

PRESS RELEASE

S&P AFFIRMS CATTOLICA'S RATING AT BBB AND POSITIVELY REVISES THE OUTLOOK TO STABLE. THE RATING ON BOTH BOND ISSUES HAS ALSO BEEN UPGRADED FROM BB TO BB+. STAND-ALONE CREDIT PROFILE UNCHANGED AT bbb+.

Verona, 26 October 2020. Today Standard & Poor's affirmed its BBB rating on Cattolica, but upgraded the outlook, as set out under S&P's criteria, to reflect that affirmed on the Italian sovereign debt, revised from negative to stable on 23 October 2020.

S&P also upgraded, from BB to BB+, the rating of both Cattolica's listed bond issues, as the strengthening of the Group's Solvency II ratio and the capital increase reserved to Generali significantly lowered the risk of interest deferral.

Cattolica's stand-alone credit profile (SACP) is affirmed at bbb+, one notch higher than its financial strength rating at BBB. Although the capital increase strengthened Cattolica's financial risk profile to "satisfactory", Standard and Poor's keeps the rating unchanged especially given the heightened market and economic uncertainty.

SOCIETÀ CATTOLICA DI ASSICURAZIONE

Cattolica Assicurazioni is one of the main players on the Italian insurance market and the only cooperative company in its industry to be listed on the Milan Stock Exchange, where it has been present since November 2000. With nearly 3.5 million customers who rely on the insurance solutions and products it distributes, the Group has total premiums of nearly €7 billion (2019). At the Group level, Cattolica has 1,395 agencies spread throughout Italy, covering both large cities and smaller towns, and a network of 1,887 agents. For further information: www.cattolica.it/profilo-societario

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Research Update:

Societa Cattolica di Assicurazione Outlook Revised To Stable Following Similar Action On Italy; Tier 2 Debt Upgraded

October 26, 2020

Overview

- On Oct. 23, S&P Global Ratings revised its outlook to stable from negative on Italy (unsolicited; BBB/Stable/A-2).
- The ratings on Italian insurer Società Cattolica di Assicurazione (Cattolica) are limited by the sovereign credit rating, due to Cattolica's high exposure to Italian government bonds.
- We believe the group's operating performance has so far proven resilient to the COVID-19 pandemic.
- Cattolica has also finalized a €300 million reserved capital increase from Generali, which will materially improve capitalization and regulatory Solvency (SII) ratios and consequently reduce deferral risk on Cattolica's hybrids.
- We are therefore revising our outlook on Cattolica to stable from negative, affirming our 'BBB' long-term issuer credit rating on the insurer, and raising our rating on Cattolica's hybrids instruments from 'BB' to 'BB+'.
- The stable outlook reflects that on Italy.

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Rating Action

On Oct. 26, 2020, S&P Global Ratings revised its outlook on Società Cattolica di Assicurazione (Cattolica) to stable from negative. At the same time, S&P Global Ratings affirmed its 'BBB' long-term issuer credit rating on Cattolica, and raised its issue rating on the insurer's Tier 2 notes to 'BB+' from 'BB'.

Rationale

The outlook revision follows that on Italy (for more information, see "Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2'," published Oct. 23, 2020, on RatingsDirect).

We believe Cattolica benefits from the improved credit risk associated with Italian sovereign bonds. As of June 30, 2020, the insurer had invested about €13 billion in Italian government securities, corresponding to the 52.3% of its total investments and to 5.5x its consolidated shareholders' equity. Because of its material investment exposure to Italian assets, we cap our rating on Cattolica at the long-term sovereign credit ratings on Italy.

Cattolica's stand-alone credit profile (SACP)--our opinion of its creditworthiness before accounting for sovereign risk--is unchanged at 'bbb+', one notch higher than the ratings. Although the capital increases strengthen Cattolica's financial risk profile to satisfactory, we still believe a 'bbb+' SACP well reflects the insurer's intrinsic creditworthiness, especially given heightened market and economic uncertainty.

The regulator approved Cattolica's change of legal status in that of a joint-stock company, and holders of only the 11.64% of shares exercised their right of withdrawal. We understand, therefore, that Italian insurer Generali has completed its €300 million committed capital increase in Cattolica this month. Thereafter, Cattolica will have a month to offer the withdrawn shares at €5.47 each to existing shareholders, in an attempt to reduce the €111 million disbursement linked to the share repurchase. Subsequently, the insurer will proceed with the additional €200 million capital increase with option rights for all shareholders, which we expect will conclude in January 2021.

The capital increase significantly reduces the likelihood that Cattolica could defer the coupon payment on its two Tier 2 rated instruments, so we are applying the usual double notching for rating junior subordinated debt issue, reflecting their subordination and interest deferral features, and upgrading the hybrids to 'BB+' from 'BB'.

This action on the hybrids reverses the downgrade on June 10, when we widened the notching following the sharp decline in Solvency II ratio, due to lower risk-free rates, wider spreads on Italian government bonds, and a decrease in the volatility adjustment. Since then, the favorable Italian spread dynamics have brought the SII ratio back to 154% as of August, and we expect the capital increases to materially strengthen it further, building a buffer to cope with potential market volatility.

We expect Cattolica's operating performance to remain resilient in 2020 despite COVID-19, because the company has confirmed its pre-pandemic guidance. Despite the drop in gross written premiums following strict lockdown measures in Italy from March-May, we believe that the sound technical performance in the property and casualty business lines, especially in motor, will enable the company to reach net income of above €100 million this year (including minority interests and excluding goodwill impairments).

Outlook

The stable outlook mirrors that on Italy.

Upside scenario

We could upgrade the rating on Cattolica over the next 12-24 months following an upgrade of Italy.

Downside scenario

We could lower the ratings on the insurer over the next 12-24 months if we lower our long-term rating on Italy.

Ratings Score Snapshot

	To	From
Financial strength rating	BBB	BBB
Anchor	bbb+	bbb+
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Satisfactory	Fair
Capital and earnings	Satisfactory	Fair
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support		
Group support	0	0
Government support	0	0

The choice of the 'bbb+' anchor reflects our view of earnings volatility. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Bulletin: Societa Cattolica di Assicurazione's Change Into A Public Limited Company Moves It Closer To Its Capital Increase, Aug. 3, 2020
- Bulletin: Cattolica Strengthens Its Recapitalization Plan Thanks To Agreement With Generali, June 26, 2020
- Societa Cattolica di Assicurazione's Tier 2 Debt Downgraded To 'BB' On Weakening Solvency II Ratio; Ratings Affirmed, June 10, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Societa Cattolica di Assicurazione		
Issuer Credit Rating		
Local Currency	BBB/Stable/--	BBB/Negative/--
Financial Strength Rating		
Local Currency	BBB/Stable/--	BBB/Negative/--

Upgraded

	To	From
Societa Cattolica di Assicurazione		
Subordinated	BB+	BB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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