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INVESTORS SERVICE

CREDIT OPINION
8 September 2020

Update

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RATINGS

Unipol Gruppo S.p.A.

Domicile	BOLOGNA, Italy
Long Term Rating	Ba2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Unipol Gruppo S.p.A.

Update to credit analysis

Summary

UnipolSai Assicurazioni S.p.A. (UnipolSai), rated Baa3 insurance financial strength rating (IFSR), is the main operating entity of Unipol group, the insurance group controlled by Unipol Gruppo S.p.A. (UG; the Parent; the Group). In 2014 UnipolSai was established as a result of the merger of Unipol Assicurazioni, Milano Assicurazioni and Premafin HP into Fondiaria Sai. In 2019 Unipol group ranked as the fifth largest insurance group in Italy (source: ANIA).

The Baa3 IFSR reflects UnipolSai's good stand-alone rating profile, offset by the constraining impact of the Italian sovereign rating. UnipolSai's business profile is strong, benefitting from the group's market leading position in the Italian property-casualty (P&C) market and an important position in the Italian life market as well as from relatively low product risk. The company's financial profile is good, positively driven by strong underlying profitability of the insurance operations as well as good regulatory solvency. These strengths are partially offset by the company's elevated asset risk with concentrations in Italian sovereign bonds, also negatively influencing our assessment of its capitalization.

UG has taken considerable steps in restructuring its business and changing the group's strategic direction over the recent strategic cycle and as a result its credit profile is now more strongly driven by its insurance operations concentrated in UnipolSai and its subsidiaries. The latest step in this was the sale of its banking subsidiary Unipol Banca S.p.A. to BPER Banca S.p.A. (BPER, Baa3/Ba3 Negative, ba2[1]) in 2019. At the same time UG acquired from BPER a €1.2 billion portfolio of non-performing loans (thereof 68% unsecured and 32% secure). In addition, UG now holds a stake of close to 20% in BPER and since Q2 2019 consolidates BPER into its financial accounts.

Credit strengths

» A strong market position, with the group ranking number one in the Italian P&C segment

» Low insurance risk profile due to the retail focus of the group

» Good underlying profitability of the insurance operations, in particular in P&C with a relatively stable combined ratio of 94.9% (5-year average) at UG level

» Good level of capitalisation relative to the overall rating level at both UG and UnipolSai sub-group, with Solvency II ratios of 188% (UG's approved partial internal model) and 249% (UnipolSai, calculated with its consolidated economic capital model) as at Q2 2020

Credit challenges

» Concentration of assets and liabilities in Italy constrains the overall rating level of the group on that of the Italian sovereign

» Overall elevated asset risk, mainly as a consequence of heightened exposure to credit risk, with high concentration in Italian government bonds

Rating outlook

Based on the strong interconnection between the credit quality of the Italian sovereign and UG, the stable outlook mirrors the outlook on Italy's Baa3 government bond rating. Any movement in Italy's sovereign rating would likely lead to a corresponding movement in UnipolSai's and UG's ratings.

Factors that could lead to an upgrade

» An improvement in the credit quality of Italy, as evidenced by an upgrade of Italy's sovereign rating

Factors that could Lead to a downgrade

» Deterioration in the credit quality of Italy, as evidenced by a downgrade of Italy's sovereign rating

» Significant deterioration of the group's market position in the Italian P&C market

» Material deterioration in earnings, in particular if this should be driven by lower P&C underwriting performance

» Significant weakening of capital adequacy

Key Indicators

Exhibit 1
Unipol Gruppo S.p.A.

