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Ratings

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Vienna Insurance Group

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Vienna Insurance Group

SACP* Assessments					SACP*			Support			Ratings
Anchor	a+	+	Modifiers	0	=	a+		+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0		Group Support	0	A+/Stable/--
Strong											
Financial Risk			Holistic Analysis	0		Sovereign Risk	0		Gov't Support	0	
Very Strong											

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Sound diversification by business line and a well-established multichannel distribution strategy including exclusive distribution with Austrian bank Erste Group.
- A strong competitive position, based on leading market positions in Austria and Central and Eastern Europe (CEE).
- An expected significant earnings recovery, with net income exceeding €300 million per year in 2016-2018, after unexpected impairments on intangible assets, mainly information technology, of about €280 million.

Financial Risk Profile: Very Strong

- Extremely strong capital adequacy above that required at the 'AAA' level in 2015.
- Capital that will likely stay at least very strong in 2016-2018, based on strong earnings to finance growth and dividend expectations.
- Intermediate risk, based on the group's conservative investment portfolio and comprehensive reinsurance coverage.

Other Factors

- S&P Global Ratings' combined view of Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG)'s strong business risk and very strong financial risk profiles leads to an anchor of 'a' or 'a+'. We use the 'a+' anchor to reflect VIG's market leading position in Austria and CEE and the group's strong financial flexibility, with ample access to funding and strong backing from mutual owner WIENER STÄDTISCHE WECHSELSEITIGER VERSICHERUNGSVEREIN – VERMÖGENSVERWALTUNG – Vienna Insurance Group (Wiener SWVV).
- 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, sound revenues from its own underwriting activities, and comparatively low financial leverage, we equalize the ratings on the holding company with those on the group's core operating subsidiary.

Outlook: Stable

The stable outlook on Austrian multiline insurer VIG reflects our view that the group will sustain its strong competitive position in its home market and its leading market position in CEE. We think VIG will achieve strong earnings, supporting at least very strong capital adequacy, despite needs arising from organic and external growth and dividend payments.

Downside scenario

We could take a negative rating action in the next 18-24 months if:

- VIG's competitive position deteriorated in its domestic market or in CEE;
- Its operating performance did not meet our base-case earnings assumptions; or
- Its capital adequacy fell below very strong levels for a prolonged period, possibly as a result of deteriorating credit conditions in CEE.

Upside scenario

We see limited rating upside in the next 18-24 months. However, we could take a positive rating action if:

- VIG significantly and sustainably increased its earnings base outside Austria and Czech Republic;
- Operating performance consistently exceeded our expectations, with no unexpected one-time large losses; and
- Capital adequacy sustainably exceeded the 'AA' confidence level.

Base-Case Scenario

Macroeconomic Assumptions

- 10-year government bond yields will remain relatively low in the eurozone at about 1.0% on average in 2016, 1.3% in 2017, and 2.1% in 2018.
- Credit market conditions in the eurozone will moderately improve on the back of stabilizing economic growth (real GDP growth of 1.7% in 2016, 1.3% in 2017, and 1.4% in 2018. See "Credit Conditions: As Brexit Takes Shape, Europe Is Set To Slow--Not Stall," published July 8, 2016, on RatingsDirect.)

Company-Specific Assumptions

- Capital adequacy will likely stay at least in the 'AA' range in 2016-2018.
- Net income will likely exceed €300 million per year in 2016-2018.
- We think VIG will maintain its leading market positions in Austria and key CEE markets, with the net combined (loss and expense) ratio, costs, and claims divided by premiums, in the 95%-98% range in 2016-2018.
- A life/health new business margin of 3.5%-4.0%.
- Fixed-charge coverage of 6x-8x and financial leverage at less than 20% in 2016-2018.

Key Metrics

	2017f	2016f	2015	2014	2013
Gross premiums written (mil. €)	>9,000	>9,000	9,020	9,146	9,219
Net Income (mil. €)	>300	>300	110.3	391.4	256.3
Property/casualty net combined ratio (%)	95-98	95-98	96.1	95.4	99.3
Life/health new business margin (%)	3.5-4.0	3.5-4.0	4.0	3.4	4.1
Our capital adequacy assessment	At least very strong	At least very strong	Extremely strong	Extremely strong	Extremely strong

f--Forecast.

Company Description

VIG holds a market leading position in the Austrian insurance sector. It also holds leading positions in CEE, notably in Czech Republic, Slovakia, Poland, and Romania, writing life, non-life, and health business using different brands for different regions. Overall, the group reported gross premiums written of €9.0 billion in 2015, split between property/casualty (P/C; 51%), life (45%), and health (4%). Austria contributed 46% to total premium income in 2015, with the remaining 54% generated outside Austria, including 17% from Czech Republic, 9% from Poland, and 8% from Slovakia.

VIG's ultimate majority owner is mutual insurer Wiener SWVV (not rated), which currently owns about 70% of VIG. The remaining shares are in free float.

