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CREDIT OPINION
1 December 2023

Update

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RATINGS

Unipol Gruppo S.p.A.

Domicile	BOLOGNA, Italy
Long Term Rating	Ba1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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 insurance financial strength rating (IFSR), is the main operating entity of Unipol Group (UG or Unipol), the insurance group controlled by Unipol Gruppo S.p.A.. In 2022 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 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 progress in reducing its exposure to guaranteed rates in life. Other strengths of the group include a good profitability and a very good capitalisation, as evidenced by a consolidated UG Solvency II ratio of 218% at the end of September 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 1.9x of shareholders' equity at September 2023 on a consolidated basis, down from 4.5x at year-end 2016.

Unipol has a strategic plan for 2022-2024 which sets ambitious earnings targets, particularly in terms of non-life underwriting results, where the group intends to reduce the combined ratios to 93.9% and 85.9% in motor and non-motor business respectively.

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 92.8% (average for the period 2018-2022) at UG level, notwithstanding pressures from inflation

» Good level of capitalisation at both UG and UnipolSai sub-group, with Solvency II ratios of 218% (UG's approved partial internal model) and 296% (UnipolSai, consolidated economic capital model) as at Q3 2023.

Credit challenges

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

Rating outlook

The stable outlooks on Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. reflect the stable outlook on the rating of the Italian sovereign.

Unipol's linkage to Italy is driven by the group's exposure to Italian assets, which represented 1.9x its shareholders' equity as at 30 September 2023 on a consolidated basis. In addition, Unipol operates quasi exclusively in Italy.

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.

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.

Key Indicators

Exhibit 1

Unipol Gruppo S.p.A. - Key Financial Indicators (2022-2018)

Unipol Gruppo S.p.A. [1][2]	2022	2021	2020	2019	2018
As Reported (Euro Millions)					
Total Assets	74,539	80,259	79,407	76,102	77,581
Total Shareholders' Equity	7,662	9,722	9,525	8,305	6,327
Net Income (Loss) Attributable to Common Shareholders	683	627	707	903	401
Gross Premiums Written	12,012	12,328	11,867	13,906	12,050
Life Insurance Gross Premiums Written	3,510	4,114	3,759	5,455	3,889
Property & Casualty Insurance Gross Premiums Written	8,502	8,214	8,108	8,451	8,161
Net Premiums Written	11,469	11,849	11,412	13,443	11,628
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	195.2%	157.1%	142.5%	161.2%	181.4%
Reinsurance Recoverable % Shareholders' Equity	13.9%	12.1%	12.0%	17.7%	20.7%
Goodwill & Intangibles % Shareholders' Equity	34.3%	25.6%	25.6%	29.9%	38.0%
Shareholders' Equity % Total Assets	7.6%	9.1%	9.2%	7.9%	5.8%
Return on Average Capital (ROC)	6.6%	5.5%	6.2%	9.2%	5.7%
Sharpe Ratio of ROC (5 yr.)	438.5%	128.3%	122.5%	117.7%	125.2%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-5.7%	-1.9%	-2.9%	-3.0%	-2.9%
Adjusted Financial Leverage	33.1%	29.0%	33.9%	32.6%	36.8%
Total Leverage	41.8%	34.4%	39.0%	35.5%	40.4%
Earnings Coverage	6.8x	5.9x	7.2x	8.5x	6.1x

[1] Information based on IFRS financial statements as of fiscal year ended 31 December 2022. [2] Certain items may have been relabeled and/or reclassified for global consistency
Sources: Company filings and Moody's Investors Service

Detailed credit considerations

UnipolSai's stand alone credit profile stands at A3, reflecting its strong business profile and its good financial profile. Moody's Baa2 for insurance financial strength on UnipolSai is is two notches below the rating indicated by 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 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 holds a market share of 19.7% as at YE 2022. 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.

In its strategic plan 2022-2024, UG aims to achieve strong growth in non-motor lines, notably health and property lines of business. Both lines of business are more profitable than the motor 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 digital health services. 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. The car rental service provided by Unipol Rental is already a material source of revenues with a growth of 20% year-over-year in 2022. The recent merger with SIFÀ will consolidate the leader position of the group.