Unipol Gruppo S.p.A. [1][2]	2019	2018	2017	2016	2015
As Reported (Euro Millions)					
Total Assets	76,102	77,581	89,973	91,897	89,773
Total Shareholders' Equity	8,305	6,327	7,453	8,134	8,445
Net Income (Loss) Attributable to Common Shareholders	903	401	(346)	330	272
Gross Premiums Written	13,906	12,050	11,783	14,156	15,565
Life Insurance Gross Premiums Written	5,455	3,889	3,819	6,300	7,644
Property & Casualty Insurance Gross Premiums Written	8,451	8,161	7,964	7,856	7,921
Net Premiums Written	13,443	11,628	11,334	13,756	15,154
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	161.2%	181.4%	191.4%	184.7%	164.9%
Reinsurance Recoverable % Shareholders' Equity	17.7%	20.7%	16.7%	16.2%	16.6%
Goodwill & Intangibles % Shareholders' Equity	29.9%	38.0%	35.2%	35.0%	36.6%
Shareholders' Equity % Total Assets	7.9%	5.8%	5.3%	5.4%	5.5%
Return on Average Capital (ROC)	9.2%	5.7%	-1.4%	4.4%	4.8%
Sharpe Ratio of ROC (5 yr.)	117.7%	125.2%	103.8%	291.3%	89.5%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-3.0%	-2.9%	-3.2%	-2.1%	-1.1%
Adjusted Financial Leverage	32.6%	36.8%	32.0%	29.8%	28.1%
Total Leverage	35.5%	40.4%	35.3%	32.9%	31.2%
Earnings Coverage	8.5x	6.1x	-0.3x	5.9x	7.5x

[1] Information based on IFRS financial statements as of the fiscal year ended 12/31/2019.
[2] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Moody's Investors Service and company filings

Recent developments: Coronavirus outbreak

The coronavirus outbreak has been particularly harmful for Italy with tragic loss of life and strict safety measures. The Italian economy has contracted significantly, resulting in lower disposable incomes and lower demand for insurance products.

UG has reported lower sales, partially driven by the lock-down measures which have hampered tied agents and bank branches sales in particular. In P&C, there has so far been no meaningful amount of coronavirus-induced claims in commercial lines, whereas many retail lines, motor in particular, benefitted from lower claims frequency. However, we expect the easing of lock-down measures could result in a return to normal or even higher-than-normal car usage over the remainder of the year. As far as life business is concerned, there has been no material effect on underwriting results. .

Market volatility and rapid spikes in Italian government bond spreads, on the other hand, impacted Unipol's investment results and its Solvency position in the first quarter, but rebounding financial market and the tightening of credit spreads have resulted in a recovery of Solvency II ratios in the second quarter of 2020.

Detailed credit considerations

UnipolSai's stand alone credit profile stands at Baa1, reflecting the strong business and the good financial profile. Moody's Baa3 for insurance financial strength on UnipolSai is two notches below the rating indicated by Moody's insurance financial strength rating adjusted scorecard, reflecting Moody's view that UnipolSai's key credit fundamentals (asset quality, capitalisation, liquidity and financial flexibility) are correlated with --and thus linked to-- the economic and market conditions in Italy, where the Group is domiciled and almost exclusively operates.

Market position and brand: Strongest P&C Italian player with growing life market share; Reversed trend in growth at half year.

Through UnipolSai and its specialised subsidiaries, Arca Assicurazioni, Linear, SIAT and UniSalute, UG is the market leader in the Italian P&C market and continues to hold a market share of c. 21% as per Year-End (YE) 2019. Its market leadership is particularly pronounced it the motor segment where the group benefits from its modern product portfolio and its high quality services: UnipolSai has successfully established telematics in its portfolio with more than 4 million blackboxes installed in policyholders' cars, enabling

better and quicker claims management as well as ancillary customer services. We consider the UnipolSai brand to have a very strong standing in the market, also reflected in very strong retention rates. UnipolSai aims to further grow its business going forward and expects growth in non-motor business to outpace growth in motor. For HY 2020, Unipol reported P&C premium decline of 4.4% compared to the previous year, driven by a combined contraction in motor (-5.1%) and non-motor (-3.6%). Unipol attributed the decline to the slowdown in commercial activities due to the health emergency in Italy and we expect their will be continuous pressure on premium volumes and pricing at least for the remainder of 2020.

