expected to revisit some of these capital requirements for QIS 5.

MCR: An Unsatisfactory Compromise

The MCR debate would seem to be resolved, albeit unsatisfactorily in our opinion. Most supervisors believe that the "combined approach" tested under QIS 4 represents a workable solution. This approach involves a set of capital requirements for liability risk (referred to as the "linear method") with the result constrained by a "corridor" based on the SCR.

The linear method is much less risk sensitive given its simplicity relative to the SCR and especially because of the absence of asset and ALM risk-capital requirements. It is similar to Solvency I in these respects. QIS 4 tested a corridor of between 20% and 50% of the SCR. The shortcomings of the approach are apparent from the QIS 4 results with only 55% of insurers falling within the corridor based on the standard SCR (17% of insurers' MCRs were capped at 50%; 27% were affected by the floor). Life insurers are affected more than non-life with only 44% being within the corridor (non-life 67%). In fact, the linear method produces (uncapped) MCRs that are greater than the SCR in some cases. Thus we consider that the linear measure is flawed.

According to the draft directive, the MCR is to be calibrated at a 80%-90% confidence interval. By comparison, the SCR is calibrated at 99.5%. This should allow supervisors the appropriate differentiation between withdrawal of an insurer's authorization when the MCR is breached and the requirement to submit a restoration plan when SCR is breached (the "ladder of intervention").

Several supervisors favor the simple and clearly more risk-sensitive "compact approach" based on a fixed percentage of the SCR (35%). We opined in our previous commentary that the compact approach was the only credible solution, as has much of the industry. However, many member states object because of concerns over legal certainty and the related issues of complexity and the ability to calculate SCR/MCR frequently (especially where an internal model is involved).

The Council position on the Directive includes the 20%-50% of SCR corridor while the Parliament position narrows the corridor to 25%-45%. Even the latter position would still result in a ladder of intervention that varied considerably and ultimately insurers may in practice see their authorization withdrawn at widely varying percentages of SCR. The fairness of such an approach is questionable. Conceivably the corridor may be narrowed further in the final directive to limit the shortcomings.

Market Impact: A Strategic Challenge For Many Insurers

With one third of European insurance entities participating in QIS 4, and 60% by market share of premiums, this was a substantial improvement on QIS 3. Although the median SCR coverage ratios across Europe based on QIS 4 were around 200% (life 230%, non-life 193%, reinsurance 221%), approximately 11% of insurance entities failed to cover their SCR (1.2% failed to cover the MCR). This compared with 16% at QIS 3. However, it is important to recognize that QIS 4 was based mainly on 2007 year-end balance sheets. If the exercise was repeated on 2008 balance sheets, a significantly higher percentage would be expected. We formed the view based on QIS 3 that 25% of Europe's insurers would need to take strategic action in response to Solvency II

(reduce scale, reduce risk, raise capital, employ more risk mitigation—such as purchasing more reinsurance—merge with other insurers, or be acquired). We see no reason to revise that view for the reason stated above and given that the 11% result referred to above did not take into account any buffer (in practice insurers will want to operate with a substantial buffer above the SCR).

The analysis above focuses purely on the balance sheet. Solvency II will also have a significant impact on the competitive landscape by causing a shift in favor of large diversified groups (assuming that the group support provisions are retained). Groups will enjoy large supervisory diversification credits and this will boost their ability to compete on price. Additionally, companies that lack the resources to respond to sophisticated supervision will be hard hit by the implementation of Solvency II.

These issues will add to the numbers of entities that may miss Solvency II capital targets and will contribute to a progressive reduction in the number of European insurance entities. Although we believe that Solvency II is rightly radically different from the current regime and should result in more efficient markets, there will be casualties in the transition. However, Solvency II is not the “villain” in our opinion; it merely provides the transparency and incentives necessary to unleash market forces that already exist in the industry. We expect that Solvency II will rapidly escalate the pressure to consolidate that already exists.

