

## FITCH AFFIRMS GENERALI'S IFS AT 'A-'; OUTLOOK STABLE

Fitch Ratings-London-13 July 2017: Fitch Ratings has affirmed Assicurazioni Generali SpA's (Generali) and its core subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A-' (Strong). At the same time, the agency has affirmed Generali's Long-Term Issuer Default Rating (IDR) at 'A-'. The Outlooks are Stable. A full list of rating actions is at the end of this commentary.

### KEY RATING DRIVERS

The ratings reflect Generali's very strong business profile, in particular strong market positions in Italy, Germany and France, and strong capitalisation. However, the group's ratings are heavily influenced by Italy's sovereign rating of 'BBB'/Stable through its exposure to Italian-based debt securities. To back domestic liabilities in Italy the group held EUR66 billion of Italian sovereign bonds at end-2016 (2.6x consolidated shareholders' funds).

Generali's exposure to Italian sovereign debt creates a large concentration risk and a potential source of volatility for capital adequacy. However, based on the results of scenario tests, Fitch believes that Generali's capital position is resilient against potential stress on the Italian sovereign debt. Moreover, Fitch expects Generali's exposure to Italian securities to remain stable.

We apply a sovereign constraint on Generali's ratings of 'A-', two notches above Italy's sovereign rating. This is in recognition of Generali's geographical diversification and strong resilient capital position. Generali's unconstrained IFS assessment is 'A'. The group generates around 60% of its operating profit and 67% of its gross written premiums from outside Italy. Generali is the third-largest European insurance group by premiums, with a leading position in core Western Europe countries and a significant presence in Central and Eastern Europe and in Asia.

Fitch's view of Generali's capitalisation is driven by the group's score under Fitch's Prism Factor Based Model (Prism FBM). Generali's Prism FBM score was 'Very Strong' based on end-2016 financials, in line with 2015. However, Generali's Fitch-calculated financial leverage ratio (FLR) was still high for its ratings. Generali's FLR declined to 33% at end-2016 (2015: 35%). Fitch expects the FLR will further decrease in 2017, but remain high for the rating.

Generali's consolidated Solvency II regulatory ratio, calculated according to its partial internal model, was 178% at end-2016 (2015: 171%). The ratio remains exposed to volatility in sovereign bond markets (especially Italy). However, Generali does not make use of transitional arrangements to cover solvency capital requirements (SCR) at both group and solo level. Generali has not yet achieved internal model approval for all group companies and risks. The group therefore uses the Solvency II standard formula for some entities and for operational risk.

Generali's fixed-charge coverage (FCC), including unrealised and realised gains and losses, was strong at 5.4x in 2016, down from 6.1x in 2015 as interest expenses increased due to pre-financing of debt maturing in 2017. Fitch expects FCC to improve as the group deleverages and refinanced debt is likely to have lower coupons than existing outstanding notes. Generali also has very strong financial flexibility, as demonstrated, for example, by pre-funding activities carried out during the past three years.

Generali's operating performance remained strong in 2016. The non-life combined ratio reported by the group further improved to 92.5% in 2016 (2015: 93.1%), which is in line with our 'AA' median guidelines. Its operating profit also increased to EUR4,830 million in 2016 (2015: EUR4,785 million). Generali's 2012-2016 average Fitch-calculated return on equity was 7%, a level commensurate with the ratings. We expect Generali to improve its earnings through cost

efficiencies, better underwriting margins and optimisation of its geographical and business mix, despite persistent low interest rates.

## RATING SENSITIVITIES

Generali's ratings could be downgraded if the group's Prism FBM score falls below 'Strong' for a sustained period or financial leverage ratio rises to more than 35%. Generali's ratings would also be downgraded if Italy's sovereign rating is downgraded or if the exposure to Italian sovereign bonds increases materially as a proportion of total investments.

An upgrade of Generali's ratings is unlikely in the near future given the sovereign constraint at two notches above the sovereign rating, the maximum level possible according to our methodology.

## FULL LIST OF RATING ACTIONS

Assicurazioni Generali SpA: IDR affirmed at 'A-'; IFS affirmed at 'A-'; Outlooks Stable

AachenMuenchener Lebensversicherung AG: IFS affirmed at 'A-'; Outlook Stable

AachenMuenchener Versicherung AG: IFS affirmed at 'A-'; Outlook Stable

Advocard Rechtsschutzversicherung AG: IFS affirmed at 'A-'; Outlook Stable

Central Krankenversicherung AG: IFS affirmed at 'A-'; Outlook Stable

Cosmos Versicherung AG: IFS affirmed at 'A-'; Outlook Stable

Cosmos LebensversicherungsAG: IFS affirmed at 'A-'; Outlook Stable

Dialog LebensversicherungsAG: IFS affirmed at 'A-'; Outlook Stable

Generali Deutschland AG: IFS affirmed at 'A-'; Outlook Stable

Generali Deutschland Pensionskasse AG: IFS affirmed at 'A-'; Outlook Stable

Generali Lebensversicherung AG: IFS affirmed at 'A-'; Outlook Stable

Generali Versicherung AG: IFS affirmed at 'A-'; Outlook Stable

Envivas Krankenversicherung AG: IFS affirmed at 'A-'; Outlook Stable

Generali Iard: IFS affirmed at 'A-'; Outlook Stable

Generali Vie: IFS affirmed at 'A-'; Outlook Stable

Generali Espana, S.A. de Seguros Y Reaseguros: IFS affirmed at 'A-'; Outlook Stable

Generali Versicherung AG (Austria): IFS affirmed at 'A-'; Outlook Stable

Generali (Schweiz) Holding AG: IDR affirmed at 'BBB'; Outlook Stable

Generali's debt ratings are as follows:

Assicurazioni Generali SpA

Senior unsecured debt affirmed at 'A-'

EUR1 billion 4.125% subordinated affirmed at 'BBB+'

Other subordinated debt affirmed at 'BBB'

Generali Finance BV (guaranteed by Assicurazioni Generali SpA)

Subordinated debt affirmed at 'BBB'

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## Applicable Criteria

Insurance Rating Methodology (pub. 26 Apr 2017)

<https://www.fitchratings.com/site/re/897260>

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