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UNIQA Insurance Group

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UNIQA Insurance Group

Please note that the ratings covered by this full analysis apply only to core entities of the group, which are listed below. These ratings do not apply to any noncore or unrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Major Rating Factors

Holding Company: UNIQA Versicherungen AG
Counterparty Credit Rating
Local Currency
A-/Stable/--
Operating Companies Covered By This Report
Financial Strength Rating
Local Currency
A/Stable/--

Strengths:

- Strong competitive position
- Strong underlying operating performance
- Sound operational management

Weaknesses:

- Substantial earnings volatility as a result of exposure to weak financial market conditions
- Improving, but still limited, scale and earnings diversity through foreign operations
- Capitalization needs to be cautiously managed against ambitions for growth in Central and Eastern Europe

Rationale

The ratings on UNIQA Personenversicherung AG (UPV), UNIQA Sachversicherung AG (USV), and UNIQA Re AG (UNIQA Re) reflect their core status within the Austria-based UNIQA insurance group (UNIQA).

UPV and USV form integral parts of UNIQA and contribute significantly to the group's strong competitive position, strong underlying operating performance, and sound operational management. However, current earnings volatility as a result of weak financial markets, limited scale and earnings diversity, and the need to balance capitalization against planned business growth partly offset these strengths. We consider UNIQA Re fundamental to the group's risk-management strategy.

UNIQA maintains a strong competitive position as one of the market leaders in Austria and has strong distribution capabilities. In addition, it has successfully stimulated above-market-average organic growth in Central and Eastern Europe (CEE).

The group's underlying operating performance remains strong. UNIQA's non-life underwriting result has improved substantially in 2008, reflected by a reported net combined ratio of 96.5% for the first three quarters of this year, after 99.4% for the corresponding period in 2007. Robust life and health risk results also contribute to a stable block of earnings.

UNIQA has successfully executed efficiency programs, which Standard & Poor's Ratings Services recognizes as the major impetus for further improvement in operating performance. The group is successfully pursuing a further program that is expected to boost bottom-line earnings by another €200 million per year by 2010.

Nevertheless, we expect difficult investment conditions to create substantial volatility in the group's results for full-year 2008 and potentially in 2009. The first three quarters of 2008 saw a 66% drop in investment income to €255 million. For the last quarter of this year, we expect further pressure on results, although the group has reduced its equity exposure to about 3%. Consequently, we expect pretax profit to slump to about €100 million for full-year 2008, following €340 million in 2007.

The group's scale and earnings diversity via its foreign operations are increasing, although still relatively limited. The further development of its CEE presence should stimulate growth and significantly add to its geographic premiums and earnings diversification in the longer term. The group will need to further demonstrate the ability to compete successfully against larger players in each of these markets in the long term, through above-market-average business growth.

Although we expect capitalization to remain strong, we see it as a relative weakness to the rating in light of the group's funding needs to support its expansion in CEE. The low share price and an upcoming private placement of €300 million in hybrid capital will somewhat weaken the group's financial flexibility.

Outlook

The stable outlook reflects our expectation that the group will continue to benefit from its strong underlying operating performance, with its non-life net combined ratio well below 100% and the life and health new-business margins exceeding 2.5% (based on the present value of future premiums). Thanks to increasing groupwide cost efficiency, UNIQA should achieve a return on equity (ROE) well in excess of 10% once investment conditions stabilize. We expect the group to increasingly derive its earnings from outside the Austrian market, although its lack of scale will restrict earnings diversity relative to top-line premiums development, at least over the next two years. We assume that capitalization will remain at least strong.

Downward rating pressure could emerge if underlying operating performance were to weaken or capital market or CEE macroeconomic conditions deteriorated more sharply than currently perceived and materially affect UNIQA's financial profile. We see no upside rating potential in the current market environment.

Corporate Profile: One Of The Market Leaders In Austria

UNIQA, with €5.8 billion in gross premiums written expected for full-year 2008, enjoys leading positions in all segments of the Austrian insurance market and has market shares of about 50% in health, 21% in life, and 17% in non-life insurance. It operates through various brands that are well established in Austria, and its nondomestic business accounts for about 40% of premium income. UNIQA follows a niche strategy in some Western European markets and aims to become a diversified composite player in CEE.