QIS 4 Diversification Effects Are Huge

Solvency I does not recognize diversification effects, but these are an important element of Solvency II. The correlation assumptions on which QIS 4 was based adversely affected insurers involved in few lines of business most, mainly because they don’t enjoy high levels of diversification benefits. For legal entities, diversification provides an average 21% capital saving for non-life insurers and 38% for life insurers.

For groups, comparing the sum of entity SCRs with the group SCR suggests that there is a further diversification credit of 21% on average. When you compound these effects for globally diversified groups, diversification credit could easily be 50% or more. This would give these groups a considerable pricing advantage in the market and would apply pressure on all less-well-diversified businesses.

The QIS 4 calibrations place great faith in diversification, which we think is overstated. It is being tested by the current investment market turmoil and we expect CEIOPS to re-examine the QIS 4 correlation matrix, as a consequence. By contrast, under Standard & Poor’s capital adequacy model, the maximum potential diversification credit that can be achieved is 18%, a limit that is partly influenced by our concerns over tail correlation and fungibility of capital.

We expect large diversified groups to be clear winners under Solvency II supervision. Reinsurers may also fare well, particularly in Solvency II’s early years of application, as they “sell” their diversification to smaller, less-diversified primary insurers threatened by the new capital requirements.

Insurers with a genuine niche product offering or with a defensible niche distribution platform may still aspire to strong ratings, although Solvency II capital requirements may exceed rating capital requirements in future (which is rarely the case today). Those with a sophisticated understanding of their risks will likely apply for supervision based on internal models, partly in response to this issue.

Internal Models Will Be Commonplace Under Solvency II

Solvency I does not allow the use of internal models for solvency purposes, but it is an important element of Solvency II supervision. Some supervisors allow internal models, but the Solvency I requirements must still be met. 710 insurers provided some information relating to internal models at QIS 4. Sixty-three percent of these said they intended to submit internal models (half of them full models and half partial) to their supervisors for validation. Approximately half of the insurers currently use or are developing internal models.

Internal model validation is therefore likely to be a larger undertaking than most supervisors initially thought. Most of them have few resources in place to deal with this demand and it will therefore require a major investment in skilled resources over the next few years.

Half of the insurers providing information expected that it will take less than one year to meet supervisors' approval standards. These are overly optimistic assumptions, in our opinion, not just because of supervisor readiness, but because the numbers of insurers currently capable of demonstrating that their models are embedded in their business are few and far between. The U.K. FSA has indicated that development of an internal model is a medium- to long-term project (up to five years) requiring an iterative process.

Solvency II: Converging Or Diverging With IFRS?

We believe that there is a possibility that Solvency II may diverge from IFRS in important respects. When Solvency II was originally conceived, the expectation was that IFRS for insurance contracts was to be finalized by 2005. Reported IFRS equity was expected to significantly influence available capital under Solvency II, and would of course be audited for IFRS filers. IFRS was indeed implemented in 2005, but it was only a temporary fix. The final Phase 2 standard is now unlikely to be in place before 2013. Consequently, IFRS Phase 2 and Solvency II are being developed in parallel, which is proving problematical.

The valuation of insurance liabilities, most of which do not have a liquid market, is challenging for both projects. While the current Council and Parliament positions on the Directive no longer refer to "current exit value", they do refer to the notion of valuation based on a hypothetical transfer of the liability to another insurer. Having initially taken this stance in its Discussion Paper, the IASB now seems to be considering a different approach following industry feedback (fulfilment value based on the ultimate settlement of liabilities by the insurer).

The parallel running of the two projects is problematical in this respect and others, such as the cost of capital (prescribed at 6% under Solvency II), recurring life insurance premium, and reflecting insurers' own credit risk in valuing their insurance liabilities. The ultimate reconciliation between IFRS equity and available capital for solvency purposes may be quite complex and require highly sophisticated and flexible systems. Although general purpose financial statements and solvency measures serve different purposes, we believe that the maximum degree of convergence should be sought subject to the separate objectives being met.

