

UNIQA Insurance Group AG

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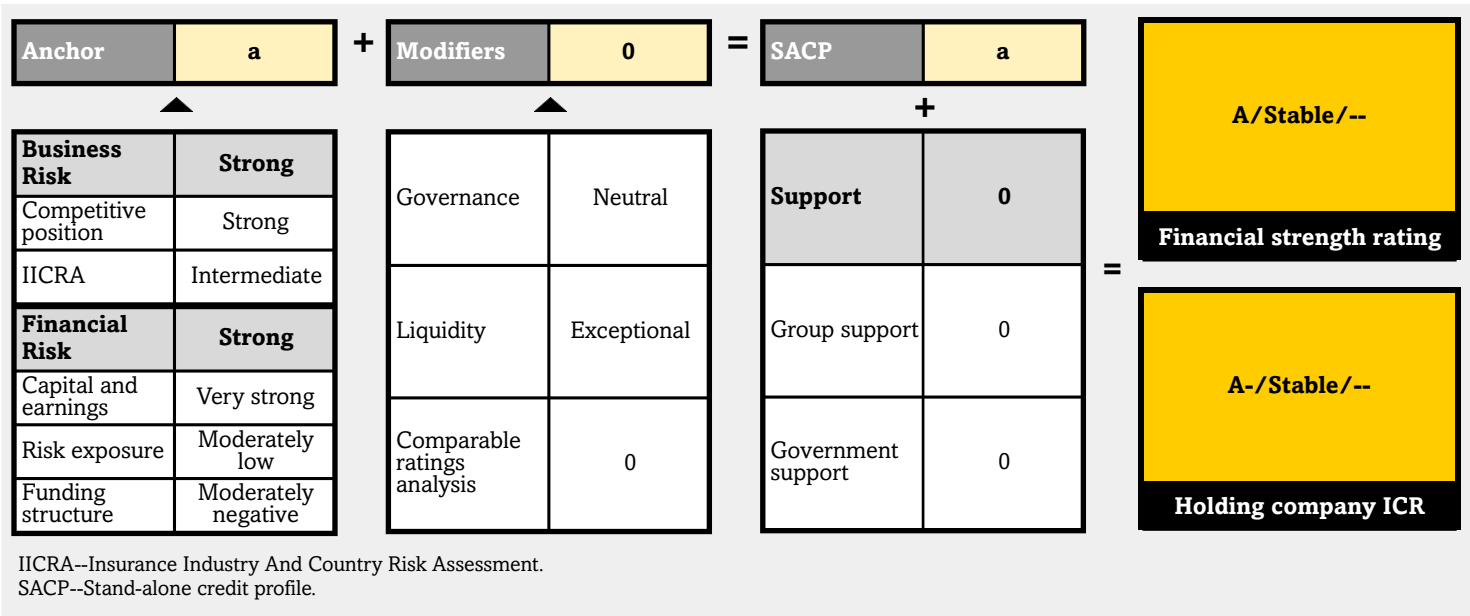
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UNIQA Insurance Group AG



Note: The higher anchor of 'a' is because the geographic, business and earnings diversification is becoming firmer from its enlarged CEE operations. As a result, we consider the stronger position in CEE will help to build-up capital in line with business growth as already demonstrated in 2021.

Credit Highlights

Overview	
Key strengths	Key risks
A diversified and well-established business model in Austria complemented by its strong foothold in Central and Eastern Europe (CEE).	More aggressive funding structure than that of peers.
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.
Sound capital buffers at the 'AAA' level as per S&P Global Ratings' risk-based capital model.	Overall earnings are likely to be pressured by low interest rates, in line with peers'.

