

Baloise Group

Primary Credit Analyst:

Silke Sacha, Frankfurt + 49 693 399 9195; silke.sacha@spglobal.com

Secondary Contact:

Jean Paul Huby Klein, Frankfurt + 49 693 399 9198; jeanpaul.hubyklein@spglobal.com

Research Contributor:

Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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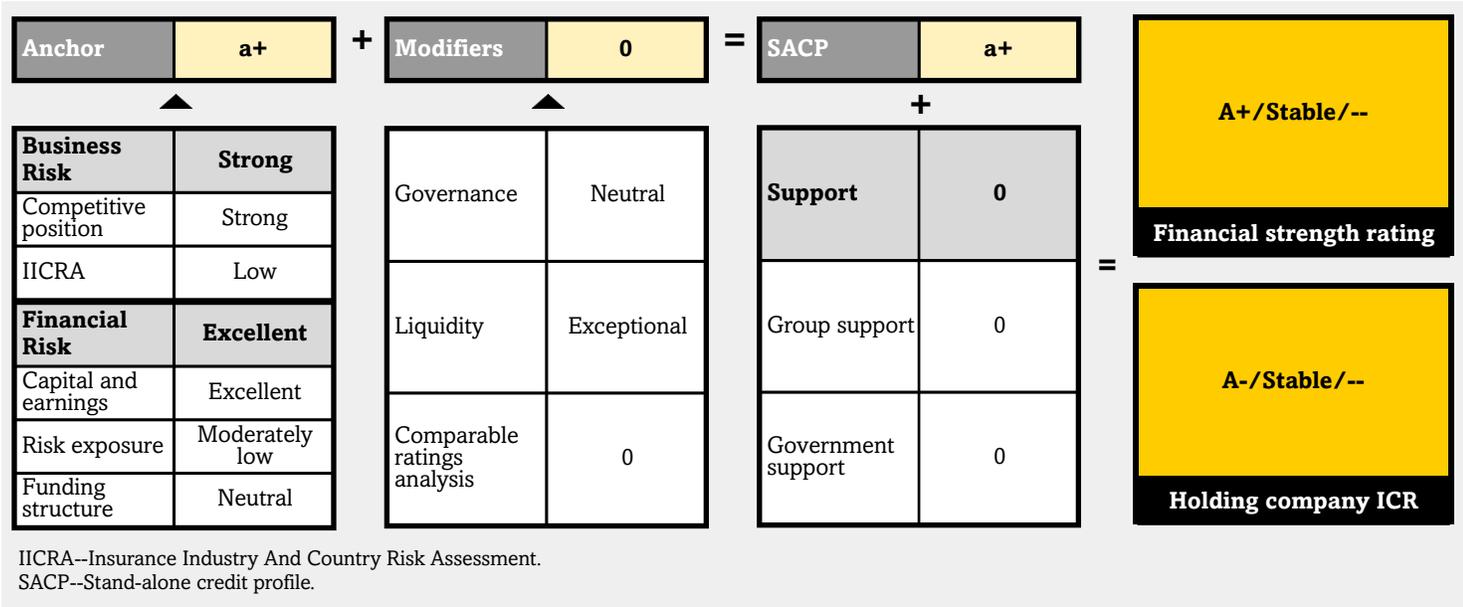
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Baloise Group



Credit Highlights

Overview

Key strengths

Top market positions coupled with strong and stable technical performance in most markets of operations, with diversified business.

Sustainable and extremely strong capital adequacy, with high solvency ratios under the Swiss Solvency Regime despite inflationary environment.

Key risks

Elevated geopolitical tension in Europe and escalating inflation could weigh on the economy and pressure premium growth.

We think Baloise Holding AG will retain its top market positions in the group's defined core markets.

Switzerland-domiciled Baloise will maintain its position among the top five in its domestic market, supported by its strong franchise. Also, we believe it will retain a strong market position in Belgium following recent acquisitions. However, its earnings, dominated by its domestic market, are less diverse than those of higher-rated peers with broader earnings diversification.

