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April 22, 2009

## Industry Report Card:

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

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**Industry Report Card:**

# 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.

### 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



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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.



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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.



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### 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



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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**

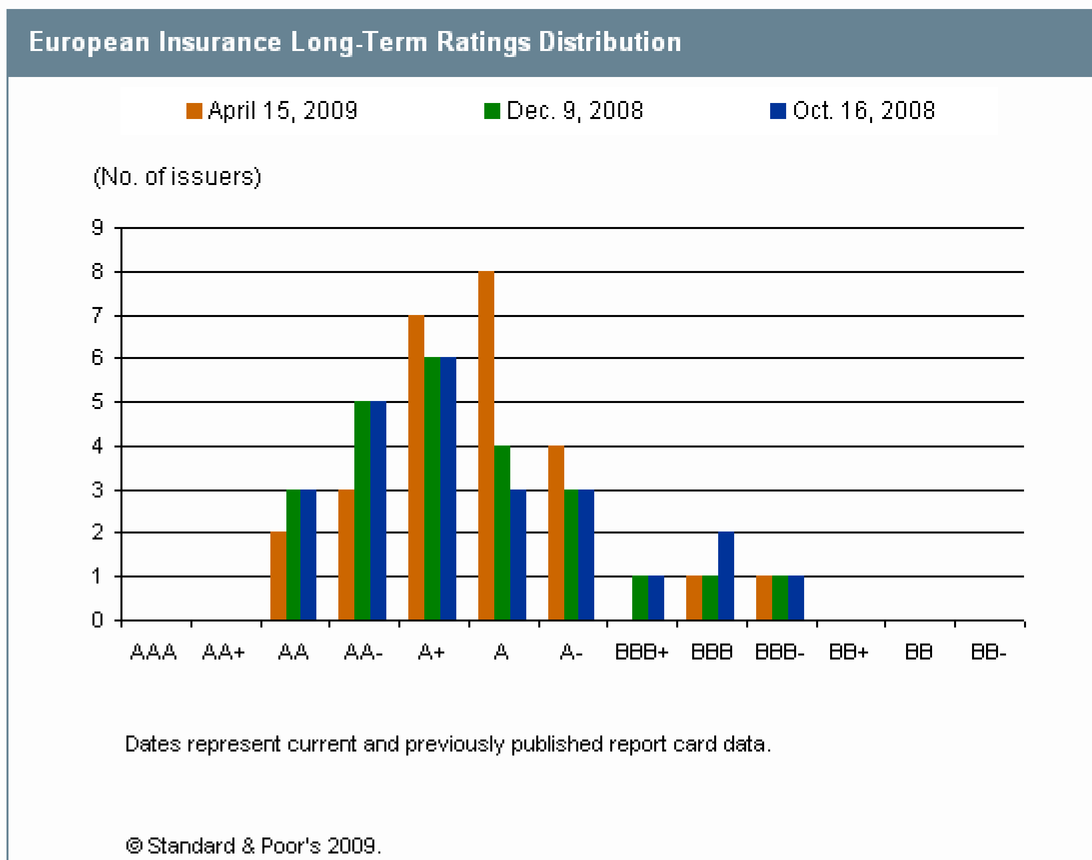




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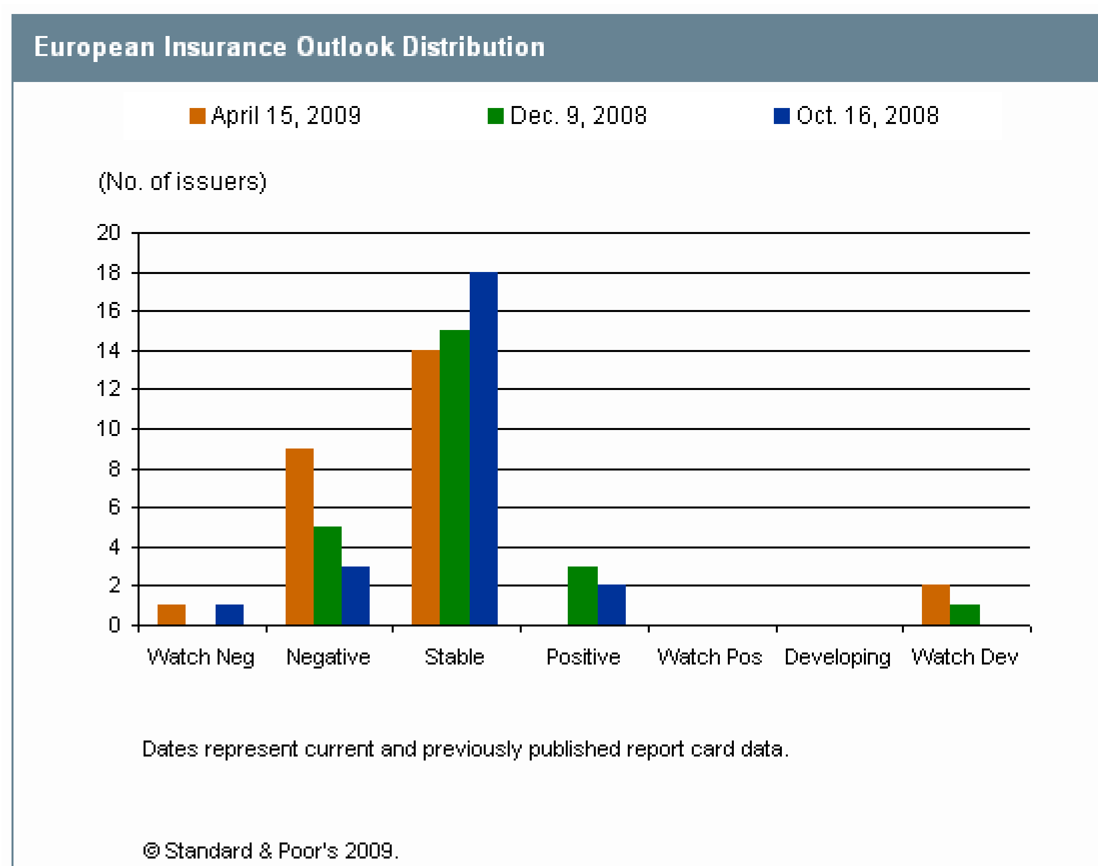
**Chart 2**