Implications For Ratings

Insurer supervision in Europe is becoming more qualitative and prospective. To that extent, supervisory practices will partly converge with our rating analysis. Our objective is to communicate relative financial strength globally via our ratings, which provides policyholders, intermediaries, bondholders, and creditors with more granular and prospective information to facilitate their decision-making process.

To some extent, the rating process should help insurers prepare for Solvency II. Some of our processes will eventually overlap when Solvency II is implemented. Our capital adequacy model was launched in Europe in 1997 and resembles the emerging SCR in many respects. (For the latest version, see “Risk-Based Insurance Capital Model” published on Sept. 11, 2008.) More significantly, the enterprise risk management criteria we launched in 2005 will be aligned with the risk management reviews under Solvency II’s supervisory review requirements under Pillar 2. Furthermore, we are now introducing economic capital analysis, which will overlap with supervisors’ internal model validations. Finally, our rating process offers high levels of transparency, which the disclosure requirements under Pillar 3 emulate.

Our overall approach to rating is unlikely to change with the implementation of Solvency II. However, we will face the following issues:

- We will need to make our assessments on the impact of the changing competitive landscape on individual insurers in advance of the implementation of Solvency II.
- Many insurers will find supervisory capital adequacy to be a more relevant constraint under Solvency II than they currently do, particularly the less diversified insurers. If so, our own capital adequacy model results may have less impact on the rating.
- We will need to consider the impact of group support arrangements (if implemented) in assessing the group status of rated subsidiaries.

Insurers Are Encouraged To Evaluate The Effect Of Solvency II Well In Advance

Dramatic changes are underway in the European insurance industry. The Solvency II project will introduce a new solvency regime with an integrated risk approach that reflects the risks being taken by insurers much better than the current Solvency I regime. Although the implementation date is not likely until at least 2013, we observe that insurers and supervisors are far from ready. Many insurers have yet to evaluate its effect on them, feeling that it is not sufficiently imminent to warrant a full analysis. As Solvency II will have a profound impact, insurers are encouraged to begin now the process of evaluating its effect on their businesses.

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The McGraw-Hill Companies

Head of Insurance Europe:

Yann Le Pallec 33-1-4420-6725 yann_lepallec@standardandpoors.com

Team Leaders - London:

 David Harrison 44-20-7176-7064 david_harrison@standardandpoors.com
 David Laxton 44-20-7176-7079 david_laxton@standardandpoors.com
 Rowena Potter 44-20-7176-7070 rowena_potter@standardandpoors.com

Team Leader - Paris:

Laura Santori 33-1-4420-7320 laura_santori@standardandpoors.com

Team Leader - Frankfurt:

Karin Clemens 49-69-3399-9193 karin_clemens@standardandpoors.com

Insurance Quality Officer:

Simon Marshall 44-20-7176-7080 simon_marshall@standardandpoors.com

Insurance Criteria Officer:

Rob Jones 44-20-7176-7041 rob_jones@standardandpoors.com

Financial Strength Rating Product Manager:

Peter Hughes 44-20-7176-7016 peter_hughes@standardandpoors.com

Marketing Managers:

 Isobel McCalman 44-20-7176-7233 isobel_mccalman@standardandpoors.com
 Fleur Hollis 44-20-7176-7212 fleur_hollis@standardandpoors.com

Department Email:

insuranceeurope@standardandpoors.com

AUSTRIA

 Ralf Bender 49-69-33999-194 ralf_bender@standardandpoors.com
 Wolfgang Rief 49-69-3399-9190 wolfgang_rief@standardandpoors.com

BELGIUM

 Virginie Crepy 33-1-4420-7330 virginie_crepy@standardandpoors.com
 Lotfi Elbarhdadi 33-1-4420-6730 lotfi_elbarhdadi@standardandpoors.com

CAPTIVES

 Tatiana Grineva 44-20-7176-7061 tatiana_grineva@standardandpoors.com
 Peter McClean 44-20-7176-7075 peter_mcclean@standardandpoors.com
 Natasha Tansey 44-20-7176-7076 natasha_tansey@standardandpoors.com

