GENERALI
Assicurazioni Generali

23/01/2013

PRESS RELEASE

S&P affirms Generali rating at A

Trieste – Standard & Poor's, the rating agency, affirmed Generali rating at A, removing it from CreditWatch negative. The outlook is Negative. The rating is "two notches above the long-term rating on the Republic of Italy" thanks to its "high international diversification, strong market positions in highly rated European countries".

The agency highlighted in particular that:

- Generali's top management "is committed to strengthening its risk-adjusted capital adequacy and materially increasing its earnings over 2013 and 2014".
- "The ratings on Generali group reflect our view of its very strong competitive position and solid operating performance".
- "At the same time, our views about Generali's management and governance have improved to 'satisfactory' from 'fair'."

Please find below the original release by S&P.

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Research Update:
Generali And Core Subsidiary Ratings Affirmed At 'A' On Capital And Profit Growth Expectations; Off Watch; Outlook Neg

Overview

- We believe that top management at Italy-based global multiline insurer Generali is committed to strengthening its risk-adjusted capital adequacy and materially increasing its earnings over 2013 and 2014.
- Our expectations factor in sufficient earnings retention and capital management initiatives to significantly narrow the capital deficiency relative to an 'A' level by end-2014.
- We are therefore affirming our 'A' ratings on Assicurazioni Generali and the group's core subsidiaries, and removing them from CreditWatch negative.
- The negative outlook reflects the execution risk of the group's planned assets sales and the targeted turnaround of profitability--as well as uncertainty regarding future operating and financial conditions in Generali's key markets, particularly Italy.

Rating Action

On Jan. 23, 2013, Standard & Poor's Ratings Services affirmed the long-term counterparty credit and insurer financial strength ratings on Italy-based insurer Assicurazioni Generali SpA (Generali) and its "core" subsidiaries (Generali group; see Ratings List) at 'A', and removed them from CreditWatch with negative implications.

We also affirmed our 'A' counterparty credit rating on Generali USA Life Reassurance Co., the 'BBB+' counterparty credit ratings on Austria-based holding companies Generali Holding Vienna AG and Generali Rueckversicherung AG, and related issue ratings, and removed them from CreditWatch negative.

The ratings were initially placed on CreditWatch negative on June 7, 2012. The outlooks on all of these companies are negative.

At the same time, we lowered the counterparty credit rating on subsidiary Deutsche Bausparkasse Badenia AG to 'BBB+' from 'A-' and removed the rating from CreditWatch negative (see "Deutsche

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Bausparkasse Badenia Downgraded To 'BBB+' As No Longer Strategic To Its Parent Generali; Outlook Stable," published Jan. 23, 2013). The outlook on this entity is stable.

Rationale

The affirmation reflects our view that Generali's top management is committed to reinforcing the group's risk-adjusted capital adequacy to levels more consistent with the ratings within the next two years. Our base case assumption also includes material profit growth and further capital management initiatives, as announced by management (particularly the realization of €4 billion in assets sales by the end of 2015). We expect such actions to significantly narrow Generali's capital deficiency relative to an 'A' level of capital adequacy by end-2014. We nevertheless believe that capitalization will likely remain a weakness for the rating, given its sensitivity to market factors. Our base case assumption factors in:

- The company's projected €2.3 billion net disbursement to acquire the minorities in its Central and Eastern European subsidiary Generali PPF Holding (GPH) over 2013 and 2014.
- Proceeds from disposals. We believe the group will dispose of Generali USA Life Reassurance and BSI Bank for at least net book value, followed by potential further sales in 2014.
- Retained earnings of slightly more than €2 billion over 2013 and 2014, supported by further growth in operating results in 2013-2014.
- No further material deterioration in investment market conditions over 2013 and 2014.

At the same time, our views about Generali's management and governance have improved to "satisfactory" from "fair." The new management and governance structure in our view more clearly aligns its objectives with those of the board of directors. We also view positively the increasing transparency about the group's strategic targets and focus on the capital adequacy dimension of strategic thinking, in addition to the cost savings initiatives.

The ratings on the Generali group reflect our view of its very strong competitive position and solid operating performance. We believe operating results in 2012 are likely to exceed €4 billion, and expect a combined ratio around 97% (where higher than 100% indicates a loss) and a stable new business margin in life. We expect an improvement of the non-life combined ratio to about 95% by end-2014. We expect life insurance profitability to remain stable over that same horizon.