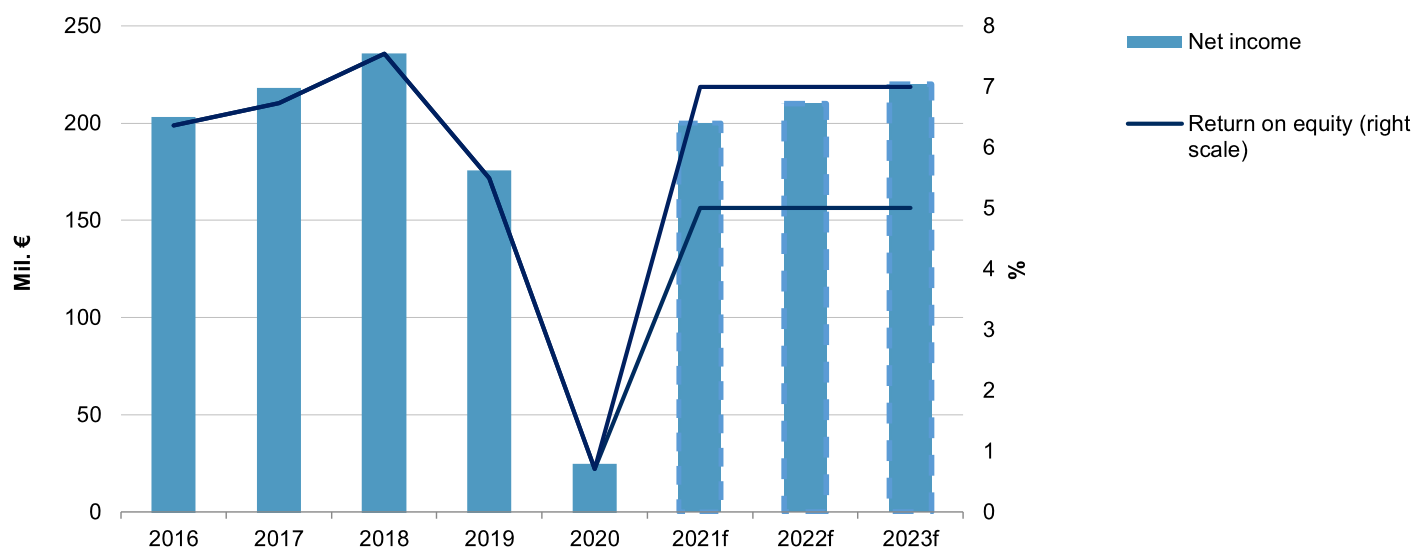
Rationale

We believe the AXA CEE integration will enable UNIQA to further enhance its presence in the CEE where the group already enjoys a solid footprint. In our opinion, the group will continue to leverage its longstanding relationships with private clients, small-and-mid-sized enterprises, and bancassurance cooperations to further cement its market standing in Austria and CEE. The recently acquired AXA CEE business will strengthen UNIQA's standing in Poland, Czech Republic, and Slovakia. UNIQA has successfully integrated the former CEE companies and its premium growth will likely exceed 15% in 2021. We believe the group will likely sustain business growth of 1%-3% over 2022-2023.

We expect UNIQA will maintain its underlying profitability over 2021-2023. In the first nine months 2021, UNIQA showed a resilient underwriting and investment performance in all business segments. Reported net income rose by about 42% to €236 million, the property and casualty (P/C) net combined (expense and loss) ratio improved to 94.2% from 95.9% for the same period in 2020. Given the stable investment yield in combination with the underlying underwriting and cost discipline, we expect robust earnings of more than €200 million annually over 2021-2023. We anticipate this will result in a return on equity of 5%-7%, supporting the build-up of capital in line with growth targets.

Chart 1

Gradual Earnings Improvement To Support UNIQA's Capitalization



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

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We expect that UNIQA's capital position will remain robust in the foreseeable future. We expect that UNIQA's capital position following the completion of AXA CEE's acquisition will continue to be a strength, with capital adequacy remaining above the 'AAA' level of our risk-based capital model through 2023, supported by improving earnings and a conservative investment allocation. In addition, our assumptions are further backed by the group's solvency II ratio, which remained robust at 197% as of Sept. 30, 2021.

