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Gothaer Insurance Group

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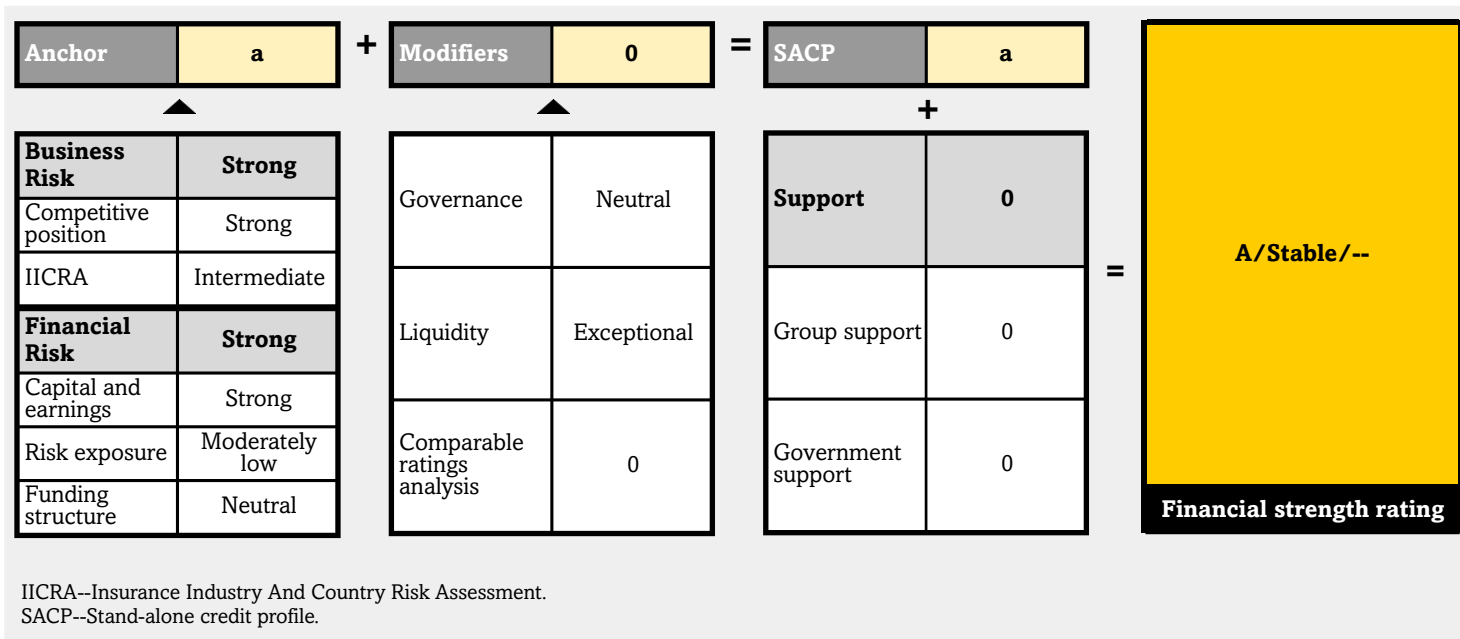
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Gothaer Insurance Group



Credit Highlights

Overview	
Key strengths	Key risks
Competitive edge, driven by a diverse product portfolio and established distribution network.	Volatile capital markets, elevated inflation, and the economic downturn in Germany, all of which could affect the revenue and earnings profile.
Resilient capital position, backed by a strict asset-liability mismatch and sound earnings-generation capabilities.	Narrower geographical reach compared to higher-rated European peers.

Gothaer will remain a key player in Germany, especially in the small-to-midsize enterprise (SME) and commercial segment. In our opinion, the group's diverse distribution channels and business mix allow it to offer insurance products across all business segments. This has enabled Gothaer to become a leading insurance player for SMEs in its home market of Germany. In addition, as part of its push toward digitization, Gothaer was the first insurer in the German market to offer a joint platform for the administration and distribution of life and health insurance, called "ePension."

Capitalization will remain sound, supported by retained earnings and a conservative investment strategy. We believe that higher interest rates are helping Gothaer to build capital more sustainably. We consider that the group's improved ability to generate earnings and internal capital--especially for the policyholder bonus reserve--will help it to maintain strong capitalization as per our capital model, despite capital market volatility and decreasing asset valuation reserves. Furthermore, the group continues to move toward less capital-intensive products like unit-linked and biometric life insurance products, which makes it less dependent on and sensitive to interest rate movements. In addition, Gothaer's exposure to risky investments remains relatively low.