Generali group's capitalization and financial flexibility will remain relative weaknesses over the rating horizon, in our view. Despite favourable developments in investment markets during 2012, we believe that the recent announcement by the group to buy out the minorities in GPH as a negative for the level and quality of capital adequacy. Reliance on market-sensitive and lower-quality forms of capital, such as life embedded value, weigh on our assessment and expose capital adequacy to downside risk. High interest costs and financial leverage, and a 40% dividend payout policy constrain our view of Generali's financial flexibility.

We have reassessed Generali's enterprise risk management as "adequate with strong risk controls" from "strong" previously. We have changed the assessment of strategic risk management to "adequate" from "strong" until Generali fully implements and embeds its move toward a more centralized risk management framework, which represents a significant change to its risk management organization. This change also reflects our view that Generali's approach to strategic risk management was not as effective as we had expected and lacked a long-term capital planning dimension.

Generali's high international diversification, strong market positions in highly rated European countries, and a share of Italian policyholder liabilities of below 30% of total liabilities reduce Generali's direct link to domestic sovereign risk. As a result, we rate Generali two notches above the long-term rating on the Republic of Italy (unsolicited BBB+/Negative/A-2; see "General Criteria: Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011).

Outlook

The negative outlook reflects the execution risk of asset sales and the targeted turnaround of profitability. It also reflects the uncertainty regarding future operating and financial conditions in Generali's key markets, particularly Italy. Deterioration in those conditions could delay capital rebuilding and reduce Generali's ability to successfully execute its strategy.

We could lower the ratings if Generali does not meet our base case expectations underlying the rating, in particular the improvement in earnings and capital adequacy. We could also potentially downgrade Generali if the rating on Italy was lowered, given the company's material domestic exposures.

Generali's debt ratings are based on the current group structure and role of Assicurazioni Generali as both a primary operating insurer and ultimate holding company for the group. The planned restructuring of the Italian operations is likely to change the characteristics of the parent company to that of a holding company and internal reinsurer. If we consider that the parent company's dominant role will be holding investments in subsidiaries, resulting in an increase in our view of structural subordination for creditors, we could lower the senior debt rating by one notch and subordinated debt ratings by two notches.

We could revise the outlook to stable if we believe that the strategic plan's execution risks diminish, or that in successfully meeting its targets, the group will meet or exceed our base case assumptions.

Related Research

Banking Industry Country Risk Assessment: Republic of Italy, Nov. 19, 2013

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action
To From
Assicurazioni Generali SpA
INA ASSITALIA SpA
Generali Vie
Generali Versicherung AG
Generali Versicherung AG
Generali USA Life Reassurance Co.
Generali Lebensversicherung AG
Generali IARD
Generali Deutschland Pensionskasse AG
Envivas Krankenversicherung AG
Cosmos Versicherung AG
Cosmos Lebensversicherungs AG
Central Krankenversicherung AG
Alleanza Toro S.p.A
Advocard Rechtsschutzversicherung AG
AachenMuenchener Versicherung AG
AachenMuenchener Lebensversicherung AG
Counterparty Credit Rating
Local Currency A/Negative/-- A/Watch Neg/--

Assicurazioni Generali SpA
INA ASSITALIA SpA
Generali Vie
Generali Versicherung AG
Generali Versicherung AG
Generali USA Life Reassurance Co.
Generali Lebensversicherung AG
Generali IARD
Generali Deutschland Pensionskasse AG
Generali (U.S. branch)
Envivas Krankenversicherung AG
Cosmos Versicherung AG
Cosmos Lebensversicherungs AG
Central Krankenversicherung AG
Alleanza Toro S.p.A
Advocard Rechtsschutzversicherung AG
AachenMuenchener Versicherung AG
AachenMuenchener Lebensversicherung AG

Financial Strength Rating
Local Currency A/Negative/-- A/Watch Neg/--

Generali Holding Vienna AG
Generali Rueckversicherung AG
Counterparty Credit Rating
Local Currency BBB+/Negative/-- BBB+/Watch Neg/--
Financial Strength Rating
Local Currency BBB+/Negative/-- BBB+/Watch Neg/--

Assicurazioni Generali SpA
Senior Unsecured A- A-/Watch Neg
Subordinated BBB+ BBB+/Watch Neg
Junior Subordinated BBB BBB/Watch Neg

Generali Finance B.V.
Senior Unsecured* A- A-/Watch Neg
Junior Subordinated* BBB BBB/Watch Neg

*Guaranteed by Assicurazioni Generali SpA.

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers:
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THE GENERALI GROUP

The Generali Group is one of Europe's largest insurance providers and the biggest European life insurer, with 2011 total premium income of almost € 70 billion.
With 83,000 employees worldwide and 65 million clients in more than 60 countries, the Group occupies a leadership position on Western European markets and an increasingly important place in Central and Eastern Europe and Asia.