

Gothaer Insurance Group

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Table Of Contents

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

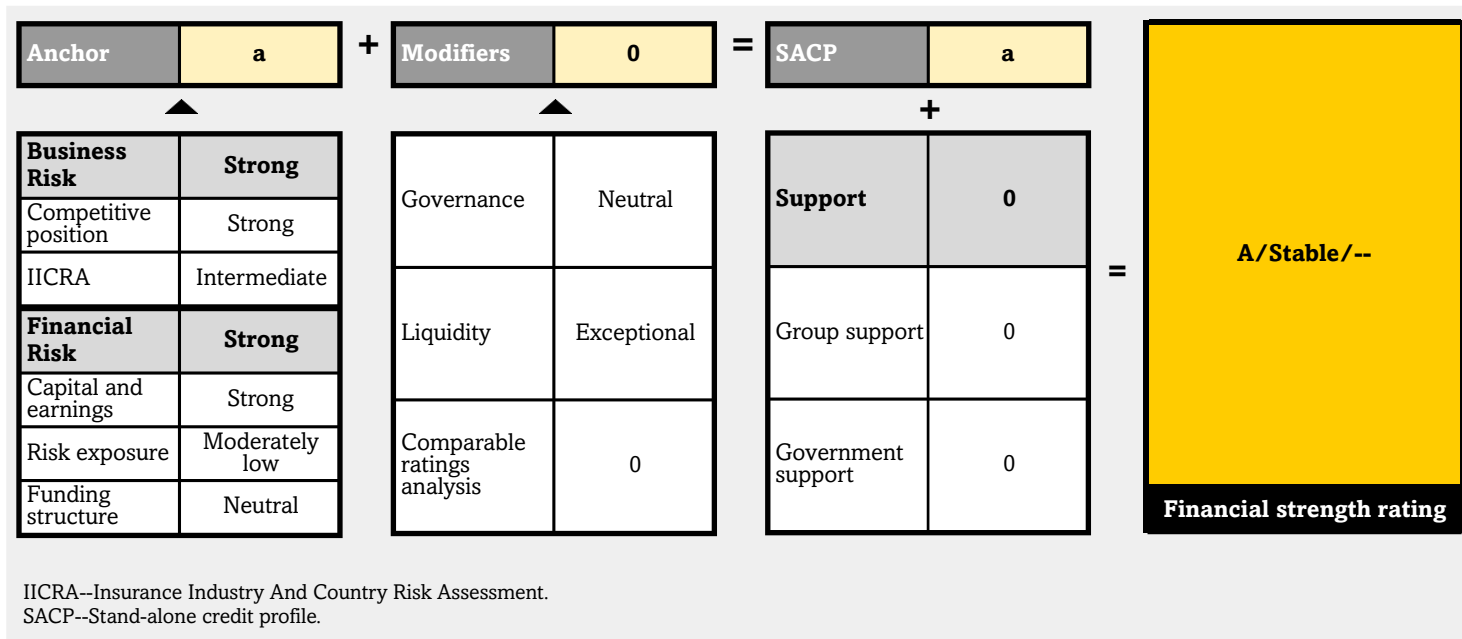
Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Appendix

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 lower growth in Germany, all of which could affect the revenue and earnings profile.
Strict asset-liability management and sound earnings-generation capabilities.	Narrower geographical reach compared to higher-rated European peers.

Gothaer Insurance Group (Gothaer) is set to maintain its significant role in Germany, particularly within the small and midsize enterprise (SME) and commercial segment. In S&P Global Ratings' view, Gothaer's multiline distribution channels and diverse business mix enable it to offer insurance products across all business segments. This has positioned the group as a leading insurance player for SMEs in its German domestic market. In addition, as part of its digitization efforts, 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 the increase in interest rates and underwriting discipline are helping Gothaer sustain its profitability levels. In our view, the group's improved ability to generate earnings and internal capital will help it to recover to strong capitalization levels, as per our model, despite capital market volatility and decreasing asset valuation reserves.