Outlook: Stable

The stable outlook reflects our view that Gothaer will maintain its strong competitive position in the German life, health, and property/casualty (P/C) insurance market, particularly in the SME and commercial segment, along with resilient capitalization and robust underwriting profitability over the next 12-24 months, and despite ongoing capital market volatility.

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 they are more volatile and underperform those of peers in the German market; or
- We think that 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 retained earnings than we expect.

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 its earnings by business line or region, which we do not foresee over the next 12-24 months.

Key Assumptions

- German GDP growth of 1.5% in 2022 and a contraction of 0.3% in 2023, following a recovery of 2.6% in 2021.
- A surge in inflation of about 8.4% in 2022 and 7.0% in 2023.
- High interest rates in 2022-2024 to curb inflation.

Gothaer Insurance Group--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017
Gross premiums written (mil. €)	>4,750	>4,700	4,694	4,557	4,525	4,383	4,291
Net premiums written (mil. €)	>4,350	>4,300	4,249	4,203	4,168	3,992	3,933
Net income (mil. €)	75-85	75-85	82.1	72.4	115.0	118.8	211.5
Return on shareholders' equity (%)	4-7	4-7	6.0	5.6	9.5	10.8	22.7
Net investment yield (%)	>2	>2	2.5	2.7	2.6	2.8	3.2
P/C: Net combined ratio (%)	95-98	95-98	98.9	92.4	95.0	97.1	93.3
Life: Return on assets (%)	~1	~1	0.9	0.7	0.9	0.8	0.9
P/C: Return on revenue (%)	5-7	5-7	7.3	8.4	8.4	6.9	9.8
Financial leverage (%)	<20	<20	16.9	18.0	18.7	21.8	27.3
EBITDA fixed-charge coverage (x)	>6	>6	11.7	12.9	12.3	9.4	16.5

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

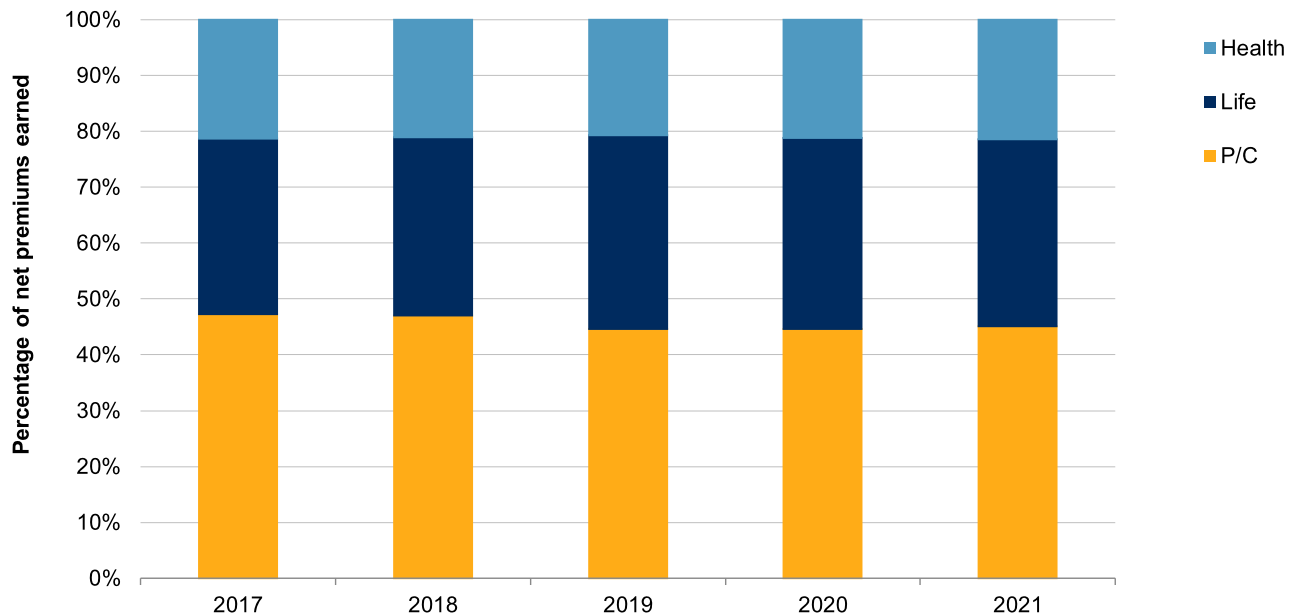
Gothaer is a multiline mutual insurer in the primary insurance market in Germany. Besides the Gothaer brand, the group operates through Janitos. The ultimate parent is the mutual company Gothaer Versicherungsbank VVaG (not rated).

