



UNIPOL GROUP: FITCH IMPROVES RATINGS TO BBB

Bologna, 9 May 2018

The rating agency Fitch Ratings has announced the upgrade of the Long-Term Issuer Default Rating (IDR) assigned to Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. to "BBB" from "BBB-", with a stable outlook. As a result, the Group's debt ratings have also been raised: the Unipol Group S.p.A. senior debts have been upgraded to "BBB-" from "BB+", the UnipolSai Assicurazioni S.p.A. dated subordinated debts have been upgraded to "BBB-" from "BB+" and the UnipolSai Assicurazioni S.p.A. perpetual subordinated debt has been upgraded to "BB+" from "BB".

At the same time, the rating agency confirmed UnipolSai Assicurazioni S.p.A.'s Insurer Financial Strength (IFS) rating at "BBB", with a stable outlook.

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

Unipol Gruppo S.p.A.

Unipol is one of the main insurance groups in Europe, with total premiums of roughly €12.3bn, of which €7.9bn in Non-Life and €4.4bn in Life (figures from 2017). 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., founded at the start of 2014 and a leader in Italy in the Non-Life business, particularly MV TPL. The Group is also active in direct MV insurance (Linear Assicurazioni), transport and aviation insurance (Siat), health insurance (UniSalute) and supplementary pensions, and maintains a presence in the bancassurance channel. Lastly, it also operates in the banking realm through the network of Unipol Banca branches and manages significant diversified assets in the real estate, hotel 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 Non-Life Business, in particular in vehicle liability insurance. Also active in Life Business, UnipolSai, together with its subsidiaries, 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 €11.1bn, of which €7.4bn in Non-Life Business and €3.7bn in Life Business (2017 figures). It has the largest agency network in Italy, with approximately 2,800 insurance agencies and about 6,000 sub-agencies spread across the country. UnipolSai Assicurazioni is a subsidiary of Unipol Gruppo S.p.A. and, like the latter, is listed on the Italian Stock Exchange, being one of the most highly capitalized securities.

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Fitch Upgrades Unipol's IDR to 'BBB'; Affirms IFS at 'BBB'

Fitch Ratings-London-09 May 2018: Fitch Ratings has upgraded Unipol Gruppo SpA's and UnipolSai Assicurazioni SpA's (Unipol's primary insurance subsidiary, together Unipol) Long-Term Issuer Default Rating (IDR) to 'BBB' (Good) from 'BBB-'. At the same time, Fitch has affirmed UnipolSai's Insurer Financial Strength (IFS) Rating at 'BBB'. The Outlooks are Stable. A full list of rating actions is at the end of this commentary.

Fitch applies a sovereign constraint of 'BBB', meaning that Unipol's IFS rating is capped at 'BBB'. The upgrade of Unipol's IDR follows the upgrade of its unconstrained IFS to 'BBB+' from 'BBB'. We have used standard notching from Unipol's unconstrained IFS to its IDR.

KEY RATING DRIVERS

The upgrade of Unipol's unconstrained IFS to 'BBB+' from 'BBB' reflects the group's strong and resilient capitalisation and strong underlying insurance financial performance. The upgrade also follows the successful restructuring of Unipol's banking operations in 2017, which substantially reduces uncertainties around capital support from Unipol to Unipol Banca SpA (Unipol's banking unit, IDR: BB/Stable; Viability Rating: b). This is offset by Unipol's high financial leverage ratio (FLR).

Unipol's concentrated -albeit reduced- exposure to Italian sovereign debt of EUR32 billion (or 4x consolidated shareholders' equity) at end-2017 is reflected in the sovereign constraint of 'BBB' being applied to its ratings. This is aligned with Italy's sovereign rating of BBB/Stable.

In February 2018, Unipol Banca spun-off about EUR3 billion of doubtful loans into a new company -UnipolRec- owned by Unipol, executing the restructuring plan announced on 30 June 2017. Unipol will ultimately retain the underlying credit risk. However, the group crystallised the contingent losses arising from its banking operations. Unipol could also benefit if recovery rates on the bad loans portfolio transferred to the new company are higher than 20%.

Fitch's view on Unipol's capital is driven by the group's score under Fitch's Prism Factor Based Model (Prism FBM). This was 'Strong' based on end-2017 data, above our expectations and despite about EUR1 billion charges due to Unipol

Banca's restructuring. Fitch believes that Unipol's strong capital could remain under some pressure in the coming years from the still weak credit quality of Unipol Banca, although the magnitude of the support from Unipol to Unipol Banca should be limited and manageable. Unipol's consolidated regulatory Solvency II ratio, calculated using undertaking specific parameters, was at 152% at end-2017 (2016: 141%), within Unipol's target range of 120%-160%.

Fitch views Unipol's FLR as high for its ratings. The FLR increased to 38% at end-2017 (2016: 34%) as Unipol issued EUR500 million of senior unsecured debt in November 2017 and repaid EUR299 million of senior unsecured debt that matured in January 2017. We expect the FLR to increase further in 2018 following the issuance of EUR500 million of subordinated notes in February 2018, which will be used to repay part of outstanding amounts under certain subordinated loan agreements. We expect the FLR to gradually decrease from 2019 onwards.

Fitch assesses Unipol's profitability as good. The non-life combined ratio, net of reinsurance, was 96% in 2017, in line with 2016, supported by positive reserve releases. However, the group's net profitability can be volatile due to the weak contribution from the banking and real estate activities. Unipol made a net loss of EUR346 million in 2017 (2016: net profit of EUR330 million) due to extraordinary costs associated with Unipol Banca's restructuring. Its 2015-2017 average return on equity, adjusted for one-off charges in 2017, was 6%. We expect Unipol's profitability to remain at least commensurate with its ratings.

RATING SENSITIVITIES

Unipol's ratings could be downgraded if the Prism FBM score falls below 'Strong' or the FLR deteriorates to above 40% for a sustained period. The ratings could also be downgraded if the return on equity remains below 3%.

Unipol's ratings are likely to be downgraded if Italy's sovereign rating is downgraded.

Unipol's ratings could be upgraded if Italy is upgraded, provided that its Prism FBM score remains 'Strong' and return on equity remains above 6%.

FULL LIST OF RATING ACTIONS

Unipol Gruppo

Long-Term IDR upgraded to 'BBB' from 'BBB-'; Outlook Stable

EMTN programme: upgraded to 'BBB-' from 'BB+'

Senior unsecured debt: upgraded to 'BBB-' from 'BB+'

UnipolSai

IFS rating affirmed at 'BBB'; Outlook Stable
Long-Term IDR upgraded to 'BBB' from 'BBB-'; Outlook Stable

EMTN programme:

Senior debt: upgraded to 'BBB' from 'BBB-'

Subordinated debt: upgraded to 'BB+' from 'BB'

Dated subordinated debt: upgraded to 'BBB-' from 'BB+'

Undated subordinated debt: upgraded to 'BB+' from 'BB'

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Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

(<https://www.fitchratings.com/site/re/905036>)

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