## Issuer Review

**Table 1**

| Company or Group/Counterparty credit rating; insurer financial strength rating*/Comments | Country | Analyst |
|---|---|---|
| **AEGON N.V.** (A-/Negative/A-2; AA-/Negative*)<br>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 | The Netherlands | Mark Button |



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| 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. | | |
| **Allianz SE** (AA/Stable/A-1+) | | |
| 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 | Ralf Bender, CFA |
| **ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. (formerly part of Fortis Insurance Netherlands)** (A/Watch Dev) | | |
| 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 | Lotfi Elbarhdadi |
| **Assicurazioni Generali SpA** (AA-/Stable/--; AA-/Stable*) | | |
| 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 | Paola Del Curatolo |
| **Aviva PLC** (A/Negative/--; core subsidiaries AA-/Negative*;) | | |
| 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 | U.K | Charis Adu-Kwapong |



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| 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. | | |
| **AXA** (AA/Negative (operating entities financial strength rating); A+/Negative/-- (holding company counterparty credit rating))<br>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%). | France | Lotfi Elbarhdadi |
| **CNP Assurances** (AA/Negative/--;AA/Negative*)<br>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. | France | Virginie Crepy |
| **Eureko B.V.** (A+/Negative (operating company); A-/Negative/-- (holding company))<br>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. | The Netherlands | Paul Bradley |
| **Fortis Insurance Belgium (FIB)** (A/Watch Neg)<br>The CreditWatch with negative implications reflects the uncertainties about the ultimate organization of Fortis group and | Belgium/The | Lotfi |



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| 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. | Netherlands | Elbarhdadi |
| **Groupama S.A.** (A+/Negative)<br>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. | France | Virginie Crepy |
| **Hannover Rueckversicherung-AG** (AA-/Stable/--)<br>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 | Hiltrud Besgen |
| **If P&C Insurance Ltd. (publ)** (A/Stable/--; A/Stable*)<br>If continued to report strong underwriting performance in 2008 with a combined ratio of 91.8% and a €548 million | Sweden | Anna |



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| 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 BBpi/--/--), 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. | | Glennmar |
| **ING Groep N.V., ING Verzekeringen N.V.** (A+/Negative/A-1; AA-/Negative*)<br>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 | Mark Button |
| **Legal & General Group PLC** (A+/Negative/A-1; AA/Negative*)<br>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. | Charis Adu-Kwapong |
| **The Society of Lloyds** (A+/Stable/--;A+/Stable*)<br>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 | U.K. | Peter Grant |



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| 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. | | |
| **Munich Reinsurance Co.** (AA-/Stable)<br>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 | Ralf Bender, CFA |
| **Prudential PLC** (A+/Stable/A-1; core subsidiaries AA/Stable*; U.K. life core subsidiaries AA+/Negative*)<br>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. | Mark Button |
| **Royal & Sun Alliance Insurance PLC** (A/Stable/A-1 (foreign currency); A/Stable/-- (local currency); A/Stable*)<br>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. | Nigel Bond |
| **SCOR SE** (A/Stable/A-1; A/Stable*])<br>The ratings on SCOR SE and its core guaranteed subsidiaries 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 | France | Mark Coleman |



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| 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))<br>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%. | U.K. | Paul Bradley |
| **Swiss Life Holding** (BBB+/Stable (operating company); BBB-/Stable (holding company))<br>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 | Hiltrud Besgen |
| **Swiss Reinsurance Company Ltd.** (A+/Stable/A-1; A+/Stable*)<br>The ratings on Swiss Reinsurance Company Ltd. (Swiss Re), 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. | Switzerland | Peter Grant |
| **Talanx Primary Group** (A+/Stable (operating company); A-/Stable/-- (holding company))<br>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 | Germany | Hiltrud Besgen |



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| 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. | | |
| **Unipol Gruppo Finanziario SpA** (BBB/Stable/--; A-/Stable*)<br>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. | Italy | Paola Del Curatolo |
| **Zurich Group Holding, Zurich Insurance Co.** (AA-/Negative (operating company); A/Negative/-- (holding company))<br>The outlook was revised to negative following our review of 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. | Switzerland | Hiltrud Besgen |

Ratings as of April 16, 2009. *Insurer financial strength rating on core operating entities.



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## Quarterly Rating Activity

**Table 2**

**Recent Rating/Outlook/CreditWatch Actions**

| Company or Group | To* | From* | Date | Reason |
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| 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 AII 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. |
| 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. |



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**Table 2**

| Recent Rating/Outlook/CreditWatch Actions (cont.) | | | | |
|---|---|---|---|---|
| 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. |
| 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 | |
|---|---|
| **Article title** | **Published date** |
| 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 |



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**Table 3**

| Previously Published European Insurance Articles (cont.) | |
|---|---|
| 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.

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