In life, UG has a smaller market share than in P&C, standing at 5.1% in 2022. Roughly half of sales are via UnipolSai, the other half via bancassurance joint-ventures. Under the strategic plan 2022-2024, UG aims to further leverage its bancassurance model to achieve growth in the life segment. While life premiums volumes surged in Q3 2023 (+13% year-over-year) due to the acquisition of three new pension funds, savings inflows slowed down as competition between insurance products and other savings products (including BTPs) increased after the sharp rise in interest rates in 2022.

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 UniCredit S.p.A. (Baa1 bank deposit stable/Baa1 senior unsecured negative/baa3 bca, through Incontra Assicurazioni S.p.A) which is going to expire in 2023, and a set of cooperative banks and credit institutions. The main ones are BPER (through Arca Vita and Arca Assicurazioni) and Banca Popolare di Sondrio (BPS). These bancassurance joint ventures, through which UnipolSai sells both life and P&C products, will provide positive growth momentum going forward. Growth in bancassurance will also benefit from the growth of BPER which has recently taken over approximately 500 bank branches from Intesa Sanpaolo and absorbed Carige, medium-size italian bank, in November 2022 becoming one of the largest bank in Italy. Starting from January 2023 UniSalute products were distributed by both the agents and bancassurances channels with a positive impact on premiums volumes up 37% at Q3 2023.

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, after the purchase of approximately 10.2% share capital in September 2023) and is the largest shareholder in these partner companies.

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 the first three quarters of 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 47% of direct gross premiums written in Q3 year-to-date (YTD) 2023. Nonetheless, we expect the share of motor business to decrease going forward given UG's focus on growing the non-motor business.

In the life segment, traditional business accounts for the majority of direct premiums (63% in Q3 YTD 2023), followed by pensions fund (28%), unit-linked (7%), and capitalization products (2%). Moody's views 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 0.86% at the end of Q3 2023 from 1.63% at year-end 2016.

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 78.7% of total invested assets (market value) as at YE 2022. Equities including funds and real estate make up 4.4% and 9.3% 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, to 33.3% of total invested assets as of the end of YE 2022 (YE 2021: 39.1%), 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 28.5% 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.

Based on YE 2022 data, Moody's-calculated high risk assets ratio has deteriorated to 195.2% (year-end 2021: 157.1%). The decline is mainly attributable to the considerably decreased shareholders' equity to €6.9 billion YE 2022 (€8.5 billion YE 2021) as a result of increasing interest rates. However, the quality of the assets portfolio has not changed.

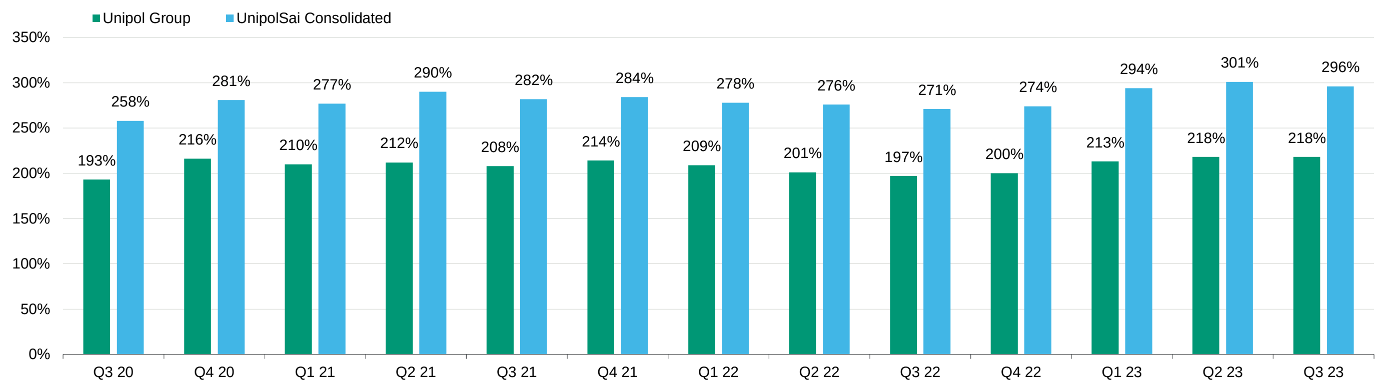
Through UnipolRec, UG had also built a sizable portfolio of non-performing loans with gross exposure of €2.6 billion at the end of the first quarter in 2022. In August 2022, Unipol announced it had agreed to sell the portfolio for a consideration of €307 million, with the closing finalised on 14 December 2022.

