

INSURANCE

When will trust return? - 2 July 2009

Valuation remains attractive

Industry hit by financial and economic crisis:

Premiums fell by 7% in nominal terms in 2008

Downside trend stopped in 1Q09: 11 out of 13 companies in DJESI Index with positive results

Vienna Insurance Group remains our top pick, with attractive multiples and strong balance sheet

UNIQA still not attractive, due to relatively high P/E and P/B multiples

Table of contents

Executive summary	3
Impacts of financial and economic crisis on insurance industry	4
Current valuation.....	9
Key figures overview: Allianz	12
Key figures overview: AXA	14
Key figures overview: Generali	16
Key figures overview: Mapfre	18
Key figures overview: Sampo	20
Key figures overview: UNIQA	22
Key figures overview: VIG	24
Company report: UNIQA.....	26
Company report: Vienna Insurance Group.....	33

Executive summary

- **2008 was a tough year for the insurance sector. The financial crisis ended in an economic one, having a negative impact on companies' top and bottom lines. According to the estimates of the CEA, in 2008, total premium income in Europe amounted to EUR 1,058bn, a decline of 7% in nominal terms and 11% in real terms. However, this has to be seen against the background of outstanding real growth rates in 2004-07, exceeding the 8% mark annually. The CAGR of the last ten years amounts to remarkable 5.6% in real terms.**
- **Last year's significant decline was due mainly to the sharp drop of the life insurance business, which fell by 11% in nominal terms (to EUR 653bn). The non-life business has proven to be the more stable one. Premium income in this segment was estimated at EUR 415bn, a touch below the figure of the previous year. In 2009, the business environment remained difficult. In total, we can expect a further slight decline in premium income in Europe.**
- **Significantly dropping financial results burdened the companies' bottom lines. The total profit of the DJES Insurance companies dropped from EUR 40bn in 2007 to EUR 2.6bn in 2008 (not including Fortis, as a new index member). The companies' shareholders' equity dropped by 28%, on average.**
- **However, it has to be emphasized that the insurance sector is less affected by the financial crisis than the banking sector. According to Bloomberg, until 1Q09, the worldwide banking sector (excl. GSEs) had lost USD 1,041bn, more than four times as much as the insurance sector, which lost USD 243bn due to the financial crisis. More than a third of the worldwide losses in the insurance sector are attributable to US-based AIG (USD 90bn).**
- **The valuation of the insurance sector looks pretty attractive. The sector is currently traded at a PE ratio of 7.0x for 2010, which is the cheapest of the DJ Euro Stoxx sectors. The P/E ratio for 2011 amounts to 6.1x. A comparison based on ROE and P/B multiples confirms the positive picture.**
- **We still recommend that investors also have a look at the development of the companies' shareholders' equity. In addition, we also think that the ratio of investments to a company's technical reserves is an indication of the strength of a company's portfolio. As in all other sectors, we think that the quality of the balance sheet has gaining importance.**
- **Vienna Insurance Group remains our top pick. We maintain our Buy recommendation and our target price of EUR 44. The company is still traded below its embedded value (EUR 32.5 per share). VIG announced its solvency ratio at >180%, which is higher than those of its peer group. In addition, the company said that its current war chest exceeds EUR 1bn. All in all, the company's balance sheet looks very healthy, with organically increasing equity and a ratio of investments to technical reserves of 114%.**
- **The stock of UNIQA – on the other hand – is still not attractive, in our eyes. We derive a new target price of EUR 14.0 (previously EUR 14.9). Due to the fact that UNIQA's share price has significantly dropped since our last report, we upgrade our recommendation to Hold (from Reduce). A peer group comparison confirms our neutral stance on the share. While other insurance stocks look quite attractive at the moment, UNIQA's stock (with the highest P/E ratios and relatively high P/B multiples) does not.**

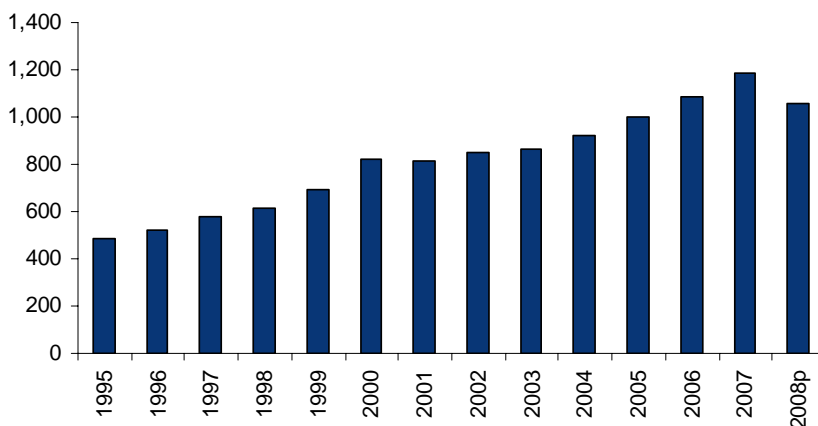
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Impacts of financial and economic crisis on insurance industry

Premium income declined by 7% in 2008...

