S&P Global
Ratings

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Vienna Insurance Group AG Wiener Versicherung Gruppe

Primary Credit Analyst:
Jure Kimovec, FRM, CAIA, ERP, Frankfurt + 49 693 399 9190; jure.kimovec@spglobal.com

Secondary Contact:
Johannes Bender, Frankfurt + 49 693 399 9196; johannes.bender@spglobal.com

Research Contributor:
Nadeem Shaikh, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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Vienna Insurance Group AG Wiener Versicherung Gruppe

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

Support	**0**
Group support	0
Government support	0

=

A+/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Market leader in Austria and several Central and Eastern European (CEE) markets with a well-diversified insurance portfolio enhanced by strong distribution capabilities, which are amplified by an exclusive bancassurance contract with Erste Bank.	VIG is facing increasing economic pressure and rising institutional risks in developing markets. In particular, Turkey, Poland, Hungary, and Romania which have rising inflation, tightened financial conditions, and lingering recession risks. VIG has a somewhat higher regional earnings concentration compared to higher rated peers.
Sizable capital buffer at the 'AAA' level as per our risk-based capital model, supported by the group's underwriting discipline.	Relatively high capital sensitivity to market movements, in particular interest rates.
Sound reinsurance protection that limits the group's natural catastrophe losses from diverse perils in Austria and CEE.	

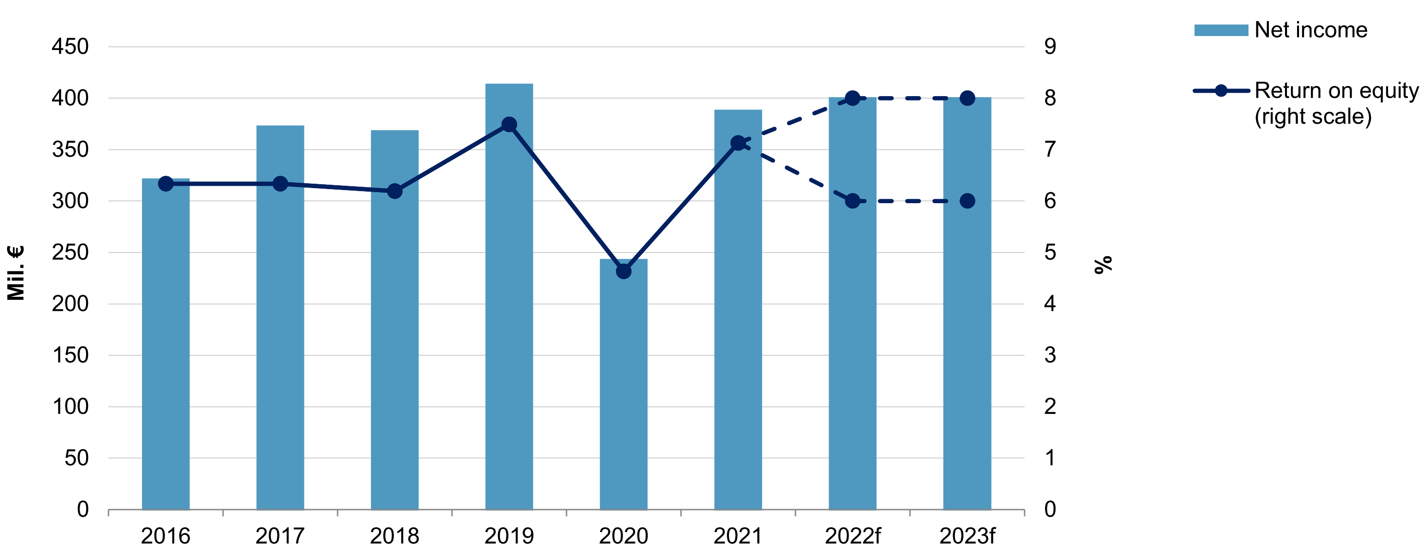
Vienna Insurance Group (VIG) has diversified multiline operations, and as the market leader in Austria and several CEE markets, continues to capitalize on the insurance market upswing. The group's gross written premium (GWP) further accelerated in the first nine months of 2022 to 13.6% with GWP to 9.5 billion. Factors underpinning this growth further broadened with top-line growth coming from the combination of price increases and new business additions in commercial and retail lines. In addition, in 2022 VIG progressed with the Aegon CEE acquisition, and is now first time consolidating the acquired Hungarian and Turkey businesses and has contributed 3.5 percentage points to the overall growth in the first nine months of 2022. S&P Global Ratings believes that VIG benefits from its diversified business and geographical mix across the region. In our view, the group continues to adjust pricing to reflect changes in claims and cost trends following higher inflation. High gasoline prices are supporting the gradual normalization of frequencies and partially offsetting increased claims severity. Overall, we expect premium growth will remain relatively high at about

