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Gothaer Insurance Group

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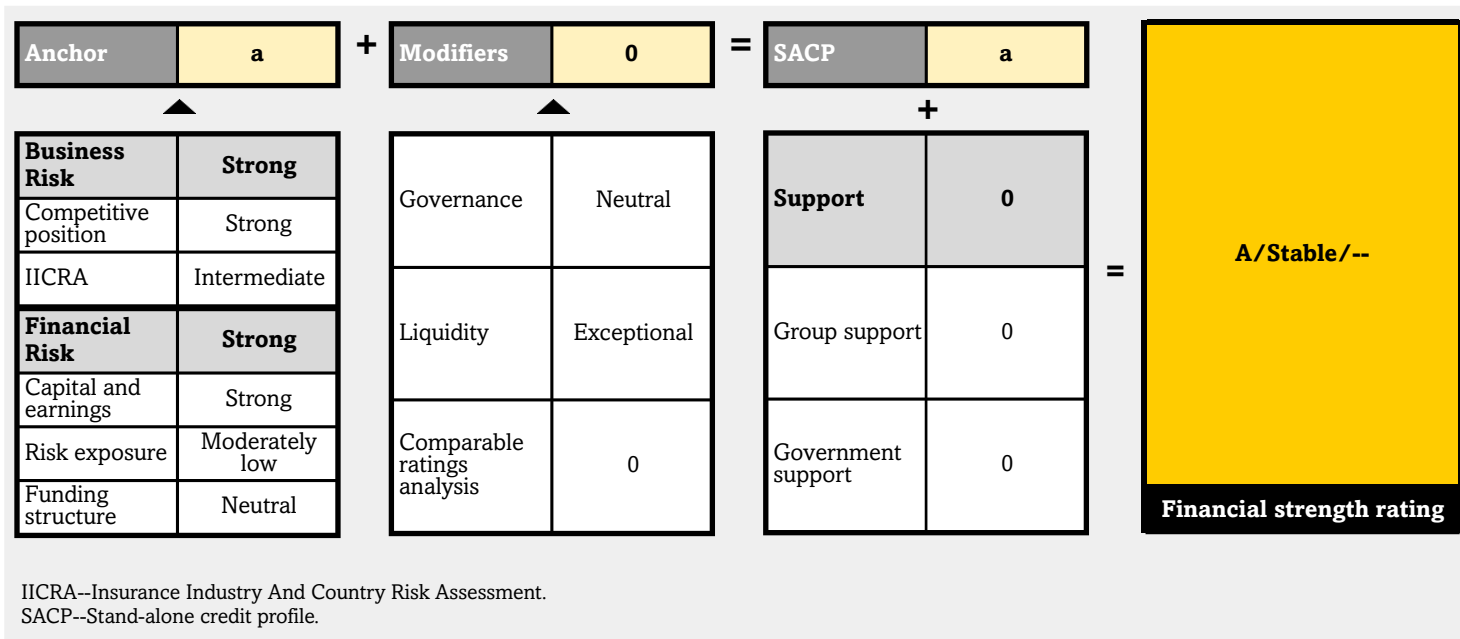
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Gothaer Insurance Group



Credit Highlights

Overview

Key strengths	Key risks
Gothaer's competitive edge is driven by its broad product portfolio and established distribution network.	Constraints on earnings and capital from the low-interest-rate environment.
Resilient capital position backed by strict asset liability mismatch and sound earnings generation capabilities.	Narrower geographic reach when compared to higher rated European peers.

Gothaer remains a key player in Germany, especially in the commercial and SME segment. In our opinion, the group's diversified distribution channels and business mix allows it to offer insurance product solutions across all business segments, thereby enabling it to become a leading insurance player for SME businesses in its domicile market of Germany. In addition, as part of its push toward digitization, Gothaer is the first insurer in the German market offering a joint platform for a company's life and health insurance business administration, distribution, and services, called "ePension."

Capitalization will remain sound, supported by retained earnings and a conservative investment strategy. In our opinion, Gothaer's capital position will remain comfortably above the 'A' level, according to our risk-based capital model through 2021-2023. Our assumption is mainly supported by Gothaer's ability to post strong bottom-line results, likely about €75 million-€85 million over 2021-2023, and the group's strategy to move toward unit-linked and biometric life businesses, which are less capital intensive and sensitive to interest rate movements. In addition, Gothaer's exposure to risky investments remains low.

