

## PRESS RELEASE

### STANDARD & POOR'S CONFIRMS CATTOLICA'S RATING AFTER THE ACQUISITION OF FATA

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Verona, November 28<sup>th</sup> 2013. Today Standard & Poor's has confirmed Cattolica's rating at BBB after the announcement of the Group's acquisition of Fata Assicurazioni on November 20<sup>th</sup> 2013. The acquisition will have a marginal impact on Cattolica's capital adequacy, also thanks to the subordinated debt instruments the Company will issue.

According to Standard & Poor's, this acquisition consolidates the strong competitive position of the Group, adding about 400 mn € premiums and increasing by one percentage point the Group's market share in the P&C business. Standard & Poor's considers as limited the risks of integration.

The outlook remains "negative" solely on the basis of the rating agency's forecast on the uncertain and possibly unfavorable economic and financial trends of the Italian market, and it might be revised to "stable", in connection to a positive review of Italy's outlook over the next two years.

SOCIETÀ CATTOLICA DI ASSICURAZIONE

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Research Update:

## Societa Cattolica di Assicurazione 'BBB' Ratings Affirmed On Acquisition Of Fata Assicurazioni; Outlook Negative

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## Research Update:

# Societa Cattolica di Assicurazione 'BBB' Ratings Affirmed On Acquisition Of Fata Assicurazioni; Outlook Negative

## Overview

- On Nov. 20, 2013, Italy-based Societa Cattolica di Assicurazione (Cattolica) announced the acquisition of Fata Assicurazioni from Assicurazioni Generali SpA for €179 million.
- The acquisition is a good business and geographic fit, in our view, as it reinforces Cattolica's presence in motor insurance and in northern Italy.
- We expect the acquisition to have a slightly negative impact on Cattolica's capital adequacy, to be partially alleviated through an upcoming subordinated debt issue.
- We are consequently affirming our 'BBB' ratings on Cattolica.
- The negative outlook reflects that on Italy, as well as our views of the risks of further weakening of Cattolica's capital adequacy and risk position.

## Rating Action

On Nov. 28, 2013, Standard & Poor's Ratings Services affirmed its 'BBB' insurer financial strength and counterparty credit ratings on Italy-based composite insurer Societa Cattolica di Assicurazione (Cattolica). The outlook is negative.

At the same time, we assigned a 'BB+' issue rating to Cattolica's planned subordinated, unsecured debt issue.

## Rationale

The affirmation reflects our view that the announcement of the acquisition of Fata Assicurazioni from Assicurazioni Generali SpA for €179 million does not change our view of Cattolica's satisfactory business risk profile and lower adequate financial risk profile.

Cattolica's business risk profile remains satisfactory, in our view. The acquisition consolidates Cattolica's strong competitive position by adding about €400 million in gross premium written and about one point of market share in property and casualty insurance. Fata will strengthen Cattolica's motor insurance business, its specialty product line, and its market share in semiurban regions of northern Italy, where Cattolica mainly operates. We believe integration risks are limited and we expect Fata's operating

performance to be in line with that of Cattolica.

Cattolica's financial risk profile will remain in line with our current lower adequate assessment. The acquisition has a negative impact on Cattolica's capital adequacy, however, generating an expected €60 million in goodwill and increasing risk-based capital charges by an estimated 7%. Cattolica's announcement of an upcoming issue of €50 million-€100 million in subordinated debt will allow capital adequacy to remain within our lower adequate range. We do not consider Cattolica's and Fata's combined earnings generation capacity to be sufficient to restore capitalization to adequate levels over that time frame. Under our base-case scenario, we expect the group, including Fata, to report net income before minority shareholdings of between €80 million and €90 million in the next three years. We have also taken into account a dividend payout ratio of 60%.

Based on the draft prospectus received, we have classified the subordinated notes as having intermediate equity content under our hybrid capital criteria and assigned a 'BB+' rating to the issue. We include securities of this nature, up to a maximum of 25%, in our calculation of total adjusted capital, which forms the basis of our consolidated risk-based capital analysis of insurance companies. Such inclusion is subject to the bonds being considered eligible for regulatory solvency treatment and the aggregate amount of included hybrid capital not exceeding the total amount eligible for regulatory solvency treatment. The confirmation of the equity content and rating are also subject to the notes' final terms and conditions. We expect no changes compared with the draft prospectus.

Cattolica's financial flexibility remains adequate, in our view. Including the upcoming debt issuance, the leverage ratio should remain at about 10% and the fixed-charge coverage ratio at more than 10x. In 2011, shareholders renewed the board of directors' mandate, initially granted in 2006, to increase the share capital through a rights issue of a maximum €500 million.

We consider that Cattolica's exposure to Italian sovereign risk is high. Italian government bonds alone made up two-thirds of the group's invested assets on Sept. 30, 2013. Consequently, we are unlikely to rate Cattolica higher than the long-term foreign currency sovereign credit rating on Italy.

## **Outlook**

The negative outlook on Cattolica primarily reflects that on Italy, given the high concentration of Cattolica's investments in Italian government bonds. In application of our criteria, any downgrade of Italy would trigger a similar downgrade of Cattolica.

The negative outlook also incorporates potential deterioration of Cattolica's capital adequacy as a result of further unfavorable economic and financial trends in Italy.

We could lower the ratings on Cattolica if further potential deterioration in

Italian financial markets was such that we believed it would materially impair our view of the company's capital adequacy or risk position.

We could consider revising the outlook to stable, at any time over the next two years, if the outlook on Italy were revised to stable.

## Rating Score Snapshot

Financial Strength Rating	BBB/Negative/--
Anchor	bbb
Business Risk Profile	Satisfactory
IICRA*	Moderate Risk
Competitive Position	Strong
Financial Risk Profile	Lower Adequate
Capital and Earnings	Lower Adequate
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Support	0
Group Support	0
Government Support	0

\*IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## **Ratings List**

### **Ratings Affirmed**

Societa Cattolica di Assicurazione	
Counterparty Credit Rating	
Local Currency	BBB/Negative/--
Financial Strength Rating	
Local Currency	BBB/Negative/--

### **New Rating**

Societa Cattolica di Assicurazione	
Subordinated	BB+

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