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Research Update:

Vienna Insurance Group Outlook Revised To Stable From Positive On Lower Growth And Earnings Prospects; 'A+' Affirmed

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Rationale

On March 3, 2009, Standard & Poor's Ratings Services revised its outlook on Austria-based Wiener Staedtische Versicherung AG Vienna Insurance Group (VIG) to stable from positive. At the same time, the 'A+' counterparty credit and insurer financial strength ratings were affirmed.

The outlook revision reflects our view that the current volatility in financial markets and deteriorating economic environment will likely result in lower growth and earnings prospects than previously expected. We have affirmed the ratings because we are of the opinion that the group's growth track record will remain intact, albeit subdued, owing to increasing insurance demand in Central and Eastern Europe (CEE), the group's sound underwriting, conservative investment strategy, and very strong competitive position and capitalization that represents a sizable buffer to further market fluctuations.

We believe that the worsening economic and financial market climate is likely to somewhat hamper VIG's previously anticipated strong premiums and earnings growth prospects in the short to medium term, owing to increased investment performance volatility, declining new life business in Austria, and lower growth rates in CEE.

Despite a cautious investment strategy relative to that of competitors, financial market conditions are still likely to have created substantial volatility in the group's 2008 results. Impairments and realized losses on investments in 2008 were offset by €400 million in gains realized from the sale of two subsidiaries in Austria and Romania. In our view, this should allow the group to reach its pretax profit target of about €540 million (an increase of 24% year on year) for 2008. However, VIG has withdrawn its original earnings forecasts for 2009 and 2010, which had supported our previous rating outlook.

VIG carries a relative overexposure to credit risk, often to local sovereign risk, owing to its liability-focused local investments in CEE. Consequently, a comparably high 49% of its bond portfolio is invested in 'A' rated instruments and about 9% in those rated 'BBB' or lower. In addition, about 45% of VIG's bond portfolio is exposed to the difficult environment in the financial services industry. Currency risk relating to CEE is relatively remote in our view.

The group's premiums rose by 16% to €8.3 billion on an unconsolidated basis in 2008, demonstrating its very strong competitive position. This was mainly thanks to the continuation of very strong CEE growth, but was somewhat dampened by a drop in Austrian single-premium life business. Despite the currently moderate macroeconomic outlook for CEE, we expect premium income in the region to increase by about 5%-10% per year, fueling the group's overall

business expansion.

Strong non-life underwriting results, reflected in a net combined ratio of about 96%, stable life risk and expense results, and a sustainable running investment yield should, in our view, represent a resilient block of operating earnings.

We consider VIG's capitalization to be very strong. We anticipate that capital adequacy will exceed our requirements for an 'AA' rating, despite adverse capital market conditions.

Outlook

The stable outlook reflects our view that VIG's management will continue to successfully develop its CEE businesses, despite a weakened macroeconomic outlook. VIG's focus on CEE and the relative immaturity of the region should allow the group's growth to surpass that of similarly rated peers. We expect the group's operating earnings (excluding investment impairments) to remain in excess of €400 million in 2009 and 2010. Capitalization should remain very strong and regulatory group solvency at about 150%. Non-Austrian operations are likely to contribute about 50% of VIG's profits by 2011.

We could revise the outlook to positive if economic and financial market conditions stabilize and reduce the risks from the group's asset exposures and potential earnings volatility, clearing the way for VIG to continue on the path of positive underlying growth and earnings.

Downward pressure on the ratings could emerge if further deterioration of economic or financial market conditions were to significantly challenge our operating profit target over a sustained period or unexpectedly high investment losses led to marginal net income and were large enough to erode the group's very strong capital base.

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Wiener Staedtische Versicherung AG Vienna Insurance Group		
Counterparty credit rating	A+/Stable/--	A+/Positive/--
Financial strength rating	A+/Stable/--	A+/Positive/--

NB: This list does not include all the ratings affected.

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