

FITCH AFFIRMS MUNICH RE'S IFS RATING AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-London-06 February 2012: Fitch Ratings has affirmed Munich Reinsurance Company's (Munich Re) Insurer Financial Strength (IFS) rating and Long-term Issuer Default Rating (IDR) at 'AA-' with Stable Outlooks. Fitch has additionally affirmed the ratings of certain entities within the Munich Re group. A full list of rating actions is at the end of this comment.

Munich Re's ratings have been affirmed despite high catastrophe losses experienced in 2011 and write-downs relating to Greek government bonds leading to a decreased, though positive, net income figure of EUR710m for the year. Net income was supported by a tax benefit of EUR550m.

Fitch notes Munich Re's capital position and earnings proved resilient in a difficult year for the industry with strains on both sides of the balance sheet. This illustrates the benefits of Munich Re's diversified business model which allowed the company to offset some of its natural catastrophe related losses by earnings generated within the life reinsurance segment and its primary operations.

Fitch has carried out stress testing on European insurers' peripheral eurozone debt exposures to assess the degree of sensitivity of the insurers' capital adequacy to the "extreme case" of a haircut of 25% of their holdings of peripheral eurozone government and bank debt. Ratings were affected in cases when the pro-forma impact on the variability of capital was more severe than Fitch viewed as reasonable for the rating category. Although the Munich Re's peripheral eurozone exposure is on the higher end compared to some other large (re)insurers this is not the case for Munich Re.

Munich Re's capital position in 2011, measured by Fitch's risk-based capital assessment, remained essentially at the same level as 2010 with shareholders' funds slightly increasing by EUR0.3bn to EUR23.3bn. The group's shareholders' funds included unrealised gains on available for sale assets of EUR3.4bn at Q32011 and Fitch notes the high sensitivity of Munich Re's shareholders' funds to interest rate and spread movements. From an economic perspective Munich Re's capital is less interest rate sensitive.

Fitch notes that Munich Re tends to be more exposed to the Asia Pacific catastrophe events than some of its peers, although the losses are not out of line with the company's market share in the respective regions. Munich Re uses limited retrocession coverage or other forms of risk mitigating, leaving net losses relatively near to gross losses. Fitch views Munich Re's catastrophe risk as reasonable in the context of a highly diversified catastrophe portfolio by geography and in context of the group's strong capital position. Fitch notes that the group continues to generate the majority of its profits from its P&C reinsurance operations, benefiting from overall solid margins within its catastrophe book. Munich Re achieved a 2% rate increase in its January 2012 renewals benefiting from improved market conditions triggered by recent events.

The ratings further reflect Munich Re's debt leverage which is commensurate with the rating and strong interest rate coverage as well as low to moderate asset risk. Other positive ratings drivers include the superior franchise of the group's reinsurance operations as well as the effectiveness of Munich Re's cycle management and risk management.

Offsetting factors include the relatively low profitability levels generated by the primary life operations and issues with weak underwriting performance within its international primary non-life operations. Fitch also notes that Munich Re's underwriting performance within the P&C reinsurance segment is average compared to peers.

Ratings could be upgraded if Munich Re improves profitability on a sustainable basis to a return on equity of 10% or above, a combined ratio of 97% or lower, and provided the capital base remains strong on a risk-adjusted basis.

The key rating drivers that could result in a downgrade include a sustained material drop in the company's risk-adjusted capital position measured by Fitch's risk-based capital assessment, failure to maintain a disciplined underwriting approach or strong underperformance of peers.

The rating actions are as follows:

Munich Re:

IFS rating: affirmed at 'AA-'; Outlook Stable

Long-term IDR: affirmed at 'AA-'; Outlook Stable

EUR1bn 6.00 % Callable Notes 2021 26 May 2041 Y XS0608392550 26-May-2041 Long-term Rating Public: affirmed at 'A'

EUR1.3bn 6.75 % Callable Notes 2017 Y XS0304987042 29-Jun-2049 Long-term Rating Public: affirmed at 'A'

EUR1.7bn 6.75 % Callable Notes 2013 Y XS0166965797 21-Jun-2023 Long-term Rating Public: affirmed at 'A'

GBP300m 7.625% Callable Notes 2018 Y XS0167260529 21-Jun-2028 Long-term Rating Public: affirmed at 'A'

Munich Re America, Inc.

IFS rating: affirmed at 'AA-'; Outlook Stable

Munich Re America Corporation

IDR rating: affirmed at 'A+'; Outlook Stable

USD500m senior debt due 2026: affirmed at 'A+'

Hartford Steam Boiler Inspection & Insurance Co.

IFS rating: affirmed at 'AA-'; Outlook Stable

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Insurance Rating Methodology', dated 16 August 2010, 'Non-Life Insurance Rating Methodology', dated 24 March 2010, and 'Fitch's Approach to Rating Insurance Groups', dated 14 December 2010, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=651018

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