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 markets, particularly in the SME and commercial segment. We also expect resilient capitalization and robust underwriting profitability over the next 12-24 months, 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's capital adequacy could remain below the 'A' level for a prolonged period, 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 contracts 0.1% in 2023 and expands 0.8% in 2024, following 1.9% growth in 2022.
- After 8.7% in 2022, inflation rates of 6.5% and 2.9% in 2023 and 2024 respectively.
- High interest rates in 2023-2025 to curb inflation.

Gothaer Insurance Group--Key metrics

	2024f	2023f	2022	2021	2020	2019	2018
Gross premiums written (mil. €)	>4,700	>4,600	4,570	4,694	4,557	4,525	4,383
Net premiums written (mil. €)	>4,200	>4,100	4,078	4,249	4,203	4,168	3,992
Net income (mil. €)	75-85	75-85	83.2	82.1	72.4	115.0	118.8
Return on shareholders' equity (%)	4-7	4-7	5.7	6.0	5.6	9.5	10.8
Net investment yield (%)	>2	>2	2.6	2.5	2.7	2.6	2.8
P/C: Net combined ratio (%)	95-98	95-98	96.8	98.9	92.4	95.0	97.1
Life: Return on assets (%)	~1	~1	0.8	0.9	0.7	0.9	0.8
P/C: Return on revenue (%)	5-7	5-7	6.6	7.3	8.4	8.4	6.9
Financial leverage (%)	<20	<20	16.2	16.9	18.0	18.7	21.8
EBITDA fixed-charge coverage (x)	>6	>6	10.0	11.7	12.9	12.3	9.4

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

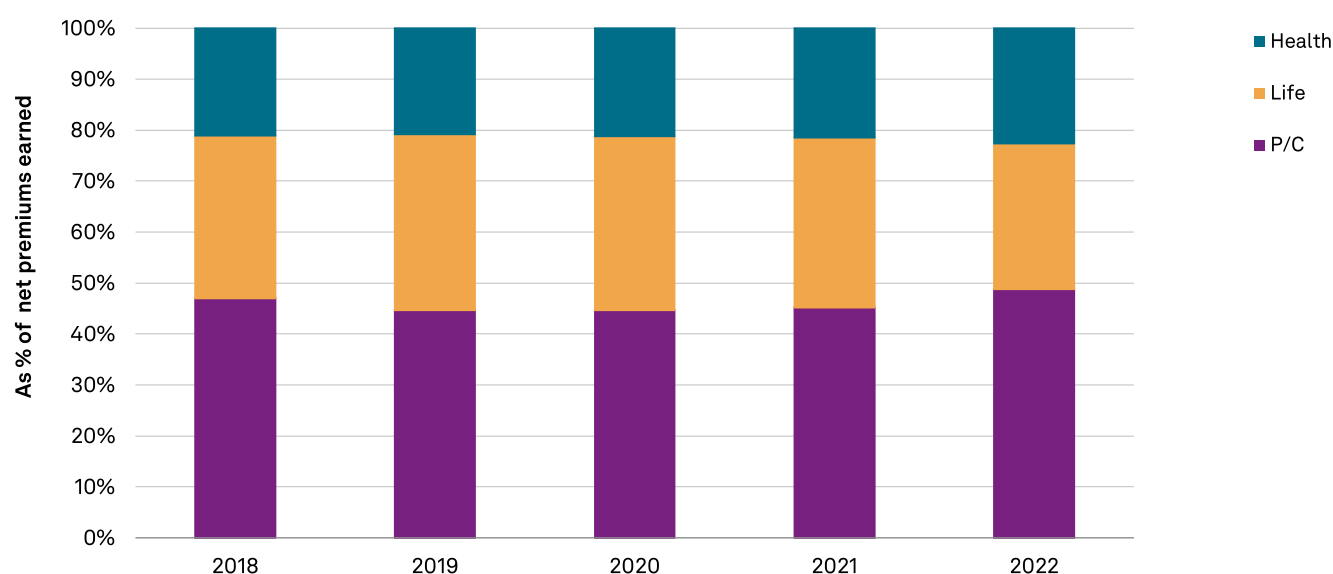
Business Risk Profile: Strong

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).

