S&P Global Ratings

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Research Update:

Vienna Insurance Group 'A+' Ratings Affirmed; Outlook Stable

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Overview

- Vienna Insurance Group (VIG) maintains a leading market position in Austria and in most Central and Eastern Europe (CEE) insurance markets with a sound premium diversification.
- VIG's capital adequacy under our risk-based capital model is extremely strong, with a very solid regulatory solvency ratio, although the group's capitalization relies slightly more on market-sensitive items than peers with similar capital adequacy.
- We are affirming our ratings on VIG's core operating entity and the group's holding company at 'A+'.
- The stable outlook reflects the group's leading market position in Austria and CEE, as well as our expectation that earnings will continue supporting at least very strong capital adequacy, despite organic or external growth and dividend payments.

Rating Action

On July 30, 2019, S&P Global Ratings affirmed its 'A+' long-term issuer credit and financial strength ratings on VIG RE zajist'ovna a.s., the core operating entity of Austria-based multiline insurance group Vienna Insurance Group (VIG), as well as VIG's operating holding, Vienna Insurance Group AG Wiener Versicherung Gruppe. The outlook on all entities remains stable.

We also affirmed our ratings on all outstanding hybrid debt instruments issued by Vienna Insurance Group AG Wiener Versicherung Gruppe.

Outlook

The stable outlook reflects VIG's leading market position in Austria and CEE, as well as our expectation that earnings will continue supporting at least very strong capital adequacy, despite needs arising from organic or external growth and dividend payments during the next 12-24 months.

Downside scenario

We regard the possibility of a downgrade as limited over the next 12-24 months, but we could lower the ratings if:

- VIG's market position deteriorated in Austria and CEE;
- Its operating performance did not meet our earnings expectations for a prolonged period; or
- Its capital adequacy fell below our risk-based-capital model's very strong level for an extended period.

Upside scenario

We see limited rating upside in the next 12-24 months. However, we could raise the ratings if:

- VIG significantly and sustainably increased its earnings diversity outside Austria and the Czech Republic;
- Earnings consistently exceeded our base-case assumptions; and
- Capital adequacy sustainably exceeded the 'AA' confidence level.

Rationale

Our view on VIG's core operating companies reflects the group's diverse product portfolio and market leading positions in Austria and CEE, notably in Czech Republic, Slovakia, Poland, and Romania. The group's multibrand strategy, multiple distribution capabilities, and broad geographic and business line diversity by premium are strong market credentials. Moreover, VIG has historically demonstrated consistent operating performance compared with peers operating in similar businesses and geographies. However, the group has a higher regional earning concentration than higher-rated peers, with about 70% of profit before tax stemming from its Austrian and Czech operations, based on 2018 figures. In our opinion, we expect VIG to maintain strong and stable underwriting discipline over 2019-2021.

According to our risk-based capital model, VIG has a comfortable capital buffer at the AAA level, and we assume that capitalization will remain at that level over 2019-2021. The group's regulatory solvency ratio is also robust, with a reported Solvency II ratio of 239% for 2018 compared with 220% in 2017. However, we believe that capital adequacy remains somewhat more exposed to market volatility than that of companies with similar levels of capital adequacy, such as Baloise, VHV, or DEVK. This results from the presence of material softer forms of capital like unrealized gains on investments or value-in-force. We expect VIG's after-tax earnings to be €350 million–€450 million over 2019-2021, supported by sound underwriting profitability. In our opinion, strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payouts of about 30%-50% of net income.

Vienna Insurance Group AG Wiener Versicherung Gruppe, the ultimate holding company of VIG's operating entities, writes internal reinsurance and international corporate and large customer business. Because we view the company as an operating holding company with sizable excess capital and sound revenue from its own investments and underwriting activities, we equalize the ratings on the holding company with those on the group's core operations.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	**Very strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	**A+**

*This is influenced by our view of the group's market leading position in Austria and most of the CEE countries where it operates, as well as its very comfortable capitalization.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--
Junior Subordinated	A-

Ratings Affirmed	
VIG RE zajist'ovna a.s.	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.