Business Risk Profile: Strong

Gothaer maintains a prominent standing in its home market of Germany, backed by its diverse business lines. The group remains a key player in the SME and commercial segment, where competition is high. In addition, Gothaer is actively promoting cross-selling and pushing toward digitization, thereby enabling it to compete effectively in the saturated German market. Furthermore, the group's well-diversified business across all three insurance lines (life, P/C, and health) makes it less vulnerable to adverse developments in a single line, despite focusing on the mature German market.

Chart 1

Gothaer's Competitive Strength Is Driven By Its Diverse Portfolio



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

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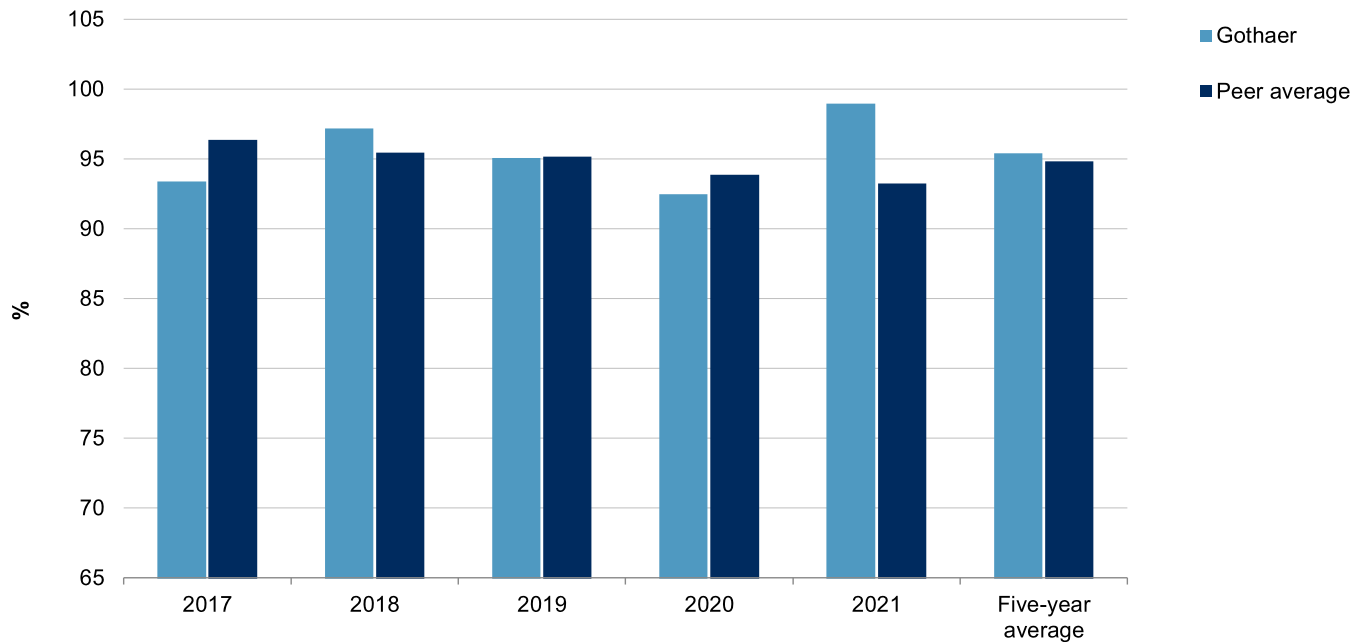
Gothaer's 2021 performance remained robust and compared well with that of peers. Premiums remained largely stable at €4.7 billion, supported by growth in the group's P/C and health businesses. This was somewhat offset by lower premium growth in the life business, as new business is still recovering from the COVID-19 pandemic. In addition,

Gothaer is shifting to biometric and capital-efficient products, which have lower premium volume than savings products.

In P/C, Gothaer has historically maintained sound underwriting discipline, with a five-year (2021-2017) average combined (loss and expense) ratio of about 95%, the same level as for its peers.