UNIQA's ultimate main shareholders include the mutual organization Austria Versicherungsverein AG (not rated) and Raiffeisen Zentralbank Oesterreich (RZB; A/Negative/A-1), each with a shareholding of more than one-third. The ratings on UNIQA's core operations indirectly benefit from their affiliation to RZB through their long-standing cooperation in Austria and CEE.

Competitive Position: Strong Domestic Profile With Increasing International Diversification

Table 1

UNIQA Insurance Group--Business Statistics					
	--Year-ended Dec. 31--				
(Mil. €)	2007	2006	2005	2004	2003
Total gross premiums written (including unit-linked)	5,276	5,091	4,730	3,778	3,133
Non-life (%)	41.7	40.0	40.9	43.8	39.8
Life (%)	41.1	42.5	41.3	36.5	37.2
Health (%)	17.2	17.5	17.9	19.7	23.0
Non-life gross premiums written by line of business (%)					
Accident and health--other	11.0	11.0	10.9	11.2	11.9
Motor	42.2	41.6	40.5	41.5	43.2
Marine, aviation, and transport	4.8	5.1	5.4	4.2	2.5
Property	25.0	25.1	25.2	24.5	23.8
Liability	10.0	10.3	10.3	9.6	9.6
Legal expenses	2.3	2.2	2.1	2.1	2.1
Other	4.7	4.7	5.7	6.7	7.0

We regard UNIQA's competitive position as strong, particularly in its domestic market, whereas the group's main growth area is expected to be CEE. With the expansion of the CEE operations, the strategic importance of the group's Western European niches is gradually declining. However, so far, UNIQA has achieved relatively limited scale compared with its CEE peers. The group needs to demonstrate the success of recent investments in this region and achieve more dynamic organic growth, with the continued support of its strategic partners--Austria's cooperative banks (Raiffeisenbanken)--over a sustained period. UNIQA's competitive advantages in the domestic market include strong distribution capabilities and its well-diversified portfolio by line of business. In addition, the group is aiming to exploit existing customer relationships through add-on services and its detailed customer-information system. Through this move, UNIQA is seeking to benefit from cross-selling potential and further develop its strong service standards as a key differentiator.

Domestic life insurance

UNIQA has a strong position in the Austrian life market, which should provide further growth potential, thanks to increasing demand for private and corporate pensions. The group's life insurance segment benefits materially from its exclusive access to the broad network of the Raiffeisen cooperative banks through its subsidiary Raiffeisen Versicherung AG (not rated). Banks remain the most important distribution channel for life products in Austria.

Moreover, the group's brand for unit-linked products, Finance Life Versicherung AG (not rated), continues to develop favorably. In line with the industry, UNIQA has increased its focus on pension and unit-linked products, in particular, new state-subsidized products, which have continued to encourage new business. Overall, UNIQA's domestic life premiums are expected to remain broadly flat in 2008 at about €1.5 billion, representing about 26% of the group's premium income.

Domestic health insurance

We believe that UNIQA has a significant competitive advantage from its dominant franchise in this sector, where it benefits from excellent brand recognition, very strong market expertise, and excellent service to policyholders. Significant investments in disease-management capabilities should improve its claims ratio in the longer term. Nevertheless, health lobbying is likely to place continued pressure on profitability. In general, we expect the group's domestic health premiums to increase by 3% to €0.7 billion in 2008, which represents about 12% of its total premium income.

Domestic non-life insurance

The non-life book has become more profitable over the past several years. We expect softening in some business lines that may put pressure on business volumes and profitability, which the group aims to somewhat alleviate through product innovation. The group's domestic non-life premiums are expected to increase by about 2% to €1.3 billion in 2008 or about 23% of total premium income.

Geographic diversification

In our view, UNIQA's increasing geographic diversification is vital to expanding the business and achieving larger scale and earnings diversity over time. Although we consider its international operations to have no material bearing on the current ratings, they may positively influence the ratings in the medium to longer term. In 2008, 22% of premium income is likely to stem from the CEE region and 17% from Western Europe, where UNIQA is focusing on niche positions in Germany, Italy, Switzerland, and Liechtenstein.

In CEE, the group is active in 15 countries, with its largest operations in Poland and Hungary. The scale of its CEE presence is limited compared with that of more active competitors. Nevertheless, the group's status as preferred partner of the Raiffeisenbanken fuels its business expansion in CEE and facilitates easier market entry through a strong distribution channel.

