

Generali USA Life Reassurance Co.

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Generali USA Life Reassurance Co.

Major Rating Factors

Strengths:

- Strong well-established competitive position in the U.S. mortality reinsurance market;
- Strong earnings reflecting disciplined underwriting and pricing;
- Low financial risk profile and very strong capitalization; and
- Access to resources and support of its parent.

Weaknesses:

- Participation in a highly competitive market against larger competitors;
- Concentrated profile in the U.S., leaving company susceptible to market conditions; and
- Relatively low investment yield resulting from its conservative investment risk profile.

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

A+/Stable/--

Rationale

The insurer financial strength rating on Generali USA Life Reassurance Co. (Generali USA) reflects the company's well-established competitive position with midsize and large domestic life insurers, as well as its strong and stable earnings reflecting disciplined underwriting and pricing. Other rating strengths include the company's low financial risk profile and very strong capitalization. Standard & Poor's Ratings Services also views Generali USA as nonstrategic to its ultimate parent, Assicurazioni Generali SpA (AGS; AA-/Stable/--). The ratings include one notch of implicit support to reflect AGS's ongoing commitment to Generali USA's operations, enhancing the company's competitiveness.

Partially offsetting factors include Generali USA's participation in a highly competitive market against larger competitors, the risk of its concentration in the U.S., relatively low investment yield, and the potential for increased competition in the reinsurance market. The company has managed to grow organically and improve operating efficiency despite the highly commoditized and competitive nature of the U.S. mortality reinsurance market and persistent lower cession rates. Generali USA continues to establish new and expanded business relationships in its target segment--midsize and large domestic life insurers--while maintaining a large number of existing relationships. Generali USA has steadily grown its market share over the past five years. We believe the company's use of proprietary data is a competitive advantage which has enabled the company to grow profitably. However, in contrast with larger peers, Generali USA focuses solely on reinsuring U.S. life insurers, making it more susceptible to market condition including increased competition and/or soft prices.

Generali USA's operating performance remained strong through Sept. 30, 2011. The company's GAAP (generally accepted accounting principals) return on revenue (ROR) has been stable and in line with reinsurers with greater scale. Generali USA's strong operating results reflect management's execution of its business strategy, strong persistency, and disciplined focus on underwriting and pricing. We expect earnings to remain strong with overall mortality underwriting remaining sound.

We view management's financial risk tolerance as low and capitalization as very strong. Management maintains a

very conservative, unleveraged balance sheet and conservative investment strategy with low credit risk. The company's investment strategy has resulted in lower yields relative to peers, but also exposes it to less volatility than other insurance companies.

Outlook

The stable outlook reflects our belief that Generali USA will sustain its strong operating performance at the current levels, with modest growth and low volatility over the next few years. We also believe that the company will maintain its strong competitive position in the U.S. mortality reinsurance market, with a new business market share of 10% to 15% going forward. Generali USA will continue to benefit from financing cost advantages because of its relationship with its parent company.

We are unlikely to raise the ratings over the next 24 months given our rating on Generali USA being only one notch below our rating on parent AGS (in accordance with Standard & Poor's group ratings methodology, nonstrategic subsidiaries are generally capped at one notch below the core group rating). We would lower the ratings on Generali USA if the ratings on the AGS group deteriorate. If Generali USA materially underperforms our operating performance expectations with GAAP ROR below 5% (including business retroceded to AGS), if there are any materially changes its risk profile, or if market competition increases (either from new entrants or existing players) and significantly reduces the company's market share to well below 10%, we could also consider lowering the rating.

Competitive Position: Strong; Proprietary Technology Is A Strength

We consider Generali USA's competitive position to be strong based on its well-established U.S. market position within its target segment: midsize and large domestic life insurers ceding traditional mortality risk. We believe that Generali USA's use of proprietary data is a competitive advantage which has enabled the company to grow organically and to improve operating efficiency despite the market's highly commoditized and competitive nature and lower U.S. cession rates over the past eight years.

Table 1

Generali U.S. Holdings Inc. Consolidated GAAP Business Statistics						
	Year ended Dec. 31--					
	2010	2009	2008	2007	2006	Five-yr. average
Total revenue (mil. \$)	546	489	449	386	498	474
Net premium earned (mil. \$)	506	451	413	352	459	436
Annual change in net premium earned (%)	12.35	9.06	17.55	(23.38)	N.M.	N/A
Separate accounts/unit-linked assets (mil. \$)	N/A	N/A	N/A	N/A	N/A	N/A
Life: Growth in separate accounts/unit-linked assets (%)	N/A	N/A	N/A	N/A	N/A	N/A
Total assets under management (mil. \$)	1,082	949	882	801	907	924
Growth in assets under management (%)	14.01	7.55	10.24	(11.74)	N.M.	N/A

N.M.—Not meaningful. N/A—Not applicable.