Outlook: Stable

The stable outlook reflects our view that the group will defend its strong competitive position in the German life, health, and P&C insurance market, in particular in the SME and commercial segment, along with resilient capitalization levels and robust underwriting profitability over the next 12-24 months, despite ongoing low interest rates.

Downside scenario

We are unlikely to lower the ratings over the next 12-24 months. However, we could do so if:

- The group's earnings are consistently weaker than our base-case assumptions, or if we see higher earnings volatility and the group underperforms peers in the German market; or
- We thought Gothaer could no longer maintain capital adequacy at the 'A' level, which could happen as a result of aggressive growth, higher investment risk, or lower-than-expected retained earnings.

Upside scenario

A positive rating action is unlikely at this time. An upgrade would require an improvement in the group's competitive position, which could occur if it significantly diversifies earnings by business line or region, which we do not foresee over the next 12-24 months.

Key Assumptions

- After declining in 2020, we now expect Germany's GDP to grow by 2%-5% over 2021-2024.
- Low inflation coupled with unemployment of about 3%-4% through 2021-2024.
- Interest rates to remain low.

Gothaer Insurance Group--Key Metrics

	2022f	2021f	2020	2019	2018
Gross premiums written (mil. €)	>4700	>4600	4,557.0	4,524.6	4,382.8
Net premiums written (mil. €)	>4400	>4300	4,202.7	4,168.4	3,991.5
Net income (Mil. €)	75-85	75-85	72.4	115.0	118.8
Return on shareholders' equity (%)	6-8	6-8	5.6	9.5	10.8
Net investment yield (%)	>2	>2	2.7	2.6	2.8
P/C: Net combined ratio (%)	95-97	95-97	92.4	95.0	97.1
Life: Return on assets (%)	~1	~1	0.7	0.9	0.8
P/C Return on revenue (%)	5-7	5-7	8.4	8.4	6.9
Financial leverage (%)	<20	<20	18.0	18.7	21.8
EBITDA fixed-charge coverage (x)	8-9	8-9	12.9	12.3	9.4

P/C--Property/casualty. f--S&P Global Ratings forecast.

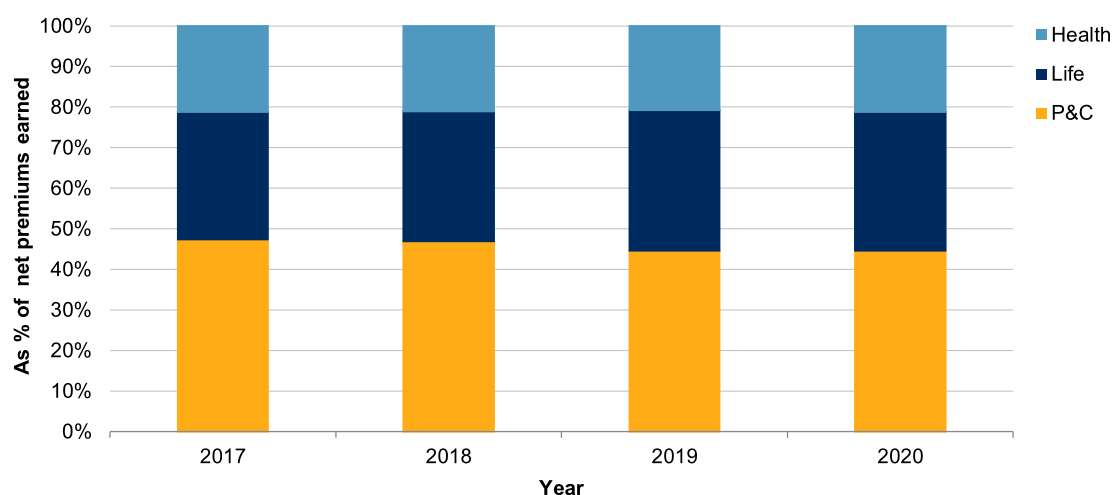
Gothaer is a mutual multiline insurer in the primary insurance market in Germany. Beside the Gothaer brand, the group operates through Janitos. The ultimate parent is the mutual company Gothaer Versicherungsbank VVaG (not rated).