Prospective

UNIQA is well placed to maintain its strong competitive position in Austria. We expect the group's strong distribution power and sound prospects for the life market to support its domestic franchise. We expect its foreign operations in CEE to expand more strongly than those in the domestic market, gradually increasing business and earnings diversification. However, UNIQA will need to demonstrate the ability to compete effectively with larger players in each market through above-market-average business growth.

Management And Corporate Strategy: Sound Operational Management

Management has made further progress in improving its geographic diversity and the quality of its operations, in particular, its nondomestic franchise. Nevertheless, we remain somewhat concerned about the competitive strength of UNIQA's foreign subsidiaries and their ability to compete effectively with local peers, both in Western Europe and CEE. Operational and financial management skills are sound and essential to controlling a geographically diversified insurance portfolio.

Group strategy

Management's main focus is on diversifying the group's geographic profile while maintaining strong profitability. Profits from the Austrian businesses provide the platform for investment in foreign expansion. Internationally, UNIQA follows a strategy of niche positions in Western Europe, a composite strategy in Central Europe, and a strategic focus on bank partnerships in Eastern European markets.

We regard CEE as UNIQA's strongest business opportunity. We expect the group to make further acquisitions and investments in the local business models in this region to reach its target of at least 5% market share in non-life and 3% in life in all the countries where it is present. Above-market-average growth over the past two years in all CEE countries instills confidence about the competitiveness and viability of the group's strategic approach. UNIQA intends to use largely a single-brand strategy in CEE.

Operational management

We consider UNIQA's operational management to be sound because management has demonstrated its ability to improve profitability over the past few years. The group successfully achieved its goals of earnings improvement between 2001 and 2006, and a new ongoing program is expected to improve bottom-line earnings by another €200 million per year by 2010. A key project is the outsourcing of back-office capacity to Slovakia, which should save an annual €15 million in costs.

Efficient operational controls are crucial, particularly in light of the increasing complexity of the group. A balanced-score-card approach is an effective tool to monitor and distribute profit responsibility across the organization. UNIQA can also draw on its strong integration track record of newly acquired companies. A groupwide information technology platform, the assignment of responsibility for each country to the holding company's management board, a groupwide risk-management framework, and competence centers should help streamline its operations. We expect a strong customer-segmentation platform and improving risk-management concepts to support operational decision making in the future.

Financial strategy

The group's financial management is sound and clear and transparent performance targets are in place. UNIQA's groupwide financial targets include the achievement of a pretax ROE of at least 20%, which we consider highly unlikely for full-year 2008 and challenging in 2009 because of the impact of weak financial market and economic conditions. The group aims to fund growth largely from retained earnings, with dividend payouts set at a maximum 30% of net profits. Regulatory group solvency is targeted to remain in excess of 120%. This capital policy, however, is tight compared with peers', and UNIQA's capitalization is a relative weakness to the rating. With regard to foreign acquisitions, UNIQA has determined clear business plans. It would consider exiting individual CEE markets if it does not achieve the desired profitability within five years.

Enterprise Risk Management: Adequate And Set To Improve Through Defined Enhancements

We consider UNIQA's enterprise risk management (ERM) to be adequate. Risk-control processes are mostly strong and based on a detailed set of risk exposures from 12 risk areas, allowing the group to estimate its potential exposure to each individual risk. A "traffic light" system triggers alerts based on deviations from experience. The group has implemented Prophet risk models to analyze European Embedded Value (EEV) in life and traditional embedded value in health insurance. It has also enhanced risk-capital modeling in non-life using a dynamic financial analysis tool. Full integration of these models into a groupwide economic model and consistent use of risk capital in business planning and pricing should, over time, enhance strategic risk management. A sound governance structure, clear risk policies, and regular risk reporting that broadens the awareness of risk across the organization support the group's risk-management culture. Nevertheless, UNIQA is still faced with the challenge of instilling a consistent

ERM culture across the group. We regard this as essential for this complex group, given that it operates in many lines of business (mostly private and small and midsize enterprises) and geographic areas. We expect the group to continue improving its ERM systems, risk models, and strategic risk management.

Accounting: An Early IFRS Adopter

UNIQA has applied International Financial Reporting Standards (IFRS) accounting on a consolidated basis since 2000, although its operating entities primarily report according to Austrian generally accepted accounting principles. It published embedded-value information for the first time in 2006. In our capital analysis, we recognized the group's hybrid capital (€575 million in 2007), unrealized gains on properties (€506 million), 50% of the value of policies in force on the life and health portfolios (€600 million), and policyholder capital (€295 million).