For European insurance companies, 2008 was a very challenging year. The financial crisis ended in an economic one, which – in turn – had not only a significant impact on the insurance companies' investment results, but also on the development of their premium income. According to the CEA (provisional figures calculated on the basis of constant exchange rates), in 2008, total premium income amounted to some EUR 1,058bn and therefore represented a decline of 7% in nominal terms (and a decline of 11% in real terms), compared to the EUR 1,183bn seen in 2007. This is quite a lot compared to the drop during the last financial crisis in 2000-01, which amounted to -1%. However, one has to consider that the real growth rates of 2004-07 were outstanding, exceeding the 8% mark annually. Thus, the premium income for 2008 was still well above the level for 2005. The CAGR of the last ten years amounts to remarkable 5.6% in real terms.

Total European premiums (in EUR bn)



Source: CEA Insurers of Europe

...mainly to the shrinkage of life insurance business

Last year's significant decline was due mainly to the shrinkage of the life insurance business, which accounts for more than 60% of total premium income in Europe and which fell by 11% (on the basis of constant exchange rates) to EUR 653bn. The financial crisis basically had two aspects. Firstly, the sharp drop of the equity markets resulted in declining demand for unit- and index-linked products, where policy holders bear the investment risk. Secondly, life products were competing against banking products offering higher returns, due to the inversion of the yield curve. According to the CEA, however, this has to be seen against the background of the exceptional growth in 2007.

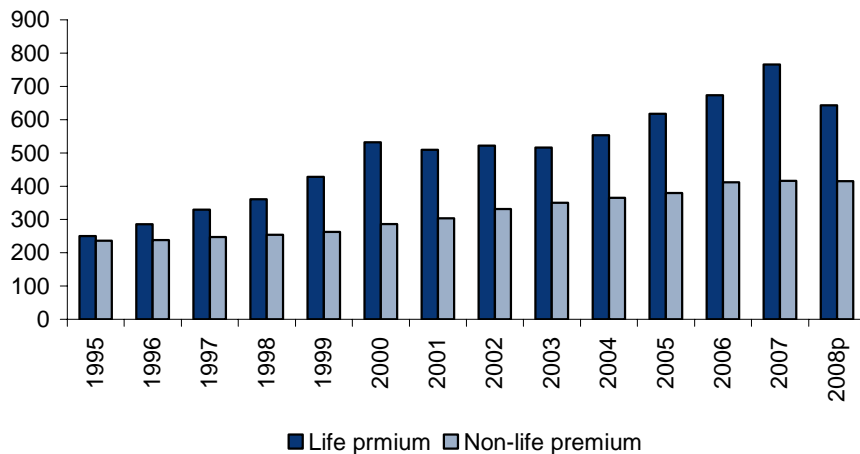
Non-life business stable

For 2008, European non-life premium income was estimated at EUR 415bn, a touch below the figure for the previous year, but nevertheless corresponding to an increase of 2% in real terms. Motor insurance premium income, which - together with health and accident - represents the largest non-life business line, dropped slightly to EUR 127bn (from EUR 129bn), as a result of the decline in car sales (new car registrations fell by 8% y/y in 2008) and stiffer competition. A slight increase of the health and accident sector to EUR 128bn (from EUR 125bn) compensated for the declining volumes of the motor business. Property insurance and general liability insurance business also grew slightly, while the other business lines faced marginal decreases.

The non-life insurance business has proven to be the more stable one, even in a very difficult business environment. Life insurance premium income is ever-more dependent on the (short- and medium-term) development of the capital markets, since unit- and index-linked products have taken on increasing importance in recent years.

