



RATING ACTION REPORT

16 November 2018

Dagong Global affirms the Long-Term Credit Ratings of 'BBB+' to UnipolSai Assicurazioni S.p.A. and 'BBB-' to Unipol Gruppo S.p.A., Outlook Stable

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Dagong affirms the 'BBB+' Long-Term Credit Rating and equivalent Short-Term Credit Rating of 'A-2' of UnipolSai Assicurazioni S.p.A. Dagong also affirms the Long-Term Credit Rating of 'BBB-' of Unipol Gruppo S.p.A. (non-operating holding company of the Unipol Group) and equivalent Short-Term Credit Rating of 'A-3'. The Outlook on both entities is affirmed at 'Stable'.

RATING RATIONALE

The Long-Term Credit Rating of 'BBB+' for UnipolSai Assicurazioni S.p.A. (UnipolSai), is based on its Insurer Financial Strength Rating (IFSR) of 'BBB+'. Following the change in our Criteria for Rating Insurance Companies, we introduce the IFSR and we discontinue the Individual Financial Strength Assessment. The IFSR of UnipolSai is based on Unipol Gruppo Sp.A. consolidated financial accounts (thereafter Unipol Group) because of its core role in the group, representing the majority of its consolidated assets and revenues.

UnipolSai's IFSR of 'BBB+' reflects its very strong and resilient competitive position in Italy, good risk management practices, solid profitability of the insurance activities and its strong development strategy. These strengths are partially offset by a challenging industry environment, still relatively weak performance of non-insurance operations, satisfactory capital at group level, still high investment concentration in Italian government bonds, and significant investment exposure to the real estate sector relative to its shareholders' equity. Our credit opinion is based on the following factors:

Strengthened solvency capital

Large capital base in absolute terms (about EUR 6.7Bn by 1H18, including minority interest) and satisfactory capital ratio of 9.1%¹ for 1H18. Solvency II ratio is 161% in 3Q18 at group level (calculated using the partial internal model) and remains relatively stable compared to YE17 (166%). In our view, the main risks are still stemming from the relatively high concentration of the investment portfolio in Italian government bonds, which are experiencing high volatility in the recent months due to the changes in the Italian political landscape.

Investment portfolio concentration

The group has a still high, but declining concentration in Italian government bonds, which amounted to EUR 24.8Bn in 1H18 or about 45% of the group's total investment portfolio. The group's real estate exposure has also been reduced, but is still high relative to its equity (EUR 2.0Bn² by 1H18, which represents 29.8% of total equity).

¹ Calculated as shareholders' equity divided by total assets, adjusted for reinsurance assets and unit linked assets.

² Excluding Unipol Banca mortgage exposure.

Satisfactory operational environment

The Italian insurance industry benefits from a well-developed economy and enhanced regulatory framework. However, it is dragged by still low growth expectations for the Italian economy, with GDP growth slowing down in 2018. The unemployment rate is improving but remains still very high within a range of 10-12%. These weaknesses are further exacerbated by high financial markets volatility due to the political environment, low interest rates and increasing competition in the Italian non-life insurance segment.

Very strong competitive position

The group has a strong and defensible competitive position as the largest non-life insurer (with about 21.2%³ market share as of YE17) and second largest composite insurance group in Italy (with about 7.5% market share). It maintains the leading position in motor insurance and owns one of the largest controlled distribution networks in the country, offering a wide range of high quality and innovative products.

Strong development strategy

Successful track record of M&A and execution of the strategy, led by an experienced and highly regarded management team. Its strategic plan named 'Unipol to be' (2016-2018) has relatively conservative financial goals, in our view. The plan focused among other things on further streamlining, reinforcing the group's insurance operations, leading in innovation and product development, improving customer experience and distribution capabilities. So far, the major milestones of the plan have been met.

Recent group restructuring

We view the recent restructuring events executed by the group (restructuring of the banking operations and change in ownership of insurance subsidiaries) as neutral to the ratings. The significant negative impact on profitability and capital absorbed by the group from the restructuring of Unipol Banca in 2017 and the positive impact from the sale of Popolare Vita in 2018 are viewed as one-offs and we expect that the group will remain on track for its 2016-2018 strategic plan goals.

Support Assessment

We consider the support from the group to UnipolSai to be very high. UnipolSai is the group's main operating entity. The group's financial and business strength is largely defined by UnipolSai's characteristics and we expect that the group will support UnipolSai in case of need.

