

NEW RATINGS FOR GRUPPO UNIPOL BY DBRS MORNINGSTAR UnipolSai assigned an A (High) Financial Strength Rating

Bologna, October 9th 2020

The rating agency DBRS MorningStar (DBRS) announced yesterday that it has assigned for the first time solicited ratings to UnipolSai Assicurazioni S.p.A. and Unipol Gruppo S.p.A.

With regards to UnipolSai Assicurazioni S.p.A., DBRS has assigned an “A (high)” Financial Strength Rating and an “A (high)” Issuer Rating.

Concerning Unipol Gruppo S.p.A., DBRS has assigned a “BBB” Issuer Rating.

The outlook on all ratings assigned is “Negative” reflecting the negative outlook also currently assigned to the Republic of Italy.

The full text of the press release issued by DBRS is attached.

Unipol Gruppo S.p.A.

Unipol is one of the main insurance groups in Europe and the leading company in Italy in the non-life insurance sector, (especially in the MV and Health businesses), with total premiums of approximately €14.0bn, of which €8.2bn in Non-Life and €5.8bn in Life (2019 figures). Unipol adopts an integrated offer strategy and covers the entire range of insurance and financial products, operating primarily through the subsidiary UnipolSai Assicurazioni S.p.A. The Group is also active in direct MV insurance (Linear Assicurazioni), transport and aviation insurance (Siat), health insurance (UniSalute), supplementary pensions and also covers the bancassurance channel (Arca Vita, Arca Assicurazioni and Incontra). It also manages significant diversified assets in the debt collection (UnipolReC), real estate, hotel (Gruppo UNA), medical-healthcare and agricultural (Tenute del Cerro) sectors. Unipol Gruppo S.p.A. is listed on the Italian Stock Exchange.

UnipolSai Assicurazioni S.p.A.

UnipolSai Assicurazioni S.p.A. is the insurance company of the Unipol Group, Italian leader in the Non-Life Business, in particular in MV and Health. Also active in Life Business, UnipolSai has a portfolio of over 10 million customers and holds a leading position in the national ranking of insurance groups with a direct income amounting to approximately €14.0bn, of which €8.2bn in Non-Life Business and €5.8bn in Life Business (2019 figures). The company has the largest agency network in Italy, with about 2,400 insurance agencies spread across the country. UnipolSai is also active in direct MV insurance (Linear Assicurazioni), transport and aviation insurance (Siat), health insurance (UniSalute), supplementary pensions and also covers the bancassurance channel (Arca Vita, Arca Assicurazioni and Incontra). It also manages significant diversified assets in the real estate, hotel (Gruppo UNA), medical-healthcare and agricultural (Tenute del Cerro).

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DBRS Morningstar Assigns A (high) Financial Strength Rating to UnipolSai Assicurazioni, BBB to Unipol Gruppo; Negative Trends

INSURANCE ORGANIZATIONS

DBRS Limited (DBRS Morningstar) assigned an Issuer Rating and a Financial Strength Rating (FSR) of A (high) to UnipolSai Assicurazioni S.p.A. (UnipolSai or the Company). In addition, DBRS Morningstar assigned an Issuer Rating of BBB to UnipolSai's parent holding company, Unipol Gruppo S.p.A. (Unipol Gruppo). The trend on all ratings is Negative.

KEY RATING CONSIDERATIONS

As the main operating insurance company of Unipol Gruppo, UnipolSai's ratings benefit from the Company's sizable market presence in Italy, where it has leading market shares in a number of nonlife and life business lines, more importantly in motor insurance and health insurance. Products are distributed through an expansive and diversified distribution network. The Company's strong franchise and excellent operational execution of its strategy have contributed to stable premium revenue generation and good underwriting profitability. The Company has high levels of regulatory capital, providing protection against some of the market and credit risks that it is exposed to, including an invested assets portfolio that has a large proportion of lower-rated (BBB and below) bonds and is vulnerable to adverse market movements.

UnipolSai's ratings are based on an assessment of the Company's ability to meet policyholder obligations. In doing so, the ratings also take into consideration the impact of the sovereign on its assessment. The A (high) FSR of UnipolSai is three notches above DBRS Morningstar's sovereign rating on the Republic of Italy (BBB (high) with a Negative Trend) and falls within the four-notch ratings differential allowed by DBRS Morningstar's "Global Insurance Methodology." For UnipolSai, this differential reflects DBRS Morningstar's view that insurance claims are likely to be satisfied even if the sovereign is under stress. In the event of a weakening sovereign, premium revenues are likely to continue being generated, providing steady cash flow and enabling the Company to meet its claim obligations. Furthermore, UnipolSai has a leading market position in some mandatory insurance products, such as motor insurance, which provides recurrent premium income.

