STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

Research Update:

Vienna Insurance Group AG Wiener Versicherung Gruppe 'A+' Ratings Affirmed On Insurance Criteria Change; Outlook Stable

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

Research Update:

Vienna Insurance Group AG Wiener Versicherung Gruppe 'A+' Ratings Affirmed On Insurance Criteria Change; Outlook Stable

Overview

- Following a review of Austria-based Vienna Insurance Group AG Wiener Versicherung Gruppe, the operating holding company of the Vienna Insurance Group, we are affirming our 'A+' ratings on the company and its core subsidiary, VIG RE zajist'ovna a.s.
- The ratings predominantly reflect our view of the group's very strong business risk profile and very strong financial risk profile, partly offset by relatively lower geographic earnings diversification than some of its higher rated European peers.
- The stable outlook reflects our view that the group will sustain its very strong competitive position in Austria and its leading market position in Central and Eastern Europe, which should enable it to achieve our base-case earnings assumptions while maintaining very strong capital adequacy.

Rating Action

On July 5, 2013, Standard & Poor's Ratings Services affirmed its 'A+' insurer financial strength and counterparty credit ratings on Austria-based Vienna Insurance Group AG Wiener Versicherung Gruppe, the operating holding company of the Vienna Insurance Group (VIG), and its core subsidiary, VIG RE zajist'ovna a.s. The outlook is stable.

Rationale

The ratings reflect our view of VIG's very strong business risk profile and very strong financial risk profile, built on the group's very strong competitive position in Austria and Central and Eastern Europe (CEE) and very strong capital and earnings. We combine these factors to derive our 'aa-' anchor for VIG. The ratings are one notch lower than the anchor on the basis of our holistic analysis, however. This reflects our view of VIG's relatively lower geographic earnings diversification than its higher rated European peers. Within the group, Austria and the Czech Republic remain the main earnings contributors, with a share of about 83% of profit before tax in 2012.

Vienna Insurance Group AG Wiener Versicherung Gruppe is the ultimate holding company for VIG's operating entities, and itself writes internal reinsurance and international corporate and large customer business. Based on our assessment of the company as an operating holding company with sizable excess capital at holding level, sound revenues from own activities and comparatively low financial leverage, we apply a zero-notch differential to the ratings relative to those on the group's rated core operating subsidiary.

Overall, VIG faces intermediate industry and country risk, in our view. VIG has built up a diverse business portfolio, including a leading market position in its domestic Austrian market (property/casualty [P/C] 20% of total premiums in 2012; life including health 23%) and leading positions in its main CEE markets, most notably the Czech Republic (P/C 10%; life 9%), Poland (P/C 6%, life 11%), Slovakia (P/C 3%; life 4%), and Romania (P/C 3%; life 1%).

We believe that VIG's Austrian P/C and life business is exposed to low risk, reflecting our view of high barriers to entry, a neutral view of product risk in P/C, and high product risk in life. The latter is predominantly because of long-term policyholder guarantees in insurers' traditional products, which create a duration mismatch risk relative to shorter-duration assets, particularly in a low interest rate environment. In the Czech Republic, VIG faces intermediate risk in P/C and life; in Poland, this is moderate risk. We believe our overall industry and country risk assessment will remain unchanged in 2013-2015, although we expect VIG's CEE exposure to bear larger growth potential and selectively higher risk compared with the domestic business.

In our view, VIG has a very strong competitive position, mainly reflecting the group's leading positions in life and non-life insurance in Austria and CEE. We believe the group's multibrand policy, multiple distribution capabilities, and broad geographic and business line (P/C 48% of total premiums in 2012, life 48%, health 4%) diversity are strong market credentials. In addition, VIG has demonstrated strong growth rates, particularly in CEE, and a relatively resilient operating performance that compares well with peers. Under our base-case scenario, we anticipate that gross premium written (GPW) in 2013-2015 should remain at least flat in Austria, and grow further by 5%-10% in CEE annually, with continued strong margins.

