

Bit Market Services

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Bologna, 27 November 2015

RATING OF DAGONG EUROPE CREDIT RATING

Notice is hereby given that, on the date hereof, the rating agency Dagong Europe Credit Rating (Dagong Europe) has assigned a rating to UnipolSai Assicurazioni S.p.A. and Unipol Gruppo Finanziario S.p.A. for the first time.

With regard to UnipolSai Assicurazioni S.p.A., Dagong Europe assigned a long-term credit rating of "BBB+" and a short-term credit rating of "A-2".

With regard to Unipol Gruppo Finanziario S.p.A., Dagong Europe assigned a long-term credit rating of "BBB-" and a short-term credit rating of "A-3".

The outlook on the long-term credit rating assigned to both companies is *"stable"*.
The full text of the agency's report is attached hereto.

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Unipol Gruppo Finanziario S.p.A.

Unipol is one of the leading insurance groups in Europe with a total income amounting to approximately €17.8bn, of which €8.9bn in Non-Life Business and €8.9bn in Life Business (2014 figures).

Unipol adopts an integrated offer strategy and covers a complete range of insurance and financial products, operating primarily through its subsidiary UnipolSai Assicurazioni S.p.A., founded at the beginning of 2014, Italian leader in Non-Life Business, in particular in vehicle liability insurance.

The Group is also active in direct vehicle insurance (Linear Assicurazioni), health protection (UniSalute), supplementary pensions and has a strong presence in the bancassurance channel (Arca Vita Group and Popolare Vita Group).

Finally, Unipol operates in the banking business through the network of Unipol Banca branches and manages significant diversified businesses in the real estate, hotel (Atahotels) and agricultural (Tenute del Cerro) sectors.

Unipol Gruppo Finanziario S.p.A. is listed on the Italian Stock Exchange.

Dagong Europe Assigns Long-Term Credit Rating of 'BBB+' to UnipolSai Assicurazioni S.p.A. and 'BBB-' to Unipol Gruppo Finanziario S.p.A., Outlook Stable

Rating Action Report

Milan, 27 November 2015

Dagong Europe has assigned a Long-Term Credit Rating of 'BBB+' to Italy-based insurer UnipolSai Assicurazioni S.p.A. (UnipolSai), and Long-Term Credit Rating of 'BBB-' to Unipol Gruppo Finanziario S.p.A. (UGF), a non-operating holding company of the Unipol Group (group of entities consolidated under UGF, hereafter called Unipol Group or UG). 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 Group. The IFSA of UnipolSai is based on UGF's consolidated accounts that for analytical purposes we name Unipol Group. UnipolSai represents above 90% of gross premiums written and approx. 78% of total assets of Unipol Group, and in our view reflects the main credit characteristics.

UnipolSai's IFSA of 'bbb+' reflects its strong and resilient competitive position in Italy, good risk management practices, solid profitability of the insurance activities that constitute the majority of their business, and the strong development strategy. These strengths are partially offset by a challenging economic and industry environment, weak performance of non-insurance operations, only satisfactory capital, a high investment concentration in Italian government bonds, and a significant investment exposure to the real estate sector in Italy.

The 'BBB-' rating assigned to UGF, the ultimate non-operating holding entity of the group, reflects its IFSA of 'bbb-', derived by notching down from the Unipol Group due to its non-operating holding status and creditors' subordination.

The main considerations for the IFSA for UnipolSai are based on our analysis of the Unipol Group:

- **Strong competitive position:** In our view, Unipol Group has a strong and defensible competitive position as the largest non-life insurer and second largest composite insurance group in Italy. It has a very strong distribution network with a high level of controlled channels, and offers a wide range of innovative and quality-oriented products.
- **Good and improving risk management:** The Unipol Group has a centralised risk management function based in UnipolSai, a large and experienced team, a well-defined risk management framework, and comprehensive processes in place. The risk management culture is embedded in the organisation and drives the decision-making.
- **Satisfactory capital:** UG has a large capital base in absolute terms, of just above EUR 8Bn at 1H15, which is sufficient to finance its insurance operations growth and protect from

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unexpected losses. Its regulatory solvency I ratio is good, and stood at 169% in 1H15. However, the capital is exposed to volatility and a possible material weakening in economic downturn or financial market turbulence scenarios, due to the group's investment profile. UG has a high concentration of Italian government bonds (EUR 36.9Bn in 1H15), which amounts to 67% of invested assets excluding real estate. In addition, it has high exposure to the currently weak Italian real-estate sector via its investments, and to a lesser extent mortgages issued through its banking operations (EUR 4.4Bn in 1H15, excluding Unipol Banca mortgage exposure).