9%-13% in full year 2022. For 2023-2024 we expect a gradual moderation in VIG's organic growth rates resulting from the weakening of the overall business environment in the coming quarters. However, the ongoing first time consolidation and expected additional progress with the remaining parts of the Aegon CEE acquisition in Poland and Romania, will provide further strong premium growth in 2023.

VIG's operating performance remained strong in the first three quarters of 2022, supported by solid underwriting results. The strong non-life as well as life underwriting results, with a non-life combined ratio as of 3Q 2022 of 95.1%, helped to offset the impairment of Russian assets and resulted in a group net income of €311.9 million in the first three quarters of 2022. We believe this performance positions VIG well with its main EMEA peers in the 'A+' range. We expect the group's performance in 2022-2024 to remain resilient on account of VIG's continued strict underwriting discipline, sound reserving position, supported by conservative reinsurance protection, as well as continued growth of its portfolio and tight cost controls. We believe VIG's conservative investment strategy will limit the impact from further capital market volatility. Our base case expects a net income of about €300 million-€430 million in 2022-2024 resulting in a return on equity (ROE) of 6%-8%. In addition, the completion of the acquisition of Aegon CEE could, in the mid term, further improve VIG's earnings capacity.

Chart 1

Vienna Insurance Group's Performance To Remain Resilient Going Forward



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

In our view, VIG's excellent capital adequacy continues to be a relative ratings strength. At year-end 2021, VIG's balance sheet remained resilient and its capital position robust above the 'AAA' level, according to our risk-based capital model, which allows it some room to maneuver in this period of higher capital markets volatility and uncertain business environment. We expect that VIG will continue to safeguard its capital adequacy at excellent levels, based on our model, over 2022-2024. We adjust our capital and earnings assessment downward due to capital sensitivity to market movements, in particular interest rates where the group at the end of 2021 displayed a 13.8% decrease of its Solvency II ratio in case of a risk-free yield curve decrease of 50 basis points. Overall, we expect that VIG will maintain its capital and earnings at least at a very strong level over the next two years, while it continues to pursue good organic growth opportunities and VIG also completes the AEGON CEE acquisition.

Outlook: Stable

The stable outlook reflects our view that VIG will maintain its strong competitive position in Austria and CEE after the acquisition of AEGON's CEE operations, and that its capitalization will remain above the 'AAA' level.

Downside scenario

We could lower the ratings over the next 12-24 months if:

- The company's capital adequacy sustainably deteriorates below the 'AAA' level; or
- Its operating performance does not meet our earnings expectations for a prolonged period.
- VIG's funding structure deteriorates with financial leverage sustainably above 40% or fixed-charge coverage below 4x;

Upside scenario

We see limited rating upside in the next 12-24 months. However, we could raise the ratings if:

- VIG significantly and sustainably increases its earnings diversity outside Austria and the Czech Republic;
- Earnings consistently exceed our base-case assumptions; and
- Capital adequacy remains in excess of the 'AAA' level based on our capital model.

Key Assumptions

- Interest rates in the eurozone to rise in 2022 to 1.5%, followed by 2.3% in 2023, and 2.5% in 2024. We expect interest rates in CEE local currencies to be significantly higher than in Austria or the eurozone.
- Austria and the Czech Republic real GDP growth in 2022 to remain at solid levels at between 2%-4%, but it would materially slow down to 0% and 0.5% respectively for 2023. We expect growth to recover to 2.0%-2.5% in 2024.
- Unemployment in Austria to remain in the range of 4.3%-4.5% for 2022-2024, whereas for the Czech Republic, we forecast very low levels of about 2.6%-2.8% through 2022-2024.
- Inflation to peak in 2022 and remain high in 2023, gradually normalizing in 2024, with expected inflation in Austria of about 8% for 2022 followed by 7% and 3% in 2023 and 2024, respectively. We anticipate inflation in the Czech Republic to be about 17% for 2022, followed by 8% and 3.5% in 2023 and 2024, respectively.

