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PRESS RELEASE

## S&P affirms the Generali rating at A- following global criteria change

- Generali passes S&P stress test with positive solvency in highly distressed scenario

Trieste – Standard & Poor's, the rating agency, has today affirmed Generali's rating at A-, following the resolution of a CreditWatch as a result of its global criteria change introduced last year. The outlook is Negative.

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S&P implemented a global criteria change that had the effect of an automatic downgrade if a financial entity was unable to pass an onerous stress test, based on an aggregate of severe historical financial crisis in Mexico, Thailand, Russia and Greece. Generali has passed S&P's extreme stress test clearly demonstrating its ability to maintain a positive solvency in a highly distressed scenario.

The **Generali Group CEO, Mario Greco**, said: *"This is a substantial achievement for Generali and the clearest possible signal of the inherent strength of the Group. Our ability to pass such a dramatic stress scenario is a testament to the significant balance sheet buffers and financial flexibility the Group has today. Moreover, we have always considered extremely unlikely the scenario of a potential default of Italy. S&P's affirmation is an important and independent acknowledgement of the global diversification of the Group where approximately 70% of our business and assets are outside the domestic market. But it is also a positive signal of Italy's attractiveness as an investment destination. In conclusion, it is a validation of the excellent progress Generali is making in its strategy of rebuilding solvency, reducing leverage, and improving profitability."*

As a result of this affirmation Generali maintains insurance financial strength ratings in the A-range from S&P and other rating agencies including A.M. Best.

Please find below the original release by S&P.

### THE GENERALI GROUP

The Generali Group is one of the largest global insurance providers with 2013 total premium income of €66 billion. With 77,000 employees worldwide serving 65 million clients in more than 60 countries, the Group occupies a leadership position on West European markets and an increasingly important place on markets in Central Eastern Europe and Asia.

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Research Update:

## Italy-Based Generali Ratings Affirmed On Implementation Of Criteria For Rating Above The Sovereign; Outlook Negative

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### Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Italy-Based Generali Ratings Affirmed On Implementation Of Criteria For Rating Above The Sovereign; Outlook Negative

S&P Affirms Italy-Based Generali Ratings; Outlook Negative

## Overview

- After implementing its proposed new risk mitigation plan, insurance group Generali passes the hypothetical sovereign default stress test under our revised criteria, indicating that Generali would likely not exhaust its regulatory solvency capital even under a scenario involving an Italian sovereign payment default.
- The rating is two notches above the sovereign foreign currency rating on Italy and is one notch below Generali's indicative group credit profile, reflecting our view of Generali's high sensitivity to Italy country risk.
- Consequently, we are affirming our ratings on Generali at 'A-' and removing them from CreditWatch, where they were placed on Nov. 26, 2013.
- The negative outlook reflects that on our long-term sovereign credit rating on Italy and our expectation that Generali's exposure to Italian assets will not increase in the next two years relative to its capital base.

## Rating Action

Standard & Poor's Ratings Services affirmed its long-term counterparty credit and insurer financial strength ratings on Italy-based global multiline insurer Assicurazioni Generali SpA and its core subsidiaries (Generali) at 'A-'. At the same time, we removed the ratings from CreditWatch with negative implications, where they were placed on Nov. 26, 2013. We affirmed the senior, subordinated, and junior subordinated debt ratings by one notch and removed them from CreditWatch. The outlook on Generali is negative.

At the same time, we affirmed the 'A-' counterparty credit and insurer financial strength ratings on Generali's Czech subsidiary Ceska pojistovna a.s. (Ceska). The outlook on Ceska is negative.

We also affirmed the 'BBB+' counterparty credit and insurer financial strength ratings on Generali Pan Europe (GPE). The outlook on GPE is negative.

Finally, we affirmed the 'BBB+/A-2' counterparty credit ratings on Generali-owned German savings bank Deutsche Bausparkasse Badenia AG (Badenia). The outlook on Badenia is negative.

## **Rationale**

The affirmation follows the implementation of our revised criteria on rating companies above the sovereign level (see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013). The criteria for rating above the sovereign are global and apply to corporates, financial institutions, insurance companies, and local and regional governments that, in our view, have material exposure in a particular country and which are currently, or likely to be, rated above the sovereign rating on the country. For an insurer, we define country exposure as the sum of investments in assets domiciled in a country (excluding unit-linked investments), regardless of the insurer's domicile.

