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UNIQA Insurance Group AG

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UNIQA Insurance Group AG

Anchor	a	+	Modifiers	0	=	SACP	a

Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Moderately negative

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

Support	**0**
Group support	0
Government support	0

=

A/Negative/--

Financial strength rating

A-/Negative/--

Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

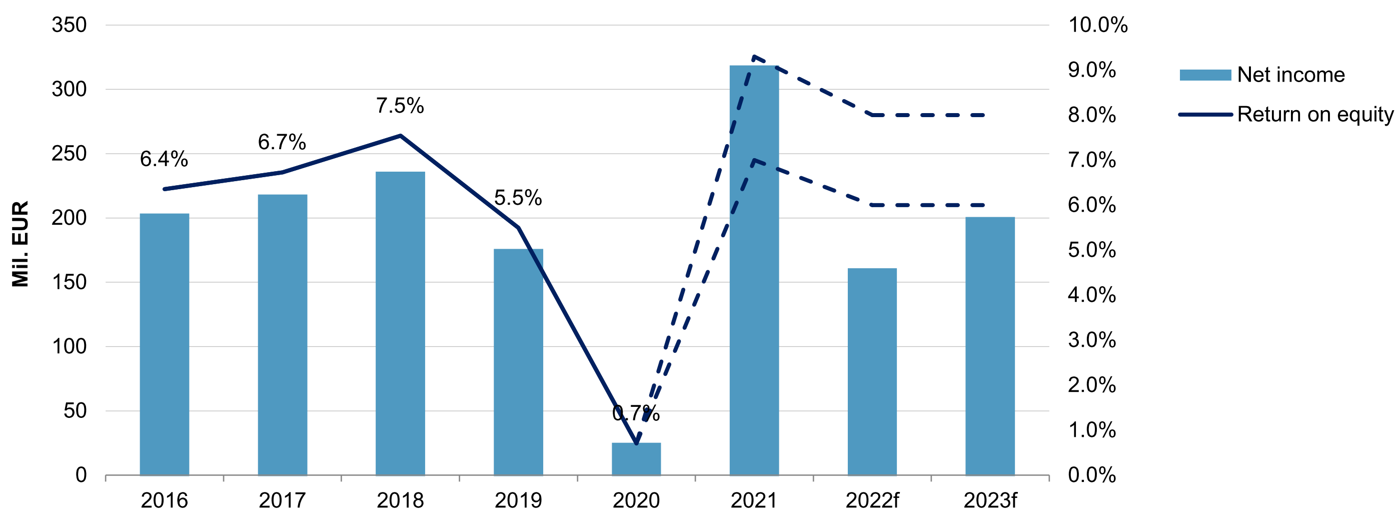
Key strengths	Key risks
A diversified product portfolio and distribution network, and a well-established business model in Austria and Central and Eastern Europe (CEE).	Volatile capital markets, high inflation, and exposure to Russian and Ukrainian assets could create pressure on UNIQA's capital and earnings.
The market leader in private health insurance in its domicile market.	Somewhat higher reliance on softer forms of capital, namely hybrids and the value of in-force business.
Stable capital buffers at the 'AAA' level as per S&P Global Ratings' risk-based capital model.	More aggressive funding structure than that of its peers.

Rationale

We expect UNIQA will maintain its underlying profitability over 2022-2024 despite several geopolitical and macroeconomic challenges Notwithstanding adverse market conditions and the impact of the Russia-Ukraine conflict, UNIQA's underwriting and investment performance in all business segments was strong throughout the first nine months of 2022. Gross written premiums increased by 4.3% compared to the same period in 2021. Reported net income rose by about 3% to €243 million. The property and casualty (P/C) net combined (expense and loss) ratio remained almost stable at 94.4% compared to 94.2% in 2021 due to continued pricing discipline. As a result of the underlying underwriting and cost discipline, we expect robust underlying earnings in the medium term, which could, however, be constrained by the combination of higher inflation, volatile capital markets, an economic downturn, and the risk exposure to Russia and Ukraine beyond our base-case scenario. We still believe UNIQA can achieve a return on equity sustainably above 6% supporting the build-up of capital in line with growth targets in our base-case scenario.

