STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

Summary:

Vienna Insurance Group AG Wiener Versicherung Gruppe

Primary Credit Analyst:
Johannes Bender, Frankfurt (49) 69-33-999-196; johannes_bender@standardandpoors.com

Secondary Contact:
Ralf Bender, CFA, Frankfurt (49) 69-33-999-194; ralf_bender@standardandpoors.com

Table Of Contents

Summary:

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), very strong capitalization, a strong and resilient operating performance, a clear corporate strategy, and credible management. These strengths are in our view partly offset by VIG's geographic diversity of earnings that lags behind some of its European peers' and concentration risk resulting from VIG's close links with Erste Group Bank AG (Erste Group; A/Negative/A-1).

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, and continues to be a rating strength. 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, with strong growth rates as indicated by gross premiums written (GPW) of about 6.5% compounded annually between 2007-2011. Since 2008, VIG's business profile has further benefited from the acquisition and integration of Erste Group's insurance operations in Austria and CEE. Under our base-case scenario, we anticipate that GPW in 2012-2013 could experience a low-single-digit rise or remain at least flat in Austria, and grow further by 5%-10% in CEE, with continued good margins.

VIG's capitalization is very strong, in our view. Our assessment takes into account the group's track record of very strong capital adequacy, strong capital quality, and conservative reinsurance strategy.

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 8.8% in 2011, with a net income of €442 million. Half-year 2012 results indicate an ongoing strong earnings trend, with a profit before tax of €302 million (up 7% compared with half-year 2011). VIG posted a combined ratio of 96.8% in 2011 and 96.6% in first-half 2012, and a new business margin based on annual premium equivalent of 44%, and 5.5% based on present value of new business premium (PVNBP) in 2011. We believe that VIG's non-life and life operating performances compares well with those of European peers and allows for sound business diversification. Under our base-case scenario, we think VIG is well placed to sustain its strong operating performance in 2012-2013, with a net income of €400 million-€500 million.

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. Furthermore, the successful group reorganization in 2010, 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.

VIG has successfully grown in the CEE region and today can draw on a well-balanced premium split by regions, with only 46% of GWP in 2011 coming from its domestic market. We believe, however, that VIG's geographic diversity of earnings lags behind some of its larger European peers', given that its main markets--Austria and the Czech Republic--generated about 86% of the group's pretax profit in 2011.

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, although we note that VIG has reduced its exposure and we expect further reduction in the medium term.

Outlook

The stable outlook reflects our view that VIG will sustain its very strong competitive position by maintaining both very strong capitalization and a strong operating performance.

We would consider taking a positive rating action if:

- Economic and financial market conditions were to improve sustainably in VIG's main markets;
- VIG were to strongly geographically diversify its earnings base; and
- VIG continued to demonstrate a strong operating performance that compares well with that of European peers, maintained very strong capitalization, and sustained its very strong competitive position.

Although unlikely, we could lower the ratings within the next 12-18 months if:

- VIG's capitalization and profitability were to underperform our expectations for a prolonged period; or
- VIG's competitive position were to deteriorate substantially in its domestic market or in CEE.

Related Criteria And Research

- Interactive Ratings Methodology, April 22, 2009
- Group Methodology, April 22, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Flexible Gapping Of Ratings Reflects Regional Variations In Structural Subordination As Well As Differing Debt-Servicing Capacities, May 25, 2005

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com