Capital adequacy: Strong solvency coverage partially offset by sensitivity to negative market movements

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 2022, UG reported a Solvency II ratio of 200% (YE 2021: 214%), whereas UnipolSai reported a Solvency II ratio of 274% (YE 2021: 284%). At Q3 2023 UG Solvency II ratio improved to 218% and accordingly UnipolSai consolidated ratio stood at 296%.

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 Investors Service

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.

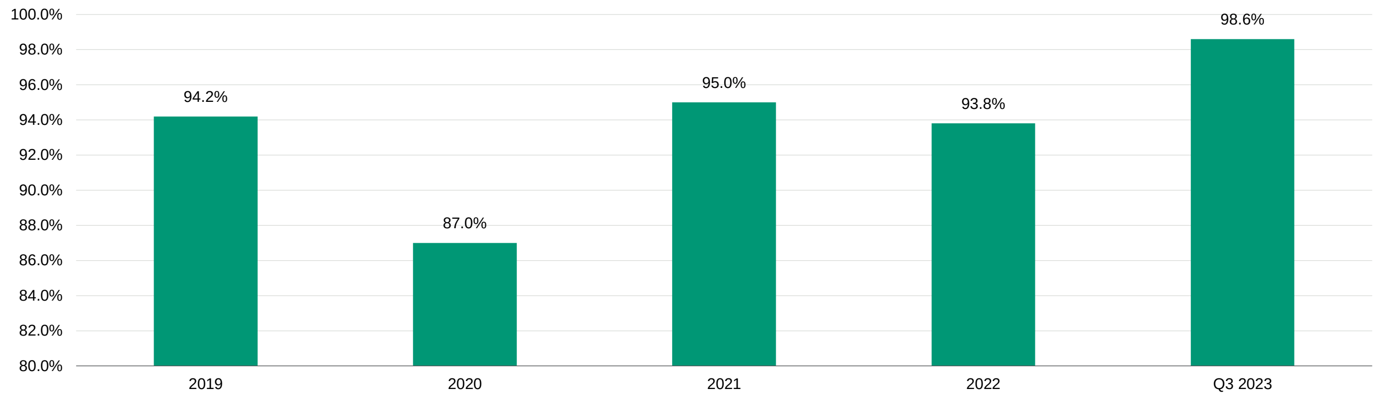
The ratios are sensitive to negative market movements, such as equities, real estate and - to a lesser extent - interest rates. The largest sensitivity for both Solvency II ratios is a spike in credit spreads on Italian sovereign bonds, even though this sensitivity has materially reduced since 2020 thanks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

For 2022, UG reported a consolidated net profit of €866 million, compared to €796 million in 2021. Excluding extraordinary effects, the consolidated net result improved to €774 million from €514 million in the prior year period. The P&C combined ratio stood at 93.8% as of December 2022 (year-end 2021: 95.0%). Investment returns were steady at 3.1%, reflecting higher ordinary investment income (coupons and dividends yield went up to 3.3% from 2.9%) offset by lower net realized/unrealized gains/losses. In Q3 YTD 2023 consolidated net result peaked at €769 million vs €495 million in Q3 YTD 2022 (results reported under IFRS 17), while combined ratio reached 98.6% impacted by severe natural catastrophes which hit Italy in the first nine months of 2023.