Business Risk Profile: Strong

Insurance industry and country risk: Intermediate, based on diversified geographic presence

In our view, VIG faces intermediate industry and country risk, which reflects a blended assessment of the various insurance markets the company operates in. VIG has built up a diverse business portfolio by sectors and geography, including a leading market position in its domestic Austrian market.

We believe that VIG's insurance industry and country risk for the P/C insurance sector in Austria is low, mainly based on our view that the industry is exposed to low country risk and intermediate industry risk. We view Austria's life insurance industry risk as intermediate. We take into account the low interest rates in our negative view of product risk, given the market's asset-liability management (ALM) risk and comparably high policyholder guarantees in existing inforce policies.

In the Czech Republic, VIG faces intermediate risk in P/C and life, and in Poland, this risk is moderate. We believe our overall industry and country risk assessment for VIG will remain unchanged in 2016-2018.

That said, we believe the uptake of insurance policies will remain relatively low in CEE, visibly lagging the western European average. We therefore expect further growth potential to emanate from CEE rather than the domestic market.

Table 1

Vienna Insurance Group Industry And Country Risk		
Insurance sector	**IICRA**	**Business mix (%)**
Austria Life	Low	20
Austria P/C	Low	25
Czech Republic Life	Intermediate	8
Czech Republic P/C	Intermediate	9
Poland Life	Moderate	4
Poland P/C	Moderate	5
Turkey P/C	Moderate	2
Germany P/C	Low	1
Germany Life	Intermediate	1
Other markets	Moderate	25
Weighted average IICRA	Intermediate	100

Competitive position: Strong, based on leading positions in Austria and CEE

In our view, VIG has a 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 multi-brand strategy, multiple distribution capabilities, and broad geographic and business line diversity (P/C 51% of total premiums in 2015, life 45%, and health 4%) are strong market credentials. We also believe that VIG's exclusive bancassurance cooperative agreement with Erste Group Bank AG is a competitive advantage.

In 2015, VIG posted unexpected impairments, mainly on IT, which affected its bottom-line earnings by about €280 million, with net income dropping to €110 million from €391 million in 2014. We believe that after unexpected losses at the Romanian operation and the Italian P/C business in 2013, the group has shown higher volatility in earnings than in the past and needs to restore a track record of sustainable operating performance in line with its objectives and our base-case assumption. We assume the group will be able to post a combined ratio of 95%-98%, a new business margin in life/health of 3.5%-4.0% and net income of at least €300 million.

We expect VIG will defend its leading position in Austria and CEE in 2016-2018 through leveraging its existing operations and, potentially, mergers and acquisitions in CEE.

Table 2

Vienna Insurance Group Competitive Position					
	--Year ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written (GPW)	9,020	9,146	9,219	9,646	8,884
Change in GPW (%)	(1.4)	(0.8)	(4.4)	8.6	3.4
Net premiums written	8,220	8,337	8,445	8,935	8,145
Change in net premiums written (%)	(1.4)	(1.3)	(5.5)	9.7	3.5
Total assets under management*	39,807	38,731	36,387	36,555	34,045
Growth in assets under management (%)	2.8	6.4	(0.5)	7.4	0.4
Reinsurance utilization (%)	8.9	8.8	8.4	7.4	8.3
Business segment (% of GPW)					
Life/health	44.6	45.9	45.6	47.5	44.4
P/C	51.0	49.9	50.1	48.4	51.5
Health	4.4	4.2	4.3	4.1	4.1

*Including unit- and index-linked products.

Financial Risk Profile: Very Strong

Capital and earnings: Very strong

VIG's capital adequacy in 2015 exceeded our benchmark at the 'AAA' rating level, benefitting from a virtually unchanged level of premiums, a continued conservative investment strategy, and retained earnings. The group has adjusted dividend payments to the impairments, reducing them to €77 million in 2015 after €179.2 million in 2014. We expect a dividend payout ratio of about 30%-50% in 2016-2018.

We assume under our base case that VIG will at least maintain capital adequacy in excess of our benchmark for the 'AA' rating in 2016-2018. We forecast VIG's earnings at more than €300 million in 2016-2018, which will continue to support its capital adequacy, while financing growth and expected dividend outflows. We assume the group will remain willing to expand via bolt-on acquisitions, given its recent announcement of its planned purchase of AXA's Serbian business.

Table 3

Vienna Insurance Group Capital					
	--Year ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Common equity	5,058	5,283	4,967	5,689	5,050
Change in common equity (%)	(4.3)	6.4	(12.7)	12.7	0.4
Total capital (reported)	6,667	6,664	7,206	7,952	8,282
Change in total capital (reported) (%)	0	(7.5)	(9.4)	(4.0)	4.0

