

## UNIQA Versicherungen AG

**Primary Credit Analyst:**

Johannes Bender, Frankfurt (49) 69-33-999-196; johannes\_bender@standardandpoors.com

**Secondary Credit Analyst:**

Wolfgang Rief, Frankfurt (49) 69-33-999-190; wolfgang\_rief@standardandpoors.com

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# UNIQA Versicherungen AG

## Major Rating Factors

### Strengths:

- Internal reinsurance activities supportive of revenues.
- Strong group liquidity profile.
- Holder of majority of the group's capital.

### Weaknesses:

- High debt and hybrid levels.
- Substantial earnings volatility due to capital market conditions and exposure in Central and Eastern Europe.

Counterparty Credit Rating
Local Currency
A-/Stable/--

## Rationale

The ratings on UNIQA Versicherungen AG (UV) reflect its role as holding company of Austria-based UNIQA insurance group (UNIQA) and its function as internal reinsurer for its Austrian insurance subsidiaries. The ratings are mainly derived from the strength of UV's primary insurance subsidiaries, which are the main contributors to the group's financial profile. The group's high debt and hybrid levels and substantial earnings volatility due to capital market conditions and exposure in Central and Eastern Europe (CEE) partly offset these strengths.

Standard & Poor's Ratings Services maintains a one-notch ratings differential between UV and the group's core companies, reflecting the group's overall financial strength. This reflects the structural subordination of UV to the policyholders of the group's primary insurance companies and its reliance on dividend payments from its subsidiaries. However, UV's flexibility in meeting its obligations through the excess capital it holds and its ability to generate direct revenues from its reinsurance activities and related investments mitigate these factors.

UV's operating performance has declined in 2008 and 2009 compared with previous years owing to weak capital market conditions. The group's fixed-charge coverage has weakened considerably and we expect it to fall to 2x for full-year 2009 after 3x in 2008 and 10x in 2007, demonstrating tighter debt-servicing capabilities. Its earnings streams are diversified by line of business, but--although improving--remain geographically concentrated, with the majority of earnings stemming from the domestic market.

UNIQA's capitalization is expected to have remained strong for 2009, supported by equity issuance of €150 million, contributed mostly by the group's two main shareholders in December 2009. However, capitalization still represents a relative weakness for the rating: the group needs to manage its capitalization cautiously, through a combination of earnings retention and external funding measures, given its continued somewhat aggressive expansion strategy in CEE. As the holding company, UV keeps the majority of the group's capital on its books. Because of continued hybrid capital issuance in recent years, the group's financial flexibility has weakened. We expect financial leverage at about 22% in 2009, which is close to our tolerance limits for 'A' rated companies. We expect the group to continue to selectively expand its presence in CEE, but we believe it needs to balance these ambitions against available capital resources.

## Liquidity

Although UV functions both as a holding company and a reinsurance company, it relies to a large extent on dividend transfers from its regulated operating units to meet its obligations, including the payment of interest and principal on debt, other expenses, and dividends. Despite these rather illiquid affiliated holdings, UV has a strong liquidity profile, supported by a groupwide liquidity management framework and nonparticipation-related assets, which account for about 30% of its investments.

## Outlook

The stable outlook mirrors the stable outlook on the group's core operating companies. On a stand-alone basis, the outlook also reflects our expectation that UV will continue to benefit from dividends from its subsidiaries.

Any change in the rating or outlook on UNIQA's core operations would also affect the rating on UV. In addition, the group's failure to strengthen its fixed-charge coverage through higher profits and its inability to stabilize financial leverage could result in a wider ratings differential if we apply our general European standard of a two-notch gap between a holding company and a group's financial strength.

## Financial Profile

UV is the holding company of the UNIQA insurance group, which is predominantly active in the Austrian private life, health, and non-life business lines, where it enjoys leading positions, with additional geographic diversification derived from its Western European and CEE operations. UV also writes internal group reinsurance. The Austrian operating companies are the main contributors to the group's strong capitalization, earnings, and liquidity.

UNIQA Versicherungen AG And UNIQA Group--Financial Statistics					
--Year-ended Dec. 31--					
(Mil. €)	2008	2007	2006	2005	2004
<b>UNIQA Versicherungen AG</b>					
Financial leverage (%)	31.7	36.3	32.6	22.9	28.1
Fixed-charge coverage (x)	1.1	4.3	5.6	10.6	6.8
<b>UNIQA Insurance Group</b>					
Group financial leverage (%)	22.5	19.4	19.1	17.3	22.1
Group fixed-charge coverage (x)	3.3	10.0	10.4	8.2	6.1

### Ratings Detail (As Of December 21, 2009)\*

#### UNIQA Versicherungen AG

Financial Strength Rating

*Local Currency*

A-/Stable/--

Counterparty Credit Rating

*Local Currency*

A-/Stable/--

#### Counterparty Credit Ratings History

02-Jun-2005

*Local Currency*

A-/Stable/--

10-Jan-2001

A/Negative/--

04-Nov-1999

NR/--/--

**Ratings Detail** (As Of December 21, 2009)\* **(cont.)**

\*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.

**Additional Contact:**

Insurance Ratings Europe; [InsuranceInteractive\\_Europe@standardandpoors.com](mailto:InsuranceInteractive_Europe@standardandpoors.com)

**Additional Contact:**

Insurance Ratings Europe; [InsuranceInteractive\\_Europe@standardandpoors.com](mailto:InsuranceInteractive_Europe@standardandpoors.com)

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