CREDIT OPINION
17 June 2024

Update

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RATINGS

Unipol Gruppo S.p.A.

Domicile	BOLOGNA, Italy
Long Term Rating	Ba1 , Possible Upgrade
Type	LT Issuer Rating - Fgn Curr
Outlook	Rating(s) Under Review

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 Baa2 for insurance financial strength, is the main operating entity of Unipol Group (UG or Unipol), the insurance group controlled by Unipol Gruppo S.p.A.. In 2023 Unipol ranked as the fifth largest insurance group in Italy (source: ANIA).

UG's credit profile is supported by a strong business profile, characterized by a leader position in the non-life market, a strong control of its distribution thanks to its tied agent network, and a relatively low product risk thanks to a focus on retail business and a low average guaranteed rate in the life segment. Other strengths of the group include a good profitability and a very good capitalisation, as evidenced by a consolidated UG Solvency II ratio of 215% at the end of December 2023.

These strengths are offset by a concentration of assets and liabilities in Italy (Baa3 stable) which constrains the group's asset quality and financial flexibility. Nonetheless, UnipolSai is rated one notch above the Italian sovereign rating, reflecting the relative resilience of the group's credit profile to a potential sovereign stress scenario. UG has taken steps to reduce its exposure to Italian assets, including to Italian sovereign bonds, which stood at 1.8x of shareholders' equity at December 2023 on a consolidated basis, down from 4.5x at year-end 2016.

On 16 February 2024, Unipol announced plans to merge Unipol Gruppo S.p.A. with UnipolSai Assicurazioni S.p.A. and other fully owned companies by the end of the year subject, inter alia, to the necessary shareholder and regulatory approvals.

Credit strengths

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

» Low insurance risk profile thanks to the retail focus of the group and progress in reducing its exposure to guaranteed rates in life

» Good underlying profitability of the insurance operations, in particular in P&C with a relatively stable combined ratio of 93.6% (average for the period 2019-2023) at UG level, notwithstanding pressures from inflation

» Good level of capitalisation at both UG and UnipolSai sub-group, with Solvency II ratios of 215% (UG's approved partial internal model) and 320% (UnipolSai, consolidated economic capital model) as at year-end (YE) 2023.

Credit challenges

» Concentration of assets and liabilities in Italy, which constrains the group's asset quality and its financial flexibility

Rating outlook

The ratings of Unipol Gruppo S.p.A. are under review for upgrade to reflect the change in structural subordination of the holding that will follow the merger into a single operating insurance company, if completed.

The stable outlook on UnipolSai Assicurazioni S.p.A. reflects the stable outlook on the rating of the Italian sovereign, as well as our expectation that the company will be able to implement relatively rapid price increases to offset the impact of inflation on its profitability.

Factors that could lead to an upgrade

» An improvement in Italy's credit quality, as evidenced by an upgrade of the sovereign rating could result in an upgrade of Unipol's ratings.

Unipol Gruppo S.p.A.'s ratings could also be upgraded when the merger with UnipolSai is implemented and if the financial implications of the merger for the entire group are limited.

Factors that could Lead to a downgrade

» Deterioration in the credit quality of Italy, as evidenced by a downgrade of Italy's sovereign rating, would likely result in a downgrade of Unipol's ratings.

Downward pressure could also result from a:

» Significant weakening of the group's market position,

» Materially and sustained lower earnings, in particular if this should be driven by lower property and casualty (P&C) underwriting performance,

» Lower capital adequacy.

Finally, if the merger between UnipolSai and Unipol Gruppo S.p.A. is not implemented, the holding ratings will likely be confirmed at their current level.