Table 4

Vienna Insurance Group Earnings					
	--Year ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Total revenues	9,391	9,587	9,806	10,319	9,542
EBIT adjusted	149	498	301	525	902
Net income	110	391	256	445	442
Return on Shareholders' Equity (reported) (%)	2.1	7.6	4.8	8.3	8.8
P/C: Net expense ratio (%)	29.4	29.6	29.9	28.0	28.1
P/C: Net loss ratio (%)	66.0	65.3	69.0	65.3	65.5
P/C: Net combined ratio (%)	96.1	95.4	99.3	93.9	93.9
P/C: Return on revenue (%)	0.4	6.9	1.3	8.0	10.6
Life: Net expense ratio (%)	17.2	16.9	15.6	14.1	16.1
Life/health: Value of new business	148	150	159	204	195
Life/health: New business margin (%)	4.0	3.4	4.1	4.3	5.5
Operating earnings by segment					
Life & health	213.4	208.7	301.6	232.8	287.5
Non-life	(41.3)	309.6	53.6	330.9	271.5
Other	0.0	0.0	0.0	0.0	0.0

Risk position: Intermediate

In our view, VIG's risk position reflects intermediate risks, based on its conservative investment strategy and sufficient reinsurance cover against natural catastrophe exposure in Austria and CEE. About 75% of VIG's investments comprise fixed-income securities with an average rating of 'A'. Moreover, VIG's exposure in equity, including investment funds, and alternative investments of about 7.7% at year-end 2015, 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.

Table 5

Vienna Insurance Group Risk Position					
	--Year ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Total invested assets including unit- and index-linked products	39,807	38,731	36,387	36,555	34,045

Table 5

Vienna Insurance Group Risk Position (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Net investment income	1,018	1,071	1,139	1,186	1,258
Net investment yield (%)	3.3	3.5	3.8	4.0	4.4
Net investment yield including realized capital gains/(losses) (%)	3.9	4.2	4.5	4.7	4.7
Net investment yield including all gains/(losses) (%)	3.6	3.8	4.2	4.4	3.6
Investment portfolio composition (%)					
Cash and short-term investments	6.0	5.2	6.1	6.6	5.4
Bonds	71.4	72.8	69.4	67.0	58.4
Equity investments including investment funds	7.7	6.8	6.6	5.7	5.8
Real estate	6.0	6.0	9.0	10.7	15.5
Mortgages	1.5	1.8	1.4	1.3	1.3
Loans	3.8	3.9	4.5	5.0	10.6
Investments in affiliates	3.6	3.4	2.9	3.7	3.0
Other investments	0.0	0.0	0.0	0.0	0.0

Financial flexibility: Strong

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 SVV to maintain a stake of at least 51% in VIG and to secure the group's financial independence. We expect that in 2016-2018 the financial leverage ratio (debt plus hybrids to economic capital) will remain comparably low at less than 20% and fixed-charge coverage will be at about 6x-8x.

Table 6

Vienna Insurance Group Financial Flexibility					
	--Year ended Dec. 31--				
	2015	**2014**	**2013**	**2012**	**2011**
Fixed-charge coverage (x)	3.1	8.0	7.0	8.4	8.6
Financial leverage (%)	20.1	18.6	17.3	15.5	15.6

Other Assessments

Enterprise risk management: Adequate with strong risk controls

We do not expect VIG to experience losses from traditional risk areas outside the normal range. We base our assessment on what we view as VIG's positive risk-management culture and risk controls for the group's major risks. We believe that VIG's strategic risk management is a neutral rating factor because a holistic approach, including economic capital and risk-and-return considerations in operational and strategic decision-making and performance assessment, is not yet in place.

Management and governance: Strong

Although the recent change of VIG's was unexpected, we believe the group has a clear and credible strategy and conservative financial management. Moreover, we believe the group has restructured its underperforming operations in Romania and Italy, which in our view demonstrates the continued execution of its strategy. We believe VIG will continue its expansion in CEE via organic growth and acquisitions within the group's predefined risk tolerances.

Liquidity: Exceptional

Our view of VIG's liquidity as exceptional reflects the strength of the group's available liquidity sources--mainly premium income--and its liquid asset portfolio. There are no refinancing concerns, in our opinion. We think the group is capable of managing any unexpected large claims or increase in life insurance policy lapses.

Accounting Considerations

VIG prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS). We base our analysis of the group's life profitability and risk exposures mainly on market-consistent embedded value disclosure. The group bases its calculation on year-end swap rates and includes liquidity premiums. A particular feature of VIG's IFRS accounting is the limited recognition of deferred acquisition costs in its balance sheet. This is because VIG channels most of its commissions directly through its profit and loss statement.

We base our assessment of VIG's capital adequacy on its reported shareholders' equity, which we adjust mainly to account for 50% of the life insurance value in force that is not on the balance sheet, hybrid debt classified as carrying equity content according to our criteria, parts of the policyholder capital available to absorb losses, and off-balance-sheet asset-value reserves. We deduct the on-balance-sheet goodwill from capital.

Related Criteria And Research

- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings Detail (As Of July 29, 2016)	
Operating Company Covered By This Report	
Vienna Insurance Group AG Wiener Versicherung Gruppe	
Financial Strength Rating	
Local Currency	A+/Stable/--
Counterparty Credit Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of July 29, 2016) (cont.)	
Junior Subordinated	A-
Related Entities	
VIG RE zajist'ovna a.s.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Austria

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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