Gothaer maintains a prominent standing in Germany, backed by its diverse business lines. The group remains a key player in the SME and commercial segment. In addition, Gothaer is actively promoting cross-selling and pushing toward digitization, thereby enabling it to compete effectively in the saturated German market. 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 diversified portfolio



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

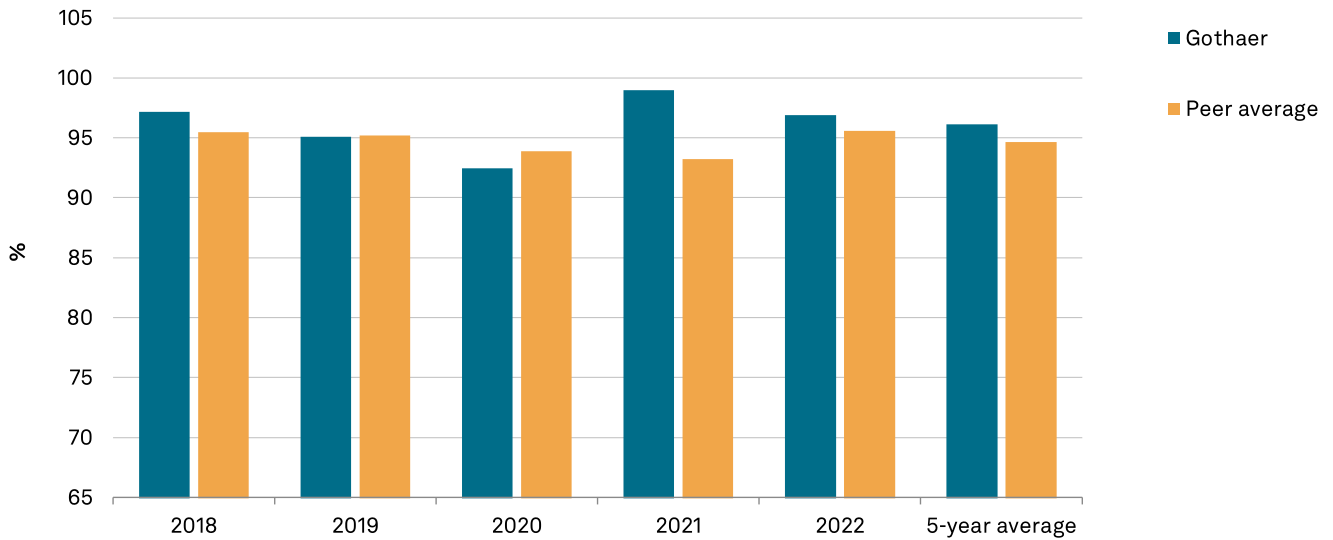
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Gothaer's 2022 performance remained robust and compared well with that of peers. Premiums slightly decreased to €4.57 billion, primarily due to a reduction in life premiums, particularly single premium policies. This can be attributed to prevailing high interest rates and high inflation and was seen across the German market. In addition, Gothaer is shifting to biometric and capital-efficient products, which have lower premium volume than savings products. These effects were somewhat offset by sound growth in the group's P/C and health businesses.

In P/C, Gothaer has historically maintained sound underwriting discipline, with a five-year (2022-2018) average combined (loss and expense) ratio of about 96%, a similar level to that of peers.

Chart 2

Gothaer's underwriting performance is broadly in line with peers'