Generali USA continues to establish new and expanded business relationships in its target segment while maintaining a large number of existing relationships, and it has steadily increased its market share over the past five

years. According to a 2010 industry survey (Munich Re), Generali USA ranked second in terms of new ordinary life reinsurance market share, with 15%, and an increase from number 5, with 11%, in 2009. In contrast with most peers and the U.S. market overall, Generali USA managed to increase its new business and business in force in 2010 while maintaining strong earnings--demonstrating the company's strong focus on underwriting and pricing discipline. We believe that Generali USA's use of proprietary technology to warehouse and analyze detailed policy data will continue to enable it to properly assess new business risk and ensure appropriate pricing that will allow it to achieve its required returns. Generali USA is also using technology to expand its services to cedants and to better secure its market position. However, we believe increased competition in the U.S. life reinsurance market could limit the company's ability to source profitable new business.

Generali USA focuses solely on reinsuring cedants' traditional mortality risk, and it does not participate in surrender or dividend provisions of the business assumed. In addition, the company does not directly write any insurance business of its own. Generali USA provides its clients with a wide variety of automatic and facultative reinsurance solutions on yearly renewable terms (YRT), which accounts for about 70% of 2010 production, coinsurance, and modified coinsurance bases. The products reinsured include nearly all types of fully underwritten mainly individual life products (97% of 2010 total GAAP premium) as well as group life and accidental death products. Generali USA also provides assistance in product development, underwriting, claims, and other services in conjunction with its reinsurance solutions.

For 2010, total GAAP premiums including new business volume grew by 12.5% to \$776 million, compared with \$689 million in 2009. The increase was somewhat offset by a decline in new business premium by 3% to \$88 million, but we still consider this strong given lower U.S. market cession rates. For the first nine months of 2011, total premiums increased by 12% to \$642 million from \$583 million for the prior year period in 2010 including an increase of 3% in new business premium to \$70 million.

Prospective

We expect Generali USA to maintain its strong market positions, notwithstanding the reduced cession rates by U.S. direct writers which could continue to result in lower total cession volumes for the industry. For full-year 2011, we expect Generali USA's total premiums and new business premium to increase by about 5% to 10%. We expect slower growth in 2012 because of potential increased competition in the market market, some price softening, and cession rates remaining low. However, we expect Generali to maintain its standing in the marketplace as a top-tier reinsurer, which will enable it to attain a greater share of direct writers' reinsurance programs.

If lower reinsurance demand persists and soft market conditions develop, Generali USA will likely need to rely on its technological strengths and new products to support new business development and maintain revenue growth. However, increased competition in the U.S. life reinsurance market could limit its ability to source profitable new business.

Management And Corporate Strategy: Target Midsize And Large Domestic Life Insurers

We view Generali USA's management and corporate strategy as marginally positive and a strength to the rating, reflecting the successful execution of its strategy, strong technical expertise, and conservative financial risk management. Generali USA's corporate strategy is focused on midsize and large domestic life insurers and leveraging proprietary data and technology to strengthen its customer relationships.

Strategic positioning

Generali USA's management team has successfully executed the strategy it put in place in 2005 of targeting the top 100 direct writers in the life insurance industry and building strong long-term relationships with its clients. Before 2005, Generali USA focused its reinsurance business on about 300 relationships with smaller insurance companies and a few larger insurers in the U.S.

Operational effectiveness

The company has an experienced management team, focusing on the area in which it has experience--U.S. life reinsurance--with good depth and breadth across all significant business units. Generali USA effectively uses the technology and expertise it has to serve its clients. The company continues to upgrade and modify its IT capabilities and proprietary data and analytical capabilities. Because the company's business model focuses on assuming pure mortality risk, management's underwriting discipline is paramount to its continued success.

One of Generali USA's key competitive and operational advantages is the quality and extent of its systems and data, which are more automated and detailed than those of many of its competitors. These resources facilitate a timely and sophisticated analysis and support initial underwriting and pricing, as well as the timely monitoring of actual versus expected underwriting--crucial to limiting unexpected losses and maintains consistent earnings. Generali USA also performs regular cedant audits to verify that claims, administration, and underwriting are consistent with treaty terms. It considers audit results when negotiating treaty terms and conditions.