Outlook: Stable

The stable outlook reflects our view that, over the next two years, UNIQA's capital position will remain resilient and its operating performance will gradually improve, while the integration of AXA CEE proceeds smoothly.

Downside scenario

We could lower the ratings over the next two years if adverse market developments materially weakened UNIQA's capital adequacy prospects below the current excellent level and would weaken its profitability. A significant underperformance of AXA CEE's profit contribution could also pressure the ratings. We could widen the notching of the group's operating holding UNIQA Insurance Group AG (UIG) if the holding reported a material reduction in cash flow from own operating activity.

Upside scenario

An upgrade of UNIQA is unlikely over the next two years, in our view. It would hinge on a material and sustained improvement in the group's funding metrics, combined with a pronounced strengthening of operating performance. We'd also have to observe further improvements in earnings diversification through which the group enhanced the resilience of its business profile. We could upgrade UIG if the holding substantially and sustainably increased cash flows from own operating activity.

Key Assumptions

- After real GDP contraction of 6.3% in 2020, we now expect the Austrian economy to rebound by 2%-4% over 2021-2024.
- For 2021, in Austria, we expect unemployment of about 5%, coupled with inflation of about 2%.
- 10-year eurozone government bond yields to remain low at 0%-1% on average through 2021-2024.

UNIQA Insurance Group AG--Key Metrics

	2022f	2021f	9M2021*	2020	2019	2018	2017
Gross premium written (mil. €)	>6,400	>6,300	4,827	5,565	5,373	5,309	5,293
Net income (mil. €)	200-230	200-230	236	24	175	235	217
Return on shareholders' equity (%)	>5	>5	9.2	0.7	5.5	7.5	6.7
P/C: Net combined ratio (%)	95-97	94-96	94.2	97.8	96.4	96.8	97.5
Life & health new business margin (%)	>2	>2	N/A	3.6	4.3	5.9	4.5
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Net investment yield (%)	>2	>2	2.4	2.3	2.5	2.5	2.5
Financial leverage (%)	<40	<40	N/A	39.6	29.8	33.7	30.9
Fixed charge coverage (x)	>4	3-4	N/A	3.7	5.7	6.7	6.0

*As reported by UNIQA. e--S&P Global Ratings expected. f--S&P Global Ratings forecast. 9M--Nine months. P/C--Property and casualty. N/A--Not applicable.

Business Risk Profile: Strong

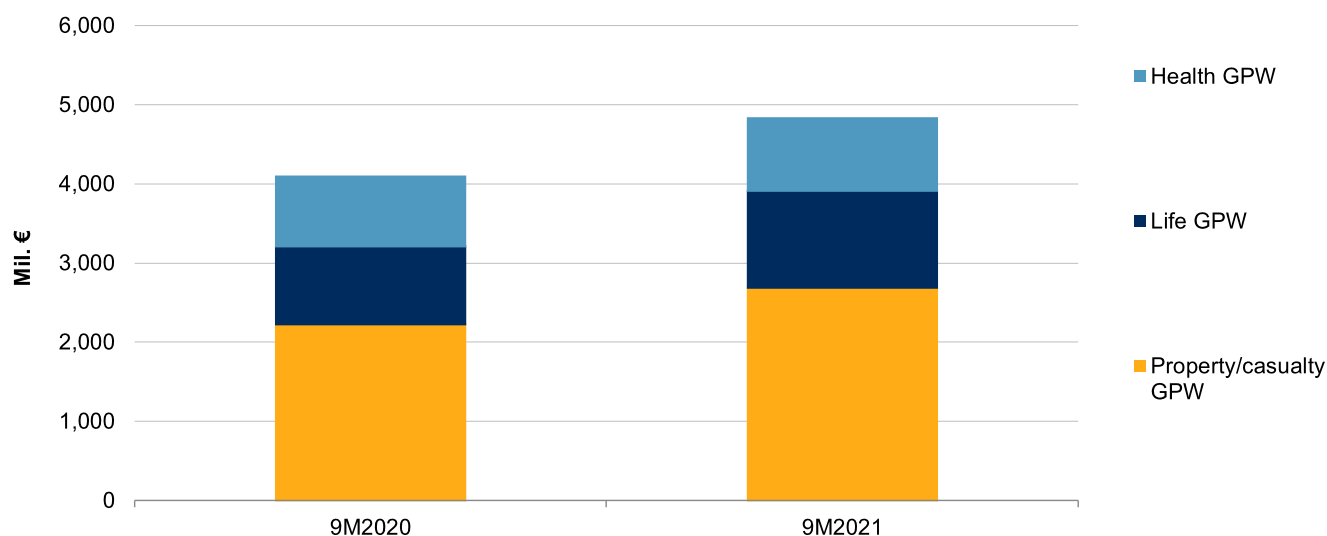
Our assessment of UNIQA's business risk reflects the group's established brand name as Austria's second-largest insurer coupled with its improved standing in the CEE insurance markets. Furthermore, in our opinion, additional business diversification is added by UNIQA Re AG (A/Stable/--), which brings in international reinsurance business.