CEE

 Paul Bradley 44-20-7176-7054 paul_bradley@standardandpoors.com
 David Laxton 44-20-7176-7079 david_laxton@standardandpoors.com
 Victor Nikolskiy 7-495-783-40-10 victor_nikolskiy@standardandpoors.com
 Miroslav Petkov 44-20-7176-7043 miroslav_petkov@standardandpoors.com

CREDIT INSURERS

 Charis Adu-Kwapong 44-20-7176-7062 charis_adu-kwapong@sandp.com
 Virginie Crepy 33-1-4420-7330 virginie_crepy@standardandpoors.com
 Tatiana Grineva 44-20-7176-7061 tatiana_grineva@standardandpoors.com

FRANCE

 Virginie Crepy 33-1-4420-7330 virginie_crepy@standardandpoors.com
 Lotfi Elbarhdadi 33-1-4420-6730 lotfi_elbarhdadi@standardandpoors.com
 Yann Le Pallec 33-1-4420-6725 yann_lepallec@standardandpoors.com
 Laura Santori 33-1-4420-7320 laura_santori@standardandpoors.com

GERMANY

 Johannes Bender 49-69-33999-196 johannes_bender@standardandpoors.com
 Ralf Bender 49-69-33999-194 ralf_bender@standardandpoors.com
 Hiltrud Besgen 49-69-33999-192 hiltrud_besgen@standardandpoors.com
 Karin Clemens 49-69-33999-193 karin_clemens@standardandpoors.com
 Sabrina Weber 49-69-33999-197 sabrina_weber@standardandpoors.com
 Ralf Kuerzdoerfer 49-69-33999-195 ralf_kuerzdoerfer@standardandpoors.com
 Wolfgang Rief 49-69-33999-190 wolfgang_rief@standardandpoors.com

IBERIA

 Peter McClean 44-20-7176-7075 peter_mcclean@standardandpoors.com
 Angelo Sacca 44-20-7176-7073 angelo_sacca@standardandpoors.com
 Laura Santori 33-1-4420-7320 laura_santori@standardandpoors.com

INSURANCE SECURITISATION

 David Harrison 44-20-7176-7064 david_harrison@standardandpoors.com
 Cameron Heath 44-20-7176-7053 cameron_heath@standardandpoors.com
 Maren Josefs 44-20-7176-7050 maren_josefs@standardandpoors.com
 Miroslav Petkov 44-20-7176-7043 miroslav_petkov@standardandpoors.com

IRELAND

 Mark Coleman 44-20-7176-7006 mark_coleman@standardandpoors.com
 Neil Gosrani 44-20-7176-7112 neil_gosrani@standardandpoors.com
 Tatiana Grineva 44-20-7176-7061 tatiana_grineva@standardandpoors.com
 Rowena Potter 44-20-7176-7070 rowena_potter@standardandpoors.com

ITALY

 Paola Del Curatolo 39-0272-111-228 paola_del_curatolo@standardandpoors.com
 Angelo Sacca 44-20-7176-7073 angelo_sacca@standardandpoors.com
 Laura Santori 33-1-4420-7320 laura_santori@standardandpoors.com

LLOYD'S & LONDON MARKET

 Matthew Day 44-20-7176-7044 matthew_day@standardandpoors.com
 Mark Coleman 44-20-7176-7006 mark_coleman@standardandpoors.com
 Peter Grant 44-20-7176-7086 peter_grant@standardandpoors.com
 Rob Jones 44-20-7176-7041 rob_jones@standardandpoors.com
 Eoin Naughton 44-20-7176-7047 eoin_naughton@standardandpoors.com
 Rowena Potter 44-20-7176-7070 rowena_potter@standardandpoors.com
 Kevin Willis 44-20-7176-7085 kevin_willis@standardandpoors.com