Business Risk Profile: Strong

Gothaer maintains a prominent market standing in its domicile market of Germany, complemented by its diverse business lines. The group remains a key player in the small and midsize commercial business where competition is high. In addition, Gothaer is actively undertaking measures to promote cross-selling and is pushing toward digitization, thereby enabling it to effectively compete in the saturated German market. Further, the group's business across all three insurance segments (life, P&C, and health) makes it less vulnerable to adverse developments in a single product line, despite focusing on the mature German markets.

Chart 1

Gothaer's Competitive Strength Is Driven By Its Diversified Portfolio



P&C--Property and casualty. Source: S&P Global Ratings.

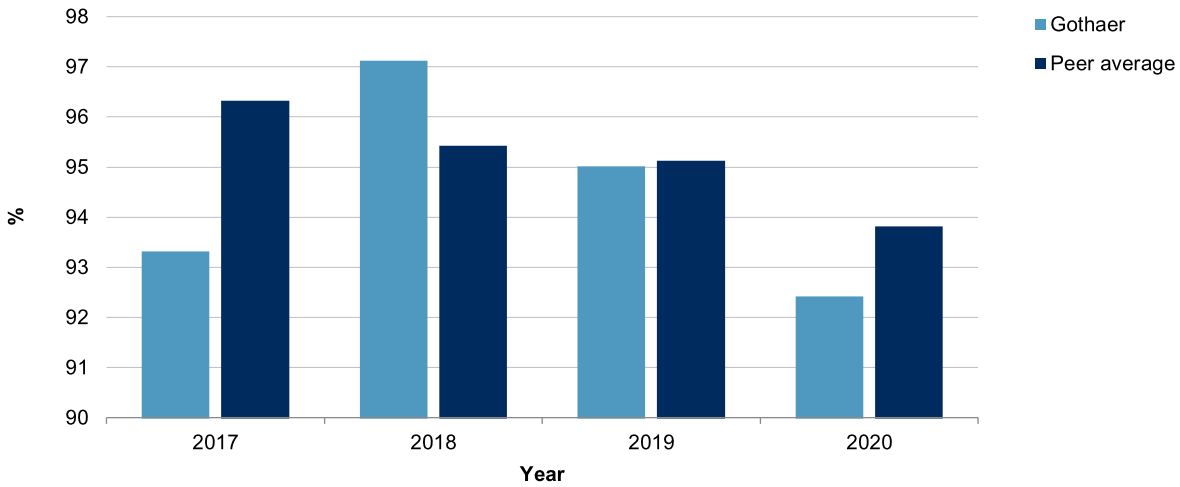
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Gothaer's FY2020 performance remained robust and compared well with peers. Premiums remained largely stable at €4.6 billion, as growth in the group's P&C and health business was offset by lower premiums from its life business, where new business was affected by the pandemic and Gothaer is facing a shift to biometric products with lower premium volume compared to saving products.

In P/C, Gothaer has historically maintained sound underwriting discipline with five-year (2020-2016) average combined ratio (loss and expense ratio combined) of about 95%.