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. The group has well-established distribution relationships with members of its tied agents' network. Furthermore, 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 mBank in Poland.

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 exceed €4.8 billion for the first nine months of 2021 compared with around €4 billion for same time period in 2020.

Chart 2

AXA CEE's Integration And Resilient Core Operations Are Supporting UNIQA's Business Growth In 2021



GPW--Gross premium written. 9M--First nine months. Source: S&P Global Ratings.
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We believe the group will continue successfully expanding in 2022-2024, driven by organic growth of CEE entities, ongoing synergy effects and its own resilient core operations in Austria.

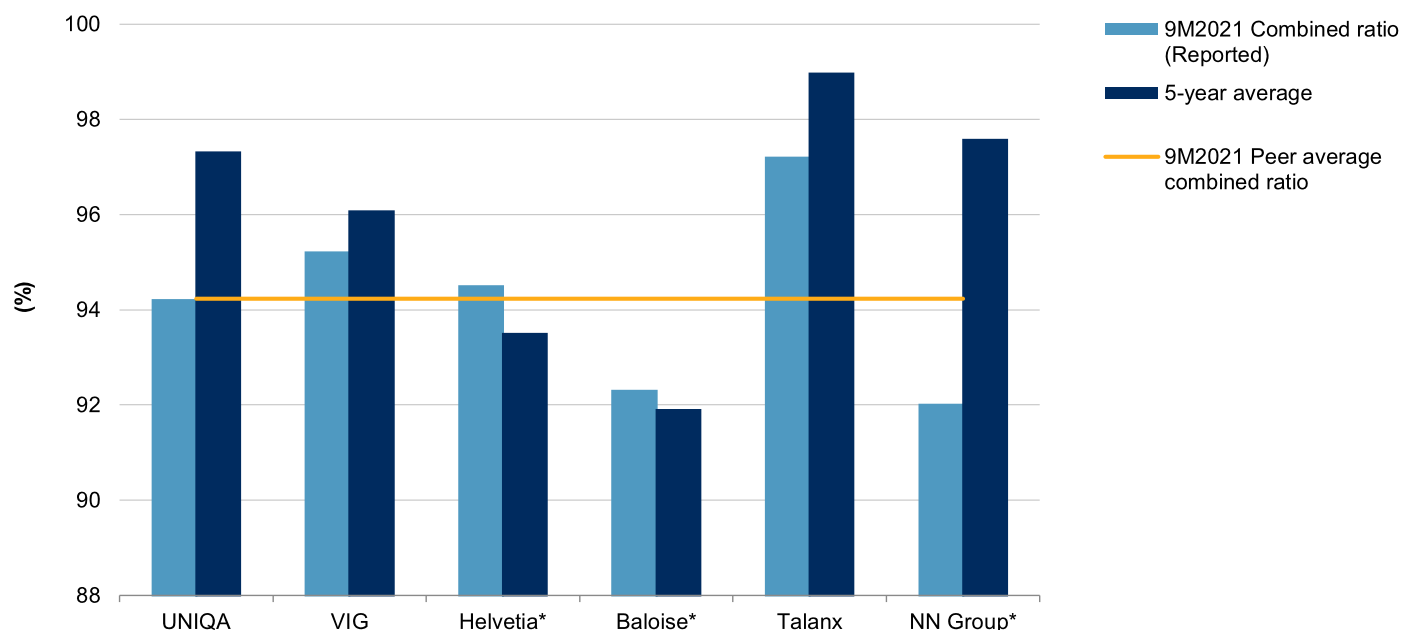
Following the acquisition, UNIQA is now the fifth-largest insurer in the CEE, with a comprehensive insurance offering