Chart 1

Capitalization To Be Supported By Solid Earnings Generation



Source: S&P Global Ratings. f--Forecast

Given a decline in the group's shareholder equity within 2022, following a fall in unrealized investment gains, return on equity (ROE) could exceed 8% for 2022-2023.

We expect that UNIQA's capital position will remain robust in the foreseeable future. We expect that UNIQA's capital position will continue to be a strength, with capital adequacy remaining above the 'AAA' level of our risk-based capital model throughout 2023-2024, supported by strong earnings and a conservative investment allocation. We still believe the direct exposure to Russia and Ukraine, combined with secondary order effects could bring capital and earnings volatility beyond our initial base-case assumptions (see "Research Update: Austria-Based UNIQA Group Outlook Revised To Negative On Russia-Ukraine Exposure; Ratings Affirmed At 'A'," published March 8, 2022).

Outlook: Negative

The negative outlook reflects potential capital and earnings volatility stemming from UNIQA's Russian and Ukrainian asset exposure and secondary order effects 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 assets, materially weakening its capital adequacy below the current excellent level and profitability against our base-case assumptions; or
- The group's profitability significantly underperforms over a prolonged period.

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 the group's operating holding UNIQA Insurance Group AG (UIG) if the holding substantially and sustainably increases cash flows from its own operating activity.

Key Assumptions

- We expect real GDP growth of 3.6% in 2022 and economic stagnation for 2023 (0.0%). For 2024-2025 we estimate annual GDP growth of between 1.7% and 2%.
- For 2022-2023, in Austria, we forecast an unemployment rate of about 4.5%%, coupled with inflation of about 7%-8%%.
- Increasing interest rates and 10-year eurozone government bond yields to increase to 2.69% by 2025.

UNIQA--Key Metrics

	2023f	2022f	9M2022*	2021	2020	2019	2018	2017
Gross premium written (mil. €)	>6,500	>6,400	5,033	6,358	5,565	5,373	5,309	5,293
Net income (mil. €)	200-230	160-230	243	318	24	175	235	217
Return on shareholders' equity (%)	>6	>6	12.5	9.2	0.7	5.5	7.5	6.7
P/C: Net combined ratio (%)	94-97	94-97	94.4	93.7	97.8	96.4	96.8	97.5
Life & health new business margin (%)	>2	>2	N/A	4.1	3.6	4.3	5.9	4.5

UNIQA--Key Metrics (cont.)

	2023f	2022f	9M2022*	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Net investment yield (%)	>2	>2	2.4	2.4	2.3	2.5	2.5	2.5
Financial leverage (%)	>40	>40	N/A	39.6	39.6	29.8	33.7	30.9
Fixed charge coverage (x)	>4	>4	N/A	4.3	3.7	5.7	6.7	6.0

*As reported by UNIQA. e--S&P Global Ratings expected; f--S&P Global Ratings forecast.

Business Risk Profile: Strong

Our assessment of UNIQA's business risk reflects the group's established brand name as Austria's second-largest insurer coupled with its improved standing in the CEE insurance markets. We think UNIQA has built a well-established market position and a comprehensive product portfolio within the Austrian and CEE insurance business through a focused organic and inorganic growth strategy. Additional business diversification through an international reinsurance business is added by UNIQA Re AG (A/Negative/--).