Vienna Insurance Group--Key Metrics								
	2023f	**2022f**	**Q3 2022***	**2021**	**2020**	**2019**	**2018**	**2017**
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. €)	~ 12,500	~ 12,000	9,530.0	11,002.6	10,428.5	10,399.4	9,657.3	9,386.0
Net income (mil. €)	300 - 430	300 - 430	311.9	388.0	242.7	413.1	368.0	372.6
Return on shareholders' equity (%)**	6 - 8	6 - 8	8.5	7.3	4.6	7.5	6.2	6.3
P/C: Net combined ratio (%)	~ 95	~ 95	95.1	94.2	95.0	95.4	96.0	96.7
Net investment yield (%)	> 1.5	> 1.5	N/A	1.7	1.6	2.4	2.9	2.8
Financial leverage	< 40	< 40	N/A	35.3	28.2	27.3	22.8	23.7
EBITDA fixed-charge coverage (x)	> 4	> 4	N/A	6.2	6.2	6.8	5.7	5.0

*First three quarters of 2022. **Q3 2022 ROE is based on trailing 12-month earnings. f--S&P Global Ratings forecast. N/A--Not applicable.

Business Risk Profile: Strong

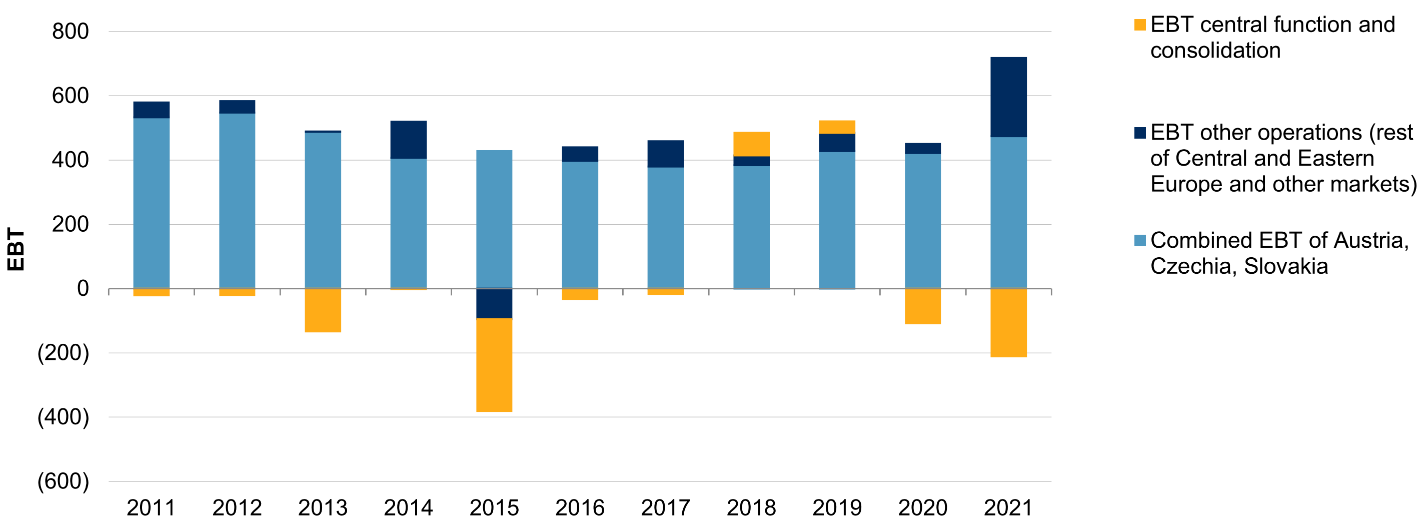
VIG's market-leading position in Austria and CEE is underpinned by the group's broad geographical presence with a comprehensive range of product offerings and diverse distribution capabilities supplemented by its well-known local brands. Some further geographical and business diversification is provided by VIG Re (€661.3 million GWP in 2021), the group's reinsurance arm. Thanks to its widespread operations, we think it will continue to benefit from good geographical diversification. That said, VIG demonstrates somewhat higher earnings concentration compared to higher-rated peers, since most earnings are generated from Austria, the Czech Republic, and Slovakia.

VIG's leading positions in these countries enable consistently stable and robust performance. Underpinning these leading positions are diversified and sizable distribution networks, a client-service focus, and successful sharing of best practices. In addition, VIG benefits, in our view, from its longstanding bancassurance cooperation with Erste Group Bank AG (A+/Stable/A-1) in Austria and CEE.