across the region. In the first nine months of 2021, the CEE premiums increased by 61% to €1.82 billion from €1.13 billion for the same period in 2020. About two-thirds of premiums relate to the well-performing P/C insurance business, and the rest is 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. In our view, UNIQA continues to face intermediate industry and country risk, because the AXA acquisition did not materially increase overall business risk.

UNIQA has historically maintained underwriting discipline with a five-year (2020-2016) combined ratio of about 97%. Furthermore, for the first nine months of 2021, underwriting performance remained resilient, with a net combined ratio of 94.2% fully in line with its peers.

Chart 3

UNIQA's P/C Underwriting Performance To Remain Resilient In 2021



Source: S&P Global Ratings. *1H2021 reported combined ratio.
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Although margins in its Austrian life business remain under pressure, due to lower-for-longer interest rates, we believe UNIQA's earnings will be supported by prudent underwriting practices. Overall, we expect the combined ratio will remain in the range of 94%-97%, coupled with net income of more than €200 million over 2021-2023.

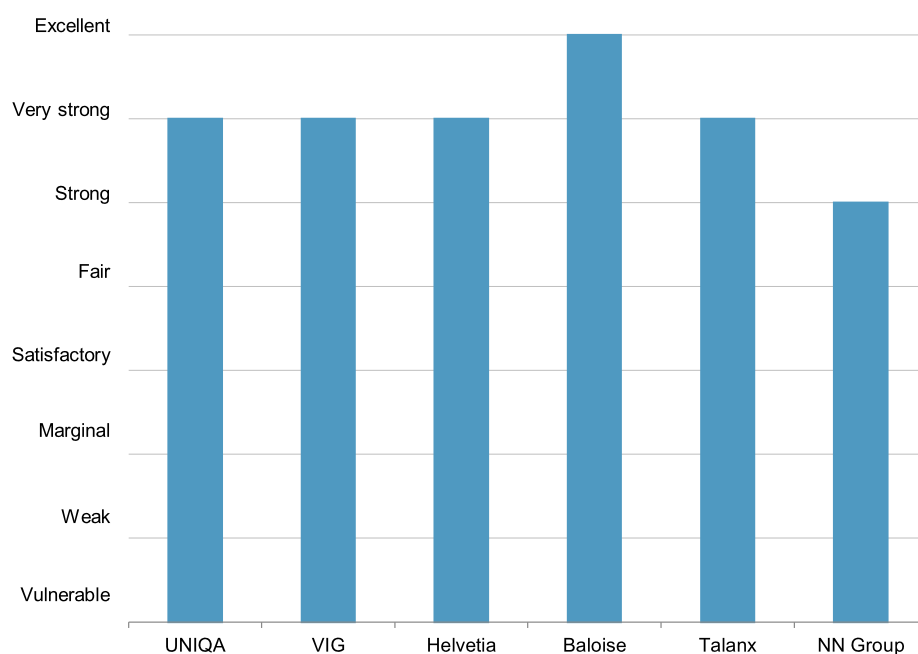
Financial Risk Profile: Strong

UNIQA sustained its capital at the 'AAA' level of our capital model for first nine months of 2021, despite the AXA CEE acquisition and integration. We expect the group will maintain its current capital position through 2021-2023, supported by sound earnings generation, ongoing underwriting discipline, shift toward capital-light products and a conservative investment allocation. Having said that, 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.