Key Indicators

Exhibit 1
Unipol Gruppo S.p.A. - Key Financial Indicators (2023-2022)

Unipol Gruppo S.p.A. [1][2]	2023	2022
As Reported (Euro Millions)		
Total Assets	79,458	73,025
Common Shareholders' Equity	7,967	6,862
Net Income (Loss) Attributable to Common Shareholders	1,101	525
Gross Premiums Written	NA	NA
Life Insurance Gross Premiums Written	NA	NA
Property & Casualty Insurance Gross Premiums Written	NA	NA
Net Premiums Written	NA	NA
Moody's Adjusted Ratios		
High Risk Assets % Shareholders' Equity	138%	155%
Reinsurance Recoverable % Shareholders' Equity	11%	10%
Goodwill & Intangibles % Shareholders' Equity	40%	43%
Shareholders' Equity % Total Assets	10.8%	10.2%
Return on Average Capital (ROC)	9.4%	4.9%
Sharpe Ratio of ROC (5 yr.)	NA	NA
Adv. (Fav.) Loss Dev. % Beg. Reserves	-29.7%	-5.7%
Adjusted Financial Leverage	24.1%	27.5%
Total Leverage	30.0%	33.0%
Earnings Coverage	9.8x	5.9x

[1] Information based on IFRS 17 financial statements as of the fiscal year ended December 31; [2] Previous years' financial statements were prepared under IFRS 4, which are not comparable to IFRS 17 and not included in the exhibit.
Sources: Company filings and Moody's Ratings

Detailed credit considerations

UnipolSai's stand alone credit profile is supported by its strong business profile and its good financial profile. Nonetheless, Moody's Baa2 insurance financial strength rating (IFSR) on UnipolSai is two notches below the A3 outcome of Moody's insurance financial strength rating adjusted scorecard, but one notch above the Italian sovereign rating. This reflects Moody's view that (1) UnipolSai's key credit fundamentals (asset quality, capitalisation, liquidity and financial flexibility) are somewhat correlated with - and thus linked to - the economic and market conditions in Italy, where the group is domiciled and almost exclusively operates and (2) that UnipolSai has increased its resilience to potential Italian sovereign stress scenarios.

Market position and brand: Strong, particularly in P&C

Through UnipolSai and its specialised subsidiaries, Arca Assicurazioni, Linear, SIAT and UniSalute, UG is a leading player in the Italian P&C market and held a market share of 19% in 2023. We consider the UnipolSai brand to be very strong in Italy, also reflected in very strong retention rates. The group's market leadership is particularly pronounced in the motor segment where Unipol developed modern products and offers a high quality of services. For example, UnipolSai has successfully established the use of telematics in its portfolio with around 4 million blackboxes installed in policyholders' cars, enabling improved underwriting, better and quicker claims management, and ancillary customer services.

UG is also growing in non-motor lines, notably health and property lines of business. The group's strategy is also to become a reference point in P&C insurance ecosystems, providing customers with innovative services connected with core insurance activities, like roadside assistance, mobility payments, car rental, home repair networks, and health services, including through digital solutions. We believe these initiatives will help to attract new customers, retain existing ones and, in the mid to longer-term, will provide additional revenue streams to Unipol.

In life, UG has a smaller market share than in P&C, standing at 6% in 2023, but is growing notably thanks to the bancassurance channel.

Distribution: good diversification and strong control

UG benefits from a strong distribution control and an overall good distribution diversity. The group follows a multichannel distribution approach. Unipol's tied agent network is the largest in Italy, and contributes the largest share of the group's premium volumes. The group also has joint ventures with a set of cooperative banks and credit institutions. The main ones are BPER and Banca Popolare di Sondrio (BPS), both through Arca Vita and Arca Assicurazioni. We expect the bancassurance joint ventures to provide positive growth momentum going forward, especially in the life and health segment. For example, starting from January 2023, UniSalute (the group's health insurance company) products were distributed by both the agents and bancassurances channels which resulted in a growth in premiums of 39%.

Other distribution channels include direct distribution, via internet and brokers.

We believe that UG has strong control over its tied agent organization and its direct distribution, less so over the broker channel. As far as the bank channel is concerned, UG holds majority shares in the joint venture companies. It also holds minority stakes in BPER (19.9% stake) and BPS (19.7% stake) and is the largest shareholder in these partner companies. This contributes to improve Unipol's control over its banking distributors.