- **Strong development strategy:** We regard UG's Development Strategy as Strong. It is based on an experienced and highly regarded management team, with a successful track record of M&A and strategy execution. It has in our view successfully executed most of the three-year industrial plan goals including streamlining processes, simplifying organisational structures and improving efficiency.
- **Satisfactory operational environment:** This represents the major rating constraint for the group in our view. The weak Italian economy with its shrinking GDP over the last few years, high unemployment rate at above 12%, and bleak future prospects weigh heavily on Unipol Group and the whole insurance industry in Italy. These economic weaknesses are further exacerbated by the stagnating European economy and low global demand.

We consider the likely level of External Support for UnipolSai from UG to be 'Very High'. UnipolSai is the group's main operating entity, accounting for above 90% of its premiums and 78% of total assets. In our view, UG's financial and business strength is largely defined by UnipolSai's characteristics. We expect UG to support UnipolSai in any circumstances.

The 'BBB-' rating on UGF is positioned two notches below UnipolSai's IFSA of 'bbb+'. The two-notch deduction reflects: 1) its non-operating holding entity status and high dependence on mainly 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) the high level of liquidity of UGF's stand-alone financial profile.

RATING OUTLOOK AND POSSIBLE EVOLUTION

UnipolSai: Outlook - Stable

Unipol Group is in the final stage of a significant transformation process. We believe the restructuring could significantly strengthen its competitiveness and financial position. However, we believe its exposure to industry-wide issues such as the weak and unstable economic environment, changing industry dynamics and regulatory and solvency requirements add a degree of uncertainty regarding the speed and scale of improvements in business growth and profitability.

The 'Stable' Outlook for UnipolSai reflects our expectations that Unipol Group improvements in profitability, reduction in investment risk profile and strengthening of capital will be gradual. We expect the net combined ratio over the next 3 years to be on average about 95%, return on equity above 5%, non-life premiums to shrink at about 7%, and life premiums to grow above 10%.

UPSIDE - DOWNSIDE POTENTIAL FOR THE RATING

We could consider a positive rating action if we see significant de-risking of the investment portfolio, increased capitalisation and sustained improvement in the group's bottom line results.

We would consider a negative rating action if we see weakening profitability of the main insurance business, or growing losses deriving from non-core banking or real estate activities, resulting in weakening capitalisation.

UGF: Outlook - Stable

The stable outlook also applies to UGF.

UPSIDE - DOWNSIDE POTENTIAL FOR THE RATING

Any changes to the ratings of UGF could come in parallel with changes in credit characteristics at Unipol Group and rating changes at UnipolSai. We would also consider a positive rating action if we see a sustainable strengthening in the individual financial profile through improved and sustained earnings from non-insurance business, coverage ratios, or a material reduction of debt at operating-entities level (UnipolSai). However, we see this as unlikely in the next 18 to 24 months. We would consider a negative rating action if we see deterioration of liquidity or coverage ratios.

BUSINESS PROFILE

Unipol Group is the second largest multiline insurance group in Italy, and one of the largest in Europe with EUR 17.8Bn in gross premiums written and EUR 88.6Bn in assets at YE14. Its non-life operations are the largest in the country, with an over 24% market share and EUR 9Bn in gross premiums written at YE14. Life operations are the fifth largest in Italy with an approx. 7% market share, and account for EUR 8.8Bn¹ in gross premiums written. Unipol Group is also a leading Italian occupational pension insurance player, with assets under management of EUR 3.7Bn. The group's non-life portfolio is dominated by motor insurance at 58%. The rest is split between property 13.2%, accident and health 14.2%, general third-party liability 8.5%, and other 6%.

The group has rapidly gained in size and market share through a series of successful M&A's 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. Other acquisitions followed, with the last acquisition in 2012 of Premafin (including FondariaSai and Milano Assicurazioni). In January 2014, UnipolSai was established as a result of the merger by incorporation of Unipol Assicurazioni, Milano Assicurazioni, and Premafin HP into FondariaSai. UnipolSai is the main operating company of the Unipol Group, with about 90% of its consolidated premiums written.

The specialty insurance lines or specific distribution approaches were placed under separate legal entities, such as SIAT (marine and transportation insurance), Linear (online non-life insurance), Unisalute (health), Arca Vita (life) and Popolare Vita (life). The group also includes a bank - Unipol Banca, real estate companies, and other minor entities.

The group has two listed entities: UnipolSai Assicurazioni S.p.A. and Unipol Gruppo Finanziario S.p.A. UnipolSai is majority-owned and controlled by UGF (61.1%). UGF shares, in turn, are largely free-floating (68.6%) after 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.

¹ Excluding investment products

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 Finanziario 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

CRITERIA APPLIED

- [Dagong Europe Criteria for Rating Insurance Companies, updated on 18 November 2015](#)
- [Dagong Europe Ratings Definitions, published on 13 May 2014](#)

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<http://www.dagongeuropa.com/ratingcriteria>

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