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.

Chart 4

UNIQA's Capitalization Remains Robust Despite AXA CEE Acquisition And Integration



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

UNIQA's risk profile remains solid, benefiting from a balanced, diversified, and stable investment portfolio, and a conservative reinsurance protection strategy. The group follows a conservative investment strategy, with its investments having an average credit quality of 'A.' We do not believe that the AXA CEE integration has materially changed UNIQA's asset allocation or quality. Most of the acquired assets are in fixed-income securities of local

governments rated in the 'A' and 'AA' range. Due to low interest rates, UNIQA is gradually adjusting and tapping some illiquidity premiums in the real estate, infrastructure, and the private debt space. This said, about 13% of invested assets is 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.

The financing of the AXA CEE acquisition in 2020 with an additional €600 million senior bond, and a €200 million capital-qualifying green hybrid bond has weakened the groups' funding structure metrics. The financial leverage increased to 39.6% for year-end 2020 from 29.8% in 2019.

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 amount of its hybrid issued in 2013 and 2015. We consider that followed the completion of the transaction, UNIQA will be committed to maintaining its capital structure as is and stable capitalization levels (see "UNIQA Insurance Group's Proposed Junior Subordinated Callable Fixed-To-Floating Notes Rated 'BBB'," published Nov. 25 2021).

In our view, the transaction does not immediately affect our assessment of UNIQA's funding structure. We consider that the additional cost of the transaction might pressure fixed-charge coverage in 2021, which we expect to remain below 4x, then gradually improve in 2022-2023. That said, we believe that transaction will have a neutral effect on the company's financial leverage.

Other Key Credit Considerations

Governance

Governance and disclosure standards in Austria are high. We consider UNIQA's management and governance assessment is in line with that of peers. Management is focusing on consistent strategic goals and building on the core capabilities, as demonstrated with the successful integration of the AXA CEE entities. We believe the board is experienced and capable of executing the group's business strategy. At this stage, we do not anticipate a material change in risk appetite or financial strategy.

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
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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 alphanumeric 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

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- UNIQA Insurance Group's Proposed Junior Subordinated Callable Fixed-To-Floating Notes Rated 'BBB', Nov. 25, 2021
- EMEA Insurance Outlook 2022 Sector: Fighting Fit For 2022, Nov. 16, 2021
- Insurance Industry And Country Risk Assessment: Austria Property/Casualty, Nov. 11, 2021
- Insurance Industry And Country Risk Assessment: Austria Life, Nov. 11, 2021

Appendix

UNIQA Insurance Group AG--Credit Metrics History

(Mil. €)	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	28,392	25,988
Total shareholder equity	3,475	3,387
Gross premiums written	5,565	5,373
Net premiums written	5,071	4,887
Net premiums earned	5,030	4,861
Reinsurance utilization (%)	8.9	9.0
EBIT	268	356
Net income (attributable to all shareholders)	24	175
Return on shareholders' equity (reported) (%)	0.71	5.49
P/C: net combined ratio (%)	97.75	96.35
P/C: net expense ratio (%)	34.56	32.15
P/C: return on revenue (%)	(0.13)	4.11
Life: Net expense ratio (%)	33.41	33.81
Health: Medical loss ratio (%)	79.43	82.67
EBITDA fixed-charge coverage (x)*	3.72	5.71
Financial obligations / EBITDA*	8.50	4.05
Financial leverage including pension deficit as debt (%)*	39.59	29.81
Net investment yield (%)	2.33	2.51
Net investment yield including investment gains/(losses) (%)	2.27	2.77

*All figures include also UNIQA Versicherungsverein Privatstiftung. P/C--Property and casualty.

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, 2021)***Holding Company: UNIQA Insurance Group AG**

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Junior Subordinated

BBB

Senior Unsecured

A-

Operating Companies Covered By This Report**UNIQA Re AG**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

UNIQA Oesterreich Versicherungen AG

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

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.

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