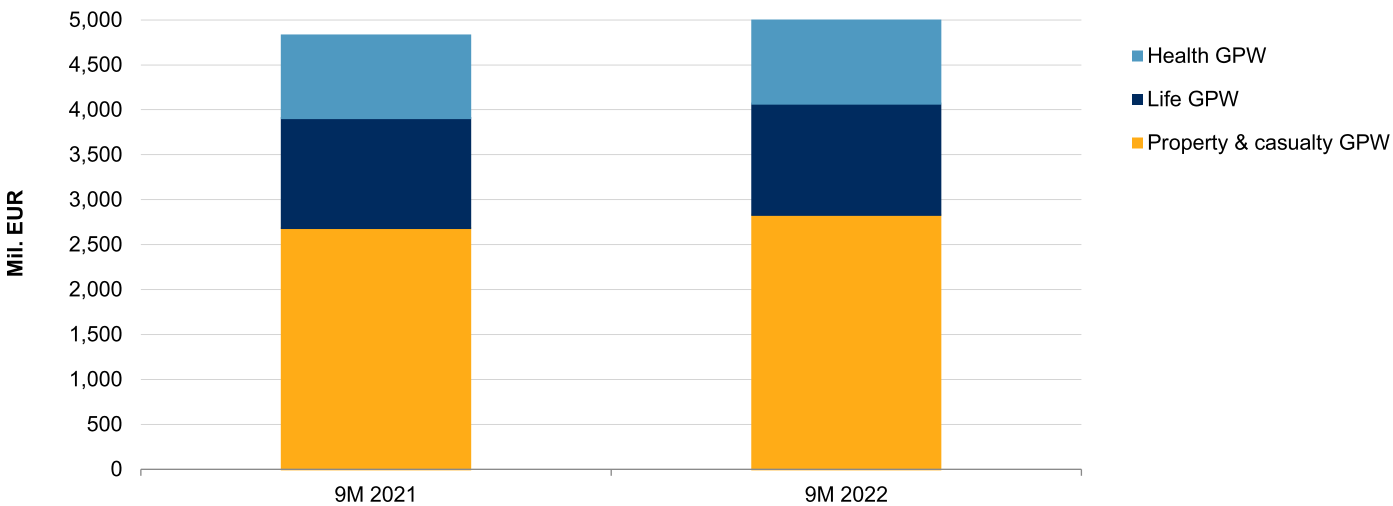
Furthermore, the group has well-established distribution relationships with members of its tied agents' network. We believe that the group's competitiveness is driven mainly by its client centric approach and bancassurance cooperation with Raiffeisen Bank International (RBI) in Austria and with mBank in Poland.

In our opinion, the group will continue to leverage its longstanding relationships with private clients, small and midsize enterprises, and bancassurance cooperations to further cement its market standing in Austria and CEE. As a result of the 2020 AXA CEE acquisition UNIQA's standing in Poland, Czech Republic, and Slovakia has further strengthened and we expect this trend to continue. UNIQA's premium growth will likely exceed 4% in 2022, despite geopolitical and macroeconomic challenges. We believe the group will likely sustain business growth of 2%-4% over 2023-2024.

UNIQA's diverse business portfolio of P/C, life, and health insurance products has historically supported a sound balance of business growth and profitability. Total premiums exceeded €5 billion for the first nine months of 2022 compared with about €4.8 billion for the same time period in 2021.

Chart 2

Resilient Operations In Austria And CEE Drive UNIQA's Business Growth In 2022



9M--First nine months. GPW--Gross premiums written Source: S&P Global Ratings.