Despite weakening economic conditions across Europe, VIG's operations in Austria, the Czech Republic, and Slovakia are likely to remain resilient as the markets are benefiting from solid sovereign fundamentals and continued robust household balance sheets, which continue to provide some cushion against economic uncertainty. About 35% of VIG's operations are in markets that have higher country or industry risk than its three main markets. Nevertheless, most of the premiums from higher risk markets are coming from countries which are part of the European Union (EU). With heightened uncertainty from the external environment, high inflation, and energy supply continuing into 2023, we believe EU-funded investments will provide key support to economic growth and further convergence to the EU average in the higher risk countries. This will allow VIG to continue to gradually unlock further organic growth in the region. As development risk remains material, VIG's country and industry risk exceeds that of Swiss (Helvetia and Baloise) and Nordic (Sampo) insurance peers, and is more comparable to MAPFRE or Ageas.

Chart 2

VIG Has Very Stable And Profitable Operations In The Markets Of Austria, Czechia, And Slovakia



EBT--Earnings before tax. Source: S&P Global Ratings.

The group's operating performance in 2021 throughout 2022 has remained resilient despite large natural catastrophes in Austria and Czechia in summer 2021, higher inflation through the region in 2022, impaired Russian assets, and higher capital markets volatility. Solid performance was supported by the retention of solid underwriting results in the life and non-life businesses and relatively resilient investment results. We believe that solid underwriting--where the non-life combined ratio remained favorable at 94.2% at end-2021 and 95.1% at Q3 2022--resulted from the group's prudent underwriting, improved commercial business margins, overall solid reinsurance protection, and portfolio diversity.

The group's life business margins remained at good levels due to its favorable portfolio mix of risk protection and unit-linked products largely coming from its CEE operations. Higher interest rates are also offering some relief for reinvestment yield in guaranteed investment life products. We think that VIG's ongoing price increases in commercial and retail lines, retention of robust reinsurance protection, and tight cost controls with continued business digitalization and timely changes in the business cycle, will combined help the group to maintain solid underwriting performance. Higher interest rates in Austria and CEE countries will also gradually offer some improvement in investment results. Overall, we believe that VIG will maintain a non-life combined ratio of around 95% and favorable life and health new business margins of above 2% in 2022-2024. We expect the group's financial performance to continue to generate ROE in the range of 6%-8% in 2022-2024, with such operating performance remaining comparable with that of its 'A+' rated peers.

Despite the weakening economic environment in the last few quarters the group's consolidated GWP rose by 13.6% and reached €9.5 billion of GWP at the end of September 2022. The growth in 2022 further broadened and is now in double digit figures in motor, property, and health lines, as well as in regular life. This reflected growth from price increases driven by higher inflation and gradual normalization of frequencies, as well as organic growth in new risks in commercial and property lines. In addition, in the last 12 months, VIG's premium growth also benefited from the changing market structure in the Romanian nonlife market which led to marketwise motor prices repricing and provided a material organic premium growth boost for VIG. Overall, we expect VIG's business growth to peak in 2022, with growth then gradually moderating in 2023-2024 to mid-single digits. However, we still forecast VIG's 2023-2024 premium growth to slightly exceed the region's GDP development to reflect some lagging effect of price adjustments. About 30% of VIG's GWP comes from commercial and retail property. In our view, this should support continued growth from future cyclical price increases, as well as new risk additions in CEE following continued regional convergence with the EU average. In retail lines the company is further developing its digital offers as policyholders shift toward online engagement, as well as health and life-protection products through which to spur growth.

At year-end 2020, VIG announced the acquisition of AEGON's CEE operations. In March 2022, VIG agreed with the Hungarian authorities to proceed with its acquisition of Aegon Hungary and also received approvals for the acquisition of Aegon Turkey. With first time consolidation, we see a one-off rise in VIG's GWP of approximately 5%-6% based on 2021 figures. We believe that this will provide traction for gaining further necessary approvals to timely close the remaining parts of the AEGON CEE acquisition in Poland and Romania.