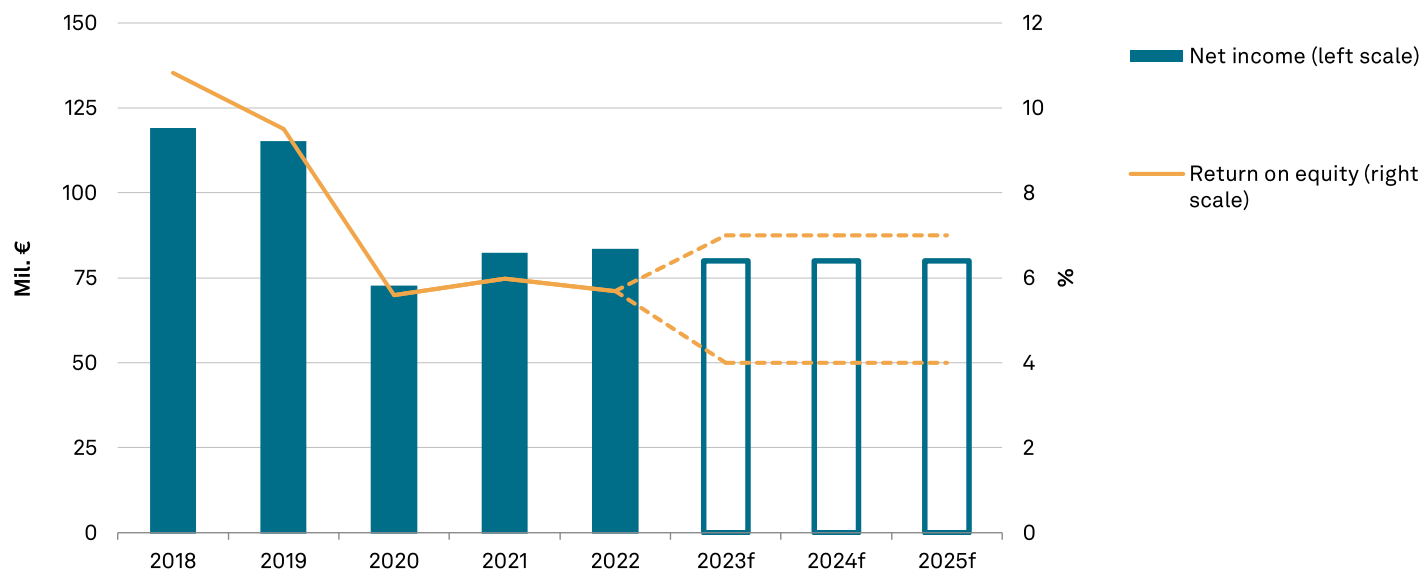


Peers include Devk, VHV, VKB, R+V, VIG, UNIQA, and W&W. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

The group's average five-year (2022-2018) return on equity (ROE) is about 7.5%.

Chart 3

Gothaer's operating performance will remain resilient



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

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We do not anticipate any material deviation in Gothaer's performance, and expect the group to post net income of about €75 million-€85 million and combined ratios of about 95%-98% in 2023-2025, coupled with an ROE of 4%-7%.

Financial Risk Profile: Strong

According to our risk based capital model, Gothaer's capitalization declined below the 'A' level at year-end 2022. We expect it will reapproach 'A' level capitalization by 2024-2025. Our assumption is mainly supported by solid earnings expectations and internal capital generation, amid higher investment income, and an ongoing portfolio shift to unit-linked and biometric life business, which is less capital intensive than traditional savings business. Additionally, there is a strong commitment from management to return to 'A' level capitalization, as shown by the risk reduction process within its investment portfolio. Our view is also backed by the group's solid Solvency II ratio (without transitional measures), which was 182% at year-end 2022 versus 200% at year-end 2021.