Chart 2

Gothaer's Underwriting Performance Compares Well With Peers

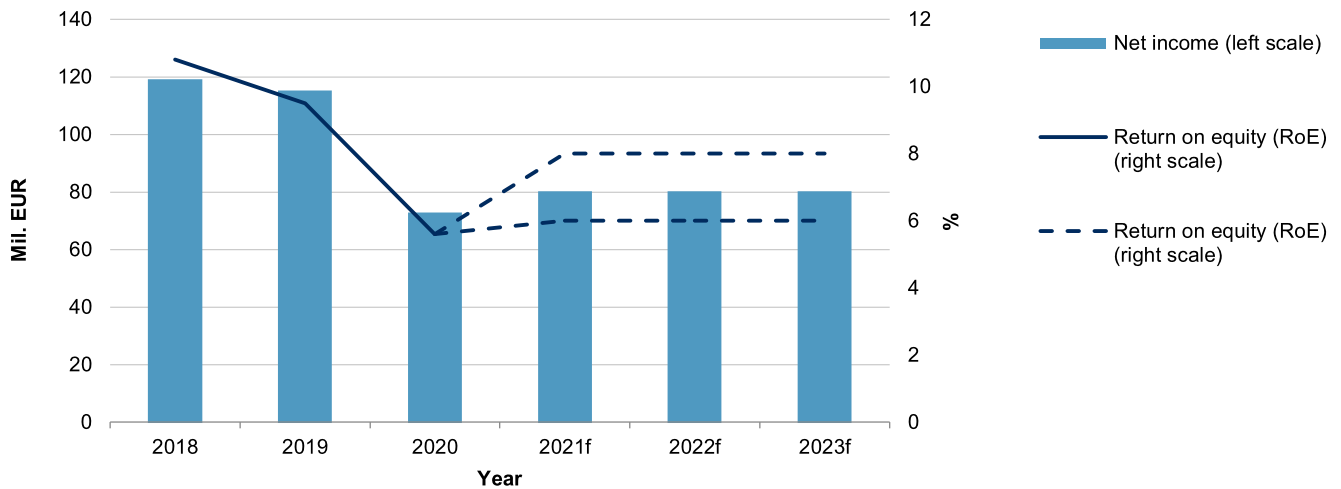


Peers include Devk, VHV, VKB, R+V, VIG, UNIQA & W&W. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

In addition, the group's average five-year return on equity (RoE) was around 8%.

Chart 3

Gothaer's Operating Performance To Remain Resilient Going Forward



f--Forecast. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

We do not anticipate any material deviation in the group's performance and expect Gothaer to post a combined ratio of about 95%-97% coupled with a RoE of 6%-8% over 2021-2023.

Financial Risk Profile: Strong

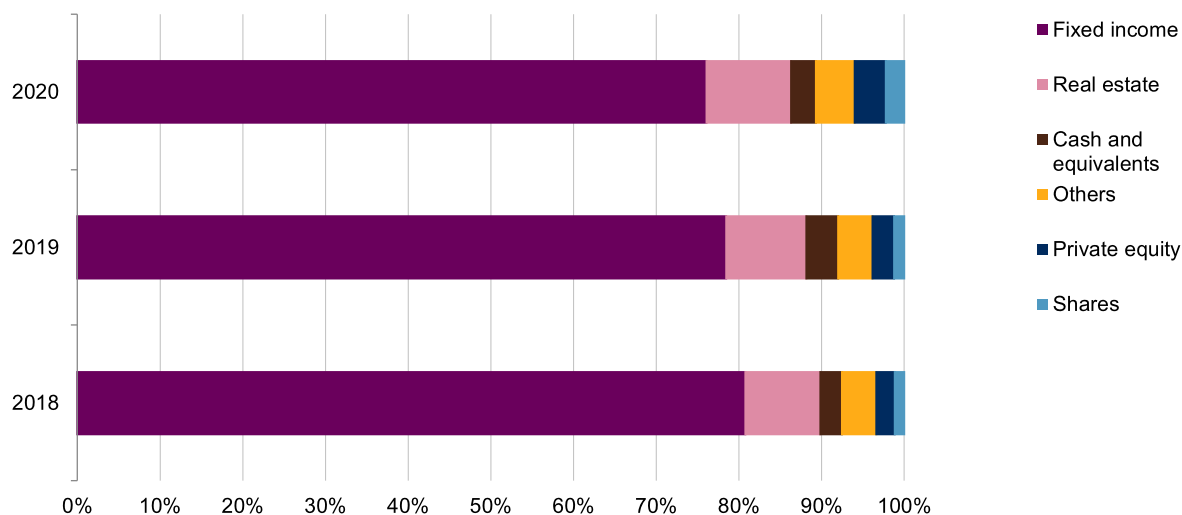
Gothaer benefits from sound capital adequacy under our risk-based capital model for YE2020 and we expect it to remain comfortably above the 'A' level for 2021-2023. Our assumption is mainly supported by solid earnings generation and a portfolio shift to unit-linked and biometric life business, which are less capital intensive. Our view is further backed by the group's strong Solvency II ratio (without transitionals), which stood at 195% for half-year 2021 compared with 193% for year-end 2020, therefore showing low volatility in 2021.