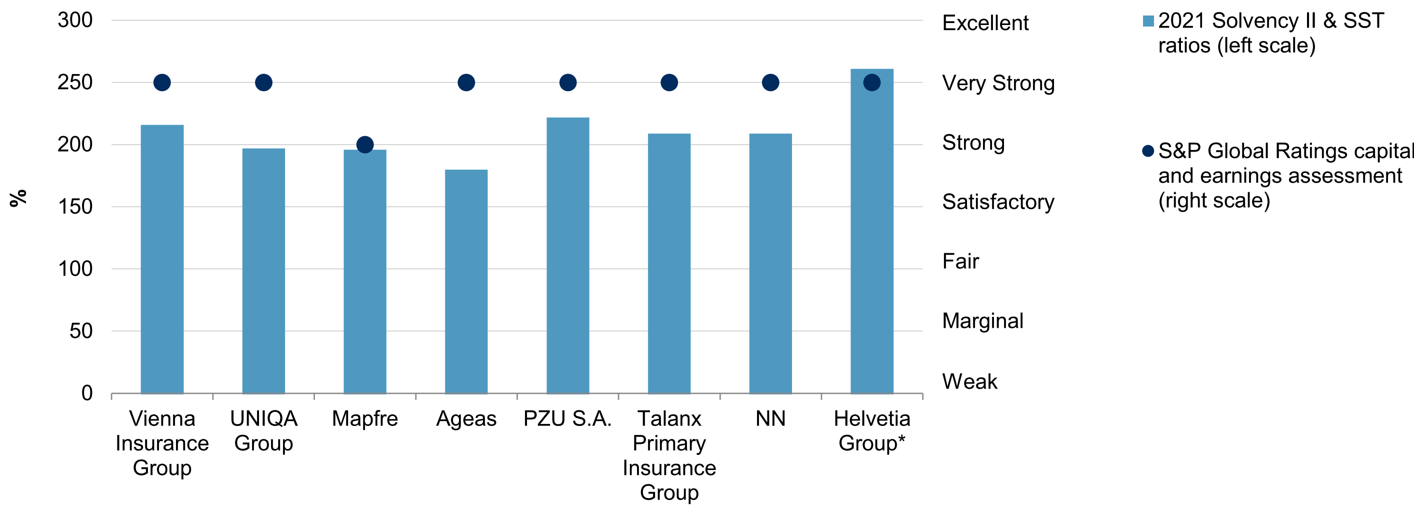
Financial Risk Profile: Very Strong

VIG's financial risk profile underpins its strong balance sheet with robust capital buffers which is also reflected in our capital model and Solvency II. We believe that resilient earnings will support moderate dividend payments and growth financing. The funding position remains neutral to the rating, in our view.

VIG maintains a very robust capital position above the 'AAA' level according to our risk-based capital model. This was supported by a solid Solvency II ratio of 215% excluding transitional measures (250% with transitional measures) at Dec. 31, 2021. The group continued to distribute moderate dividends in 2022, in accordance with its strategy, and we expect these to continue. In June 2022 VIG issued €500 million of capital qualifying hybrid debt and partially bought back an outstanding 2013 capital qualifying hybrid bond. However, as we believe that this debt is to be used for the refinancing of a hybrid bond with the first call date in 2023, we consider it neutral for the group's capital position. We believe that strong ongoing organic business growth, impairment of most of its investments in Russian assets, and overall capital market volatility did not materially reduce VIG's capital standing under our view of its capital position in the first nine months of 2022. This was also supported by a robust Solvency II ratio in Q3 2022 which remained comparable to the half year 2022 level of 285% (including transitional measures). In our view, VIG's robust capital position, solid underwriting performance, and generally prudent property/casualty (P/C) loss reserves provide some buffer in case our current macro downside scenario for eurozone and CEE countries materializes.

