

Summary:

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

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VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

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 partly offset by increasing concentration risk resulting from VIG's close links with Erste Group Bank AG (Erste Group; A/Negative/A-1) and 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 through profitable expansion, beating the markets with a strong growth rate of 12% on average between 2005 and 2009. 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 European peers of similar size and financial strength. The posttax return on reported equity was 8.3% in 2009 and 12.2% on average between 2005 and 2009. VIG's overall performance has benefited from sustainably strong non-life underwriting results. This is reflected in a combined (loss and expense) ratio of 95.5% in 2009 and 95.2% on average between 2005 and 2009. In addition, the underlying performance in life and health insurance was strong and exceeded the results of many European peers, mainly in Germany and Switzerland, by delivering a new-business margin of about 4% of the present value of new business premiums (PVNBP) in 2009 and on average in 2006-2009. The operating return on embedded value (RoEV) was also sound at 11.7% in 2009.

We view VIG's management and corporate strategy as positive for the ratings. VIG has successfully reached profitable leading positions in its selected core markets, while preserving a resilient earnings and capitalization profile during the global financial turmoil. The recently completed group reorganization, comprising the separation of the holding and strategic management functions from the primary retail insurance business in Austria, could, in our view, 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 to VIG's competitive position, VIG's dependence on the bank's business and financial profile has increased. 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, relatively overexposed to credit and currency risk resulting from the local investments of its CEE subsidiaries, mainly in government bonds. Because bonds rated 'A' and lower represented 60% of VIG's portfolio at year-end 2009, we consider the credit quality of the bond portfolio to be lower than that of competitors. However, currency hedges partly 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. However, in light of the continually difficult economic environment, we anticipate that premiums could stay flat in Austria and increase slightly (by 2%-3%) in CEE. At the same time, we expect the group to preserve its strong operating performance, posting pretax earnings of €500 million-€600 million and a return on equity of 8%-10% in 2010 and 2011.

Furthermore, 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 RoEV exceeding 10%. VIG's capitalization should remain at least strong, even in an adverse operating environment.

We also expect VIG AG, after the planned 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.

We might 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 stabilize and reduce the risks from the group's credit exposures and if VIG were to achieve underlying earnings and capitalization that are sustainably higher than we expect.

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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