Operating Performance: Solid Underlying Earnings, But Substantial Volatility In 2008, Due To Weak Investment Conditions

Table 2

UNIQA Insurance Group--Operating Statistics

	--Year-ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Net income	269	175	133	102	56
Posttax return on equity (%)	18.8	14.5	13.4	13.5	6.8
Total gross expense ratio (%)	26.8	25.3	24.9	26.8	22.6
Non-life					
Non-life revenue	2,151	1,846	1,770	1,497	1,115
Non-life operating result	274	114	89	84	36
Return on revenue (%)	12.7	6.2	5.0	5.6	3.2
Gross loss ratio (%)	66.8	63.0	65.0	62.9	69.6
Net loss ratio (%)	65.9	64.3	66.3	64.1	69.9
Net expense ratio (%)	34.0	34.7	35.7	35.9	35.4
Net combined ratio (%)	99.9	99.0	101.9	100.0	105.3
Life/Health					
New-business margin (%)	2.9	2.2	N.A.	N.A.	N.A.
Value of new business/value of in force (%)	5.2	4.8	7.5	N.A.	N.A.
Life surplus available for distribution	365	377	407	349	106
Return on assets (before bonus allocation) (bps)	211.0	230.4	279.5	275.1	95.5
Administrative expense ratio (%)	6.7	6.8	7.8	8.4	6.0
Acquisition expense ratio (%)	15.0	11.4	9.9	11.2	9.3

bps--basis points. N.A.--Not available.

Although UNIQA's underlying earnings remain solid, like many of its competitors, it has been substantially affected by investment losses this year. The group's non-life underwriting result has remained sound so far in 2008, with a reported net combined ratio of 96.5% for the first three quarters, after 99.4% for the same period of 2007. This improvement was partly thanks to reserve movements, however. Robust life and health risk results as well as the continued successful execution of efficiency programs contribute to generally stable earnings. Nevertheless, investment conditions are expected to create substantial volatility in the group's results for 2008 and potentially in 2009 and led to a 66% drop in investment income to €255 million for the period ended Sept. 30, 2008. For the last quarter of this year, we expect further pressure on results, although the group's equity exposure has been reduced to about 3%. As a result, we expect UNIQA's pretax profit to fall to about €100 million for full-year 2008 compared with €340 million in 2007.

Life and health

The combined life and health business reported a strong new-business margin of 2.9% for 2007 (on a present-value-of-future-premiums basis). We expect sound new-business profitability to feed through to future bottom-line results, although adverse investment experience is likely to pressure the development of the value in force (VIF) and bottom-line earnings of the life segment for full-year 2008.

The life segment made an operating loss of €26 million for the first three quarters of 2008 after breaking even in 2007 and achieving a €56 million profit in 2006. The value of new business, at 5.2% of VIF, demonstrates that new business positively contributes to the development of VIF.

The performance of the health insurance segment demonstrates that UNIQA's profitability initiatives, including the pruning of unprofitable group contracts, price adjustments, and cost reductions continue to have a positive effect. This segment continued to show promising results, reporting third-quarter profits of €44 million in 2008, despite significantly lower investment returns.

Non-life

The group's non-life underwriting performance continues to improve and represents a stable earnings pillar in a challenging investment year. The strict underwriting policy implemented in UNIQA's groupwide restructuring program and its continued cost efficiency measures have nevertheless resulted in an improved 96.5% net combined ratio for the first three quarters of 2008 after 99% for full-year 2007. However, the group needs to continue its cost focus to bring its technical performance sustainably in line with that of peers and to reach its long-term target of 97%.

Foreign business

The group has increasing, but still relatively limited, scale and earnings diversity via its foreign operations. Its foreign businesses are included in the business segments outlined above, and when viewed separately, are continuing to develop rapidly in CEE. However, ongoing investments in the CEE business models and limited scale mean that the group will continue to derive the majority of its earnings from the domestic market over the next few years. Only 11% of group profits were derived from the CEE region in 2007, stemming largely from four markets. The Western European niches generated another 3%.

Prospective

We expect UNIQA to continue to benefit from solid underlying earnings, although weak investment conditions will lead to a sizable drop in bottom-line earnings for 2008 to about €100 million or a 6% ROE. Improvements on the expense side should keep the non-life net combined ratio at less than 99%. The life and health new-business margin should continue to exceed 2.5%, with rising contributions from the CEE operations. With the help of improving groupwide cost efficiency, UNIQA should achieve an ROE well in excess of 10% once investment conditions begin to stabilize. We expect the group to increasingly derive its earnings from outside the Austrian market, although its lack of scale will restrict earnings diversity relative to top-line premiums development, at least over the next two years.