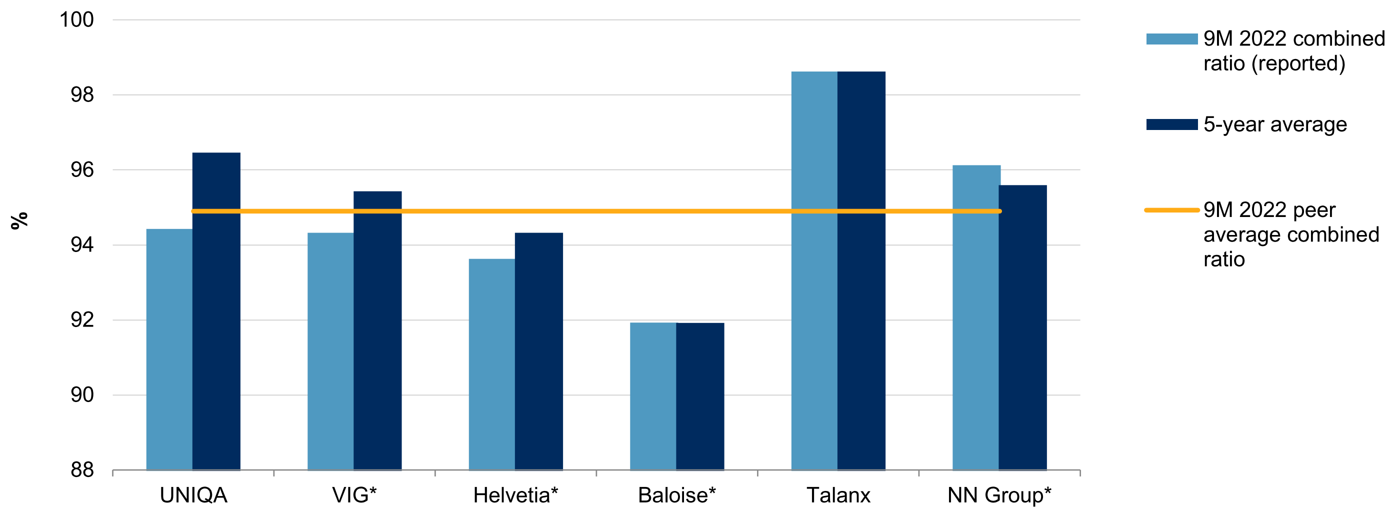
We believe the group will continue successfully expanding in 2023-2025, driven by organic growth of CEE entities, ongoing synergy effects, and its own resilient core operations in Austria.

Following the acquisition of AXA CEE, UNIQA is the fifth-largest insurer in the CEE, with a comprehensive insurance offering across the region. In the first nine months of 2022, its CEE premiums increased by 3.5%% to €1.89 billion from €1.8 billion for the same period in 2021. About two-thirds of premiums relate to P/C insurance business, with the rest mainly from the profitable, capital-light life and health insurance businesses. CEE premiums now make up about 38% of UNIQA's combined premiums, with more than three-quarters coming from more developed countries in the region (Czechia, Slovakia, Poland, and Hungary) where country and insurance industry risk is only slightly higher than in Austria.

UNIQA has maintained underwriting discipline with a five-year (2021-2017) combined ratio of about 96.4%. Furthermore, for the first nine months of 2022, underwriting performance remained resilient, with a net combined ratio of 94.4% fully in line with its peers.

Chart 3

UNIQA's P/C Underwriting Performance To Remain Resilient In 2022



Source: S&P Global Ratings. *1H 2022 reported combined ratio

Overall, we expect the combined ratio will remain in the range of 94%-97%, coupled with increasing margins in UNIQA's life insurance business due to rising interest rates leading to net income of more than €160 million over 2022-2024, in our base-case scenario.

Overall, we expect that robust retained earnings will continue to support the group's capital adequacy, while financing growth and expected dividend payouts of 50%-60% of net income.

