

### Summary:

## Vienna Insurance Group AG Wiener Versicherung Gruppe

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### Local Currency

**Credit Rating:** A+/Stable/--

## Rationale

The ratings on Austria-based VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG AG), the operating holding company of the Vienna Insurance Group (VIG or the group), reflect Standard & Poor's Ratings Services' opinion that VIG demonstrates a very strong competitive position in Austria and Central and Eastern Europe (CEE), a strong and resilient operating performance, a clear corporate strategy, and credible management. These strengths are in our view partly offset by concentration risk resulting from VIG's close links with Erste Group Bank AG (Erste Group; A/Stable/A-1) and relatively high exposure to credit risk in CEE countries.

We consider VIG AG's financial strength to be equal to that of the group because VIG AG acts as a regulated reinsurer for several of VIG's core insurance businesses. In addition, we believe VIG AG is likely to maintain its strong financial flexibility through unrestricted access to its own significant liquid assets and the substantial free reserves of the main Austrian subsidiary WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group (not rated).

The group's competitive position in Austria and CEE is very strong, in our view. On the back of its multibrand strategy, multichannel distribution capacities, and the sound diversification of its portfolio by line of business, the group achieved market leading positions in its key markets in CEE through profitable expansion, leading the market with strong growth rates in 2010 (up 9.2%) and the first half of 2011 (up 14.4%). Since 2008, VIG's business profile has further benefited from the acquisition and integration of Erste Group's insurance operations in Austria and CEE.

We regard VIG's operating performance as strong. The group's earnings have shown relative resilience against the negative effects of the adverse operating environment in recent years and compare well with those of its European peers. Return on equity (ROE) reached 8.6% in 2010 and averaged about 11.3% between 2010 and 2006. Moreover, first-half results for 2011, with a net income of €230 million, further emphasize the group's resilient bottom-line profitability.

VIG's overall performance in our view has benefited from sustainably strong non-life underwriting results. This is reflected in a favorable combined (loss and expense) ratio of 96.7% on average between 2006 and 2010 and an improving trend in the first half of 2011 with a combined ratio of 97.1% against 98.3% in the first half of 2010.

In addition, the underlying performance in life and health insurance was strong and exceeded the results of many of the group's European peers, mainly in Germany and Switzerland, by delivering a new-business margin of 5.6% of the present value of new business premiums (PVNBP) in 2010 and 4.3% on average in 2006-2010.

We view VIG's management and corporate strategy as positive for the ratings. VIG has successfully reached

profitable leading positions in select core markets, while preserving a resilient earnings and capitalization profile during the recent global financial turmoil. A successful group reorganization, comprising the separation of the holding and strategic management functions from the primary retail insurance business in Austria, could, in our view, further enhance the effective management and optimization of the financial and earnings profile at the group and entity levels.

Although we regard the partnership with Erste Group as supportive of VIG's competitive position, VIG's dependence on the bank's business and financial profile creates some concentration risk. In addition to the sales partnership in major markets, VIG's close links with Erste Group also stem from reciprocal investment and corporate financing activities.

Furthermore, VIG remains, in our view, highly exposed to credit and currency risk resulting from the local investments of its CEE subsidiaries, mainly in government bonds. Although, we consider the credit quality of the bond portfolio to be lower than that of the group's peers, VIG has so far not experienced major credit defaults. Furthermore, currency hedges mitigate the potential risk to the group's earnings profile.

## Outlook

The stable outlook reflects our view that management will defend VIG's market leading positions in Austria and CEE. We anticipate that in 2011 premiums could decrease by 2%-4% in Austria and increase by 6%-10% in CEE. We also expect premiums could remain flat in 2012 in Austria and grow further in CEE by 5%-8% in 2012. At the same time, we expect the group to preserve its strong operating performance, posting net income of €400 million-€500 million and ROE of 8%-10% in 2011 and 2012.

Furthermore, for 2011 and 2012 we anticipate a non-life net combined ratio of 97% or less, a life new-business margin of more than 4% of the PVNBP, and an operating return on embedded value (RoEV) exceeding 10%. VIG's capitalization should remain very strong.

We also expect VIG AG, after the demerger of the Austrian business, to maintain its high liquidity, very conservative financial leverage and fixed-charge coverage, as well as its access to the group's internal reserves to allow it to fund at least its interest payments.

Although unlikely, we could lower the ratings within the next 12-18 months if VIG AG's liquidity and financial flexibility were to substantially weaken or if the group's profitability and capitalization were to fall below our forecast for a prolonged period. We could consider a positive rating action if economic and financial market conditions were to improve and reduce the risks from the group's credit exposures and if VIG sustainably diversifies its earnings base geographically.

## Related Criteria And Research

- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007

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