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 (57% of gross direct premiums written in 2023) and life business (43%).

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 accounted for 46% of direct gross premiums written in 2023. Nonetheless, we expect the share of motor business to decrease going forward given UG's focus on growing the non-motor business, especially the health segment. Furthermore, UG has limited appetite to increase exposure to nat cat risks, despite the incoming legislation for mandatory policies under discussion in Italy.

In the life segment, life volumes have been mostly driven by guaranteed products (63% of life premiums in 2023), while unit-linked volumes (7% of premiums) contracted significantly, as a result of (1) the company's efforts to improve the attractiveness of traditional products and to reduce lapses as well as (2) equity markets volatility and customer aversion to risk. Nonetheless, we view Italian traditional business as moderately risky. UG has successfully shifted its book to more capital-efficient products with no or lower guaranteed rates over recent years and as a result the average guaranteed rate has decreased to 0.8% at the end of 2023 from 1.6% at year-end 2016.

Other life products include capitalisation products (2% of life premiums) and pension funds (28%, as a result of the acquisition of several pension funds contracts).

In terms of geographic diversification, the group is mainly a domestic player and has limited exposure beyond Italy, stemming from small premiums by its Serbian subsidiary DDOR, but is widely diversified across its home country.

Asset quality: Concentration in Italian government bonds, despite recent reduction

UG's asset allocation is highly geared towards fixed income investments which account for 79% of total invested assets (market value) as at YE 2023. Equities including funds and real estate make up 4% and 9% of the portfolio, respectively. The rest is held in cash and real assets.

Since 2020, UG has materially reduced its exposure to Italian sovereign bonds, which represented 32% of total invested assets as of the end of YE 2023, and reallocated invested assets to other European sovereign bonds and corporate bonds, thus reducing its sensitivity to movements in credit spreads on Italian sovereign bonds, a credit positive.

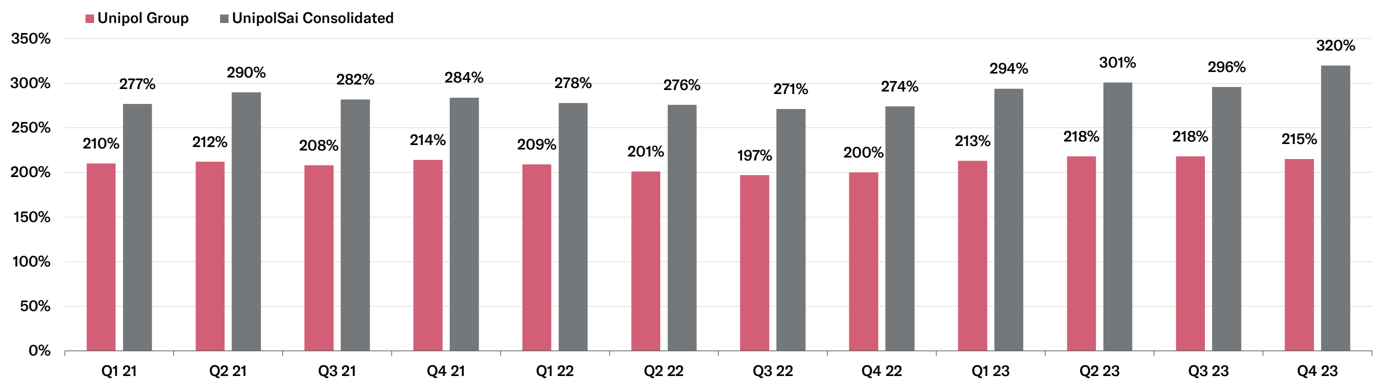
The group's corporate bond portfolio, accounting for 29% of investments, is diversified, however with concentrations in both foreign and domestic banks - a common feature of insurers' investments - although the group has actively reduced these exposures recently.