In the life segment, Unipol Group significantly grew in the life sector by 36.2% reaching a market share of 4.85% (3.7%% in 2018), and becoming the 6th largest life Italian group in 2019 from 7th in 2018 according to ANIA. Nevertheless, the positive trend was reversed during the first half of 2020, with Unipol reporting a sharp decline in premiums of 31.8% compared to the previous year. The decline is not only attributable to the unfavorable economic conditions in Italy and constraints on distribution due to the lock-down, but also to Unipol's decision towards commercial policies adopted during the first half of the year in order to limit risks. The further development of business volumes will to some extent depend on the shape and duration of the current recession, we think.

UG has agreed that following the acquisition of Unione di Banche Italiane S.p.A.(UBI Banca, Baa1 stable/Baa1 negative, baa3[2]) by Intesa Sanpaolo S.p.A. (Baa1 Stable/Baa1 negative, baa3[3]) it will acquire books of life business of UBI Banca's current bancassurance joint-ventures (BancAssurance Popolari S.p.A., Lombarda Vita S.p.A. and Aviva Vita S.p.A.) which would further strengthen the group's market position in the Italian life insurance sector.

Distribution: a strong network

UG benefits from a strong distribution control and an overall good distribution diversity. The group follows an established multichannel distribution approach. UG's dominant distribution channel is UnipolSai's tied agent network, which is the largest in Italy, and contributes the largest share of the group's premium volumes. The group also has joint ventures with UniCredit S.p.A. (through Incontra Assicurazioni S.p.A) and a set of cooperative banks and credit institutions, the main ones of which are BPER Banca S.p.A. (through Arca Assicurazioni S.p.A) and Banca Popolare di Sondrio, in place. These bancassurance joint ventures, through which UnipolSai sells both life and P&C products, will likely provide very positive growth momentum going forward. In addition, UG will likely be able to further strengthen its foothold in bancassurance as BPER, following the acquisition of UBI Banca by Intesa Sanpaolo, will take over 532 bank branches.

Other distribution channels include direct distribution, via internet and brokers. While we believe that UG has strong control over its tied agent organization, its direct distribution and the bancassurance channel, we see less strong control over the broker channel and the joint-ventures, despite having majority shares in these joint ventures and, in the case of BPER, holding a significant stake in the partner company.

Amid the coronavirus outbreak, Unipol has provided significant business and liquidity support to its agency network.

Product focus and diversification: mostly retail focus with good diversification

UG's product focus and diversification is strong, benefitting from good diversification between P&C (58% of gross premiums written in 2019) and life business (42%).

In P&C, the group also benefits from its focus on retail and short-term lines of business, partially offset by its concentration on the motor business which accounts for 51% of gross premiums written. Going forward, UnipolSai is aiming to increase the share of its non-motor book.

In the life segment, traditional business accounts for the majority of premiums (64% in 2019), followed by pensions fund (22%) unit-linked (6%) and capitalization products (8%). Moody's views Italian traditional business as moderately risky. Unipol's intention is to shift its business from traditional savings products with high guaranteed rates to traditional low guaranteed rate products, hybrid products, and unit-linked products without guarantees products and has made good progress on this. This has helped Unipol to maintain healthy spreads between the average segregated accounts yields (3.4% at YE 2019) and the average segregated guaranteed rate (1.2%).

In terms of geographic diversification, the group is mainly a domestic player and has limited exposure beyond Italy, stemming from small premiums written contribution from assumed reinsurance as well as primary insurance premiums generated by its Serbian subsidiary DDOR, but is widely diversified across its home country.

Asset quality: High concentration in Italian government bonds

UG's asset allocation is highly geared towards fixed income investments which account for 86% of total invested assets (market value). Equities including alternative investments and real estate make up 4% and 8% of the portfolio, respectively. The group's direct exposure to Italian sovereign bonds continues to be material, standing at 50% of total invested assets at YE 2019 and at 48% of total invested assets at Q2 2020. The group's corporate bond portfolio is more diversified, accounting for about 24% of fixed income investments, however with concentrations in both foreign and domestic banks - a common feature of insurers' investments - although the group has actively reduced these exposures recently.