The group will maintain its strong underwriting profitability and stable income from the banking and asset management businesses. With a cautious and focused underwriting approach, we expect Baloise will continue generating strong earnings from its property and casualty (P/C) business, with a combined ratio of 90%-93% over 2022-2024. We expect net income of more than Swiss franc (CHF) 500 million annually during this period, which is in line with the average net income over the past five years. From the Russia-Ukraine conflict we see elevated geopolitical tension in Europe and escalating inflation, which could weigh on the economy and pressure premium growth in 2022 and 2023.

Our ratings are underpinned by Baloise's excellent capitalization, which we expect will remain in the 'AAA' range based on our risk-based capital model over the forecast period. The company also disclosed a very comfortable regulatory solvency ratio of 220% as of year-end 2021 in the Swiss Solvency Test (SST). We expect that capital will remain solidly above the 'AAA' benchmark over 2022-2024 despite GDP contraction in the inflationary environment. Robust earnings stemming from underwriting performance and cautious investment policies will continue supporting capital adequacy.

Outlook: Stable

The stable outlook reflects our expectation that Baloise will maintain its capital adequacy comfortably at the 'AAA' level, according to our capital model. Sound earnings above the five-year average of CHF500 million per year in 2022-2024, an unchanged dividend policy, and a consistent conservative investment and growth strategy support our view.

Downside scenario

We could lower the ratings over the next 24 months if the group's capital weakens significantly over a prolonged period because of lower-than-expected retained earnings or a shift toward a more aggressive risk appetite in terms of acquisitions, growth, and product offering.

Upside scenario

We see limited rating upside in the next 24 months. We could take a positive rating action if Baloise's competitiveness improves substantially through higher earnings contributions from countries other than Switzerland, or from noninsurance business. This also assumes the group will maintain its capitalization, risk profile, and earnings stability.

Key Assumptions

- Real GDP growth to contract to 2.4% in 2022, then contract further by 1.9% in 2023 and 1.8% in 2024 in Switzerland.
- Inflation to increase 2.1% in 2022 from 0.6% at year-end 2021. It is expected to go back to 0.8% in 2023. Unemployment rates to remain on average 4.5% in Switzerland for 2022-2024.
- 10-year average bond yields to increase to 0.39% in 2022 and 0.68% in 2023.

Baloise Holding AG--Key Metrics

| (Mil. CHF) | 2024f | 2023f | 2022f | 2021 | 2020 | 2019 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| S&P Global Ratings capital adequacy | Excellent | Excellent | Excellent | Excellent | Excellent | Excellent |
| Gross premiums written | >7,500 | >7,500 | >7,500 | 7,453.1 | 7,093.8 | 7,602.4 |
| Net income (attributable to all shareholders) | >500 | >500 | >500 | 588.4 | 434.3 | 689.5 |
| Return on shareholders' equity (%) | 6-8 | 6-8 | 6-8 | 8.2 | 6.3 | 10.8 |
| Net investment yield (%) | 1.5-2 | 1.5-2 | 1.5-2 | 1.5 | 1.5 | 1.7 |
| P/C: net combined ratio (%) | 90-93 | 90-93 | 90-93 | 92.3 | 91.8 | 90.4 |
| EBITDA fixed-charge coverage (x) | >15 | >15 | >15 | 33.4 | 20.4 | 21.6 |
| Financial leverage adjusted including pension deficit as debt (%) | <30 | <30 | <30 | 24.9 | 25.3 | 26.1 |

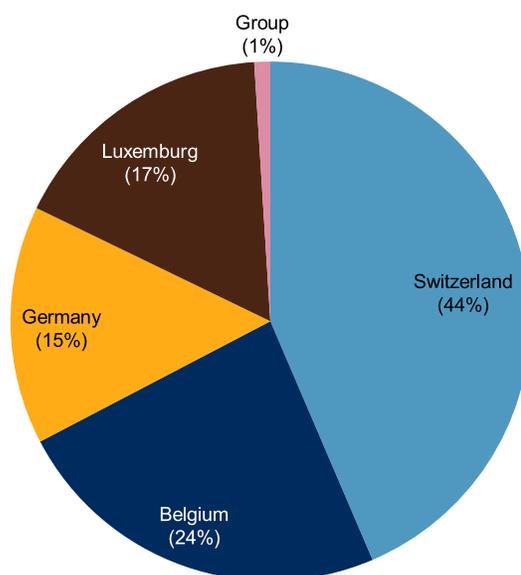
f--S&P Global Ratings forecast.

