RATING ACTION REPORT

15 November 2017

Dagong Global affirms its 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' on UnipolSai Assicurazioni S.p.A., Bologna (Italy) based multiline insurer. Dagong also affirms Long-Term Credit Rating of 'BBB-' to Unipol Gruppo S.p.A. (a non-operating holding company of the Unipol Group) and equivalent Short-Term Credit Rating of 'A-3'. The Outlook on both entities is 'Stable'.

RATING RATIONALE

The Long-Term Credit Rating of 'BBB+' for UnipolSai, combines an Individual Financial Strength Assessment (IFSA) of 'bbb+,' and a 'Very High' External Support coming from the Unipol Gruppo S.p.A. (previously Unipol Gruppo Finanziario S.p.A., thereafter UG or holding). The IFSA of UnipolSai is based on Unipol Gruppo consolidated accounts (thereafter Unipol or group) because of its core role in the group by size and strategic importance for the group representing the majority of its consolidated accounts.

UnipolSai's IFSA 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 challenging industry environment, weak performance of non-insurance operations, especially banking, only satisfactory capital at the group level, reducing but still high investment concentration in Italian government bonds, and significant investment exposure to the real estate sector relative to shareholders equity.

In addition, we view the recent events reported by the group (restructuring of the banking operations and change in ownership of insurance subsidiaries) all in all neutral to the ratings. From one side, we did not foresee the significant negative impact on profitability and capital absorbed by the group from the restructuring of Unipol Banca. On the other side, we expect that this effect will be mitigated by the coming change in ownership of insurance subsidiaries and utilisation of tax assets. Overall, we expect that the group remains on track for its 2016-2018 strategic plan goals. However, considering the market and regulatory pressure on banks to show significant improvement in asset quality, we consider banking operations to remain the key risk for the group.

The main considerations for the IFSA for UnipolSai are based on our analysis of the consolidated Unipol Group's credit characteristics:

- **Satisfactory capital:** We consider the capital as satisfactory based on large capital base in absolute terms (about EUR 8.1Bn, including minority interest) and capital ratio of 10%[1] YE16. In 1H17 it has deteriorated due to the cleaning up of the banking business and reached EUR 7.2Bn and 8.7% respectively. Its regulatory SII ratio also slid to 133% for the group (calculated using standard formula undertaking-specific parameters) from 141% YE16. While for UnipolSai solo, the regulatory solvency ratio (calculated using partial internal model) increased to 256% from 243% in the same period. 3Q17 the regulatory solvency ratio for the group bounced back to 139%. We believe that it is only a temporary dip and the group will recover to previous levels by YE17. The only marginal solvency ratio at group level is mitigated by very strong solvency at UnipolSai level, which we deem sufficient to finance insurance operations growth and protect from unexpected losses. At the group level the capital is penalised by a large minority interest share. In our view, the main risks are stemming from its still weak banking operations and economic downturn or a financial market turbulence scenario, due to its still concentrated investment portfolio.

  The group has still a high, but declining concentration in Italian government bonds. It decreased by around EUR 3.4Bn to EUR 36.6Bn in 2016, which amounted to about 43.8% of the group's total invested assets. In 1H17 it reduced further by EUR 2.8Bn. In addition, the group has high exposure to the currently weak Italian real-estate sector via its investments and relative to its equity (EUR 4.2Bn by 1H17, excluding Unipol Banca mortgage exposure).

- **Satisfactory operational environment:** We view the overall operational environment as satisfactory. The industry benefits from a well-developed economy and enhanced regulatory regime. However, it is dragged by improving, but still low growth expectation for the Italian economy, with GDP growing about 0.9%[2] in 2016 and at about 1.5%[3] in 2017. The unemployment rate is improving but remains still very high at 11-12%. These economic weaknesses are further exacerbated by high financial markets volatility, low interest rate environment and increasing competition in the Italian non-life insurance segment.

- **Very strong competitive position:** In our view, Unipol has a strong and defendable competitive position as the largest non-life insurer (with just above 20% market share YE16) and second largest composite insurance group in Italy (with about 9.8% market share). It maintains the leading position in motor insurance, which is the largest non-life business line in Italy. It also owns one of the largest controlled distribution networks in the country and offers a wide range of high quality and innovative products.

- **Strong and centralised risk management:** The group has a centralised risk management function based in UnipolSai, with a large and experienced team and a comprehensive risk management framework in place. The risk management function takes an important part in the group's decision-making, which has been further reinforced in the last years by SII regulatory requirements. The group reports under standard formula and UnipolSai has a partial internal model approved by the regulator. The economic capital model has been developed and is used at group level for day-to-day and strategic decision making.

- **Strong development strategy:** Our view is based on a successful track record of M&A and execution of the strategy, led by an experienced and highly regarded management team. In our view, it has successfully executed the three-year industrial plan (2013-2015), including integration of different businesses, streamlining processes, simplifying organisational structure and improving efficiency. Its new strategic plan named 'Unipol to be' (2016-2018) in our view, has relatively conservative financial goals. We expect the company to meet it its goals as planned. The plan focuses among other things on further streamlining, reinforcing the group's insurance operations, leading in innovation and product development, improving customer experience and distribution capabilities.

We consider the External Support from the group to UnipolSai to be very high. UnipolSai is the group's main operating entity, accounting for about 84% of its premiums and 75% of total assets by YE16, and expected to consolidate all insurance operations under its ownership by end of 2018. In our view, UG's financial and business strength is largely defined by UnipolSai's characteristics and we expect UG to support UnipolSai under any circumstances.