Based on YE 2019 data, Moody's-calculated high risk assets ratio has improved to 161% (year-end 2018: 181%). The improvement is mainly attributable to the considerably increased shareholder's equity (+31.2% from YE 2018). This notwithstanding, the group's overall credit risk exposure remains elevated, mainly driven by the group's investments being concentrated in the domestic bond market. In total, we view the group's asset risk as consistent with an adjusted Baa score.

Through UnipolRec, UG has also built a sizable portfolio of non-performing loans with gross exposure of €3.5 billion, most recently by the acquisition of a €1.2 billion portfolio of non-performing loans (thereof 68% unsecured and 32% secured) for a cash consideration of €102 million from BPER. At Q2 2020 the gross exposure was €3.28 billion, with the net exposure at €475 million. Given the high share of secured loans (53%) in the portfolio paired with a net exposure that is materially lower than the gross exposure, we believe the risks associated with UnipolRec are manageable for UG.

Capital adequacy: Strong solvency coverage partially offset by high sensitivity to equity market and domestic government bonds yields

UG reports consolidated group solvency under a partial internal model, since approval by the regulator in 2018. UnipolSai reports consolidated sub-group solvency under an economic model and its stand-alone solvency under a partial internal model. At YE 2019, UG reported a Solvency 2 ratio of 182% (YE 2018: 163%) or of 187% when considering the non-distribution of the initially planned dividend, whereas UnipolSai reported a Solvency II ratio of 252% (YE 2018: 202%). Solvency metrics benefitted from the sale of the bank and of a decrease in spreads on Italian government bonds which more than offset the negative impact from the fall in interest rates.

At Q2 2020, UG reported a Solvency 2 ratio of 188% (Q1 2020: 155%) and UnipolSai of 249% (Q1 2020: 200%). The significant improvement in the quarter is driven mainly by de-risking of the investment portfolio, rebounding equity markets and lower credit spreads on Italian government bond yields.

Both UG's and UnipolSai's Solvency II ratios are relatively strong but they continue to be sensitive to market volatility and movements in credit spreads in particular. Given the material exposure of the group to Italian government bonds (3.3x of reported shareholder's equity as at Q2 2020, market value), Moody's views the group's consolidated capitalisation as constrained by the credit quality of Italy's sovereign rating, resulting in an adjusted score of Baa.

Profitability: Strong P&C underwriting results drive earnings

For HY 2020, UG reported a strong consolidated net result of €617 million, significantly higher than the normalised HY 2019 result of €353 million, which excludes the impact of the first time consolidation of BPER. The strong result is thanks to a very strong underwriting result in P&C, because of significantly lower claims frequency due to the lock-down measures, reflected in a combined ratio of 82.1% in HY 2020 (HY 2019: 94.6%), which overcompensated lower investment results in both P&C and life.

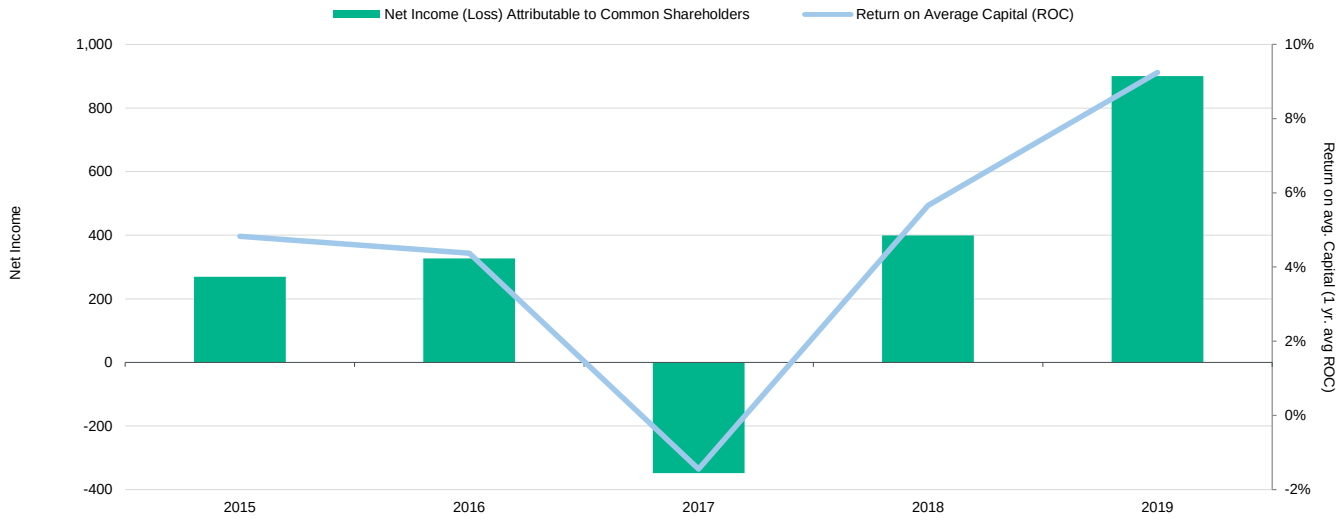
For 2019, UG reported a consolidated net profit of €1,087 million (YE 2018: €628) driven by strong result generation by the insurance operations of €904 million (YE 2018: €1,070) and benefitting from the first time consolidation of its stake in BPER (+€421 million). Adjusting for prior and current year one-off effects, the normalised consolidated net results were €732 million and €613 million in 2019 and 2018, respectively. On the level of UnipolSai, the consolidated net profit for 2019 stood at €655 million (FY 2018: 948 million). On

