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MEDIA CONTACT: Jim Peavy
(908) 439-2200, ext. 5644
peavyj@ambest.com

FOR IMMEDIATE RELEASE

A.M. Best Affirms Munich Re Group's Ratings; Assigns Initial Debt Ratings to American Re

OLDWICK, N.J., Dec. 20, 2000—A.M. Best Co. has affirmed the A++ (Superior) financial strength rating of **Munchener Ruckversicherungs-Gesellschaft (Munich Reinsurance Co.)** and its core reinsurance subsidiaries, including **American Re-Insurance Company** and its affiliates. The A+(Superior) financial strength rating of **Munich American Reassurance Company (MARC)** is under review with positive implications pending the closing of the purchase of CNA's life reinsurance operations. Further, A.M. Best has affirmed the "aaa" senior debt rating of Munich Re and has assigned an initial "aa" senior debt rating to **American Re Corporation** and an "aa-" rating to the trust preferred securities issued by **American Re Capital I.**

A.M. Best's highest rating designation for the group reflects Munich Re's preeminent market profile, outstanding geographic and business diversification, superior capitalization, and minimal financial leverage. The group's franchise and scope of operations allow Munich Re to sustain its international leadership position with reinsurance relationships in over 150 countries. The group has an evenly distributed book of reinsurance and primary business. The primary insurance business, which is heavily weighted towards the more profitable life/health sectors, particularly ERGO, provides the group with earnings stability, which mitigates the volatile results of the reinsurance operations. A.M. Best believes Munich Re's prospects are enhanced by its intellectual and financial capital, allowing flexibility in responding to the changing market needs,

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including underwriting more complex as well as non-proportional risks. The recently established asset management division MEAG, with well over Euro 130 billion in assets under management rounds out the product diversification.

The company's superior capital strength is supported by its conservative reserve levels, historical earnings strength, conservative financial leverage, as well as significant hidden value in real estate assets and equity positions in Allianz and other German and international blue chip stocks. The unrealized asset values on a stand-alone basis are more than sufficient to repay all existing debt, notwithstanding fluctuations that might occur in the equity holdings. The recent tax reform in Germany, which removes the main deterrent to selling shareholdings, has led Munich Re to announce a planned reduction in its stake of Allianz from 25% to 20%—estimated value of E 4.7 billion (US \$4.5 billion). While the reform becomes effective in 2002, Munich Re has already monetized a portion of its equity position, proceeds of which will be redeployed to strengthen its core businesses and further optimize Munich Re's capital structure.

The group's exceptional financial flexibility is enhanced by modest operating and financial leverage—debt to capital ratio on a consolidated basis is below 10%—and excellent fixed charge coverage. A.M. Best expects the company's low leverage to remain unchanged in the near to intermediate future. A.M. Best believes Munich Re's capital base will be considerably enhanced by the proposed German tax reforms, improving financial flexibility and shareholder value while reducing market risk of its invested assets.

Intense competition in global insurance and reinsurance markets and exposure to natural catastrophes has dampened profitability in recent years. However, Munich Re's conservative reserving practices somewhat mitigate the company's low historical profitability. A.M. Best

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recognizes that profitability will continue below “aaa” levels due to conservative reserving practices; however, the strength of Munich Re’s balance sheet—as reflected by its low leverage together with strong cash flow generation, scope of operations and strong continued leadership position in the reinsurance sector—support the rating.

The negative rating attributes of Munich Re’s reinsurance operations include its exposure to natural catastrophes, a competitive pricing environment and asbestos and environmental liability. Weak pricing in many of Munich Re’s international markets has negatively affected margins. However, rate firming is occurring in many sectors of the reinsurance market, especially in the U.S. Although A.M. Best expects the positive effect will not be apparent until at least 2001, recent asbestos and environmental reserve strengthening at Munich Re’s U.S. reinsurance subsidiary, American Re, should position Munich Re to resume historical levels of earnings.

American Re’s ratings reflect its excellent capitalization, dominant position and reputation in the US reinsurance marketplace and historically strong operating performance despite recent sub-par earnings. Further, the ratings reflect American Re’s strategic importance to the Munich Re Group, serving as the group’s non-life North American platform. A.M. Best believes American Re adds considerable portfolio advantage to Munich Re in terms of product and geographic diversification. In return, Munich Re holds considerable financial capacity for American Re.

Overall capitalization at American Re is well managed and is supported by a conservative reserve position, careful management of its diverse risks and a high quality investment portfolio. The company has sufficient resources to adequately cover its debt servicing requirements, despite its recent weak operating performance. A.M. Best would expect fixed

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charge coverage to return to a more normalized level in 2001 and financial leverage to be maintained below 25%. The size and diversity of Munich Re's operations improve the credit profile of American Re by increasing its financial flexibility and providing implicit and explicit capital support.

American Re maintains exceptionally strong positions in its respective markets as one of the largest professional reinsurers in the U.S. and one of the few direct writers. The company has distinguished itself by its selective underwriting approach, highly innovative product offerings, extensive risk management and service capabilities, all of which has fostered strong, long-standing relationships with targeted clients. Its leadership position in the alternative risk markets has augmented its traditional business platform, providing for additional new business opportunities and alternate sources of revenue.

These strengths are tempered by intense competitive pressures in the reinsurance markets which have weakened American Re's core earnings as well as its exposure to asbestos and environmental (A&E) and other latent claims on business assumed in prior years. Recent underwriting actions in its core business segments as well as diversification initiatives have been implemented to counter the weak performance in its traditional business segments. In addition, American Re has aggressively commuted the larger A&E exposures and further strengthened reserves in 1999; however, continued emergence of unfavorable reserve development trends in the industry, has continued to affect recent profitability.

Headquartered in Munich, Germany, Munich Reinsurance Co. is both an operating entity and holding company for its subsidiaries. Together, the group provides a broad range of reinsurance and insurance products to a diverse group of domestic and international clients. The

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company is the largest reinsurer in the world with consolidated assets of 188 billion Euro (\$1 = 1.1133 Euro) and shareholders' equity of 19.8 billion Euro as of June 30, 2000.

The following initial ratings were assigned to existing debt:

- American Re Corporation
—“aa” rating on \$500 million 7.45% Senior Notes, due 2026;
- American Re Capital
—“aa-” rating on \$237.5 million 8.5% Cumulative Quarterly Income Preferred Securities (“QUIPS”), due 2025

The following existing security rating was affirmed to the debt issued by Munich Re:

- “aaa” rating on the unsubordinated debt; Euro bonds 1% fixed rate due 2005.

The A++ (Superior) financial strength rating for the following reinsurance subsidiaries is affirmed:

- Munchener Ruckversicherungs-Gesellschaft (Munich Reinsurance Company), Munich.
- Muenchener Rueck Italia S.p.A., Milan, Italy.
- New Reinsurance Company, Geneva.
- Great Lakes Reinsurance (UK) PLC, London.
- Munich Reinsurance Company of Canada, Toronto.
- Munich Reinsurance Company of Australasia, Sydney, Australia.
- Munich Reinsurance Company of Africa, Ltd. Johannesburg, South Africa.
- American Re-Insurance Co., Princeton, New Jersey.
- American Alternative Ins. Co., New York.
- Princeton Excess & Surplus Lines Insurance Co., Wilmington, Del.

A.M. Best Co., established in 1899, is the world’s oldest and most authoritative insurance rating and information source. For more information, visit A.M. Best’s Web site at www.ambest.com.

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