Financial management

We view Generali USA's financial management as conservative. Management's financial risk tolerance is low, and it focuses on growing organically rather than through acquisitions. Block acquisitions, which can be very volatile, don't generally meet the company's return metrics, which are its focus (as opposed to simply gaining market share). Management maintains a conservative, unleveraged balance sheet with low credit risk. This helps minimize distractions from the company's main focus--managing its mortality-based business risk--and ensures more reliable bottom-line results. Management also promotes financial stability by retroceding per-life mortality risk that exceeds predetermined retention levels.

In late 2007, Generali USA recaptured its Triple-X-related coinsurance business from Generali Reassurance (Bermuda) Ltd. (GRB; unrated, wholly owned by Generali U.S. Holdings) and retroceded this business to AGS. Previously, excess Triple-X reserve credits had been secured with short-term letters of credit (LOCs), which AGS facilitated on behalf of GRB and Generali USA. Under an automatic retrocession agreement, AGS now directly manages the financing required to back the Triple-X excess reserves for Generali USA. Recognizing the rollover risk inherent in short-term LOCs relative to the increasing and longer-term Triple-X reserve requirements, AGS is using longer-dated, eight-year LOCs to secure reserve credit for Generali USA. This approach is flexible and cost efficient, and will enable the group to react to regulatory changes without the significant upfront costs associated with securitizations. In addition, the ability to access the credit markets doesn't affect this approach. In fact, in 2010 AGS was able to boost its LOC capacity at a below-market rate. We believe this provided Generali USA with a significant advantage over its peers. GRB will continue to retain the YRT business it assumes.

AGS evaluates and sets incentives for Generali USA's management based on an internal consolidation that includes all risks AGS and GRB assumes from Generali USA, which provides AGS' management with additional insight into the value of Generali USA's business.

Enterprise Risk Management: Strong, Based On The Group Assessment

Generali USA's enterprise risk management (ERM) procedures have been integrated with AGS's group structures and all risk management activities follow the current group risk guidelines with quarterly reporting to AGS. As a result, Generali USA's ERM assessment is aligned with AGS group's strong score. Given Generali USA's simple liability structure and conservative financial profile, we view the ERM score as being of low importance to the overall rating. We consider AGS group's ERM as strong, reflecting the group's progress in embedding its risk management framework. This assessment also reflects our view of its strong risk management culture, strong strategic risk management, and strong controls for its main risks.

From a risk culture perspective, we view Generali USA's ERM procedures having been integrated with AGS's group structures and all risk management activities following current group risk guidelines as positive factors. While these are partially offset by the lack of an independent ERM department, this is somewhat mitigated by management's stable earnings and awareness of its major risks, including underwriting, investment, and operational, and active management of these risks. Senior management is involved in all material operations as well as the risk-management committee.

The company's primary risk is unexpected adverse mortality experience in its life reinsurance business, including event risk in its emerging group reinsurance segment. Disintermediation risk resulting from individual policyholder behavior is negligible because the company does not assume account value or policyholder dividend liabilities. However, most reinsurance treaties have provisions that permit the cedant to recapture the risk on an equitable basis. Management takes limited investment risk due to the conservatism of its investment policy and leverages the investment expertise of its parent group by outsourcing investment management to an upstream affiliate, Generali SGR SpA.

In addition to disciplined underwriting, Generali USA manages the risk of adverse mortality experience primarily by retroceding insurance amounts that exceed its maximum per-life retention of \$2 million for its YRT business. In January 2011, the company increased the amount retroceded to AGS to the next \$4 million from \$2 million of exposure on all newly written business. Whereas for coinsurance business, AGS reinsures the first \$2 million and Generali USA retains the next \$4 million. Exposures of more than \$6 million are retroceded into an automatic excess pool consisting of three retrocessionaires. The increase in per-life retention reflects Generali USA's risk/reward assessment including generally favorable mortality experience, its ability to absorb the incremental risk, and additional support from the parent. As the company grows, we expect that Generali USA will increase its retention in a manner commensurate with its defined risk tolerances.

An adequate emphasis on modeling reflects Generali USA's strong proprietary technology and policy data and management's active monitoring of actual versus expected mortality experience--these all influence our view on its strategic risk management. Our views are also supported by the comprehensive ERM report and consistent management strategy. We expect Generali USA to continue improving its data and systems and analytical approach to ERM, including internal capital modeling, which would further support our strong assessment of the company's ERM.