Chart 2

Gothaer's Underwriting Performance Is In Line With That Of Peers

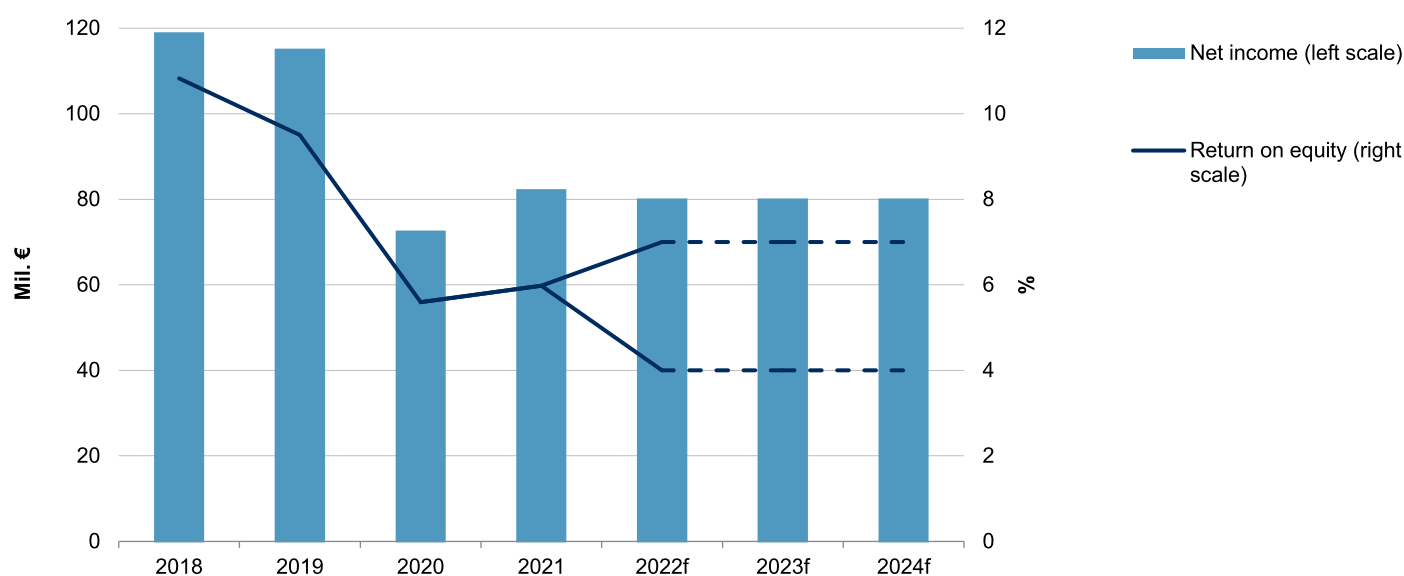


Source: S&P Global Ratings. Peers include Devk, VHV, VKB, R+V, VIG, UNIQA, and W&W.
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In addition, the group's average five-year (2021-2017) return on equity (RoE) is around 10.9%.

Chart 3

Gothaer's Operating Performance Should Remain Resilient



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

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We do not anticipate any material deviation in Gothaer's performance, and expect the group to post net income of around €75 million-€85 million and a combined ratio of about 95%-98% in 2022-2024, coupled with an RoE of 4%-7%.

Financial Risk Profile: Strong

Gothaer benefits from sound capital adequacy under our risk-based capital model as of year-end 2021, and we expect it to remain above the 'A' level for 2022-2024. Our assumption is mainly supported by solid earnings generation and a portfolio shift to unit-linked and biometric life business, which is less capital intensive than traditional savings business. Our view is also backed by the group's strong Solvency II ratio (without transitional measures), which stood at 200% at year-end 2021 compared to 193% at year-end 2020.

Additionally, we expect the rising interest rates to lead to improved loss-absorbing capacity, mainly an increase in its policyholder bonus reserve over 2022-2024. Furthermore, Gothaer continues to focus on underwriting discipline, as well as comprehensive asset-liability management. We believe that the group is therefore in a robust position to cope with a potential economic downturn and ongoing volatility in investment results. However, we will monitor the development of new business to assess if higher inflation, and subsequently lower purchasing power, lead to a material decline in new business volumes or an increase in cancellations.