a normalised level adjusted for one-offs, the consolidated net profit was €721 million (FY 2018: €699 million), evidencing the strong underlying profitability of the insurance operations.

UG's profitability has been hampered in 2018-2015 by negative result contributions from its banking operations, resulting in weak returns on capital and heightened result volatility. With the sale of the banking operations closed in 2019, we expect UG's earnings profile to mainly reflect the sound underlying profitability of its insurance operations. The P&C segment is UG's main earnings driver and we believe the group is well positioned to maintain sound underwriting profitability in this segment going forward. In life, the group benefits from a strong margin between investment returns and guaranteed commitments. As far as the group's investment results are concerned, these benefit from good direct investment income, but there is some vulnerability to financial market downturns.

Exhibit 2

Net Income and Return on Capital



Source: Company Reports, Moody's Investors Service

Liquidity and ALM: Substantial level of liquid assets but partially constrained by asset concentration

The vast majority of UnipolSai's assets is highly liquid and comfortably covers the liquidity needs of its liabilities. We also note that the company has been able to maintain stable spreads between guaranteed rates and investment yields. Moody's regards UnipolSai's liquidity and ALM as very good, consistent with an adjusted score of Baa, only partially constrained by the concentration risk to Italian government bonds.

Reserve adequacy: Conservative reserving approach and healthy run-off results

UnipolSai is exposed to some reserving risk, mainly from its motor and general third party liability. However we recognize that the company holds strong levels of claims reserves relative to premium levels as well as the overall conservative reserving approach employed by the company. Run-off results have been consistently positive since 2014. Moody's calculates a five-year weighted average of 2.77% of reserve releases as a percentage of initial loss reserves for 2019-2015, which we score as A on an adjusted basis.