Capital adequacy: Strong solvency coverage, reduced sensitivity to spreads on Italian government bonds

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 year-end 2023, UG reported a Solvency II ratio of 215% (YE 2022: 200%), whereas UnipolSai reported a sub-group Solvency II ratio of 320% (YE 2022: 274%).

UG's and UnipolSai's Solvency II ratios have more than recovered from the lower levels reached in the first quarter of 2020, when spikes in government bond spreads and financial markets volatility negatively affected them at the outbreak of the coronavirus crisis in Europe. The improvement was driven mainly by de-risking of the investment portfolio, rebounding equity markets and lower credit spreads on Italian government bond yields as well as building of capital thanks to strong earnings.

Exhibit 2
Consolidated Solvency II ratios of Unipol Group and UnipolSai



Sources: Company's filings and Moody's Ratings

Both UG's and UnipolSai's Solvency II ratios, are consistently in excess of their respective target levels (UG: 150%-180%, UnipolSai: 180%-220%; each after dividends) but we understand UG will aim to maintain capital adequacy above these stated target levels to be prepared for potential stress scenarios.

The ratios are sensitive to negative market movements, such as equities, real estate and - to a lesser extent - interest rates. The largest sensitivity for both Solvency II ratios is a spike in credit spreads on Italian sovereign bonds, even though this sensitivity has materially reduced since 2020 thanks to the shifting of invested assets in other investments. This is why we view the group's consolidated capitalisation remains somewhat constrained by the credit quality of Italy's sovereign rating.

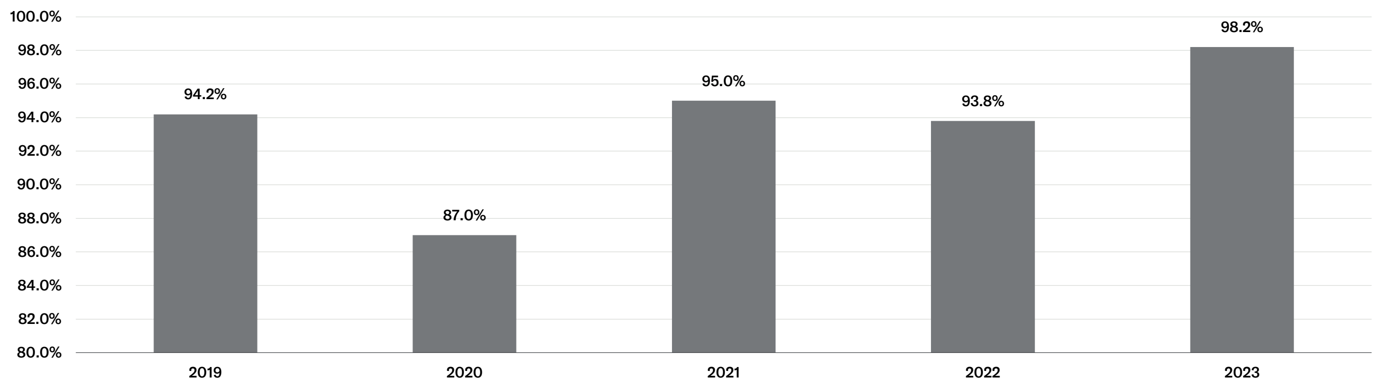
Profitability: Strong P&C underwriting results drive earnings

Unipol's profitability is good with net income ranging from €0.7 billion to €1.3 billion and return on capital oscillating between 5% and 10% in the last five years. For 2023, UG reported a consolidated net profit of €1,331 million, compared to €866 million in 2022.

Profitability is mostly driven by the P&C business. The group is targeting a 92.6% combined ratio by 2024, which would translate into more than €600 million of non-life insurance service result. While combined ratio has been higher in 2022 (93.8%) and 2023 (98.2%) because of inflation and high nat cat losses (in 2023), we expect improvements as Unipol's prompt repricing strategy, together with the implementation of measures to contain claims costs (e.g., spare parts stocking, increased use of affiliate repair shops, claims settlements in cash) have already enabled the group to reduce the motor combined ratio. Unipol also strengthened its reinsurance program, notably to protect the motor segment's profitability in case of hailstorms events.