Investments: Weak Investment Conditions Significantly Hamper Investment Returns In 2008

Table 3

UNIQA Insurance Group--Investment Statistics

	--Year-ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Net investment income	727	700	638	728	709
Direct yield on invested assets (%)	3.6	3.6	3.8	5.0	5.7
Total return (including unrealized and realized) (%)	5.0	4.6	5.9	5.3	3.5
Nonlinked portfolio composition (%)					
Investment in affiliates	2.7	2.0	1.3	1.2	1.3
Bonds and other fixed-interest securities	53.4	57.2	62.2	64.0	57.4
Mortgages	0.9	0.9	1.0	1.0	0.9
Equities and other variable-interest securities	24.4	22.4	18.8	12.3	13.4
Property	9.2	8.4	6.1	6.6	7.4
Cash and bank deposits	6.4	5.4	5.8	9.0	9.3
Loans and private placements	2.7	3.2	4.5	4.9	6.4
Derivatives	0.3	0.5	0.3	0.9	4.0

We consider UNIQA's investment strategy appropriate relative to its risk-bearing capacity, but its credit risk exposure is comparably high.

The bulk of UNIQA's investments are in fixed-income securities. The group cut its exposure to equities to about 3% from 10% in the first quarter of 2008, thereby avoiding even higher volatility in its results. UNIQA holds a long-standing domestic property portfolio, representing 9% of total investments that it will increasingly diversify into CEE properties. The group is also willing to invest in alternative asset classes, representing about 6% of total investments, to raise its investment performance and benefit from diversification effects.

Investment returns

UNIQA's moderate investment performance is the main reason for the drop in 2008 earnings. For the first three quarters of this year, the net investment return dropped by 66% year on year to €255 million, or an annualized net return of about 2%, after more than 5% for full-year 2007. This reflects higher impairments on equities and selected bond investments as well as lower realized gains. Including unrealized losses through equity, we expect the investment return for 2008 to remain positive but to be less than 1%.

Market risk

We consider market risk appropriate in relation to available capital. Interest rate risks are the key risk exposures according to EEV sensitivities, which the group manages through a duration-based approach, including structured investments and swaps. Hedging strategies are in place for equities.

Credit risk

Credit risk exposure is relatively high compared with that of competitors. Some 79% of the investment portfolio is in bonds rated 'A' or higher; 8% is in the 'BBB' category. Nevertheless, in its quest for yield, UNIQA holds 12% in speculative-grade bonds. This exposure has been marked by material write-downs on subprime bonds in 2007 and selected bonds from other issuers in 2008. We also monitor rising asset risks resulting from the group's CEE subsidiaries, most notably from its main operation in Hungary.

Prospective

We do not expect any material changes to the group's long-term asset allocation strategy. The tactical reduction in equity exposure is likely to be turned around once markets stabilize, backed by derivative protection. We expect the group to carry fixed-interest securities with relatively higher exposure to credit risk and adequate exposure to alternative asset classes.

Asset-liability management

We consider UNIQA's asset-liability management to be appropriate for managing key risk factors, interest rate changes, and duration mismatches. It uses a relatively new stochastic model to manage its assets and liabilities.

Liquidity: Highly Liquid Balance Sheet

We consider UNIQA's liquidity to be strong because of the group's available sources of liquidity, highly liquid asset profile, and sound operating profits that support its strong cash flow position. Sound new business and bottom-line profitability prospects should provide the basis for stable liquidity. A groupwide liquidity management framework further supports appropriate cash management.

Capitalization: Set To Remain Strong, Backed By About €500 Million In Capital Raised This Year

UNIQA's capitalization is expected to have remained strong for 2008, supported by equity and a forthcoming hybrid capital issuance, mostly via its two main shareholders. However, capitalization still represents a relative weakness to the rating: The group needs to manage its capitalization cautiously, through a combination of earnings retention and external funding measures, given its intention to expand further in CEE over the next few years. Nevertheless, we expect UNIQA to be able to raise additional capital if needed, including via the long-term option of issuing new shares that reduce the stake of its two main shareholders combined to at least 51%.