Financial flexibility: Improving but constrained by the sovereign rating

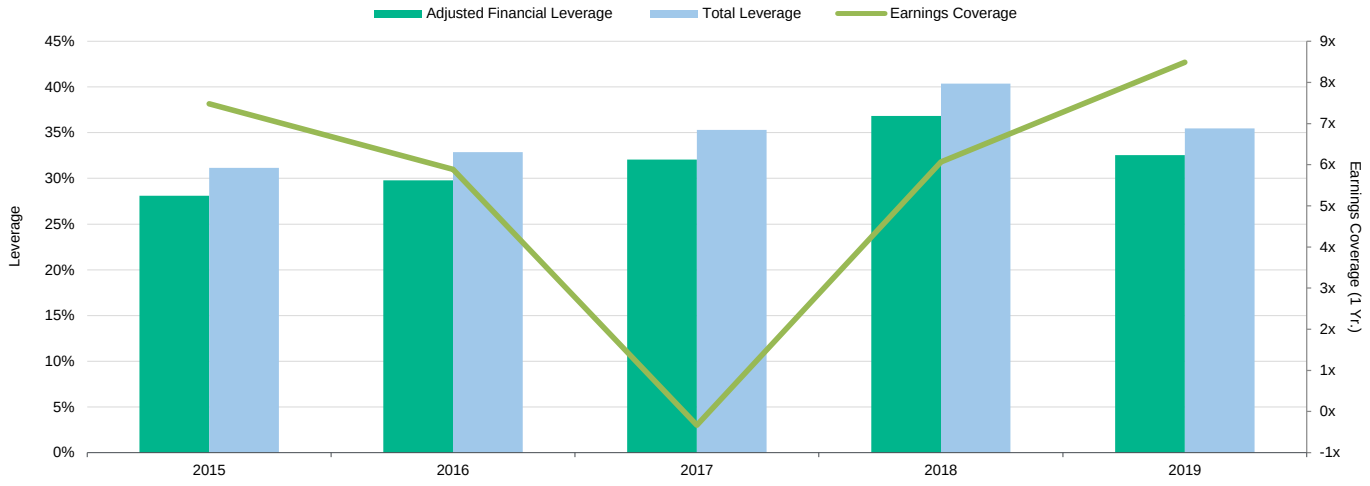
UG and UnipolSai are not frequent issuers, but combined have material debt outstanding. At year-end 2019, adjusted leverage (taking into account hybrid features of subordinated debt) stood at 33% (2018: 37%) and total leverage at 35% (2018: 40%). The decrease in leverage is driven predominantly by the strong increase in reported shareholders' equity (+31% from YE 2018). The main drivers for the increase in shareholders' equity were linked to the profit for the period, supported by the effects of first-time consolidation of the BPER Group, and the considerable growth in the reserve on AFS securities, due in particular to the decrease in interest rates.

In the past, the group has not called all of its subordinated debt instruments at the first-call date. Assuming that the subordinated debt for which the call date has elapsed will be redeemed at maturity, UG has no major refinancing needs until 2021. On 24 July 2019, in application of the contractual repayment plan, UnipolSai arranged repayment of the first of five annual installments in equal amounts of €80 million of the Restricted Tier 1 subordinated loan (€400 million maturing in July 2023).

1-year earnings coverage was 8.5x in 2019 (2018: 6x) and the five-year average was 5.5x. In line with the anticipated trend in earnings, we would expect longer-term earnings coverage to gradually improve from the current level going forward.

UG's leverage and earnings coverage in a combined assessment are healthy. This notwithstanding, we cap the financial flexibility assessment at the Baa level to reflect our view of the group's high dependence on the Italian financial market.

Exhibit 3
Financial Flexibility



Source: Company Reports, Moody's Investors Service

Structural considerations

Moody's Long Term issuer rating on the holding, UG, is driven by the Baa3 IFSR on UnipolSai. The notching differential between the Baa3 IFSR and the Ba2 Long Term issuer rating is two notches, reflecting Moody's standard practice for an insurance group domiciled and operating in jurisdictions where group regulation is in effect.

The current notching between the Ba2(hyb) dated subordinated debt securities issued by UnipolSai and its Baa3 IFSR is two notches, reflecting the standard practice for subordinated debts issued by insurance operating companies. In June 2014, UnipolSai issued a EUR750 million undated junior subordinated debt. This debt is rated Ba3(hyb), three notches below UnipolSai's IFSR, reflecting (i) the junior subordination of the debt; (ii) the optional and mandatory weak coupon deferral mechanisms, (iii) the cumulative nature of deferred coupons in case of deferral, (iv) the temporary loss absorption features of the debt and (v) the variation and substitution language included in the documentation.

Rating Methodology and Scorecard Factors

Exhibit 4

Unipol Gruppo S.p.A.