Financial Risk Profile: Strong

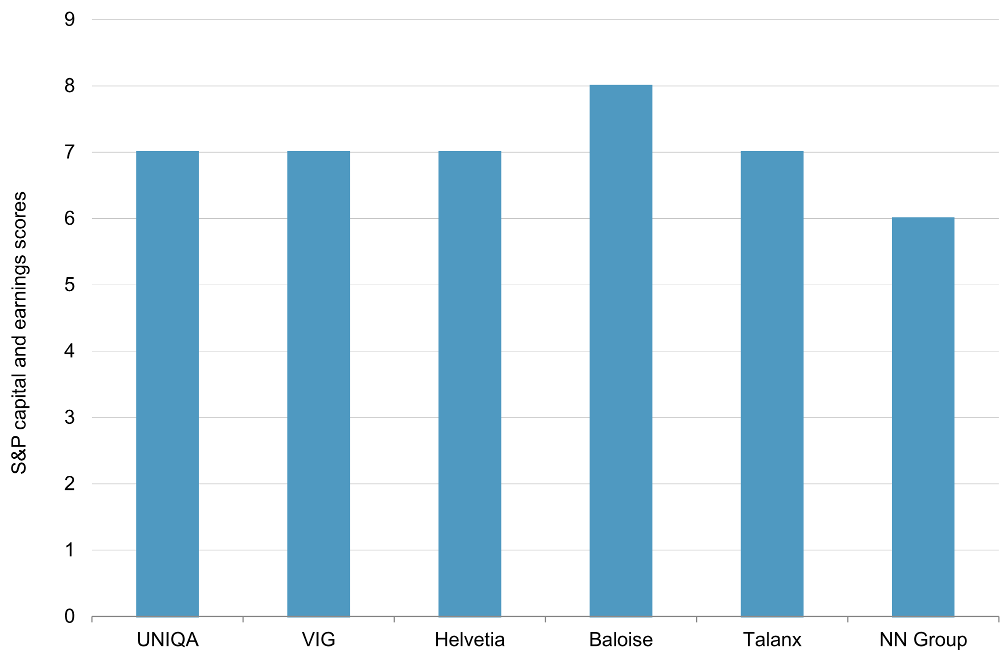
According to our risk-based capital model the group's capitalization remained at the 'AAA' level and we expect the group to maintain its capital position throughout 2022-2024 supported by sound earnings generation, ongoing underwriting discipline, a shift toward capital-light products, and a conservative investment allocation.

Despite declining market values of bonds and equities, and impairments of Russian assets, capital adequacy proved resilient for the first nine months of 2022 during volatile financial market conditions. However, we believe there is still increased risk for assets and operations in Russia and Ukraine as well as pressure from high inflation and capital market volatility, which could lead to capital and earnings volatility for UNIQA.

Additionally, our view on UNIQA's capital is somewhat constrained by higher reliance on softer forms like hybrid capital or value-in-force relative to overall total adjusted capital. This results in our downward adjustment of our capital and earnings assessment.

Chart 4

UNIQA's Capital Position Remains Robust Despite Geopolitical And Macroeconomic Challenges



Source: S&P Global Ratings. C&E Scores as mentioned in our publications.

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 €500 million of assets in the two countries, mainly invested in local and foreign currency government debt and to a lesser extent in corporate debt, property, and cash. The market exposure of all local currency Russian securities remained relatively stable, but the Russian Eurobonds assets outside of Russian entities were reduced by an impairment of €127 million in the first half of 2022.

UNIQA's investment exposure remained solid, benefiting from a balanced, diversified, and stable investment portfolio, and a conservative reinsurance protection strategy. The group continues to follow a conservative investment strategy, with its investments having an average credit quality of 'A.'. Most of the acquired assets are in fixed-income securities of local governments rated in the 'A' and 'AA' range. That said, about 13% of invested assets are in real estate, predominantly in Austria. Other higher-risk assets like equities, speculative-grade, and unrated securities, represent about 12.5% of total invested assets.

In December 2021, UNIQA issued another qualifying green hybrid bond of €375 million as part of its debt-liability management and simultaneously bought back the commensurate nominal amount of its hybrid debt issued in 2013 and 2015. We consider that followed the completion of the transaction, UNIQA will be committed to maintaining its current capital structure and stable capitalization levels (see "UNIQA Insurance Group’s Proposed Junior Subordinated

Callable Fixed-To-Floating Notes Rated 'BBB'," published Nov. 25 2021). As the early refinancing with partial buyback of hybrid capital has not changed the debt amount outstanding, the leverage remained stable for year-end 2021. A decline in the group's shareholder equity within 2022, following a fall in unrealized gains, could increase the group's leverage ratio. For UNIQA we anticipate a leverage ratio of above 40% in 2022. At the same time, we envisage fixed-charge coverage to improve in 2022 given our base-case expectations for earnings.

