

Rating Action: Moody's upgrades Assicurazioni Generali's IFS rating to A3 with a stable outlook

6 May 2022

Frankfurt am Main, May 6, 2022 – Moody's Investors Service ("Moody's") today upgraded the Insurance Financial Strength Rating ("IFSR") of Assicurazioni Generali S.p.A. ("Generali", the Group) to A3 from Baa1. At the same time Moody's upgraded Generali's debt ratings by one notch: senior unsecured debt to Baa1 from Baa2; senior subordinated debt to Baa2(hyb)/Baa2 from Baa3(hyb)/Baa3; junior subordinated debt to Baa3(hyb) from Ba1(hyb), preferred stock to Baa3(hyb) from Ba1(hyb).

Moody's also upgraded the ratings of Generali's subsidiaries Generali Italia S.p.A. (Generali Italia), and Generali France (the French operating entities) to A3, while the IFSRs of Generali Germany (the German operating entities) have been affirmed at A3.

The outlooks for all entities remain stable.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATINGS RATIONALE - ASSICURAZIONI GENERALI S.P.A

The upgrade of Generali's IFSR to A3 from Baa1 reflects the Group's improving credit profile and our expectation that the Group's diversification in terms of revenues, earnings, and assets beyond Italy enables Generali to withstand potential severe Italian sovereign stress scenarios.

Generali has made strong progress in improving its liability risk profile, particularly in the life book where Generali is overweight compared to some European peers. Generali has successfully shifted its new business to less interest rate sensitive products with unit-linked savings and protection products now accounting for almost 60% of total new business. As a result, at year-end 2021, Generali reported that the share of life technical reserves incl. guaranteed rates had reduced further to 66%, with an average guaranteed rate of 1.15% (down from 1.61% in 2017) and Moody's expects the positive trajectory to continue.

Generali has been able to largely compensate the impact of the low interest rate environment on its earnings, as reflected in an average return on capital (Moody's definition) of 5.5% in the five-year period 2016-2021. This is mainly thanks to improving underwriting margins partially offsetting lower investment returns, as demonstrated by improving life technical margins and property and casualty (P&C) combined ratios. However, Moody's expects pressure on underwriting margins to increase: in life, increasing competition and regulation will likely result in some pressure on prices and in P&C, competition paired with a return of claims frequencies to pre-pandemic levels and significant claims inflation will likely result in higher combined ratios. Increasing interest rates and improving profit contributions from Generali's asset management operations could support Generali's earnings, however.

Generali's capital adequacy and financial flexibility ratios have also improved and are in line with more highly rated peers, but we consider the risks associated with the exposure to Italian sovereign bonds as a constraint. The Group Solvency II ratio has improved markedly and stood

at 227% at year-end 2021 and the Group's exposure to Italian sovereign bonds as percentage of shareholders' equity has fallen to 2.0x from 2.5x at year-end 2017. However, sensitivities to negative market movements, in particular Italian sovereign bond spread widening, while decreasing, remain significant.

Beyond the reflection of the Italian sovereign risk in the credit profile, Moody's takes into consideration the Group's significant degree of diversification beyond the Italian market via its operations in France, Germany and the Central and Eastern European markets, which account for roughly half of the Group's gross written premiums and operating results, compared to one third contributed by Generali's domestic operations.

Further, Moody's has changed Generali's Governance Issuer Profile Score (G-IPS) to moderately negative (G-IPS 3) from neutral-to-low (G-IPS 2) previously. The change reflects governance risk associated with the division between shareholders with differing views on the strategic direction of the group, which has become increasingly apparent recently. While the 2022 annual general meeting has resulted in a backing of the current management team, this division of shareholders could continue and potentially distract Generali's senior management, negatively influence Generali's reputation, and result potentially in changes of the financial policy. However, Generali's ESG Credit Impact Score remains at neutral-to-low (CIS-2).

STABLE OUTLOOK

The stable outlook of the Group is in line with the sovereign rating of Italy (Baa3, stable), which continues to influence the credit quality of Generali, and reflects Moody's expectation that Generali will maintain the strength of its business and financial profile, despite the current uncertain geopolitical outlook and high inflation.

RATINGS RATIONALE – SUBSIDIARIES

Moody's has aligned the ratings of the rated subsidiaries in Italy, France, and Germany with the IFSR of the Group, reflecting our view that these entities combined drive and benefit from the larger Group's financial strength.

GENERALI ITALIA S.P.A.

The upgrade of the IFSR to A3 from Baa1 with stable outlook on Generali Italia, the main insurance operating entity of the Generali Group in its domestic market, reflects its standalone credit profile, which is constrained by the exposure to Italian sovereign bonds, as well as uplift reflecting the support from being part of the larger Generali Group. The domestic market is Generali Group's single largest market and has consistently been the Group's largest profit contributor.

In terms of its standalone credit profile, Generali Italia benefits from (1) its market leading position in the Italian insurance market, (2) very strong distribution, both in terms of diversity of channels and control, (3) moderate product risk overall, and (4) strong and resilient profitability. Partially offsetting these strengths are (1) concentration of Generali Italia's assets and liabilities in Italy and (2) overall elevated asset risk driven by equity and credit risk exposures.

The stable outlook reflects the stable outlook on its parent company, Assicurazioni Generali S.p.A.

GENERALI FRANCE

The rating action on Generali France reflects the upgrade of the parent's IFSR (Assicurazioni Generali S.p.A.) to A3 from Baa1, reflecting the improved credit quality of the insurer, as well as the financial solidity of the French subsidiaries, the stand-alone profiles being in line with an A3 IFSR.