Chart 3

VIG's Capital Position To Remain Robust



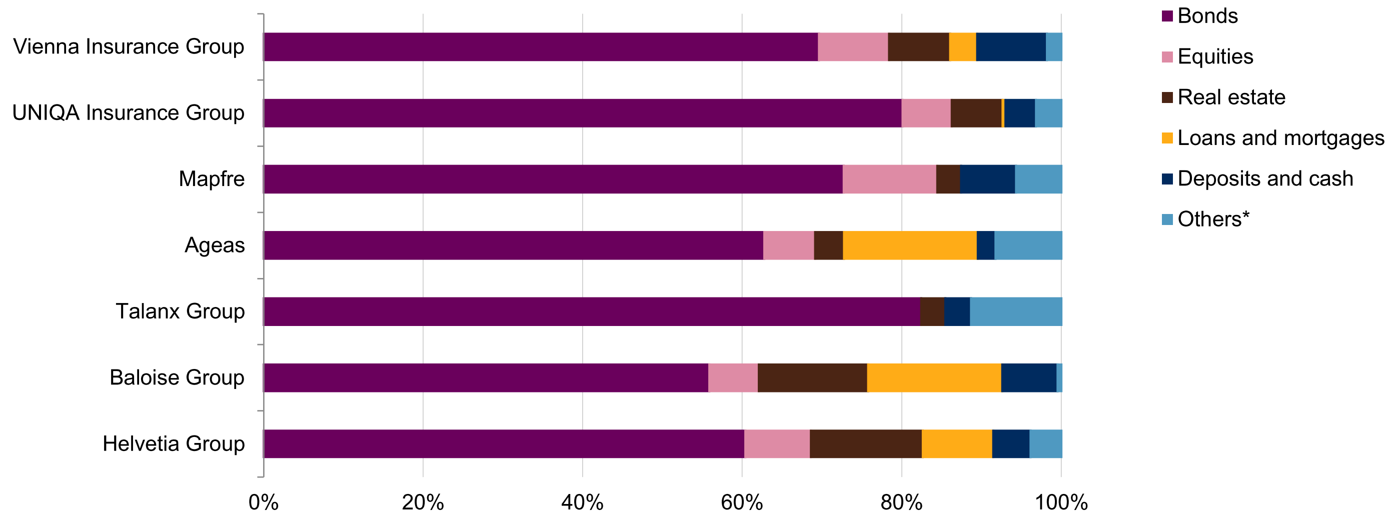
Solvency 2 ratio without transitionals. *SST--Swiss solvency test. Source: S&P Global Ratings.

Since its year-end 2020 announcement of the AEGON CEE acquisition, VIG has secured acquisition financing through a combination of internal resources and bond issuances that have partially enhanced its current capital position. In the first nine months of 2022, VIG made significant progress with the necessary approvals. We believe that consolidation of the AEGON CEE operations would reduce VIG's capital buffers, but it would likely remain above the 'AAA' level, according to our model.

VIG's risk profile has remained stable and supports its very strong financial profile. In our view, the company's asset risks remain stable with an overall conservative investment portfolio. Most of the invested assets remain in fixed income securities with a relatively high creditworthiness in the 'A' range and are broadly diversified across the eurozone and CEE countries where VIG operates. Exposure to higher-risk assets remains modest.

Chart 4

Vienna Insurance Group's Investment Portfolio Remains Conservative



Source: S&P Global Ratings based on respective companies annual reports. *Includes affiliated companies and other investments .

In addition, the group has stable and effective reinsurance protection, which shields its balance sheet from larger natural catastrophes. This was retested by a very intense 2021 natural catastrophe season with limited net claims from Austrian and Czech catastrophes. We expect that VIG will withhold a stable underwriting risk appetite with solid reinsurance protection strategy, which will in the medium term, continue to safeguard the group's earnings and capital against larger catastrophe claims.

Although, the group has some life insurance business with guarantees, the amount is lower than that of its German peers. VIG has actively limited the risk of traditional life savings products by building additional reserves to mitigate low interest rates. It has also recently prudently reduced its underwriting appetite for some products exposed to interest rate risk. With 2022 seeing rising interest rates in the eurozone and CEE, less risky fixed income instruments should again offer some suitable yield investment opportunities. Overall, we believe VIG's investment risk appetite will remain stable.

VIG's leverage of its funding structure metrics has increased due to 2021 debt funding raised for the AEGON CEE acquisition, as well as the 2022 early refinancing of a hybrid bond with the first call date in 2023. In the last two years financial debt has increased by €1.085 billion. Although, the additional debt had a neutral impact on our view of VIG's funding structure, its leverage metrics materially increased. The company completed a debt management exercise in H1 2022, where it slightly reduced debt levels by about €215 million through partially buying back a hybrid bond with a first call date in 2023. We expect the nominal amount of debt to further reduce after VIG calls the residual €285 million of hybrid debt in 2023 from the issued hybrid capital in 2013. That said, the financial leverage is likely to remain below 40% until 2024, while continued stable operating performance will support a stable fixed-charge coverage firmly above 4x.