Investment returns have also been a key contributor to non-life profitability with an increase in ordinary investment income (coupons and dividends yield went up to 3.4% in 2023 from 3.3% in 2022). However, net financial result under IFRS 17 will likely go down in a more stable interest rate environment as investment income will be partly offset by the unwinding of insurance liabilities (which will also offset the benefits of discounting of the combined ratio over the duration of the liabilities).

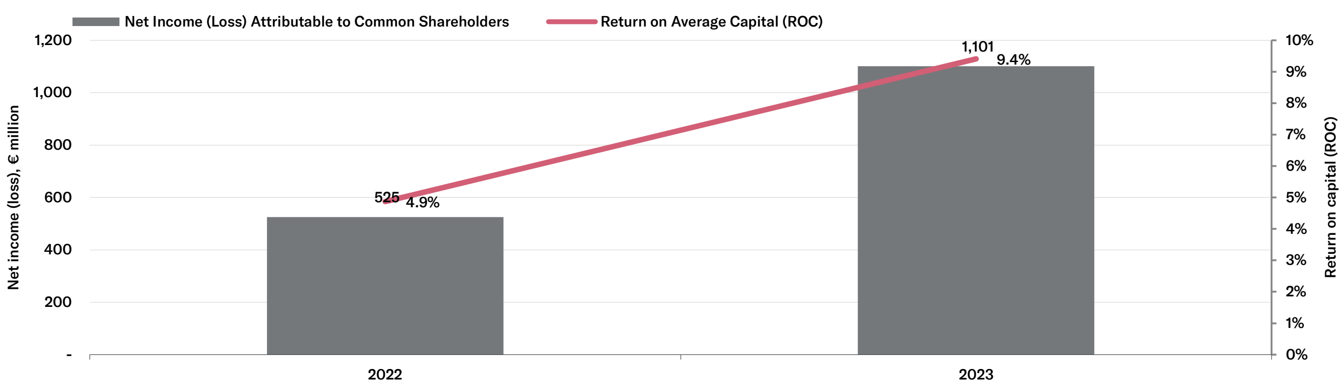
Exhibit 3
Reported net combined ratio



Note: 2023 net combined ratio calculated under IFRS 17, previous years figures reported under IFRS 4
Sources: Company's filings and Moody's Ratings

The life segment is also a key contributor to earnings (around 20% of net income). Life earnings will be relatively stable, mostly driven by the release of the CSM from existing business (€2.3 billion as at YE 2023 of which €0.6 billion will be released in the next three years), and will slowly grow as new business is growing.

Exhibit 4
Net income and return on capital



Information based on IFRS 17 financial statements as of fiscal year ended 31 December 2023
Sources: Company reports and Moody's Ratings

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 relatively stable spreads between guaranteed rates and investment yields.

One of the main ALM risks that the group faces is the surrrender risk in times of sharp increase in interest rates, as evidenced by the increase in lapse rates in 2022 and 2023. Nonetheless, the strong control that Unipol has over its distribution channels act as a mitigant. Unipol is also a shareholder of Cronos Vita, a company managing the run-off business of Eurovita, a life insurer which went bankrupt in 2022. This company is experiencing a very high level of lapse rates, but a large part of the potential losses related to these lapses will be borne by banks which distributed Eurovita's policies, hence protecting Unipol's financial strength.

Overall, Moody's regards UnipolSai's liquidity and ALM as very good, only partially constrained by the concentration risk to Italian government bonds.

Reserve adequacy: Strong track record of conservative reserving and healthy run-off results but some pressure from claims inflation expected

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 and has a conservative reserving approach. Run-off results have been consistently positive since 2014. Moody's calculates a five-year weighted average of 12.4% of reserve releases as a percentage of initial loss reserves for 2019-2023. However, the recent rise in claims inflation could result in some pressure on reserving levels, which could result in lower run-off results.