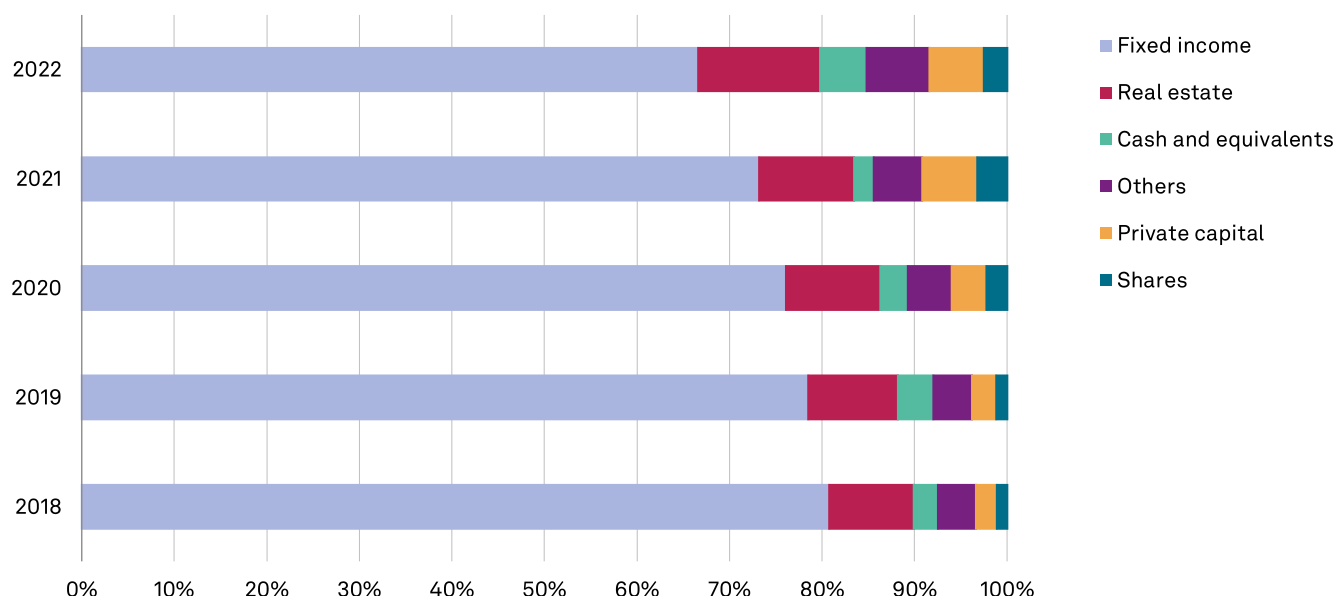
Furthermore, Gothaer remains dedicated to underwriting discipline, as well as comprehensive asset-liability management. We believe that the group is therefore in a robust position to cope with a potential economic downturn and ongoing volatility in capital markets. However, we will monitor the development of capitalization and 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's investment portfolio remains conservative. Equity investments are low, at about 2.5% 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 2022. 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, 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.

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.

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

- 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
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Appendix

Gothaer Insurance Group--Credit metrics history			
Ratio/Metric	2022	2021	2020
S&P Global Ratings capital adequacy	Satisfactory	Strong	Excellent
Total invested assets (mil. €)	34,682	34,368	33,305
Total shareholder equity (mil. €)	1,503	1,422	1,326

Gothaer Insurance Group--Credit metrics history (cont.)

Ratio/Metric	2022	2021	2020
Gross premiums written (mil. €)	4,570	4,694	4,557
Net premiums written (mil. €)	4,078	4,249	4,203
Net premiums earned (mil. €)	4,064	4,236	4,196
Reinsurance utilization (%)	10.8	9.5	7.8
EBIT (mil. €)	172.3	196.5	207.6
Net income (attributable to all shareholders)(mil. €)	83.2	82.1	72.4
Return on revenue (%)	3.4	3.8	3.9
Return on shareholders' equity (reported) (%)	5.7	6.0	5.6
P/C: net combined ratio (%)	96.8	98.9	92.4
P/C: net expense ratio (%)	30.0	30.1	29.7
P/C: return on revenue (%)	6.6	7.3	8.4
Health: Medical loss ratio (%)	75.4	76.4	76.5
Health: Return on revenue (%)	16.4	15.6	15.1
EBITDA fixed-charge coverage (x)	10.0	11.7	12.9
EBIT fixed-charge coverage (x)	9.4	11.1	11.3
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	9.4	11.1	11.3
Financial obligations / EBITDA adjusted	1.6	1.4	1.2
Financial leverage including pension deficit as debt (%)	16.2	17.0	18.0
Net investment yield (%)	2.6	2.5	2.7
Net investment yield including investment gains/(losses) (%)	2.6	3.3	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 August 28, 2023)*

Operating Companies Covered By This Report

Ratings Detail (As Of August 28, 2023)*(cont.)

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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