

Bit Market Services

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RATING “FITCH RATINGS”

Today the rating agency Fitch Ratings (Fitch) assigned, for the first time the ratings to Unipol Gruppo Finanziario S.p.A. and to UnipolSai Assicurazioni S.p.A..

Fitch assigned to Unipol Gruppo Finanziario S.p.A. a Long Term Issuer Default Rating (IDR) of “BBB-”. At the same time Fitch assigned to UnipolSai Assicurazioni S.p.A. an Insurer Financial Strength rating (IFS) of “BBB” and a Long Term Issuer Default Rating (IDR) of “BBB-”.

The outlook on all the above assigned ratings is stable.

As indicated in the attached report, Fitch assigned also specific ratings to the debt notes issued by Unipol Gruppo Finanziario and UnipolSai Assicurazioni.

Contacts

Unipol Group Press Office

Fernando Vacarini
Tel. +39/051/5077705
pressoffice@unipol.it

Barabino & Partners

Massimiliano Parboni
m.parboni@barabino.it
Tel. +39/335/8304078
Giovanni Vantaggi
g.vantaggi@barabino.it
Tel. +39/328/8317379

Unipol Group Investor Relations

Adriano Donati
Tel. +39/051/5077933
investor.relations@unipol.it

Unipol Gruppo Finanziario S.p.A.

Unipol is one of the leading insurance groups in Europe with a total income amounting to approximately €16,5bn, of which €7.9bn in Non-Life Business and €8.6bn in Life Business (2015 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.

FITCH ASSIGNS UNIPOL GRUPPO FINANZIARIO 'BBB-' IDR; OUTLOOK STABLE

Fitch Ratings-London-13 April 2016: Fitch Ratings has assigned Italy's Unipol Gruppo Finanziario (Unipol) a Long-term Issuer Default Rating (IDR) of 'BBB-'. Fitch has also assigned UnipolSaI (Unipol's primary insurance subsidiary) an Insurer Financial Strength (IFS) rating of 'BBB' and a Long-term IDR of 'BBB-'. The Outlooks on the IFS rating and the Long-term IDRs are Stable.

At the same time, Fitch has assigned Unipol's EUR2bn Euro Medium Term Note (EMTN) programme a 'BB+' rating. Fitch has also assigned UnipolSaI's EUR3bn EMTN programme a 'BBB-' rating for senior debt and 'BB' rating for dated and undated subordinated debt. These ratings are assigned to the programmes and not to the notes issued under the programmes. There is no assurance that notes issued under a programme will be assigned a rating, or that the rating assigned to a specific issue under a programme will have the same rating as the rating assigned to the programme.

In addition, Fitch has assigned Unipol's senior unsecured debt a 'BB+' rating and UnipolSaI's dated and undated subordinated debt issuance 'BB+' and 'BB' ratings, respectively.

A full list of ratings is at the end of this commentary.

KEY RATING DRIVERS

The ratings reflect Fitch's expectations that Unipol's adequate capital and profitability are likely to be negatively impacted by the extremely weak credit quality of its banking operations (Unipol Banca) in the coming years. Fitch believes that Unipol's ownership of Unipol Banca will be a drag on Unipol's earnings and ultimately weaken capital, in view of the likely need to support the banking operations.

Our view on Unipol's capital is driven by the company's score under Fitch's Prism factor-based model (Prism FBM). Unipol scored "Adequate" based on end-2014 financials, which we expect to have continued in 2015. However, the quality of capital is negatively affected by the amount of goodwill on the balance sheet (EUR1.6bn or 19% of shareholders' funds) and various contingent liabilities, including the bank. The consolidated regulatory Solvency I margin was 170% at end-2015 (end-2014: 169%), but could weaken due to Unipol's support of Unipol Banca. The financial leverage ratio (FLR) is relatively high at 33% at end-2015. The coverage of interest expenses is moderate.

Unipol's three-year (2013-2015) average 3% return on equity is commensurate with the low end of the 'BBB' rating category. Net profit is likely to remain volatile due to the uncertain and lumpy results of non-insurance operations, notably banking and real estate. Minority interests create a wide gap between net income and the group's share. The non-life combined ratio has been favourable for the rating at below 100% (indicating an underwriting profit) since 2010, due to pricing actions and portfolio pruning activities.