Other Key Credit Considerations

Governance

Governance and disclosure standards in Austria are high. We consider UNIQA's management and governance assessment to be in line with that of its peers. UNIQA has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives, particularly in terms of building up its strong market position in the Austrian and CEE insurance markets. The company also has a highly experienced management team that complements its operational needs.

Liquidity

We continue to assess UNIQA's liquidity as exceptional according to our measures. We have no refinancing concerns, and we expect the group would be able to withstand any severe liquidity stress, such as that caused by unexpectedly large claims.

Factors specific to the holding company

UIG continues to write reinsurance business and as such remains an operating holding company of the group, generating cash to partly fulfil its financial obligations with own means. However, because we think that UIG's own cash flow is relatively limited, we continue to apply a one-notch differential between the ratings on the holding and the core operating entities of UNIQA Group.

Group support

We consider UNIQA Versicherungen Österreich and UNIQA Re as core operating entities of the group.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of UNIQA Insurance Group.

Accounting considerations

- UNIQA prepares its consolidated financial statements according to International Financial Reporting Standards.
- We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded-value disclosure.

- We base our assessment of UNIQA's capital adequacy on its reported shareholders' equity, which we adjust mainly to account for 50% of the life insurance value in force not included in the balance sheet.
- Our assessment of financial flexibility relies on the consolidated group, including UNIQA Versicherungsverein Privatstiftung obligations.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, 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

Related Research

- Insurance Industry And Country Risk Assessment: Austria Property/Casualty, Dec. 1, 2022
- Insurance Industry And Country Risk Assessment: Austria Life, Dec. 1, 2022
- EMEA Insurance Outlook 2023: In The Midst Of The Perfect Storm, Nov. 14, 2022
- Research Update: Austria-Based UNIQA Group Outlook Revised To Negative On Russia-Ukraine Exposure; Ratings Affirmed At 'A', March 8, 2022
- UNIQA Insurance Group’s Proposed Junior Subordinated Callable Fixed-To-Floating Notes Rated 'BBB', Nov. 25, 2021

Appendix

UNIQA--Credit Metrics History

Ratio/metric	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	27,722	28,392	25,988
Total shareholder equity	3,323	3,475	3,387
Gross premiums written	6,358	5,565	5,373
Net premiums written	5,767	5,071	4,887
Net premiums earned	5,698	5,030	4,861
Reinsurance utilization (%)	9.30	8.89	9.03
EBITDA	584.8	267.9	355.5
Net income (attributable to all shareholders)	317.9	24.3	175.1

UNIQA--Credit Metrics History (cont.)

Ratio/metric	2021	2020	2019
Return on shareholders' equity (reported) (%)	9.26	0.71	5.49
P/C: net combined ratio (%)	93.73	97.75	96.35
P/C: net expense ratio (%)	32.39	34.56	32.15
P/C: return on revenue (%)	7.22	(0.13)	4.11
Life: Net expense ratio (%)	30.08	33.41	33.81
Health: Medical loss ratio (%)	76.62	79.43	82.67
EBITDA fixed-charge coverage (x)*	4.34	3.72	5.71
Financial obligations/ EBITDA*	3.73	8.50	4.05
Financial leverage including pension deficit as debt (%)*	39.62	39.59	29.81
Net investment yield (%)	2.28	2.33	2.51
Net investment yield including investment gains/(losses) (%)	2.83	2.27	2.77

*All figures include also UNIQA Versicherungsverein Privatstiftung.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of December 15, 2022)*

UNIQA Insurance Group AG	
Financial Strength Rating	
Local Currency	A-/Negative/--
Issuer Credit Rating	
Local Currency	A-/Negative/--
Junior Subordinated	BBB
Senior Unsecured	A-
Related Entities	
UNIQA Oesterreich Versicherungen AG	
Financial Strength Rating	
Local Currency	A/Negative/--

Ratings Detail (As Of December 15, 2022)*(cont.)	
Issuer Credit Rating	
Local Currency	A/Negative/--
UNIQA Re AG	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Domicile	Austria

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.