The 'BBB-' rating on Unipol Gruppo, the non-operating holding entity, is positioned two notches below UnipolSai's IFSA. 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 at UG's stand-alone financial profile (liquid assets to total debt servicing costs was 14.6x YE16). However, majority holding's liquid assets are held at UnipolBanca, which we regard

[1] All ratios presented in the report are calculated by Dagong and might differ from those disclosed by the company. The financial items refer to audited financial statements and other publications by the companies.
[2] IMF data
[3] Eurostat.

as credit negative. We consider the likely level of External Support for UG from the parent (Finsoe) to be moderate and do not consider any notching uplift. We also consider that the planned action on dissolving Finsoe expected for the end of 2017 will have limited or no impact to UG's and UnipolSai's credit characteristics as control and support would be coming from the same shareholders under a shareholder agreement.

RATING OUTLOOK AND POSSIBLE EVOLUTION

Unipol Group and UnipolSai: Outlook - Stable

The Stable outlook for UnipolSai reflects our expectations that the group will return to the previous solvency level by YE17 and strengthen it going further; will maintain and gradually improve its profitability and investment portfolio mix. This stable outlook considers our assumption that the net combined ratio[4] over the next three years will be at about 95% on average and return on equity above 6%. We expect non-life premiums to continue shrinking at low single digits or to be stable, and life premiums to reduce in 2017, but stabilise thereafter.

Upside - Downside Potential for the Rating

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.

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.: Outlook - Stable

The stable outlook also applies to Unipol Gruppo.

We expect the company to continue streamlining and optimizing its operational structure and cost base, while maintaining and improving performance of non-insurance operations, in particular banking and real estate.

Upside - Downside Potential for the Rating

Any changes to the ratings of Unipol Gruppo could come in parallel with changes in credit characteristics at the overall group level 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 Unipol Gruppo 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 or significant reduction in exposure to banking operations.

We would consider a negative rating action if we see unexpected deterioration in banking operations, deterioration of liquidity or profitability and consequently a deterioration of UG's coverage ratios.

Company Profile

Unipol is the second largest multiline insurance group in Italy, and one of the largest in Europe with EUR 14.2Bn in gross premiums written, and EUR 91.9Bn in assets at YE16. Unipol Group is also a leading Italian occupational pension insurance player, with assets under management of EUR 4.3Bn by YE16. UnipolSai is the main holding-operating entity of the Unipol Group, accounting for about 84% of UG's consolidated premiums written, 99% of net income and 80% of shareholder's equity by YE16. By the end of 2018, all insurance operations of the group are expected to be under the UnipolSai ownership and control.

The group has rapidly gained size and market share through a series of successful M&As over the past decade. It started its M&A-driven growth in 2000 by acquiring Aurora Assicurazioni, Navale Assicurazioni, Meie Assicurazioni and Winterthur Italia Group (2003). Other acquisitions followed, with the last acquisition in 2012 of Premafin (including FondiariaSai and Milano Assicurazioni). In January 2014, UnipolSai was established as a result of the merger by incorporating Unipol Assicurazioni, Milano Assicurazioni, and Premafin HP into FondiariaSai. At the end of 2016 Unipol employed 14,109 people.

The group chose to separate specialty insurance lines or specific distribution approaches into separate legal entities, such as SIAT (marine and transportation insurance), Linear (online non-life insurance), Unisalute (health), Arca Vita (life and non-life / bank insurance). The group also includes a bank (Unipol Banca), real estate companies including Atahotels, and other smaller operations.

The group has two listed entities: UnipolSai Assicurazioni S.p.A. and Unipol Gruppo S.p.A. UnipolSai is majority-owned and controlled by UG (72.4% direct and indirect 1H17). UG shares, in turn, are largely free-floating (68.6%) after the majority owner Finsoe (Italian cooperative companies group) reduced its holding to 31.4% from 50.8%, following the conversion of preference shares into ordinary shares on 30 June 2015. The other two largest shareholders are Coop Alleanza 3.0 and Nova Coop, with 9.6% and 4.1% respectively.

The group is actively working on simplifying its ownership structure and regulatory reporting and aims to dissolve Finsoe. The shareholders of Finsoe have approved the project on 25 May 2017. As we understand from public information, the transaction will not change the ultimate ownership or control and will have limited or no effect to minority shareholders. Based on that, we do not expect any impact to the ratings. On 7 of June 2017 CONSOB made an announcement indicating no objections to the project as proposed. It indicated that the transaction may qualify as neutral for UG's minority shareholders, and it sees a substantial continuity in the management of the shares held in UG by the same parties acting in concert. The transaction is expected to be finalised by the end of 2017.

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
IFSA	bbb+
ESA	Very High, Group Support
Unipol Gruppo S.p.A.	
Long-Term Credit Rating (FC&LC)	BBB-
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-3
IFSA	bbb-
ESA	Moderate, Parent Support

FC&LC: Foreign Currency and Local Currency

RATING HISTORY

Ratings affirmed on 25 November 2016:

UnipolSai Assicurazioni S.p.A.	BBB+/A-2/Stable
Unipol Gruppo Finanziario S.p.A.	BBB-/A-3/Stable

Ratings assigned on 27 November 2015:

UnipolSai Assicurazioni S.p.A.	BBB+/A-2/Stable
Unipol Gruppo Finanziario S.p.A.	BBB-/A-3/Stable

OTHER RATED RELATED ENTITIES

Unipol Banca S.p.A.	BB-/B/Stable, Affirmed on 25 November 2016
Società Italiana di Assicurazioni e Riassicurazioni per Azioni	BBB+/A-2/Stable, Affirmed on 25 November 2016

CRITERIA APPLIED

– Dagong Europe Criteria for Rating Insurance Companies, published on 10 July 2017

OTHER REGULATORY DISCLOSURES

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