We consider the standalone credit profile of Generali France (whose main operating entities are Generali Vie and Generali IARD) to benefit from (1) the franchise of Generali in France and its diversification both in terms of business model and distribution strategy (calling upon all the traditional channels in use in France as well as bank partnerships and direct insurance), (2) well-diversified business mix and low product risk both in life and non-life, and (3) solid capitalization with adequate Solvency II ratios for both Generali Vie and Generali IARD. Generali France's credit profile however remains challenged by (1) the high degree of competition in the French insurance market particularly in non-life, (2) pressured margins in the life business due to rates remaining low, as well as (3) inflation risk which, coupled to the end of positive covid-19 effects on retail P&C claims, could also deteriorate profitability in the short to medium-term.

The stable outlook reflects the stable outlook on its parent company, Assicurazioni Generali S.p.A.

GENERALI GERMANY

The affirmation of the A3 IFSR with stable outlook on Generali Germany's operating entities reflects Generali Germany's strong stand-alone credit profile, partially constrained by the rating of its parent, Assicurazioni Generali S.p.A. In terms of its standalone credit profile, Generali Germany benefits from (1) a market leading position in the German market, (2) strong distribution capacity and below peers' product risk, given the high weight of unit-linked and protection products in its life book, and (3) strong capitalisation and profitability. Partially offsetting this are (1) Generali Germany's elevated high-risk asset exposure and (2) its still high exposure to interest rate risk, and (3) increasing its reliance on its very successful distribution channel via Deutsche Vermögensberatung AG.

The stable outlook reflects the stable outlook on its parent company, Assicurazioni Generali S.p.A.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

ASSICURAZIONI GENERALI S.P.A

An improvement in Italy's credit quality, as evidenced by an upgrade of its sovereign rating could result in an upgrade of Generali's rating. In addition, a strengthening of Generali's credit profile could lead to upwards pressure on its rating. This would most likely be based on the Group further building its earnings track record – both in terms of absolute levels and stability – while maintaining its Solvency II ratio firmly above the 200% threshold as well as further reduced sensitivities to movements in credit spreads on Italian sovereign bonds.

Conversely, negative rating pressure could result from a further deterioration in the credit quality of Italy, as evidenced by a downgrade of Italy's sovereign rating, a material deterioration of the Group's Solvency II ratio or a significantly higher exposure to Italian assets, or a deterioration in operating performance, also resulting in a deterioration in the group's financial flexibility. Further, reduced cohesion of the Group or weakening of the support mechanisms within the Group could also result in downwards rating pressure.

GENERALI ITALIA S.P.A., GENERALI FRANCE, GENERALI GERMANY

As the financial strength of Generali's rated subsidiaries is closely intertwined with that of the larger Generali Group, any change in the Group's rating will likely result in an equivalent change in the subsidiaries' ratings. Further, downwards pressure on their ratings could result from reduced cohesion in the Group or if it becomes apparent that support mechanisms within the Group weaken.

LIST OF AFFECTED RATINGS

Issuer: Assicurazioni Generali S.p.A

..Upgrades:

....Insurance Financial Strength Rating, upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

....Senior Subordinated Regular Bond/Debenture, upgraded to Baa2(hyb)/Baa2 from Baa3(hyb)/Baa3

....Senior Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

....Junior Subordinated Regular Bond/Debenture, upgraded to Baa3(hyb) from Ba1(hyb)

....Preferred Stock Non-cumulative, upgraded to Baa3(hyb) from Ba1(hyb)

..Outlook Action:

....Outlook remains Stable

Issuer: Generali Deutschland AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Generali Deutschland Lebensversicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Generali Deutschland Versicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Advocard Rechtsschutzversicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Generali Deutschland Krankenversicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Cosmos Lebensversicherungs-AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Cosmos Versicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Dialog Lebensversicherungs-AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Dialog Versicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Envivas Krankenversicherung AG

..Affirmation:

....Insurance Financial Strength Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Generali IARD

..Upgrade:

....Insurance Financial Strength Rating, upgraded to A3 from Baa1

..Outlook Action:

....Outlook remains Stable

Issuer: Generali Vie

.. Upgrade:

....Insurance Financial Strength Rating, upgraded to A3 from Baa1

..Outlook Action:

....Outlook remains Stable

Issuer: Generali Italia S.p.A.

..Upgrade:

....Insurance Financial Strength Rating, upgraded to A3 from Baa1

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGIES

The principal methodologies used in rating Assicurazioni Generali S.p.A, Generali Deutschland AG and Generali Italia S.p.A. were Life Insurers Methodology published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1254133, and Property and Casualty Insurers Methodology published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1254163. The principal methodology used in rating Generali Deutschland Lebensversicherung AG, Cosmos Lebensversicherungs-AG, Dialog Lebensversicherungs-AG, Envivas Krankenversicherung AG, Generali Deutschland Krankenversicherung AG and Generali Vie was Life Insurers Methodology published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1254133. The principal methodology used in rating Advocard Rechtsschutzversicherung AG, Cosmos Versicherung AG, Dialog Versicherung AG, Generali Deutschland Versicherung AG and Generali IARD was Property and Casualty Insurers Methodology published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1254163. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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The person who approved Assicurazioni Generali S.p.A and Generali Italia S.p.A. credit ratings is Antonello Aquino, Associate Managing Director, Financial Institutions Group, JOURNALISTS : 44 20 7772 5456, Client Service : 44 20 7772 5454. The person who approved Generali Deutschland AG, Generali Deutschland Lebensversicherung AG, Advocard Rechtsschutzversicherung AG, Cosmos Lebensversicherungs-AG, Cosmos Versicherung AG, Dialog Lebensversicherungs-AG, Dialog Versicherung AG, Envivas Krankenversicherung AG, Generali Deutschland Krankenversicherung AG, Generali Deutschland Versicherung AG, Generali IARD and Generali Vie credit ratings is Simon Ainsworth, Associate Managing Director, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454.

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