Accounting

We view Generali USA's accounting as a neutral rating factor. Our analysis considers both U.S. GAAP and statutory financials for assessing earnings and capital adequacy. Generali USA's consolidated U.S. GAAP statement includes

retrocessions to GRB, but excludes retrocessions to AGS. When assessing Generali USA's GAAP operating performance, in addition to reported financials, we also consolidate the business that is retroceded to AGS. By doing this, we believe we can properly measure the quality of all business emanating from the legal entity. In addition, the parent measures the performance of the unit in the same way, which will influence the possibility of future capital support, if necessary. We expect the new GAAP accounting for deferred acquisition costs (DAC) in 2012 to have minimal impact on the company.

Operating Performance: Strong And Stable, Reflecting A Disciplined Focus On Underwriting And Pricing

We consider Generali USA's operating performance to be strong and supportive of its ratings. Key operating performance metrics, GAAP earnings before interest and tax (EBIT), and ROR excluding realized gains and losses, are strong, and earnings have been steadily growing. ROR has been stable and in line with life reinsurers with greater scale. Generali USA's strong operating results reflect management's execution of its business strategy, strong persistency (that is, retention of policyholder business), and disciplined focus on underwriting and pricing.

Table 2

Generali U.S. Holdings Inc. Consolidated GAAP Operating Statistics						
	--Year ended Dec. 31--					
	2010	2009	2008	2007	2006	Five-yr. average
Return on revenue (%)	14.16	11.50	12.16	12.82	5.80	11
Return on assets excluding all investment gains (%)	6.37	5.00	5.23	4.57	N/A	N/A
Return on assets including realized and unrealized gains/(losses) (%)	6.47	4.97	4.81	4.41	N/A	N/A
Return on equity (%)	8.31	6.37	6.11	6.52	N/A	N/A
EBIT adjusted to total equity adjusted (%)	12.62	9.87	10.27	10.37	N/A	N/A
EBITDA adjusted to capital (%)	12.40	9.86	10.89	10.60	N/A	N/A
EBIT (mil. \$)	78	56	50	48	28	52
EBIT adjusted (mil. \$)	77	56	55	49	29	53
EBITDA (mil. \$)	78	56	50	48	28	52
EBITDA adjusted (mil. \$)	78	57	55	50	30	54
Net investment yield (%)	3.92	4.15	4.27	4.05	N/A	N/A

N/A--Not applicable.

Historical

GAAP return on revenue (ROR excluding realized gains and losses) averaged more than 11% in the past five years (2006-2010) excluding retrocessions to AGS and about 8.4% including retrocessions to AGS. Generali USA's focus on midsize and larger insurers continues to result in incremental efficiencies and stronger earnings than before its strategic shift in 2005. In addition, the company's earnings benefit from the lower-cost financing for excess Triple-X reserves obtained from AGS.

In 2010, Generali USA reported very strong overall operating performance, with an all-time high EBIT (excluding realized gains) and losses of \$79 million (excluding retrocessions to AGS) and an increase of 41% year-over-year and a ROR of about 14% (\$88 million and 10.5%, respectively, including retrocessions to AGS). Results from 2010 exceeded our previously stated expectation mainly due to strong sales and extraordinarily favorable mortality experience. Although the company's mortality experience remains favorable compared with pricing, we don't expect

it to be as favorable in 2011 and thereafter. Individual life continues to dominate Generali USA's profile, contributing 94% to pretax GAAP income (including retrocessions to AGS) in 2010. Although a small proportion of earnings, group business continues to produce the strongest ROR of about 13% (including AGS retrocessions) for the past five years.

Management has a rigorous, disciplined approach to repricing or terminating existing treaties when actual results are out of line with pricing expectations--this approach, along with strong persistency, supports Generali USA's earnings consistency. The development of its targeted client base is vital to diversifying revenue streams, increasing scale, and significantly improving operating efficiencies and earnings.

Current performance

In the first nine months of 2011, GAAP EBIT (excluding realized gains and losses and including retrocessions to AGS) decreased by 12% year-over-year to \$58 million. The decrease stemmed primarily from unfavorable individual life mortality experience in first-quarter 2011, which was partially offset by strong persistency in renewal premiums. Generali USA's mortality experience in subsequent quarters has returned to more-normal levels. The GAAP ROR, including retrocessions to AGS through third-quarter 2011, was 8.4%.

Prospective

We expect the company to maintain strong operating performance with GAAP EBIT and ROR (excluding realized gains and losses and including retrocessions to AGS) of more than \$60 million and 7% over the next two years, respectively.