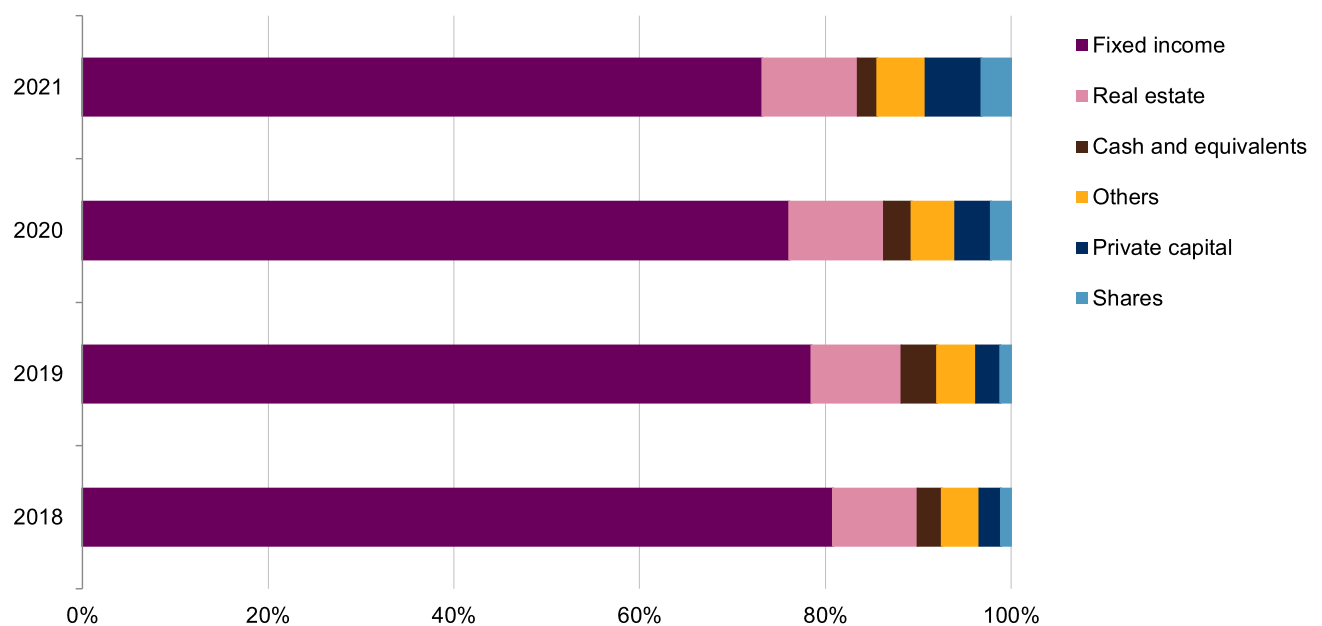
Gothaer managed to achieve robust results in 2021 despite the tough macroenvironment due to the COVID-19

pandemic and the catastrophic storm Bernd, which resulted in gross claims expenditure of more than €500 million. This resilience was thanks to the group's solid capital adequacy, effective reinsurance protection, and ample equalization provision.

Gothaer's investment portfolio remains conservative. Equity investments are low, at about 5% of total invested assets, which makes the group less susceptible to equity price drops. The group's weighted average credit quality has improved over the years and was at the upper 'A' level in 2021. Furthermore, 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 fixed-charge coverage are within our acceptable thresholds and we do not foresee any material deviations. The group issued subordinated debt in 2015 that it used to refinance another maturing hybrid issuance that 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, transparently communicated. The group 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. Furthermore, Gothaer has successfully implemented its strategic initiatives, particularly in terms of establishing a strong 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 asset and liability risk management are crucial considering the long-term nature and guarantee features of Gothaer's life insurance products. 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 that the group would withstand severe liquidity pressure in a stress scenario.

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 Gothaer.

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 International Financial Reporting Standards (IFRS) in 2018. However, the 2017 figures in this report are based on local GAAP for comparability reasons.

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

Related Criteria

- General 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
- 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	2021	2020	2019
S&P Global Ratings' capital adequacy*	Strong	Excellent	Very strong
Total invested assets	34,368	33,305	32,095
Total shareholder equity	1,422	1,326	1,264
Gross premiums written	4,694	4,557	4,525
Net premiums written	4,249	4,203	4,168
Net premiums earned	4,236	4,196	4,165
Reinsurance utilization (%)	9.48%	7.77%	7.87%
EBIT	196.5	207.6	217.1
Net income (attributable to all shareholders)	82.1	72.4	115.0
Return on revenue (%)	3.8%	3.9%	4.2%
Return on shareholders' equity (reported) (%)	6.0%	5.6%	9.5%
P/C: Net combined ratio (%)	98.9%	92.4%	95.0%
P/C: Net expense ratio (%)	30.1%	29.7%	29.8%
P/C: Return on revenue (%)	7.3%	8.4%	8.4%
Health: Medical loss ratio (%)	76.4%	76.5%	77.6%
Health: Return on revenue (%)	15.6%	15.1%	13.8%
EBITDA fixed-charge coverage (x)	11.71	12.85	12.28
EBIT fixed-charge coverage (x)	11.10	11.25	11.73
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	11.10	11.25	11.73
Financial obligations / EBITDA adjusted	1.40	1.23	1.28
Financial leverage including pension deficit as debt (%)	16.95%	18.01%	18.74%
Net investment yield (%)	2.49%	2.72%	2.55%
Net investment yield including investment gains/(losses) (%)	3.30%	3.39%	3.40%

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 19, 2022)*

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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