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (20%)								Aa	A
-Relative Market Share Ratio		X							
Distribution (5%)								A	A
-Distribution Control		X							
-Diversity of Distribution				X					
Product Focus and Diversification (10%)								A	A
-Product Risk - P&C		X							
-Product Risk - Life			X						
-Product Diversification	X								
-Geographic Diversification					X				
Financial Profile								A	Baa
Asset Quality (10%)								A	Baa
-High Risk Assets % Shareholders' Equity				X					
-Reinsurance Recoverable % Shareholders' Equity	17.7%								
-Goodwill & Intangibles % Shareholders' Equity		29.9%							
Capital Adequacy (15%)								A	Baa
-Shareholders' Equity % Total Assets			X						
Profitability (15%)								Baa	A
-Return on Capital (5 yr. avg.)			4.5%						
-Sharpe Ratio of ROC (5 yr.)				117.7%					
Liquidity and Asset/Liability Management (5%)								Aa	Baa
-Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								Aa	A
-Adv. (Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd. avg.)		-2.8%							
Financial Flexibility (15%)								Baa	Baa
-Adjusted Financial Leverage			32.6%						
-Total Leverage			35.5%						
-Earnings Coverage (5 yr. avg.)			5.5x						
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	Baa1

[1] Information based on IFRS financial statements as of fiscal year ended 12/31/2019.

[2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

ESG considerations

UG is incorporating ESG considerations in the management of its core insurance business as well as in its investment strategy (through its responsible investment policy) and they form explicit part of the 2019-2021 strategic plan. At this stage, we do not consider ESG considerations to be material credit profile drivers for UG.

Environmental

Like its P&C insurance peers, UG is exposed to the economic consequences of climate change, primarily through the unpredictable effect of climate change on the frequency and severity of weather-related catastrophic events, such as floods, storms, drought and wildfires. UG has adequate reinsurance cover in place and is able to reprice its products regularly which helps in mitigating these risks to the extent possible.

Social

Like its life insurance peers, UG faces social risks through the handling of customer information, the underwriting and business growth implications (positive and negative) of changing demographics, and the impact of changing consumer preferences on distribution channels. Furthermore, like its P&C peers, UG social risks arise primarily from underwritten exposures to a wide range of liability claims against individuals and corporations (e.g. industrial accidents, health & safety issues, product recalls), although the group's exposure to this type of risk is moderate compared to insurers with a stronger focus on commercial business.

Amid the Coronavirus pandemic, Unipol supported the community with various activities among which, UnipolSai decided to give its costumers a month worth of premium paid back at the moment of the next renewal of their motor policies, due to the lower usage of vehicles during the lock-down.

Governance

Like all other corporate credits, the credit quality of UG is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention. UG has adequate corporate governance practices in place.

Ratings

Exhibit 5

Category	Moody's Rating
UNIPOL GRUPPO S.P.A.	
Rating Outlook	STA
Senior Unsecured	Ba2
Senior Unsecured MTN	(P)Ba2
LT Issuer Rating	Ba2

Source: Moody's Investors Service

Moody's Related Research

Issuer comment

» Unipol Gruppo S.p.A: No rating impact from sale of banking business. Greater focus on insurance is credit positive (February 2019)

Sector comment

» Italy adjusts Solvency II rules amid coronavirus, a credit positive for insurers (March 2020)

» Italy's proposed amendment to motor insurance law is credit negative for P&C insurers (December 2019)

Rating Action

» Moody's affirms ratings on Assicurazioni Generali S.p.A, confirms Allianz S.p.A., downgrades Unipol Gruppo S.p.A. (October 2018)

Industry outlook

» Outlook for Italian life insurers changed to negative due to coronavirus outbreak (March 2020)

» Insurance - Europe: 2020 Outlook update (March 2020)

» Insurance - Italy (December 2019)

» Insurance - Europe (November 2019)

Endnotes

1 The ratings shown are BPER Banca S.p.A's long-term deposit, senior unsecured debt rating and baseline credit assessment

2 The ratings shown are UBI Banca's long-term deposit, senior unsecured debt rating and baseline credit assessment

3 The ratings shown are Intesa Sanpaolo S.p.A.'s long-term deposit, senior unsecured debt rating and baseline credit assessment

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EMEA	44-20-7772-5454

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