Claims inflation had a negative impact on profitability with motor combined ratio up 4 p.p. (99.4% YE 2022 vs 95.3% YE 2021), nonetheless this was offset by the improvement in non-motor combined ratio down 6 p.p. at 83.4% vs 89.7% in 2021. UG has been increasing prices in motor starting from November 2022, with adjusted tariffs on new businesses and renewals. Concurrently measures to contain claims cost were put in place and are in course of further development, i.e., spare parts stocking, affiliate repairmen shops, cash settlements.

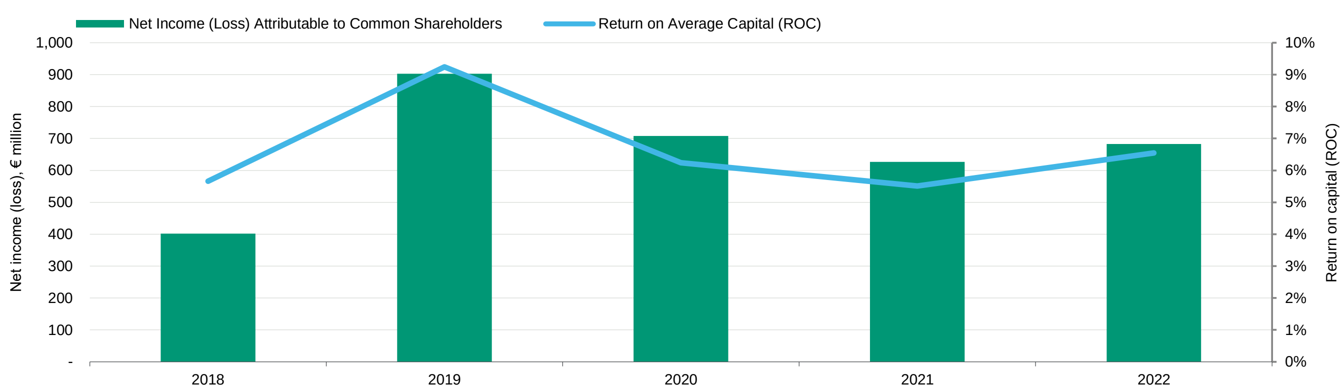
Exhibit 3
Reported net combined ratio



Note: Q3 2023 net combined ratio calculated under IFRS 17, previous years figures reported under IFRS 4
Sources: Company's filings and Moody's Investors Service

Under the strategic plan, UG aims to achieve a cumulative net profit of €2.3 billion in 2022-2024, broadly the same it achieved over the latest strategic cycle from 2019-2021, which however benefited from outstandingly strong P&C underwriting results thanks to the Covid-19 induced fall in claims frequencies. The plan is based on increasing premium volumes in P&C (+4.5% CAGR) and life (+2.5% CAGR), where most of the P&C growth is planned to stem from property and welfare segments. Similarly, UG aims to strengthen the P&C combined ratio to 92.6% in 2024, compared to 95.3% in 2021, with the most significant improvements stemming from property and health lines of business. Weaker economic growth, competitive pressure on pricing levels, and claims inflation are factors that could make it challenging for UG to achieve these targets, whereas the intermittent increase in interest rate will likely provide tailwinds from an investment return perspective.

Exhibit 4
Net income and return on capital



Sources: Company reports and Moody's Investors Service

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. 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 3.6% of reserve releases as a percentage of initial loss reserves for 2018-2022. However, the recent rise in claims inflation could result in some pressure on reserving levels, which could result in lower run-off results.