Business Risk Profile: Strong

Baloise group is a multiline insurer based in Switzerland, focusing on private businesses and small and midsize enterprises in wealthy economies. The group benefits mainly from its sound franchise and well-recognized brand in Switzerland (44% of total business volume in 2021). In addition, the group has a solid foothold in other group-defined core markets (see chart 1) of Belgium and Luxembourg where it holds top market positions, and a less-prominent foothold in Germany. We believe the group defines its competitive strength through its efficient customer and segment selection, with a clear focus on value creation.

Chart 1

Premium Mix At Year-End 2021



Source: S&P Global Ratings.

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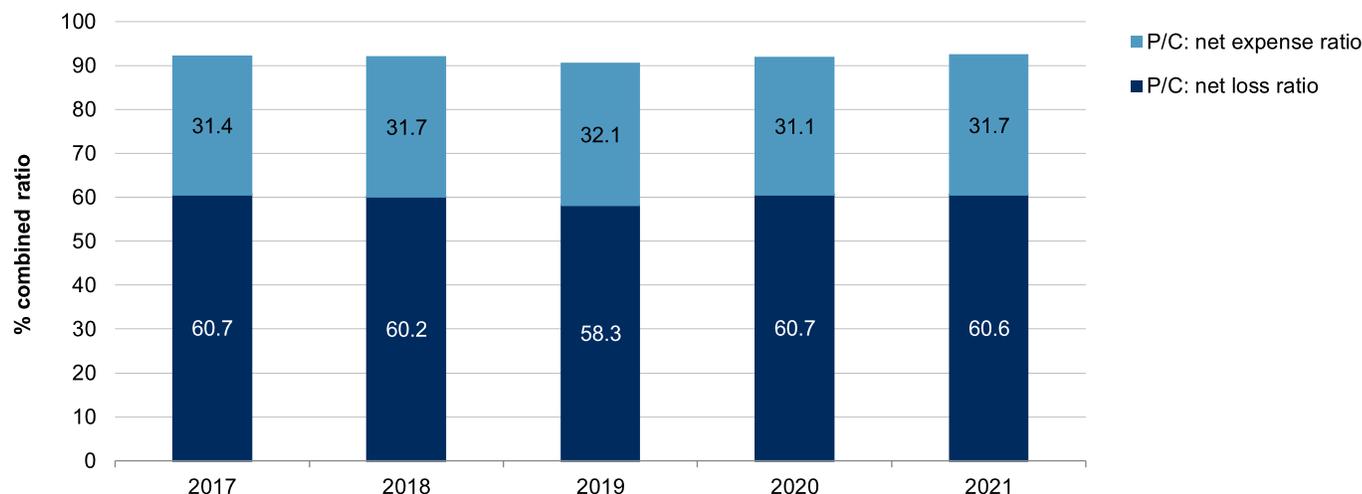
In our opinion, the group has sound product and earnings diversity, offering various life (51% of EBIT in 2021) and P/C (38%) insurance products in its target markets. Also, Baloise Bank SoBa complements the product range mainly with mortgage products and wealth management solutions (10%).

The group's P/C earnings are fundamentally strong, driven by underwriting profitability, with a five-year combined ratio(loss and expense) of 91%. In our view, the group's combined ratio has remained relatively strong compared with peers'. The impact of the natural catastrophe events on underwriting in 2021, with a combined ratio of 92.3%, was

compensated by other business lines, such as motor.