We assess VIG's capital and earnings as very strong, with capital adequacy exceeding our benchmark for the 'AA' rating in 2012. We assume under our base case that VIG's resilient earnings will continue to support this very strong position over the next three years, while the group finances its growth and expected dividend outflows. Under our base-case scenario, we anticipate a net income of €400 million-€500 million, a combined (loss and expense) ratio of about 96%-98%, and a return on equity of about 7%-9%. For 2013, we expect the group's results to be at the lower end of this range due to the recent floods in Austria and the Czech Republic, in particular. This could have a negative effect on the group's net results, following a €40 million-€45 million net claims loss based on current estimates of the floods.

In our view, VIG's risk position reflects intermediate risks, based on its conservative investment strategy and sufficient reinsurance cover against the group's natural catastrophe exposure in Austria and CEE. About 75% of its investments comprise fixed-income securities with an average rating of 'A' in the bond portfolio. Moreover, VIG's equity and alternative investment exposure, about 4% at year-end 2012, is relatively low compared with peers, in our view. Although VIG is exposed to natural catastrophes in Austria and CEE, we believe its comprehensive reinsurance cover significantly reduces the group's net exposure.

VIG has strong financial flexibility, in our view, thanks to the group's proven access to capital markets and comparably low financial leverage. We expect the majority shareholder WIENER STÄDTISCHE WECHSELSEITIGER VERSICHERUNGSVEREIN – VERMÖGENSVERWALTUNG – Vienna Insurance Group to maintain at least 51% of VIG and to secure the group's financial independence. We expect the financial leverage ratio (debt plus hybrids to economic capital) to remain comparably low at about 16% in 2013-2015 and the fixed-charge coverage to stay at about 9x in 2013-2015.

VIG's enterprise risk management (ERM) and management and governance practices are neutral factors for the rating. Our assessment of ERM as adequate with strong risk controls reflects our view of VIG's comprehensive risk-management culture and sound risk controls for the group's major risks. In our view, VIG's strategic risk management is still in a development phase because a holistic approach that includes economic capital and risk-and-return considerations in operational and strategic decision-making and performance assessments is not yet fully in place.

VIG's management and governance is strong, in our view. This reflects the group's clear and credible strategic planning; its strong track record of execution, particularly with regard to its successful profitable expansion into CEE and defending its market-leading position in the domestic market; and its conservative financial management, with strong balance sheet management and track record of low volatility in earnings.

We regard VIG's liquidity as exceptional, owing to the strength of available liquidity sources--mainly premium income--and its liquid asset portfolio.

Outlook

The stable outlook reflects our view that the group will sustain its very strong competitive position in Austria and its market-leading position in CEE, which should enable it to achieve our base-case earnings assumptions, thereby maintaining very strong capital adequacy despite needs arising from business growth and dividend payments.

A positive rating action could occur if:

- VIG were to further significantly and sustainably diversify its geographic earnings base; and
- VIG continues to demonstrate operating performance that compares well with European peers by leveraging its very strong competitive position while maintaining at least very strong capital adequacy.

Although unlikely at this stage, we could take a negative rating action if:

- VIG's competitive position were to deteriorate substantially in its domestic market or in CEE or;
- VIG's capital adequacy were to fall significantly below strong levels for a prolonged period, possibly as a result of deteriorating credit conditions in CEE.

Ratings Score Snapshot

Financial Strength Rating	A+/Stable
Anchor	aa-
Business Risk Profile	Very Strong
IICRA	Intermediate Risk
Competitive Position	Very Strong
Financial Risk Profile	Very Strong
Capital & Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Strong
Modifiers	-1
ERM and Management	0
Enterprise Risk Management	Adequate With Strong Risk Controls
Management & Governance	Strong
Holistic Analysis	-1
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA—Insurance Industry Country And Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

Ratings Affirmed

```
Vienna Insurance Group AG Wiener Versicherung Gruppe
VIG RE zajist'ovna a.s.
 Counterparty Credit Rating
  Local Currency                        A+/Stable/--
 Financial Strength Rating
  Local Currency                        A+/Stable/--

Vienna Insurance Group AG Wiener Versicherung Gruppe
 Junior Subordinated                    BBB+
 Junior Subordinated                    A-
```

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

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.