Financial flexibility: Improving earnings coverage, constrained by the sovereign rating

UG and UnipolSai are not frequent issuers, but combined have material debt outstanding. At year-end 2023, adjusted leverage (taking into account hybrid features of subordinated debt) stood at 24.1% and total leverage at 30.0%.

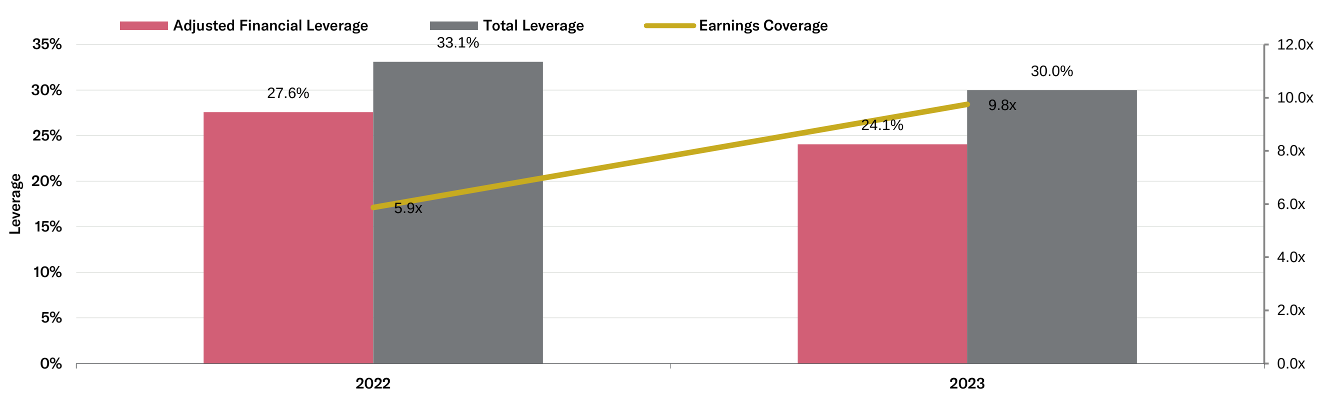
1-year earnings coverage was 9.8x in 2023. In line with the anticipated trend in earnings, we would expect longer-term earnings coverage to gradually improve from the current level going forward.

In addition, the group stated its intention to reduce senior debt after the merger between Unipol Gruppo S.p.A. and UnipolSai is completed, which could further reduce leverage.

UG's leverage and earnings coverage in a combined assessment are sound. 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 5

Financial flexibility metrics



Information based on IFRS 17 financial statements as of fiscal year ended 31 December 2023

Sources: Company filings and Moody's Ratings

Rating methodology and scorecard factors

Exhibit 6
Unipol Gruppo S.p.A.