High-Quality, Conservative Investments And Very Strong Liquidity

We view Generali USA's investments as strong. The company maintains a high-quality, low-risk (market and credit) asset portfolio, most of which it invests in fixed income securities (83% of GAAP-invested assets including cash and cash equivalents as of year-end 2010). U.S. Treasuries, government, and agencies (43%) and corporate securities (37%) constituted the majority of this portfolio. Its very strong liquidity is supported by holdings of nearly 10% in cash and cash equivalents. Performance has been stable, but yields have been low due to the company's conservative investment strategy.

Table 3

Generali U.S. Holdings Inc. Consolidated GAAP Investment Statistics						
	--Year ended Dec. 31--					
	2010	2009	2008	2007	2006	Five-yr. average
Invested assets to total assets (%)	84.09	83.20	79.58	81.71	76.44	81
Common equity investments to capital (%)	4.16	3.11	3.71	5.26	2.69	4
Real estate investments to capital (%)	N/A	N/A	N/A	N/A	N/A	N/A
Total invested assets adjusted (mil. \$)	1,082	949	882	801	907	924
General account invested assets (mil. \$)	1,082	949	882	801	907	924
Separate accounts/unit linked assets (mil. \$)	N/A	N/A	N/A	N/A	N/A	N/A
Investment portfolio composition						
Bonds (%)	0.83	0.91	0.95	0.83	0.75	0.85
Equity investments (%)	0.02	0.02	0.02	0.03	0.01	0.02
Cash and short term investments (%)	0.10	0.07	0.03	0.14	0.24	0.11

Table 3

Generali U.S. Holdings Inc. Consolidated GAAP Investment Statistics (cont.)						
Real estate (%)	0.00	0.00	0.00	0.00	0.00	0.00
Investments in affiliates (%)	0.00	0.00	0.00	0.00	0.00	0.00
Investment funds(%)	0.00	0.00	0.00	0.00	0.00	0.00
Mortgages and loans (%)	0.00	0.00	0.00	0.00	0.00	0.00
Investments in partnerships, joint venture and other alternatives investments (%)	0.05	0.00	0.00	0.00	0.00	0.01
Other investments (%)	0.00	0.00	0.00	0.00	0.00	0.00

N/A--Not applicable.

In 2010, the company updated its investment guidelines and monitoring system to align with AGS group updates. Although this has not significantly changed Generali USA's investment approach as it continues to maintain conservative investment guidelines, the company can now invest up to 5% in alternative investments and, accordingly, made a private equity investment of about 5%, which is managed by the AGS group. The company limits concentration by issue/issuer, rating, domicile, asset class, and prohibiting investing in riskier or less-liquid asset classes including commercial mortgage loans, real estate, speculative-grade securities, and derivatives. As a result, this portfolio produces modest but stable investment income meeting the company's stated strategy to maximize return on invested assets over time, subject to the constraints of risk and liquidity. The statutory net investment yield (4.11% in 2010 and 4.34% in 2009) is low relative to peers. We expect that a prolonged low interest rate environment could have a modest impact on the company's bottom line.

The company takes little credit risk and requires that at least 65% of fixed income investments are rated 'A' or higher, with a maximum of 15% of assets invested in 'BBB' securities. As of second-quarter 2011, 'A' or higher rated bonds, short-term investments, and cash constituted 90% of Generali USA statutory invested assets, while only 5.4% of total statutory invested assets were rated 'BBB'. No investments were rated lower than 'BBB'.

Fixed income investments are diverse, and concentrations in any industry (other than Treasuries and government agency securities) or foreign market are limited to 15% of invested assets. Financials remain the largest sector holding (about 13% of total investments). Reasonable limits on issuer concentrations are defined as a percentage of total fixed income investments. In addition, preferred and common stock investments are limited to 5% of total invested assets, with no more than 10% in any one issuer (which must be in North America)--these comprised about 2.4 % of total GAAP investments as of year-end 2010.

Generali USA has an exceptionally high level of liquidity because of the quality of its investment portfolio--which has only moderate credit risk exposure--and its minimal amount of demand liabilities. The company's policy is to manage and maintain liquidity of at least 2% of total assets in cash or cash equivalents, which it currently exceeds with nearly 10% of total invested assets (5% of total assets). Positive cash flow from operations further supports the company's very strong liquidity position.