MAGHREB

 Lotfi Elbarhdadi 33-1-4420-6650 lotfi_elbarhdadi@standardandpoors.com
 Yann Le Pallec 33-1-4420-6725 yann_lepallec@standardandpoors.com

MARINE

 Ali Karakuyu 44-20-7176-7301 ali_karakuyu@standardandpoors.com
 Peter McClean 44-20-7176-7075 peter_mcclean@standardandpoors.com
 Rowena Potter 44-20-7176-7070 rowena_potter@standardandpoors.com

MIDDLE EAST / GULF

 David Anthony 44-20-7176-7010 david_anthony@standardandpoors.com
 Nigel Bond 44-20-7176-7063 nigel_bond@standardandpoors.com
 Matthew Day 44-20-7176-7044 matthew_day@standardandpoors.com
 Neil Gosrani 44-20-7176-7112 neil_gosrani@standardandpoors.com
 Rowena Potter 44-20-7176-7070 rowena_potter@standardandpoors.com
 Kevin Willis 44-20-7176-7085 kevin_willis@standardandpoors.com

NETHERLANDS

 Paul Bradley 44-20-7176-7054 paul_bradley@standardandpoors.com
 Mark Button 44-20-7176-7045 mark_button@standardandpoors.com
 Tatiana Grineva 44-20-7176-7061 tatiana_grineva@standardandpoors.com
 David Harrison 44-20-7176-7064 david_harrison@standardandpoors.com

NORDICS

 Mark Coleman 44-20-7176-7006 mark_coleman@standardandpoors.com
 Stephen Hadfield 44-20-7176-7059 stephen_hadfield@standardandpoors.com
 Anna Glennmar 44-20-7176-7236 anna_glennmar@standardandpoors.com
 David Laxton 44-20-7176-7079 david_laxton@standardandpoors.com
 Peter McClean 44-20-7176-7075 peter_mcclean@standardandpoors.com

REINSURANCE

 Hiltrud Besgen 49-69-33999-192 hiltrud_besgen@standardandpoors.com
 Mark Coleman 44-20-7176-7006 mark_coleman@standardandpoors.com
 Matthew Day 44-20-7176-7044 matthew_day@standardandpoors.com
 Peter Grant 44-20-7176-7086 peter_grant@standardandpoors.com
 Rob Jones 44-20-7176-7041 rob_jones@standardandpoors.com

RUSSIA CIS

 David Anthony 44-20-7176-7010 david_anthony@standardandpoors.com
 David Laxton 44-20-7176-7079 david_laxton@standardandpoors.com
 Victor Nikolskiy 7-495-783-40-10 victor_nikolskiy@standardandpoors.com
 Miroslav Petkov 44-20-7176-7043 miroslav_petkov@standardandpoors.com

SUB-SAHARAN AFRICA

 Matthew Day 44-20-7176-7044 matthew_day@standardandpoors.com
 Peter Grant 44-20-7176-7086 peter_grant@standardandpoors.com
 Kevin Willis 44-20-7176-7085 kevin_willis@standardandpoors.com

SWITZERLAND

 Hiltrud Besgen 49-69-33999-192 hiltrud_besgen@standardandpoors.com
 Karin Clemens 49-69-33999-193 karin_clemens@standardandpoors.com

UK LIFE

 Charis Adu-Kwapong 44-20-7176-7062 charis_adu-kwapong@sandp.com
 Paul Bradley 44-20-7176-7054 paul_bradley@standardandpoors.com
 Mark Button 44-20-7176-7045 mark_button@standardandpoors.com
 David Harrison 44-20-7176-7064 david_harrison@standardandpoors.com
 Miroslav Petkov 44-20-7176-7043 miroslav_petkov@standardandpoors.com

UK NON-LIFE

 Nigel Bond 44-20-7176-7063 nigel_bond@standardandpoors.com
 Tatiana Grineva 44-20-7176-7061 tatiana_grineva@standardandpoors.com
 Rowena Potter 44-20-7176-7070 rowena_potter@standardandpoors.com

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