Other Key Credit Considerations

Governance

We consider VIG's governance stable and comparable with that of its international peers. Governance and disclosure standards in Austria are comparable with the rest of the eurozone. VIG has credible strategic planning and conservative financial management. The board is experienced and capable of executing the group's business strategy.

Liquidity

VIG's liquidity profile is very sound and stable, thanks to the availability of liquid sources at its disposal, such as premium income and a highly liquid asset portfolio. Larger risks are heavily reinsured. We see no refinancing risk, and we expect the group would withstand severe liquidity stress, such as from unexpectedly large claims in P/C business or material increase in lapses and surrenders in its life business.

Factors specific to the holding company

Vienna Insurance Group AG Wiener Versicherung Gruppe, the ultimate holding company of VIG's operating entities, writes internal reinsurance and international corporate and large customer business. Because we view it as an operating holding company with sizable excess capital and sound revenue from its own investments and underwriting activities, we equalize the ratings on the holding company with those on the group's core operations.

Environmental, social, and governance (ESG)

In our view, ESG credit factors have no material influence on our VIG rating analysis.

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

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 alphanumerical 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.

Accounting considerations

VIG prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS). A particular feature of VIG's IFRS accounting is the limited recognition of deferred acquisition costs on its balance sheet. This is because VIG channels most of its commissions directly through its profit-and-loss statement. We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded-value disclosures. We base our assessment of VIG's capital adequacy on its reported shareholders' equity, which we adjust mainly to account for 50% of the life insurance value in force not included in the balance sheet, hybrid debt classified as carrying equity content according to our criteria, policyholder capital available to absorb losses, 50% of non-life loss reserve redundancies, and off-balance-sheet asset-value reserves. We deduct the on-balance-sheet goodwill from capital.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, 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

Related Research

- Global Insurance Markets: Inflation Bites, Nov. 30, 2022
- EMEA Insurance Outlook 2023: In The Midst Of The Perfect Storm, Nov. 14, 2022
- Central And Eastern Europe: Growth Freezes, Risks Mount, Nov. 10, 2022
- Emerging Markets Monthly Highlights: Navigating Through Increasing Uncertainty, Oct. 19, 2022
- Credit Conditions Europe Q4 2022: Hunkering Down For Winter, Sept. 27, 2022
- Vienna Insurance Group's Proposed Junior Subordinated Callable Notes Rated 'A-', June 6, 2022
- Vienna Insurance Group AG Wiener Versicherung Gruppe, Dec. 22, 2021

Appendix

Vienna Insurance Group--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Total invested assets*	45,672.9	44,497.5	44,398.6	45,566.2	46,372.1
Total shareholder equity	5,298.0	5,286.0	5,191.0	5,836.0	6,044.0
Gross premiums written	11,003.0	10,428.0	10,399.0	9,657.0	9,386.0
Net premiums written	9,879.0	9,416.0	9,421.0	8,811.0	8,585.0
Net premiums earned	9,706.0	9,337.0	9,318.0	8,729.0	8,510.0
Reinsurance utilization (%)	10.2	9.7	9.4	8.8	8.5
EBIT	609.7	436.6	630.1	600.8	561.2
Net income (attributable to all shareholders)	388.0	242.7	413.1	368.0	372.6
Return on shareholders' equity (reported) (%)	7.3	4.6	7.5	6.2	6.3
P/C: net combined ratio (%)	94.2	95.0	95.4	96.0	96.7
P/C: net expense ratio (%)	32.7	32.2	31.7	31.3	30.4

Vienna Insurance Group--Credit Metrics History (cont.)

Ratio/Metric	2021	2020	2019	2018	2017
P/C: return on revenue (%)	6.2	3.9	9.1	10.1	7.9
EBITDA fixed-charge coverage (x)	6.2	6.2	6.8	5.7	5.0
EBIT fixed-charge coverage (x)	6.2	4.8	5.8	5.2	4.7
Financial obligations/ EBITDA adjusted	4.7	3.7	2.6	2.6	3.2
Financial leverage (%)	35.3	28.2	27.3	22.8	23.7
Net investment yield (%)	1.7	1.6	2.4	2.9	2.8
Net investment yield including investment gains/(losses) (%)	1.6	1.5	2.7	2.7	2.5

*Including unit- and index-linked products.

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 December 1, 2022)*

Operating Companies Covered By This Report	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Junior Subordinated	A-
Senior Unsecured	A
VIG RE zajist'ovna a.s.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Austria

*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.