Chart 2

Underwriting Performance



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

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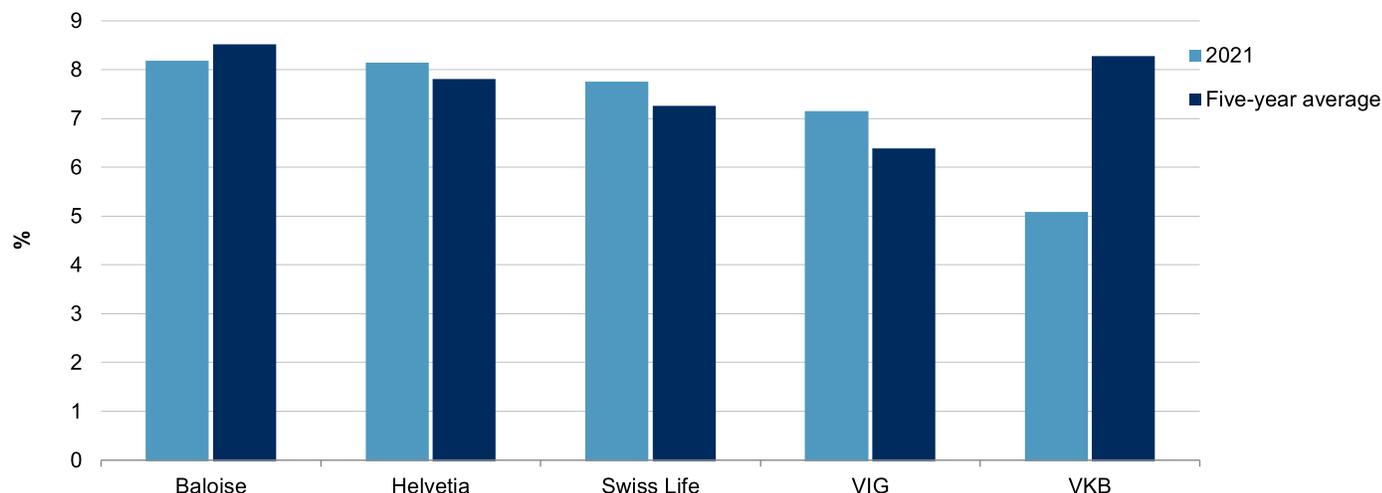
Rising interest rates in Europe will bring some relief on life earnings, we believe, which have been under pressure from the challenges of low interest rates for several years, especially in the domestic market. On the other hand the rising yields let asset value reserves decrease quickly and give less room to realize gains on fixed-income investments. Baloise's continuous shift to biometric and less interest-rate sensitive life products (such as semiautonomous solutions in the Swiss group life business) will gradually mitigate the pressure from shrinking asset value reserves, in our opinion. We believe the group benefits from earnings diversification in its banking and asset management business, which contributed about 10% of EBIT in 2021. We also think Baloise's foray into noninsurance business will support earnings diversification, but we don't expect a meaningful contribution in the medium term.

Financial Risk Profile: Excellent

We assess Baloise's capital adequacy firmly in the 'AAA' range based on the analysis of our risk-based capital model, which remains a key strength for the group over the forecast period. This is also supported by the group's reported SST ratio of 220% as of Jan. 01, 2022, which compares well with peers'.

The group's strong earnings, fueled by sound and stable P/C technical profitability, support its overall capital position. The life insurance segment has also maintained stable interest margins (investment performance above guaranteed obligations) over the past few years (2021: 108 basis points (bps); 2020: 102bps; 2019: 109bps; 2018: 130bps; and 2017: 113bps) in a persistently very low interest rate environment.

Despite higher claims of CHF120 million related to summer storms, Baloise's net income increased by 35% to CHF588.4 million in 2021 and remained in line with our expectations. We expect net income of more than CHF500 million in 2022-2024. We further expect a 'AAA' range capital adequacy in the medium term and a return on equity of 6%-8%.

Chart 3**Return On Equity In Line With Peers'**

Source: S&P Global Ratings.

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We believe the group has limited exposure to capital and earnings volatility. Baloise's solvency capital appears resilient, based on company-defined stress scenarios. The group generally follows a risk-conscious investment strategy, with high asset quality namely 'AAA' rated sovereign debt, and sound investment-risk control practices. Also, we have a favorable view of the group's stringent strategic risk management, risk-management culture, and risk controls, which we believe help Baloise reduce its major risks.

Baloise's leverage and coverage are within our accepted thresholds and we do not foresee any material deviations. At year-end 2021, financial leverage was at 24.9% and we assume it will remain below 30% over the forecast period. Similarly, we assume the fixed-charge coverage will continue to remain higher than 20x over the forecast period, as it was in 2021.

Other Key Credit Considerations

Governance

Our assessment of Baloise's management and governance practices are based on our generally positive opinion of the group's strategic positioning, financial management, and organizational effectiveness.

