Research Update:

VIG Insurance Entities Ratings Affirmed On Announced Acquisition Of Aegon's Central And Eastern European Operations

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Overview

- On Nov. 29, 2020, VIG announced the acquisition of Aegon's Central and Eastern European (CEE) operations with a purchase price of €830 million.
- The acquisition, which we believe VIG will finance via internal and external means, will bolster VIG's strong position in CEE.
- Following the transaction, we assume VIG will maintain capital adequacy above the 'AAA' level in 2021-2022, that the group's financial leverage will increase to about 35%, and that fixed charge coverage will remain at 4x-5x in 2021-2022.
- We are therefore affirming our 'A+' ratings on VIG's core subsidiary VIG RE zajist'ovna a.s., and the operating holding Vienna Insurance Group AG Wiener Versicherung Gruppe.
- The stable outlook reflects our view that VIG will maintain its strong competitive position in Austria and CEE after the acquisition, and that its capitalization will remain above the 'AAA' level with only a moderate negative effect for the group's funding structure.

Rating Action

On Dec. 3, 2020, S&P Global Ratings affirmed its 'A+' long-term issuer credit and financial strength ratings on VIG group's core subsidiary VIG RE zajist'ovna a.s., as well as the operating holding Vienna Insurance Group AG Wiener Versicherung Gruppe. The outlook is stable.

Rationale

The announced transaction will, in our view, allow VIG to further broaden its international footprint in CEE and improve the group's earnings diversification by markets. The acquired business will add about €600 million of premiums to the group and improve the group's market position in Hungary, Romania, Poland, and Turkey. In particular, in Hungary VIG's market share will increase to about 19%, making it the market leader. In addition to the insurance operations, the group is enlarging its footprint in the pension funds, asset management, and services business in the CEE region.

We believe that the group's capital adequacy will be affected by the transaction mainly via goodwill and increased business volumes. However, we assume that the group's capital adequacy will remain above the 'AAA' level in 2021-2022. We assume VIG will increase its financial leverage to finance the transaction with a combination of internal and external means. We assume financial leverage will increase to about 35% in 2021-2022 and the fixed charge coverage will remain at 4x-5x, which is somewhat more aggressive than similar rated peers. In view of the expected increase in debt, we also believe the composition of the group's total adjusted capital will change to include more softer forms of capital, such as hybrid capital or value in force.

Following the transaction, we assume the group will post net income of about €350 million-€450 million in 2021-2022 with a return on equity of above 6% and a combined (loss and expense) ratio of 95%-97%.

Outlook

The stable outlook reflects our view that VIG will maintain its strong competitive position in Austria and CEE after the acquisition, and that its capitalization will remain above the 'AAA' level with only a moderate negative effect for the group's funding structure.

Downside scenario

We could lower the ratings over the next 12-24 months if:

- VIG's funding structure deteriorates with financial leverage sustainably above 40% or fixed charge coverage below 4x;
- VIG's capital adequacy sustainably deteriorates below the 'AAA' level over our forecasting period; or
- Its operating performance did not meet our earnings expectations for a prolonged 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 remains in excess of the 'AAA' level based on our capital model.

Ratings Score Snapshot

Financial strength rating	A+
Anchor	a+

Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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.