Under our revised criteria, we assess the potential impact of a hypothetical Italian sovereign default on Generali's assets, based on a stress scenario. We consider that Generali's regulatory solvency capital would remain positive in such a scenario, based on the timely implementation of what we view as a robust and wide-ranging risk mitigation plan. The plan, which Generali has said it is putting into place, was shared with us after we placed Generali on CreditWatch on Nov. 26, 2013. We also anticipate that Generali would mitigate potential pressure on its regulatory capital in a timely matter if Italy's creditworthiness were to deteriorate, in line with its overall risk management framework.

Consequently, we rate Generali two notches higher than our sovereign credit rating on Italy, reflecting our view that the risk mitigation plan, combined with Generali's strategy to strengthen capital and reduce Italian government bond exposure, should reinforce its balance-sheet resilience. Generali's capital fungibility is also a significant factor in our opinion. We consider that Generali's large life insurance business is highly sensitive to Italian country risk. Therefore, we would not assign long-term ratings to Generali more than two notches above the long-term rating on Italy.

We understand that the plan is subject to approval by Generali's board of directors and that the plan is part of a wider risk mitigation and recovery framework that Generali is putting in place as a globally systemic international insurer (G-SII). Aspects of the plan include securing capital against the value of future profits via reinsurance agreements, reducing policyholder's share of profits in line with contractual obligations, and using prudence margins in the balance sheet, such as reserves excess and unrealized gains. These prudence margins are not currently part of Generali's regulatory capital.

We consider Generali to have material exposure to its investments in Italy, which represented about €95 billion on Dec. 31, 2013 (28% of its total investments, excluding unit-linked and third-party investments). The exposure represented about 3.5x Generali's regulatory capital of €26 billion on Dec. 31, 2013 (before dividends). We anticipate that Generali's Italian government bond investments will gradually decline over time and its exposure to assets

in Italy will remain at or lower than the level at year-end 2013, as a percentage of Generali's regulatory capital.

As described in our criteria, our hypothetical sovereign default stress test includes "haircuts" on all Italy-based investments, including sovereign bonds, local bank and corporate bonds, real estate loans, deposits, and equities. From the euro amount of hypothetical losses, we deducted our estimate of the potential benefits of the mitigation plan, including Generali's regulatory solvency capital (capital stress). We then added one year of pretax stressed earnings. Finally, we applied a liquidity stress assuming the asset haircuts above. The liquidity ratio remains higher than 100%, according to our liquidity criteria.

We continue to assess Generali's indicative group credit profile (GCP) at 'a', reflecting our view of its very strong competitive position and moderately strong capital and earnings. Given the actions it has undertaken over the past 18 months, we expect Generali's management team to take further action to secure stronger capital buffers and increase profitability, aiming to generate at least €1.7 billion of net income per year in 2014 and 2015. We could lower our indicative GCP assessment if we revised downward our view of Generali's ability to maintain moderately strong capital and earnings.

## Outlook

The negative outlook on Generali reflects that on Italy, as we limit the long-term rating to a maximum of two notches above the sovereign rating.

We could lower the rating on Generali if:

- We lowered the sovereign rating on Italy;
- We believed that Generali would be at risk of not passing the sovereign default test due to increased exposure to Italy-based investments; or
- Contrary to our expectations, the board of directors did not approve Generali's risk mitigation plan.

We would consider revising the outlook to stable if the outlook on the rating on Italy was revised to stable, all else being equal.

## Related Criteria And Research

### Related Criteria

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

#### **Related Research**

- Standard & Poor's Explains How It Applies Its Ratings Above The Sovereign Criteria To Insurers, Dec. 20, 2013
- Why Our Updated Criteria On Ratings Above The Sovereign Led To CreditWatch Placements On Some EMEA Insurers, Dec 3, 2013
- Rating Actions On Nine European And African Insurance Groups After Revision Of Criteria On Rating Above The Sovereign, Nov 26, 2013
- Ratings On Italy-Based Insurance Group Generali Kept On CreditWatch Negative, Feb 21, 2014

#### **Ratings List**

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