STANDARD & POOR'S

RATINGSDIRECT®

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Research Update:

Wiener Städtische Versicherung AG Outlook Revised To Positive On Acquisition Plan

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Rationale

On March 27, 2008, Standard & Poor's Ratings Services revised its outlook on Austria-based Wiener Städtische Versicherung AG Vienna Insurance Group (VIG) to positive from stable. At the same time, the 'A+' counterparty credit and insurer financial strength ratings were affirmed.

This reflects our expectation that the group's life competitive position in Austria and Central and Eastern Europe (CEE) will be significantly strengthened through the targeted acquisition of s-Versicherung AG (not rated) and related CEE subsidiaries from Austria-based Erste Bank der österreichischen Sparkassen AG (Erste Bank; A/Stable/A-1), including the agreement of an extended and regionally broadened longstanding distribution cooperation partnership. The outlook revision also incorporates VIG's continued strong operating performance above targets and increasingly diversified group earnings.

The ratings on VIG benefit from our positive view of management and our expectation that the group's capitalization will continue to be very strong. Partially offsetting these strengths, the group has yet to establish a sustained track record of earnings growth outside its home market to foster increasing earnings diversity. The planned acquisition would play a part in this over the medium term, but would involve a degree of execution and financing risk, albeit limited.

The group benefits from a very strong competitive position in Austria and the CEE. This reflects its sound diversification by line of business and distribution capabilities domestically, as well as a continued fostering of the group's presences in CEE. The planned acquisition follows this strategy. It would immediately add €1.3 billion of premium income, the majority of which is life insurance, and facilitate a long-term and exclusive extension of the existing non-life distribution partnership with Erste Bank and its CEE bank subsidiaries.

We believe execution risk of the planned acquisition would be limited, given a good cultural fit with Erste Bank and the long-standing cooperation in non-life insurance.

We expect VIG to maintain very strong capitalization. Financing the planned transaction would present challenges in the current capital market environment, however, we expect the group to achieve this, even in a scenario of limited external investor interest, through group-internal means and the support of its mutual core shareholder.

The group has a strong track record of enhanced profitability in recent years, boosted by sound technical profits. The non-life net combined ratio is expected to have improved to 95.5% in 2007 against 96.9% in 2006, despite natural catastrophes. The life new business margin is expected to have further improved in 2007 from a strong 3.6% on a present value of new business premium

(PVNBP) basis in 2006, reflecting an increasing share of more profitable CEE business as well as profitability improvements domestically. We expect this to have translated into a 14% aftertax ROE. Nevertheless, we expect profitability improvements at s-Versicherung to have leveraged the company's full potential over the medium term.

Standard & Poor's views VIG's management as a positive factor, exploiting its leading market position in Austria and following a clear- and risk-conscious strategic approach in the CEE region, which management continues to execute successfully.

Outlook

The positive outlook reflects Standard & Poor's expectation that VIG's management will continue to deliver strong operating results in its key markets and successfully develop its CEE businesses. The regional focus and relative immaturity of the CEE region should allow VIG's growth and earnings to surpass its peers, which focus on more mature and cyclical markets. Non-life net combined ratios for the group of about 95%, scale efficiency gains across the group, and life new business margins above 4% should translate into a aftertax ROE well in excess of 15% by 2010. We expect group capitalization to remain very strong in the future. Non-Austrian operations are likely to contribute 50% of group profits by 2011.

We would raise the ratings if management demonstrated sustained sound profitability while executing its CEE expansion, and if VIG can meet quantitative targets and turn its CEE businesses into stronger profit contributors, thereby achieving further earnings diversity for the group.

Conversely, we could revise the outlook to stable if unexpectedly significant financing difficulties regarding the planned acquisition emerged, if VIG did not continuously operate with very strong capitalization, growth and profit targets were not met, or if the group faced significant unexpected adverse conditions in the CEE region.

Ratings List

	To	From
Counterparty credit rating		
	A+/Positive/--	A+/Stable/--
Insurer financial strength rating		
	A+/Positive	A+/Stable

NB: This list does not include all ratings affected.

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