

Research Update:

# Austria-Based UNIQA Group Outlook Revised To Negative On Russia-Ukraine Exposure; Ratings Affirmed At 'A'

March 8, 2022

## Overview

- The Russia's military intervention against Ukraine and the widening of sanctions against Russia could eventually destabilize the Ukrainian and Russian economies and financial systems.
- UNIQA Insurance Group AG (UNIQA) has operations in Russia and Ukraine, with a premium volume of about 3% of group revenue and 6.9% of total earnings before taxes in 2021, and about €530 million of asset exposure.
- We believe this asset exposure could bring capital and earnings volatility in 2022 beyond our initial base-case assumptions but note the group's gradually improving operating performance, with strong underwriting and bottom-line results in 2021 and sound capitalization levels into 2022.
- We therefore revised our UNIQA outlook to negative from stable and affirmed our 'A' ratings on the group's core entities UNIQA Österreich Versicherungen AG and UNIQA Re as well as the 'A-' rating on the operating holding company UNIQA Insurance Group AG.
- The negative outlook reflects potential capital and earnings volatility stemming from UNIQA's Russian and Ukrainian asset exposure as a result of Russian military hostilities against Ukraine.

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## Rating Action

On March 8, 2022, S&P Global Ratings revised its long-term rating outlook on Austria-based multiline insurance group UNIQA and all its subsidiaries to negative from stable. We also affirmed the 'A' long-term issuer credit and financial strength ratings on the group's core operating entities and the 'A-' long-term issuer credit and financial strength ratings on UNIQA's operating holding company and highly strategic subsidiary.

## Rationale

Following Russia's military intervention against Ukraine, we are assessing the effects of the related economic sanctions on economies, borrowing conditions, and credit quality in the region and worldwide.

The negative outlook reflects our view that UNIQA's exposure to Russia and Ukraine poses a one-in-three chance of a downside risk to the ratings deviating from our base-case assumptions.

At year-end 2021, UNIQA's exposure to Ukraine and Russia made up 2.9% of overall gross written premiums and 6.9% of total earnings before taxes. Moreover, UNIQA had about €530 million of assets in the two countries, mainly invested in government debt and to a lesser extent in corporate debt, property, and cash. We believe there is significantly increasing credit risk for these assets, which could lead to capital and earnings volatility for UNIQA, as indicated by the recent sovereign rating actions on Russia and Ukraine (see "Russia Ratings Lowered To 'CCC-' And Kept On CreditWatch Negative On Increasing Risk Of Default," published March 3, 2022 and "Ukraine Long-Term Ratings Lowered To 'B-', Placed On CreditWatch Negative On Fallout From Russia's Military Attack," published Feb. 25, 2022, on RatingsDirect).

However, we believe that UNIQA has gradually improved its operating performance with a sound underwriting and bottom-line result in 2021, including a combined ratio (loss and expense) of 93.7%, net income of €315 million, and a return on equity (ROE) of about 9%. UNIQA benefits from strong underlying performance in its Austrian and Central and Eastern European markets. Moreover, UNIQA entered 2022 with sound capital adequacy with a Solvency II ratio of about 194% and capital adequacy above the 'AAA' level, according to the S&P Global Ratings' capital model. We therefore affirmed the ratings but also believe that UNIQA's exposure to Russia and Ukraine could make it more challenging to achieve our initial base-case assumptions on capital and earnings.

Under our base-case scenario prior to the military hostilities, we estimated a continued strong non-life combined ratio of 94%-97% and net income above €200 million over 2022-2023, with ROE of 5%-7%. We also assumed UNIQA will maintain its capital adequacy above the 'AAA' level in 2022-2023. We still believe UNIQA is well placed to post strong underwriting results but net income and ROE targets, as well as our capital forecast, could be more volatile and affected by potential impairments on Russian and Ukrainian assets in 2022, with a high level of uncertainty at this stage. We therefore revised the outlook to negative and will closely monitor the effects from the military intervention on UNIQA's assets exposure and its capital and earnings in the next 12 months.

## Outlook

The negative outlook reflects potential capital and earnings volatility stemming from UNIQA's Russian and Ukrainian asset exposure following Russia's military intervention against Ukraine.

## Downside scenario

We could lower the ratings by one notch in the next 12 months if:

- Adverse market developments hit UNIQA's Russian and Ukrainian assets, materially weakening its capital adequacy below the current excellent level and profitability against our base-case assumptions; or

- The group significantly underperforms over a prolonged period.

We could widen the notching of the group's operating holding UNIQA Insurance Group AG (UIG) if the holding reports a material reduction in cash flow from own operating activity.

## Upside scenario

We could revise the outlook to stable within the next 12 months if:

- UNIQA maintains its 'AAA' capital adequacy against market volatility in its asset portfolio, especially in Russia and Ukraine;
- Operating performance is broadly in line with our base-case assumptions against capital market volatility and potential asset write-downs; or
- Its funding structure sustainably improves based on stable underlying earnings.

We could upgrade UIG if the holding substantially and sustainably increases cash flows from own operating activity.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>UNIQA Insurance Group AG</b>		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--
Financial Strength Rating	A-/Negative/--	A-/Stable/--
<b>UNIQA Oesterreich Versicherungen AG</b>		
<b>UNIQA Re AG</b>		
Issuer Credit Rating	A/Negative/--	A/Stable/--
Financial Strength Rating	A/Negative/--	A/Stable/--

**Ratings Affirmed**

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**UNIQA Insurance Group AG**

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Senior Unsecured	A-
Junior Subordinated	BBB

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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