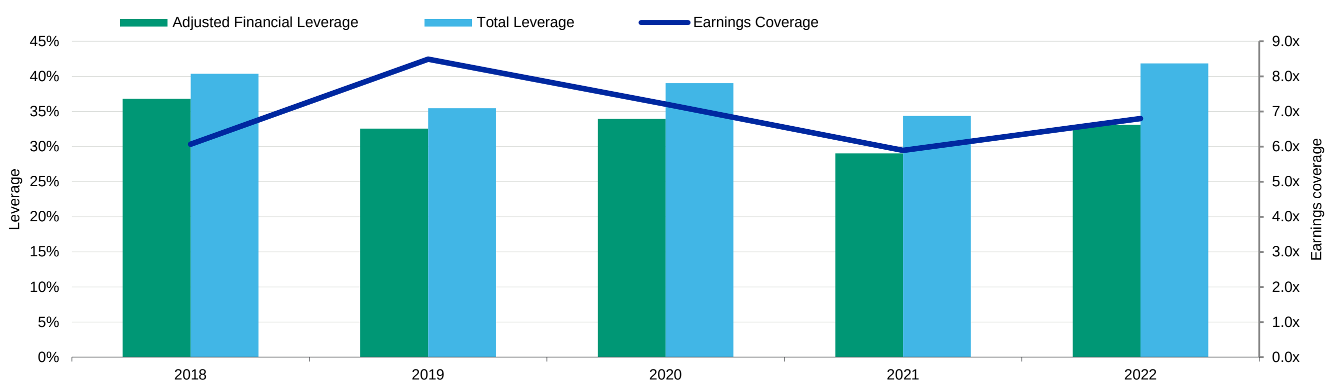
Financial flexibility: Improving earnings coverage, constrained by the sovereign rating

UG and UnipolSai are not frequent issuers, but combined have material debt outstanding. At year-end 2022, adjusted leverage (taking into account hybrid features of subordinated debt) stood at 33.1% (2021: 29.0%) and total leverage at 41.8% (2021: 34.4%). The increase in the leverage is due to the deterioration of shareholders' equity following the rise in interest rates and an increase in the amounts of outstanding loans, €482 million pertaining to UnipolRental that we classify as operating debt.

1-year earnings coverage was 6.8x in 2022 (2021: 5.9x) and the five-year average was 6.9x (increased compared to a year earlier). In line with the anticipated trend in earnings, we would expect longer-term earnings coverage to gradually improve from the current level going forward.

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



Sources: Company filings and Moody's Investors Service

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%)								A	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 Recoverable % Shareholders' Equity	13.9%								
-Goodwill & Intangibles % Shareholders' Equity			34.3%						
Capital Adequacy (15%)								A	Baa
-Shareholders' Equity % Total Assets			X						
Profitability (15%)								Aa	A
-Return on Capital (5 yr. avg.)			X						
-Sharpe Ratio of ROC (5 yr.)	X								
Liquidity and Asset/Liability Management (5%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								Aa	A
-Adv. (Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd. avg.)		-3.6%							
Financial Flexibility (15%)								Baa	Baa
-Adjusted Financial Leverage			33.1%						
-Total Leverage				41.8%					
-Earnings Coverage (5 yr. avg.)			X						
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	A3

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2022. [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 Investors Service

ESG considerations

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

Exhibit 7

ESG credit impact score

CIS-2

NEGATIVE IMPACT

POSITIVE IMPACT

ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

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

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2

Source: Moody's Investors Service

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 structure of the group, which comprises two separate publicly listed entities, as well as its investments in non-insurance subsidiaries results in a more complex organizational structure despite the group taking steps to streamline by disposing of its fully-owned banking operations.

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	STA
Senior Unsecured	Ba2

Source: Moody's Investors Service

Moody's Related Research

Issuer comments

» Unipol Gruppo S.p.A.: Increase in stake in Banca Popolare di Sondrio will help secure access to banking distribution (May 2021)

Rating Actions

» Moody's affirms Unipol's ratings and changes outlook to stable (November 2023)

» Moody's affirms Italian insurers' ratings, changes Unipol's outlook to negative (August 2022)

» Moody's upgrades UnipolSai's IFS rating to Baa2 with a stable outlook (May 2022)

» Moody's assigns a B1(hyb) rating to UnipolSai's restricted Tier 1 notes (October 2020)

» Moody's assigns a Ba2 rating to Unipol GruppoS.p.A.'s green bond (September 2020)

Industry outlook

» Insurance – Europe: Outlook 2023 (January 2023)

» Insurance - Italy: 2023 outlook (June 2023)

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