Unipol is exposed to real estate assets (around 7.5% of total investments at end-2015), some of which are loss making. This largely stems from its acquisition of Fondiaria-SAI, which had around 15% of its liabilities invested in underperforming real estate projects. To improve profitability, Unipol continues to reduce its exposure to real estate. The success of this policy is hampered by a difficult Italian property market. Consequently, these substantial holdings of real estate assets weigh on Unipol's ratings.

Unipol has a strong franchise in Italy, with a market share of 11.3%. It is the largest Italian non-life insurance group by non-life gross written premiums. Unipol acquired Fondiaria-SAI in 2012 to create the largest motor underwriter in Italy. The group distributes its insurance products through a multichannel approach.

Unipol's exposure to Italian government debt was EUR42bn at end-2015, around 5x consolidated shareholders' funds. Like most Italian insurers, Unipol's exposure creates concentration risk in its investment portfolio. Unipol has residual exposure to structured credit that Fitch views as manageable.

For Unipol's senior unsecured debt, a baseline recovery assumption of 'Below Average' was applied. Standard notching relative to the IDR was used.

For UnipolSaI's two dated subordinated issues (EUR300m due 15 June 2021 (XS013071734) and EUR261.7m due 28 July 2023 (XS0173649798)), we used a baseline recovery assumption of 'Below Average' and a non-performance risk assessment of 'Minimal'. The rating was notched down one notch from the IDR, based on one notch for recovery and zero for non-performance risk.

For UnipolSaI's undated subordinated issue (EUR750m (XS01078235733)), Fitch used a baseline recovery assumption of 'Below Average' and a non-performance risk assessment of 'Moderate'. The rating was notched down two notches from the IDR, based on one notch for recovery and one notch for non-performance risk.

For the dated/undated subordinated debt that can be issued under the EUR3bn ETMN programme, we would use a baseline recovery assumption of 'Below Average' and a non-performance risk assessment of 'Moderate'. The rating would be notched down two notches from the IDR, based on one notch for recovery and one notch for non-performance risk.

RATING SENSITIVITIES

Factors that could trigger a downgrade of Unipol's ratings include:

- Prism FBM assessment worsens to 'Somewhat Weak'
- FLR deteriorates to above 40% for a sustained period
- Return on equity falls below 3% for a sustained period

Factors that could trigger an upgrade include:

- Prism FBM assessment improves to 'Strong'
- Return on equity remains above 6% for a sustained period.

FULL LIST OF RATING ACTIONS

Unipol Gruppo Finanziario: assigned a Long-term IDR of 'BBB-'; Outlook Stable

EMTN programme: assigned a 'BB+' rating

Senior unsecured debt:

EUR299m maturing 11 January 2017 (XS047290617) : assigned a 'BB+' rating

EUR317m maturing 5 March 2021 (XS041042828) : assigned a 'BB+' rating

EUR1bn maturing 18 March 2025 (XS1206977495): assigned a 'BB+' rating

UnipolSaI

Assigned an IFS rating of 'BBB'; Outlook Stable

Assigned a Long-term IDR of 'BBB-'; Outlook Stable

EMTN programme:

Senior debt: assigned a 'BBB-' rating
Dated/undated subordinated debt: assigned a 'BB' rating

Dated subordinated debt:
EUR300m fixed/floating rate subordinated callable notes due 15 June 2021 (XS013071734):
assigned a 'BB+' rating
EUR261.7m fixed/floating rate subordinated callable notes due 28 July 2023 (XS0173649798):
assigned a 'BB+' rating
Undated subordinated debt:
EUR750m fixed/floating rate subordinated notes (XS01078235733): assigned a 'BB' rating

Contact:
Primary Analyst
Federico Faccio
Senior Director
+44 20 3530 1394
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Fabio Ianno
Director
+44 20 3530 1257

Committee Chairperson
David Prowse
Senior Director
+44 20 3530 1250

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 16 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172

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