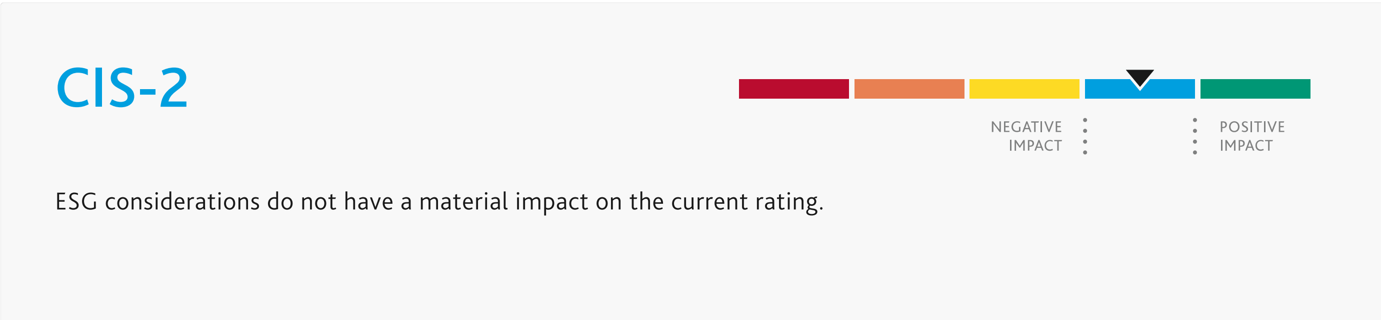
Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Aa	A
Market Position and Brand (20%)								Aa	A
-Relative Market Share Ratio		X							
Distribution (5%)								Aa	A
-Distribution Control		X							
-Diversity of Distribution			X						
Product Focus 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%)								Baa	Baa
-High Risk Assets % Shareholders' Equity				X					
-Reinsurance Recoverables (or Reinsurance Contract Assets) / Shareholders' Equity	X								
-Goodwill & Intangibles % Shareholders' Equity				X					
Capital Adequacy (15%)								Aa	Baa
-Shareholders' Equity % Total Assets		X							
Profitability (15%)								Baa	A
-Return on Capital (5 yr. avg.)				X					
-Sharpe Ratio of ROC (5 yr.)									
Liquidity and Asset/Liability Management (5%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								Aaa	A
-Net Loss Reserves Development / Beginning Net Loss Reserves (5 yr. wtd. avg.)	-21.7%								
Financial Flexibility (15%)								Baa	Baa
-Financial Leverage			X						
-Total Leverage			X						
-Earnings Coverage (5 yr. avg.)			X						
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	A3

[1] Information based on IFRS17 financial statements as of fiscal year ended December 31, 2023. [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 Ratings

ESG considerations

Unipol Gruppo S.p.A.'s ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score



Source: Moody's Ratings

Unipol's ESG Credit Impact Score is neutral-to-low (**CIS-2**). The score reflects a limited impact from environmental and social factors on the rating, which is constrained by the rating of the Italian sovereign. Unipol's strong risk management and effective governance, along with strong capitalization, mitigate its exposure to environmental and social risks, in particular carbon transition risk and customer relations risk.

Exhibit 8
ESG issuer profile scores

Source: Moody's Ratings

Environmental

Unipol has moderate exposure to environmental risk. The group's exposure to physical climate risk is moderate given its P&C business has limited exposure to natural catastrophes, compared to some other European peers. The group manages this risk via reinsurance and its ability to re-price exposures. The insurer is exposed to carbon transition risk through the assets held in its investment portfolio, the majority of which are linked to its traditional life insurance book with high asset gearing. Unipol has a long-standing track record of integrating ESG considerations into its investment policies and risk management practices.

Social

Unipol is exposed to high social risks, driven mainly by customer relation risk based on its interaction with its retail customers and the risk of unfavorable changes in the regulatory and legislative environment. Customer privacy and data security risk is high, given the digitization of Unipol's business model. Demographic and societal trends also pose risks for Unipol, driven by its concentration on the domestic market, with an aging population that will likely limit growth potential in its main business of motor insurance over time, albeit that Unipol is strengthening its presence in non-motor lines of business, for example in health insurance.

Governance

Unipol faces neutral-to-low governance risks. The group follows a clear financial strategy and has recently turned more cautious, as reflected in higher Solvency II capital adequacy targets and the reduction in exposure to Italian sovereign bonds. Over recent years, the group's management, where the former CEO and current chairman plays a dominant role as a key decision maker, has built a sound track record of achieving its objectives. The group is in the process of simplifying its structure, which currently comprises two separate publicly listed entities, as well as its investments in non-insurance subsidiaries results.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Ratings

Exhibit 9

Category	Moody's Rating
UNIPOL GRUPPO S.P.A.	
Rating Outlook	Rating(s) under review
Long Term Rating	Ba1
UNIPOLSAI ASSICURAZIONI S.P.A.	
Outlook	STA
Long Term Rating	Baa2

Source: Moody's Ratings

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