

UNIQA Versicherungen AG

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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.
- Deterioration of earnings.

Counterparty Credit Rating

Local Currency

A-/Negative/--

Rationale

The rating on UNIQA Versicherungen AG (UV) reflects its role as the holding company of Austria-based UNIQA insurance group (UNIQA) and its function as internal reinsurer for its Austrian insurance subsidiaries. The rating is mainly based on the strength of UV's primary insurance subsidiaries, which are the main contributors to the group's financial profile. A deterioration of the group's earnings and the high debt and hybrid levels 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 structural subordination of UV to the policyholders of the group's primary insurance companies and its reliance on dividend payments from subsidiaries. However, we do not apply our standard two-notch rating differential for European holding companies because of UV's flexibility in meeting its obligations through the excess capital it holds, and also because of the company's ability to generate direct revenues from its reinsurance activities and related investments.

UV's operating performance declined in 2009 and 2008, mainly owing to reduced dividend streams from its insurance subsidiaries. This was a consequence of difficult economic and capital market conditions and the negative effect of natural catastrophe events. The group's fixed-charge coverage weakened considerably, to 3x, over the two years from 10x in 2007, demonstrating tighter debt-servicing capabilities. We view the group's earnings streams as diverse by line of business, but they remain geographically concentrated with most earnings stemming from the domestic market.

Although we regard UNIQA's capitalization as strong, following an injection of €150 million of fresh capital in 2009, it nevertheless represents a relative weakness for the rating. In the wake of the recent economic downturn and UNIQA's considerable expansion into Central and Eastern Europe (CEE), we believe the group needs to manage its capitalization cautiously. 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.

As the holding company, UV keeps most of the group's capital on its books. After further increases in hybrid capital usage in recent years, UNIQA's financial leverage stood at 16% in 2009. Hybrid capital currently represents about 20% of the group's total adjusted capital, which is close to our maximum tolerance of 25% for equity classification.

Liquidity

Although UV functions as both a holding company and a reinsurance company, it relies to a large extent on dividend transfers from its regulated operating insurance units to meet its obligations, including the payment of interest and principal on debt, other expenses, and dividends. Despite 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 negative outlook mirrors the negative outlook on the group's core operating companies. We believe that, amid still challenging economic and capital market conditions, UNIQA will find it difficult to achieve an operating performance that is commensurate with the current rating.

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, two-notch rating differential between the holding company and the group's core insurance operations.

Financial Profile

UV is the holding company and internal reinsurer 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. The group derives additional geographic diversity from its Western European and CEE operations. 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--	
	2009	2008
UNIQA Versicherungen AG		
Financial leverage (%)	21.4	31.7
Fixed-charge coverage (x)	1.8	1.1
UNIQA Insurance Group		
Group financial leverage (%)	16.2	N.M.
Group fixed-charge coverage (x)	3.3	3.3
N.M.--Not meaningful.		

Ratings Detail (As Of September 16, 2010)*

UNIQA Versicherungen AG

Financial Strength Rating

Local Currency

A-/Negative/--

Counterparty Credit Rating

Local Currency

A-/Negative/--

Counterparty Credit Ratings History

28-May-2010

Local Currency

A-/Negative/--

Ratings Detail (As Of September 16, 2010)***(cont.)**

02-Jun-2005	A-/Stable/--
10-Jan-2001	A/Negative/--

*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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