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Life and non-life premium development (EUR bn)



Source: CEA Insurers of Europe

Outlook premium development for FY09

Further slight decline expected for 2009

The European insurance and reinsurance federation CEA did not give any outlook for 2009, but it can be assumed that this year will be another difficult one. Looking at the first quarter results for different companies, we do not see a homogenous picture. We assume that the non-life business will decline in Germany, Italy and Spain (according to the 1Q09 results of Allianz and Generali), while non-life premium income in France and Austria is expected to increase slightly. In contrast, France and Austria have to reckon with declining premium income in the life segment, while at least Spain should show sound growth rates at the end of the year. Interestingly, both Allianz (in Germany) and Generali (in Italy) reported declining life premium income in their home markets, but increasing life business in each others' markets. All in all, non-life business should also be the more stable one in 2009, while life insurance will remain rather volatile. In total, we expect a further slight decline in premium income in Western Europe.

In the CEE region, the first quarter showed a moderate premium increase based on local currencies. However, most of the growth (if not all) was eaten up by the adverse effects of depreciation of most of the currencies in the region. In addition, the growth rate of the segments life and non-life varied from country to country. While the Czech Republic and Poland recorded growth in non-life business, Slovakia and Romania reported shrinkage in this segment. The life insurance sector grew in the Czech Republic and Slovakia, but declined in Poland and Romania. All in all, we do not expect too much from the region for FY09. It has again turned out that the region cannot be seen as a homogenous one.

Significant impact on companies' investment portfolios

Total amount of investments dropped 6% in 2008

Generally, it can be said that most European insurers have largely weathered the financial storms, due to their robust business models as composite insurers. However, most European insurers suffered from heavily negative impacts on their investment portfolios. This was primarily not the result of risky investment policies (only 1-2% of assets were invested in ABS), but rather because of the falling equity markets and the widening bond and liquidity spreads. According to the CEA, the European insurance industry's investment portfolio declined from more than EUR 7,200bn in 2007 to some EUR 6,800bn in 2008, a decline of 6% in nominal terms and 2% in real terms (current exchange rates). Such a development has not been seen in the recent past; the worst development seen recently was between 2001 and 2002, when the total amount of investments merely remained stable.

Heavily burdened P&L

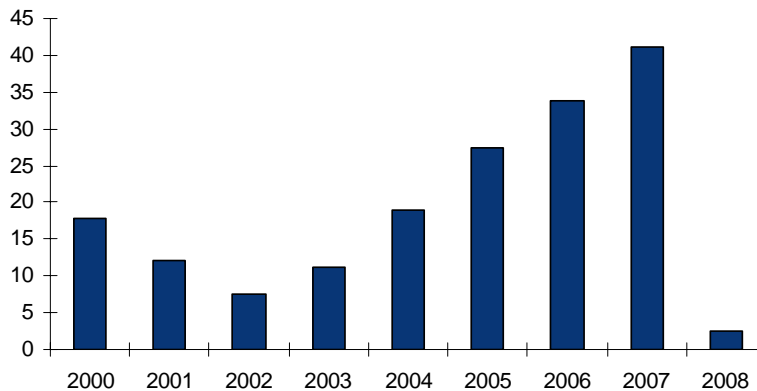
Slumping net profits...

The mark-to-market losses of their financial assets have significantly hit the companies' P/Ls. The DJES insurance companies have reported steadily increasing profits for five straight years, with an outstanding overall profit of more than EUR 40bn in 2007. However, the total profit slumped to EUR 2.6bn in 2008. Fortis, which replaced Irish Life & Permanent in the DJES as of June

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2008, is not included in our calculation yet. Including Fortis, which posted a loss of EUR 28bn in 2008, would result in a total loss of DJES insurance companies of some EUR 25bn.

Development of net profit of DJES insurance companies (EURbn)