Unipol Gruppo S.p.A.

The 'BBB-' rating to Unipol Gruppo S.p.A., the non-operating holding entity, is positioned two notches below UnipolSai's IFSR. The two-notch deduction reflects: 1) its non-operating holding entity status and high dependency on one source of income from UnipolSai; 2) its creditors' subordination due to a material amount of debt issued by operating entities within the group; and 3) volatile, but satisfactory liquidity. It should be noted, that the majority of the holding's liquid assets are held at Unipol Banca. We consider the likely level of support from the shareholders agreement between the cooperatives owning 30.05% to be moderate and we do not consider any notching uplift.

RATING OUTLOOK

Unipol group and UnipolSai: Stable

The stable outlook for UnipolSai reflects our expectations that the group will maintain strong solvency levels in the medium term and it will also maintain and gradually improve its profitability and investment portfolio mix. The stable outlook considers our assumption that the net combined ratio over the next three years will be at about 95% on average and return on equity above 6%.

Unipol Gruppo S.p.A.: Stable

We expect the holding to maintain a stable performance of the insurance operations, while at least maintaining or improving the performance from non-insurance operations.

RATING SENSITIVITIES

Unipol group and UnipolSai: We could consider a positive rating action if we see sustained improvement in profitability, reduced leverage ratio, material de-risking of the investment portfolio and increased capitalisation.

³ L'Assicurazione Italiana 2017-2018

We would consider a negative rating action if we see further weakening profitability from the main insurance business, or further material losses from banking or real estate activities or due to unexpected turmoil in financial markets, eroding group's capitalisation and deteriorating solvency ratios.

Unipol Gruppo S.p.A.: Any changes to the ratings of non-operating holding could come in parallel with changes in credit characteristics at the overall group and rating changes at UnipolSai.

We would also consider a positive rating action if we see a sustainable strengthening in the stand-alone financial profile of the non-operating holding through improved and sustained earnings from other subsidiaries different from UnipolSai, an increasing and stabilising profit before tax, more stable and readily available liquidity and consequently sustained improvements of coverage ratios.

We would consider a negative rating action if we see unexpected deterioration from non-core operations, deterioration of liquidity or profitability and consequently a deterioration of coverage ratios.

COMPANY PROFILE

Unipol Group is the second largest multiline insurance group in Italy, and one of the largest in Europe with EUR 12.3Bn in direct insurance premiums, and EUR 89.9Bn in assets at YE17. Unipol Group is also a leading Italian occupational pension insurance player, with assets under management of EUR 3.5Bn by YE17. UnipolSai is the main operating entity of the Unipol Group.

FULL LIST OF SOLICITED RATINGS ASSIGNED

UnipolSai Assicurazioni S.p.A.

Long-Term Credit Rating (FC&LC)	BBB+
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-2
Insurer Financial Strength Rating (IFSR)	BBB+

Unipol Gruppo S.p.A.

Long-Term Credit Rating (FC&LC)	BBB-
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-3

FC&LC: Foreign Currency and Local Currency

RATING HISTORY

UnipolSai Assicurazioni S.p.A.	BBB+/A-2/Stable (15 November 2017)
Unipol Gruppo S.p.A.	BBB-/A-3/Stable (15 November 2017)
UnipolSai Assicurazioni S.p.A.	BBB+/A-2/Stable (25 November 2016)
Unipol Gruppo Finanziario S.p.A.	BBB-/A-3/Stable (25 November 2016)
UnipolSai Assicurazioni S.p.A.	BBB+/A-2/Stable (27 November 2015)
Unipol Gruppo Finanziario S.p.A.	BBB-/A-3/Stable (27 November 2015)

OTHER RATED RELATED ENTITIES

Unipol Banca S.p.A.	BB+/B/Stable (16 November 2018)
SIAT, Società Italiana di Assicurazioni e Riassicurazioni per Azioni	BBB+/A-2/Stable (16 November 2018)

CRITERIA APPLIED

Criteria for Rating Insurance Companies (5 October 2018)
General Rating Framework (14 August 2018)

OTHER REGULATORY DISCLOSURES

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For any further information on criteria and procedures, please refer to the following links:

www.dagongeuropa.com/rating_criteria

www.dagongeuropa.com/procedures

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