Capital adequacy

We expect the group's risk-based capitalization to have remained strong for 2008, despite the impact of weak investment conditions on its revaluation reserve and policyholder capital, a reduced annual result, and the acquisition of UNITA S.A. (not rated) in Romania. To finance these developments, UNIQA raised its equity capital by about €200 million in the second half of 2008 and intends to issue additional hybrid capital of €300 million. It has also reduced its equity risk exposures considerably. We expect increased exposure to equity markets and further organic and acquisitive expansion to necessitate further capital in the years ahead. UNIQA's group solvency of 152% by the end of September 2008 and an expected 145% by year's end provide additional reassurance about the group's financial resources.

Quality of capital

The quality of capital is sound, benefiting from a material proportion of shareholders' funds in the group's total adjusted capital. The use of debt and hybrid instruments has increased considerably this year and is approaching our threshold for 'A' rated companies, with the group's financial leverage expected to be about 28% for full-year 2008; we do not fully recognize all hybrid capital outstanding in our capital analysis because it exceeds our 25% hybrid ratio threshold. A significant proportion of capital resides in rather illiquid property investments.

Reserves

UNIQA uses a conservative reserving policy for its non-life operations, applying a 10% surcharge to required reserves at a 90% confidence level. Reserve ratios and runoff profits have remained stable in recent years. Given the composition of the group's portfolio, the major part of its claims development is fairly short term, and its claims reserves are therefore not generally subject to any major deterioration.

Reinsurance

The group employs a conservative reinsurance policy, both at the holding and the operating level, with an overall reinsurance utilization ratio of 9% in 2007. In general, the reinsurance program remained unchanged in 2008, with conservative retention levels for the operating companies. Retrocession (the practice of transferring underlying risk to another reinsurer) continues to be bundled within the group and placed with reinsurers rated at least 'A'. UNIQA Re, the group's Switzerland-based internal reinsurer, handles most of the reinsurance cover for its foreign subsidiaries. We consider UNIQA Re a core element of the group's risk-management strategy.

Financial Flexibility: Sound, But Has Weakened Amid The Financial Markets Crisis

Table 4

UNIQA Insurance Group--Financial Statistics

	--Year-ended Dec. 31--				
(Mil. €)	**2007**	**2006**	**2005**	**2004**	**2003**
Total assets	25,072	24,091	22,110	19,370	15,190
Total adjusted equity	2,134	1,763	1,428	1,159	950
Change in adjusted equity (%)	21.1	23.5	23.2	21.9	(14.7)
Reinsurance utilization ratio (%)	8.6	8.2	8.1	8.5	7.8
Non-life technical reserves/net premiums written (%)	108.0	106.5	105.0	115.0	116.0
Financial leverage (%)	19.7	18.7	19.8	22.1	20.7
Fixed-charge cover (x)	10.0	10.4	8.2	6.1	5.2

UNIQA's financial flexibility is sound, but has weakened amid the financial markets crisis. It may also be tested by business expansion that is likely to require further resources. Capital needs will depend on further growth abroad and, to a lesser extent, in Austria.

As a result of recent capital market developments, UNIQA's share price has declined and credit spreads have widened considerably, making equity or debt-raising initiatives less attractive. As a result, we consider the group's financial flexibility to be relatively constrained at present. Its close affiliation with RZB will still allow it to raise €500 million in equity and hybrid capital in 2008 and early 2009. UNIQA's management has already received permission from its shareholders to issue another 39 million shares following the issue of 11 million, which generated about €200 million.

Hybrid capital issuance of €250 million in 2006 and the forthcoming €300 million weaken the group's financial flexibility. As a result of increased interest costs, combined with lower earnings, we expect fixed-charge coverage to have weakened considerably to about 4x by year-end 2008 versus 10x the previous year, demonstrating currently tightened debt-servicing capabilities.

We expect retained earnings to fuel organic growth. Stronger-than-expected growth or potentially larger-scale acquisitions, however, would probably require extra funding, most likely through a further capital increase, with the two main shareholders combined retaining a majority of at least 51%. In addition, cooperation with the European Bank for Reconstruction and Development (EBRD; AAA/Stable/A-1+) might provide up to €150 million of extra funding.

Ratings Detail (As Of December 19, 2008)*	
Holding Company: UNIQA Versicherungen AG	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Senior Unsecured (1 Issue)	A-
Operating Companies Covered By This Report	
UNIQA Sachversicherung AG	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
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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. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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