Liquidity

Baloise has, in our opinion, ample access to liquidity sources and a liquid asset portfolio. The group has strong cash flow generation from premium income and investment returns. Moreover, there are no refinancing risks, in our view.

Factors specific to the holding company

The two-notch differential between the rating on Baloise Holding and those on the core operating companies reflects the structural subordination of the holding company's creditors to the group's policyholders. Baloise Holding has no operating characteristics in its own right.

Baloise Holding's liquidity profile is good, in our view. As a pure insurance holding company, it largely derives its liquidity from subsidiaries' dividends or profit transfers, which to date have been more than sufficient to meet interest payments. However, other sources of liquidity are very limited, in our opinion. The long-term nature of the holding company's debt maturity profile suggests that the group will not need additional liquidity to finance organic growth, at least over the next 12-18 months.

Group support

We consider Basler Versicherung AG, Basler Leben AG (both Switzerland), Baloise Belgium N.V., and Basler Sachversicherungs AG (Germany) as core operating entities of the group.

Accounting considerations

Baloise prepares its consolidated financial statements under International Financial Reporting Standards (IFRS). We view the group's financial communication and disclosure as sound and transparent.

Our assessment of Baloise's capital adequacy is based on reported IFRS shareholders' equity, which we have adjusted by:

- Crediting 50% of the life insurance value in force, but eliminating double-counting by adjusting the on-balance-sheet values for the shareholders' portion in deferred policy acquisition cost;
- Including the statutory free and unallocated portion of the policyholder bonus reserve in life insurance; and
- Deducting goodwill and other intangible assets.

In adjusting risk-capital requirements, we have recognized hedging measures for equity exposures.

Environmental, social, and governance

ESG Credit Indicators



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 Baloise Group.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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

| Baloise Holding AG--Credit Key Metrics | | | |
|---|-------------|-------------|-------------|
| (Mil. CHF) | 2021 | 2020 | 2019 |
| S&P Global Ratings capital adequacy* | Excellent | Excellent | Excellent |
| Total invested assets | 85,403.2 | 83,647.6 | 82,520.5 |
| Total shareholder equity | 7,299.9 | 6,985.8 | 6,715.6 |
| Gross premiums written | 7,453.1 | 7,093.8 | 7,602.4 |
| Net premiums written | 7,133.9 | 6,830.9 | 7,363.0 |
| Net premiums earned | 7,089.7 | 6,766.8 | 7,329.8 |
| Reinsurance utilization (%) | 4.3 | 3.7 | 3.1 |
| EBIT | 722.6 | 603.1 | 723.8 |
| Net income (attributable to all shareholders) | 588.4 | 434.3 | 689.5 |
| Return on revenue (%) | 8.5 | 7.3 | 8.2 |
| Return on assets (including investment gains/losses) (%) | 0.8 | 0.7 | 0.9 |
| Return on shareholders' equity (%) | 8.2 | 6.3 | 10.8 |
| P/C: net combined ratio (%) | 92.3 | 91.8 | 90.4 |
| P/C: net expense ratio (%) | 31.7 | 31.1 | 32.1 |
| EBITDA fixed-charge coverage (x) | 33.4 | 20.4 | 21.6 |
| EBIT fixed-charge coverage (x) | 29.3 | 17.6 | 19.2 |
| EBIT fixed-charge coverage including realized and unrealized gains/losses (x) | 29.3 | 17.6 | 19.2 |
| Financial obligations / EBITDA adjusted (x) | 2.9 | 3.4 | 2.9 |
| Financial leverage adjusted including pension deficit as debt (%) | 24.9 | 25.3 | 26.1 |
| Net investment yield (%) | 1.5 | 1.5 | 1.7 |
| Net investment yield including investment gains/(losses) (%) | 2.0 | 2.0 | 2.2 |

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 June 15, 2022)*

Holding Company: Baloise Holding AG

Issuer Credit Rating

Local Currency

A-/Stable/--

Operating Companies Covered By This Report

Basler Versicherung AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

Baloise Belgium N.V.

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

Basler Leben AG

Issuer Credit Rating

Local Currency

A+/Stable/--

Basler Sachversicherungs AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

Domicile

Switzerland

*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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