We believe that Gothaer will likely face net claims of €21 million (gross claims: >€410 million) in 2021 for damages incurred from the storm known as "Bernd". However, we do not expect a material negative impact on the group's capital and earnings, thanks to its solid capital adequacy, effective reinsurance protection, and ample equalization provision.

The group investment portfolio remains conservative. Equity investments are low, with about 5% of total invested assets, which makes Gothaer less susceptible to equity price drops. The weighted average credit quality has improved over the years and was in the upper 'A' level in 2020. Further, we regard Gothaer's investment portfolio as diverse with no substantial segment or single obligor concentration.

Chart 4

Gothaer's Investment Portfolio Remains Conservative



Source: S&P Global Ratings.

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Gothaer's leverage and coverage are within our acceptable thresholds and we do not foresee any material deviations. The group issued subordinated debt in 2015 that was used to refinance another maturing hybrid issuance, which was callable in 2016.

Other Key Credit Considerations

Governance

Gothaer's management and governance assessment is supported by its progress in executing its strategic plans, which are, in our opinion, generally transparently communicated. The company also has a highly experienced management team that complements its operational needs. At this stage, we do not anticipate a material change in risk appetite or financial strategy. In our opinion, Gothaer 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 German insurance market.

Gothaer has an established risk management framework in place with pre-defined risk tolerances at all entity levels. In our opinion, interest rate and ALM risk management are crucial considering the long-term and guarantee features of Gothaer's life business. Overall, we do not see any governance deficiencies in our assessment.

Liquidity

We do not foresee any liquidity or refinancing concerns owing to the strength of available liquidity sources and we expect the group would withstand severe liquidity stresses in a stress scenario.

Group support

We consider Gothaer Lebensversicherung AG, Gothaer Allgemeine Versicherung AG, and Gothaer Krankenversicherung AG to be core operating entities of the group.

Accounting considerations

Gothaer switched to German generally accepted accounting principles (GAAP) from IFRS in 2018. However, 2017 figures in this commentary are based on local GAAP for comparability reasons.

In calculating the group's capital base, we recognize 50% of the value-in-force on the group's life portfolio, 50% of P/C reserve redundancy, off-balance-sheet unrealized gains other than life bonds, and eligible parts of life and health policyholder capital.

Related Criteria

- 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
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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

Appendix

Gothaer Insurance Group--Credit Metrics History

Ratio/Metric	2020	2019
S&P Global Ratings capital adequacy*	Excellent	Very strong
Total invested assets	33,304.6	32,095.0
Total shareholder equity	1,326.5	1,263.7
Gross premiums written	4,557.0	4,524.6
Net premiums written	4,202.7	4,168.4
Net premiums earned	4,196.5	4,164.5
Reinsurance utilization (%)	7.8%	7.9%
EBIT	207.6	217.1
Net income (attributable to all shareholders)	72.4	115.0
Return on revenue (%)	3.9%	4.2%
Return on shareholders' equity (reported) (%)	5.6%	9.5%
P/C: net combined ratio (%)	92.4%	95.0%
P/C: net expense ratio (%)	29.7%	29.8%
P/C: return on revenue (%)	8.4%	8.4%
Health: Medical loss ratio (%)	76.5%	77.6%
Health: Return on revenue (%)	15.1%	13.8%
EBITDA fixed-charge coverage (x)	12.9	12.3
EBIT fixed-charge coverage (x)	11.2	11.7
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	11.2	11.7
Financial obligations / EBITDA adjusted	1.2	1.3
Financial leverage including pension deficit as debt (%)	18.0%	18.7%
Net investment yield (%)	2.7%	2.6%
Net investment yield including investment gains/(losses) (%)	3.4%	3.4%

P/C--Property/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 October 29, 2021)*

Operating Companies Covered By This Report**Gothaer Allgemeine Versicherung AG**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Junior Subordinated

BBB+

Gothaer Krankenversicherung AG

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Gothaer Lebensversicherung AG

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Germany

*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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