UnipolSai's FSR also takes into account the protection for policyholders as mandated by insurance regulators, who require insurers to maintain sufficient capital as a buffer against adverse scenarios. UnipolSai holds capital levels comfortably in excess of the regulatory minimums mandated by the Solvency II capital regime. The Company's largest source of sovereign risk arises from the high proportion of Italian bonds in its investment portfolio, which DBRS Morningstar has incorporated into its ratings.

The Issuer Rating of BBB for Unipol Gruppo, however, is constrained by the rating on the Republic of Italy. Generally, the notching difference between the FSR of the operating insurance company and the Issuer Rating of the holding company is two notches to account for structural subordination and the priority ranking of policyholder claims. The differential is widened in this case due to the lower sovereign rating of Italy relative to DBRS Morningstar's assessment of the standalone risk of UnipolSai.

The Negative trend on all ratings reflects the current Negative trend on the ratings on the Republic of Italy.

RATING DRIVERS

While an upgrade is unlikely given the current economic environment, an improvement in the sovereign rating of Italy from its current rating of BBB (high) would result in an upwards rating movement of the same magnitude to UnipolSai's ratings, given that the sovereign ratings are currently a constraining factor. A substantial improvement in the credit quality of the invested assets portfolio, particularly a reduction in the proportion of bonds rated BBB and lower, would also result in a ratings upgrade.

Conversely, a downgrade in the sovereign rating of Italy, assuming the exposure to Italy in terms of operations and investments remains similar to current levels, would result in a downgrade of UnipolSai's ratings. Poor performance of the Company's invested assets portfolio resulting in a material increase in investment losses that adversely affect earnings, combined with a sustained deterioration in the solvency capital requirement (SCR) ratio, would also result in a ratings downgrade.

RATING RATIONALE

UnipolSai's ratings benefit from its excellent market shares in both its life and nonlife businesses. An extensive and growing distribution network positions it well to continue generating good revenue across a wide breadth of business lines and products. The Company's strategy is well defined and forward looking with an emphasis on innovation, customer centricity, and technology to improve its claims and underwriting operations. Underwriting profitability, as measured by the combined ratio, is excellent as UnipolSai demonstrates good expense discipline and claims management. Earnings benefit from stable investment income. At EUR 560 million for the first half of 2020 (H1 2020), consolidated net income has improved materially from H1 2019 (EUR 377 million), partly as a result of lower losses from claims corresponding to the Coronavirus Disease (COVID-19) lockdown period. Similarly, revenue generation has remained resilient despite coronavirus pandemic-induced economic stresses.

UnipolSai's risk profile benefits from its lower-risk product portfolio, but is weakened by the low proportion of high-quality assets (rated "A" or above) in the invested assets portfolio and the concentration of its operations in Italy, which currently faces uncertain economic conditions. Nonetheless, UnipolSai's invested assets portfolio largely comprises highly marketable securities, with sovereign bonds representing approximately 60% of the total portfolio. Claims are relatively predictable, with an adverse liquidity scenario more likely to arise from the Company's assets deteriorating in credit quality than from an unexpected increase in claims requirements.

High levels of regulatory capital serve as good protection against a multitude of risks, including adverse movements in interest rates and equity markets. The SCR ratio for the Company on a consolidated basis, as measured by an economic capital model (based on Solvency 2) was high at 249% at H1 2020, providing a sizable cushion against adverse scenarios. UnipolSai is moderately leveraged with sufficient capacity to raise capital to meet its financing obligations if the need arises.

ESG CONSIDERATIONS

DBRS Morningstar views the Climate and Weather Risk subfactor as a material ESG factor for this rating. This is included in the Environmental category. As a nonlife insurer, the Company's profitability is affected by severe weather events that can increase insured losses.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

The Grid Summary Grades for UnipolSai Assicurazioni S.p.A. are as follows: Financial Strength - Strong; Risk Profile - Good/Moderate; Earnings Ability - Strong/Good; Liquidity - Strong/Good; Capitalization: Good/Moderate.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Life and P&C Companies and Insurance Organizations (July 21, 2020, <https://www.dbrsmorningstar.com/research/364260/global-methodology-for-rating-life-and-pc-insurance-companies-and-insurance-organizations>).

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found on the issuer page at www.dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

This rating is endorsed by DBRS Ratings Limited (DBRS Morningstar) for use in the European Union. The following additional regulatory disclosures apply to endorsed ratings:

This is the first DBRS Morningstar rating on this financial instrument.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are monitored.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Lead Analyst: Komal Rizvi, Vice President

Rating Committee Chair: Roger Lister, Managing Director, Chief Credit Officer

Initial Rating Date: October 6, 2020

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

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Ratings

Unipol Gruppo S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
08-Oct-20	Issuer Rating	New Rating	BBB	Neg	CA E

UnipolSai Assicurazioni S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
08-Oct-20	Issuer Rating	New Rating	A (high)	Neg	CA
08-Oct-20	Financial Strength Rating	New Rating	A (high)	Neg	CA

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