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R+V Versicherung AG

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Please note that the ratings covered by this full analysis apply only to R+V Versicherung AG.

Major Rating Factors

Strengths:

- Above-market-average business growth and sound earnings contribution from primary operations
- Strong group capitalization and very low financial leverage

Weaknesses:

- Bottom-line earnings not fully indicative of competitive profile
- Over proportional exposure to competitive German motor market

Counterparty Credit Rating

Local Currency

A+/Stable/--

Rationale

The ratings on R+V Versicherung AG (RVV) reflect its role as the reinsurer and holding company of Germany-based R+V primary insurance group (R+V). The ratings on RVV are derived from its ownership in and the financial strength of its sizable primary insurance operations, which Standard & Poor's Ratings Services views as a core part of the German cooperative banking sector. We consider the cooperative banking sector as a single economic group. RVV is 74%-owned by DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ Bank; A+/Stable/A-1).

Given the very low financial leverage, sound operating cash flows from subsidiaries, strong group capitalization, and RVV's ability to generate its own cash flows from reinsurance activities and nonaffiliated investments, Standard & Poor's applies a zero-notch gapping between the holding company, RVV, and the group's overall financial strength.

RVV benefits from strong capitalization at the group level, although because of effects from the financial market dislocations on investment values, capitalization has weakened from the previous very strong levels. Minimal debt levels resulted in continued very low financial leverage of 1.1% in 2008. In 2009 RVV distributed a special dividend of €303 million to its shareholders, which was thereafter transferred back as capital injection to RVV (in a pay-out-and-take-back procedure).

We continue to assess R+V's operating performance as strong, with an average return on equity (ROE) of 9.4% over the past five years, although ROE for 2008 was only 3.7% (14.1% in 2007) because of weakened investment performance. We expect RVV's stand-alone operating performance to remain sound, as it benefits from profit transfers from subsidiaries and returns from RVV's nonaffiliated investments and reinsurance activities. RVV's stand-alone fixed-charge coverage was far above the rating threshold in 2008, and we expect this to continue.

Liquidity

We have observed that RVV's liquidity is to a large extent influenced by profit transfers from its operating units. Strong business growth, a flexible investment portfolio, and consolidated group earnings support the group's

liquidity profile. RVV derives additional liquidity from its unaffiliated related assets, which continued to represent approximately 30% of RVV's investments and largely back the entity's reinsurance activities.

Outlook

The stable outlook on RVV reflects our expectation that the company will continue to benefit from R+V's strong credit profile. Capitalization should remain at least strong and financial leverage and interest coverage ratios well in excess of rating thresholds to support the zero-notch gapping.

We expect the group to achieve an average net combined ratio of nearly 100% throughout the underwriting cycle and an overall ROE for 2009 and 2010 of between 6% and 9% before recovering to the long-term target of 10%.

The stable outlook on RVV also reflects that of DZ Bank. The ratings on DZ BANK are based on the aggregate financial strength of the entire German cooperative banking sector, which continues to enjoy a strong market position in domestic retail banking, stable funding sources, and strong capitalization.

We could revise the outlook to negative if the risk profile of the cooperative banking sector were to deteriorate. Pressure on the cooperative banking sector's risk profile could result from accelerating price competition in German retail banking and pressure from increasing risk costs, if there were no offsetting effects from improved cross-selling of higher margin or fee-based products. Pressure on R+V's financial strength could emerge from heightened price pressure in the German non-life market, adverse development of investment conditions, or catastrophic/reinsurance events that, in view of the group's high net retentions, would significantly erode the group's capitalization.

We might review the outlook to positive if we took positive rating actions on DZ Bank, although in our view this is unlikely in the medium term. We expect R+V to continue to prove the continued strength of its business model by maintaining overall growth and financial strength, supporting the overall cooperative group's progress by providing competitive products to its very important banking distribution channel.

Financial Profile

The R+V group is predominantly active in the German private life and non-life lines, where it enjoys leading positions, with additional geographic diversification deriving from the group's third-party reinsurance activities written directly via RVV. The primary insurance operating companies, R+V Lebensversicherung AG (NR) and R+V Allgemeine Versicherung AG (NR), are the main contributors to the group's very strong competitive position and strong capitalization. Group earnings are adequate for the rating, but might be dampened by competitive pressures in the German motor market and adverse investment performance.

R+V maintains a market position in the top five non-life insurance companies in Germany, benefiting from a diversified business profile, competitive products, and the cooperative sector's network of about 1,200 local banks, which R+V uses as its main distribution channel.

As a reinsurer, RVV has two main functions: acting as captive reinsurer for the group's reinsurance needs; and assuming non-life third-party business, mostly from small and midsize primary insurers. R+V has decided to make capital available to support the significant targeted growth of its third-party reinsurance activities, which it expects

to reach €1.0 billion by 2012, but only with a clear focus on underwriting profitability. We view the third-party reinsurance business as a supplement to the integrated bancassurance business model of the cooperative sector.

R+V demonstrates strong group capitalization, which has, however, weakened compared with previous very strong levels. Consequently, R+V has reduced its equity positions in its investment portfolio and additionally reduced its exposure to natural catastrophes in its primary non-life business through reinsurance protection.

In Standard & Poor's view, non-life earnings, with a net combined ratio of 103% in 2008 and a five-year average of 102%, show a relative underperformance. This is partially due to R+V's role in the cooperative banking sector. Value creation for the sector is mainly through commissions to member banks, which are supported by competitively priced products, rather than mere dividend generation. This strategy strains technical profits, but underwriting profitability must also be seen in light of strong reserving levels and the continued investment in strong business growth. Given the group's relatively higher exposure to the increasingly competitive German motor market, R+V may be more exposed than peers to pressure on tariffs in this segment.

Life earnings in 2008 suffered from the weak investment climate, but continued to benefit from strong risk results and expense margins.

Ratings Detail (As Of August 25, 2009)*		
R+V Versicherung AG		
Financial Strength Rating		
<i>Local Currency</i>		A+/Stable/--
Counterparty Credit Rating		
<i>Local Currency</i>		A+/Stable/--
Counterparty Credit Ratings History		
01-Aug-2005	<i>Local Currency</i>	A+/Stable/--
24-Aug-2004		A/Stable/--
15-Nov-2002		A/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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