Prospective

We expect Generali USA to maintain its overall conservative investment allocation and very strong liquidity profile over the next couple of years. We anticipate that the company may moderately increase its equity, foreign, and 'BBB' rated holdings within its stated limits.

Capitalization: Very Strong; Redundant At The Rating Level

We view Generali USA's capitalization as very strong and a strength to the ratings. Based on our statutory capital model (excluding retrocessions to GRB and AGS), Generali USA ended 2010 with a capital redundancy at the 'AAA' level. In 2010, total adjusted capital (TAC) increased 11% to \$348 million, arising largely from higher statutory earnings. TAC was about flat as of Oct. 31, 2011. Strong retained earnings year-to-date were offset by a \$20 million dividend payment to the parent in first-quarter 2011. Quality of capital remains strong. Generali USA's required capital under our model is dominated by mortality risk with very little asset risk, unlike most primary life insurers.

Table 4

Generali U.S. Holdings Inc. Consolidated GAAP Capitalization Statistics						
--Year ended Dec. 31--						
	2010	2009	2008	2007	2006	Five-yr. average
Total assets (mil. \$)	2,058.33	1,829.04	1,730.49	1,499.47	1,272.40	1,677.94
Adjusted total assets (mil. \$)	1,286.74	1,140.75	1,108.86	979.76	1,186.57	1,140.54
Common equity (mil. \$)	648.24	577.27	561.33	502.24	452.49	548.31
Change in common equity (mil. \$)	0.12	0.03	0.12	0.11	N.M.	N/A
Total adjusted capital (mil. \$)	616.81	610.81	511.21	475.77	454.04	533.73
Change in total adjusted capital (%)	0.01	0.19	0.07	0.05	N.M.	N/A

N.M.—Not meaningful. N/A—Not applicable.

On a consolidated GAAP basis (including the business retroceded to Bermuda), Generali USA was also redundant at the 'AAA' level. We don't consolidate the portion retroceded to the parent into the GAAP capital model.

Retrocession contracts with affiliates enable Generali USA to assume a large volume of new business without tying up its capital and surplus. Coinsurance business is primarily retroceded to AGS, whereas most YRT business is ceded to GRB. The company uses two corresponding trusts as well as LOCs to fund related collateral requirements.

Prospective

We expect Generali USA's capital adequacy to remain very strong for the next couple of years.

Financial Flexibility: Strong, Bolstered By Parental Support

The company's strong financial flexibility primarily depends on its ultimate parent, AGS. AGS is interested in the strategic diversification that Generali USA's mortality risk business provides to its other businesses. Given that Generali isn't interested in block acquisitions, which would call for large capital outlays, we believe that Generali USA's statutory earnings and excess capital will fund growth.

Table 5

Generali U.S. Holdings Inc. Consolidated GAAP Financial Statistics						
--Year ended Dec. 31--						
	2010	2009	2008	2007	2006	Five-yr. average
EBITDA interest coverage (x)	106.52	111.01	111.82	99.87	N.M.	N/A
EBITDA fixed-charge coverage (x)	106.52	111.01	111.82	99.87	N.M.	N/A
Debt leverage including additional pension deficit as debt (%)	3.09	2.40	3.34	1.72	2.30	2.57
Financial leverage including additional pension deficit as debt (%)	3.09	2.40	3.34	1.72	2.30	2.57

Table 5

Generali U.S. Holdings Inc. Consolidated GAAP Financial Statistics (cont.)

N.M.—Not meaningful. N/A—Not applicable.

Although Generali USA has the capacity to issue its own debt, we expect it to remain debt free, given its business strategy. Management decided against relying on the capital markets for securitization of mortality risk because of the relatively high costs and inflexibility inherent with such structures as well as the evolving regulations, which has the potential for reserve moderation. Instead, Generali USA currently manages Triple-X financing by ceding these risks to AGS, which will manage the reserve financing on its own balance sheet with directly sourced eight-year LOCs. The low cost of this transaction gives Generali USA a significant competitive advantage over its peers. Management's ability to complete this transaction at the end of 2007 gave Generali USA added financial flexibility to take on additional business, and we expect the company to continue to grow. AGS provides additional flexibility by accepting an additional \$4 million of retention above Generali USA's direct retention for its YRT business and reinsuring the first \$2 million on its coinsurance business.

Ratings Detail (As Of December 5, 2011)**Operating Company Covered By This Report****Generali USA Life Reassurance Co.**

Financial Strength Rating

Local Currency

A+/Stable/--

Counterparty Credit Rating

Local Currency

A+/Stable/--

Domicile

Missouri

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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