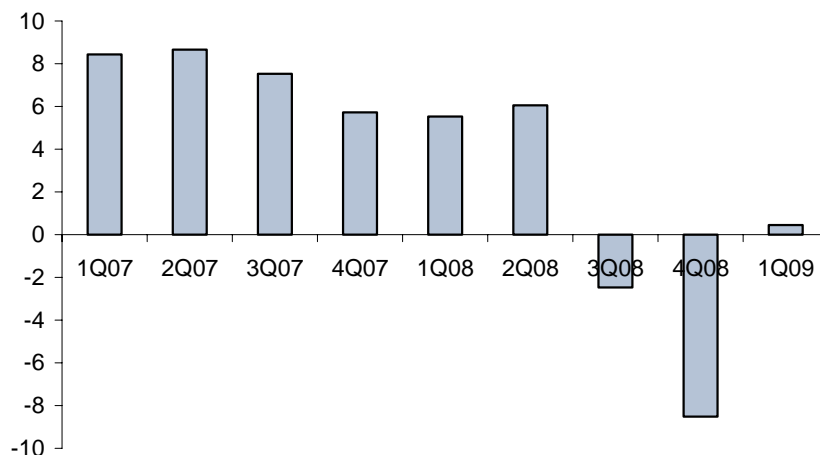
Source: FactSet, Erste Group estimates

...due mainly to the losses of four companies

It also has to be mentioned that only four companies out of 17 included in the DJES index reported losses in 2008. Three of them were big ones (AEGON, Allianz and ING, with a total loss of EUR 4.3bn, after a total profit of EUR 19.8bn) and therefore the main drivers of the negative development. It can also clearly be seen that the losses mainly came from the bancassurance institutions, as well as the life insurance companies (which is logical and will be elaborated on later). In 2008, only two companies were able to record increasing bottom lines: Mapfre +23% and Vienna Insurance Group +31%).

A closer look at the quarterly development shows that the losses occurred in the third and fourth quarters. The first quarter of 2009 brought a stabilization of the net results; however, two companies (AEGON and ING) were still in the red.

Quarterly net profit development of 13 DJES insurance companies reporting on quarterly basis (EUR bn)



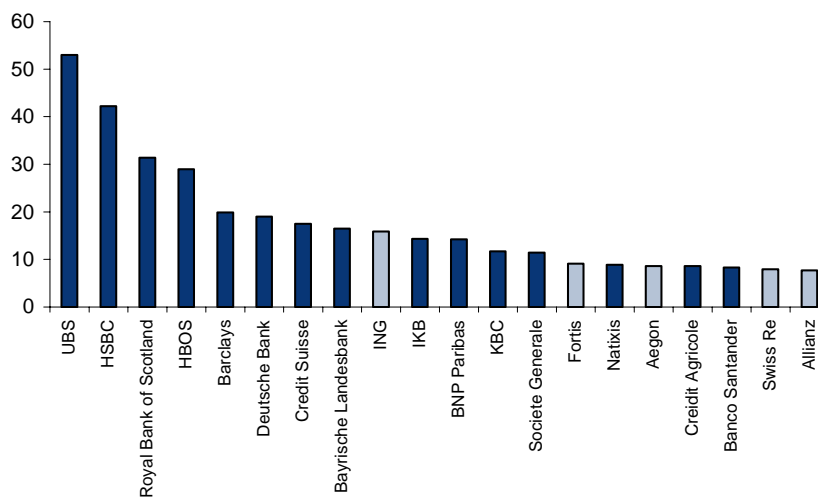
Source: Company data, Erste Group calculations

Insurers less affected than banks

It has to be emphasized that the insurance sector is less affected by the financial crisis than the banking sector. According to Bloomberg, until 1Q09, the worldwide banking sector (excl. GSEs) has lost USD 1,041bn, more than four times as much as the insurance sector, which lost USD 243bn due to the financial crisis. More than a third of the worldwide losses in the insurance sector are attributable to AIG (USD 90bn). Also, in Europe, losses of insurance companies are much lower than those of the banks. It is clear - but not astonishing - that the combined institutions undertaking both banking and insurance business are those with the highest losses in the insurance sector (Fortis, ING).

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Losses of European financial institutions (in USD bn) until 1Q09



Source: Bloomberg

Bancassurance and life insurance hit harder...

As already mentioned, the financial crisis hit insurance companies with banking business and life insurers especially hard. This was quite obvious in the Netherlands, where this multi-financial business model is quite common. The reason why bancassurance and life insurance were hit much harder can be explained by the different nature of the business and the differing level of leverage. Banks and life insurance companies have a much higher total amount of investments than non-life insurers. While life insurance premiums have to be invested to guarantee a certain minimum interest for policyholders, non-life insurers are generally issuing policies with a running time of the year. Therefore, life insurers have to manage huge investment portfolios, while property and casualty insurers' portfolios are rather small. Depreciations of a certain percentage of the portfolio therefore have a bigger impact on companies with a huge investment portfolio than companies with a smaller portfolio.

Quarterly net income development of DJES insurance members

Net income (EURmn)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
Aegon	707	655	541	649	153	276	-329	-1,182	-173
Alleanza	102	169	51	105	103	243	36	26	74
Allianz SE	3,240	2,140	1,921	665	1,148	1,542	-2,023	-3,111	29
Assicurazioni Generali SpA	715	1,062	587	551	910	549	210	-809	104
AXA SA	3,180		2,486		2,162		-1,239		
Cattolica Assicurazioni	15	4	24	-10	10	27	-1	-7	12
CNP Assurances	568		654		574		156		
Fondiarria (Sai Spa)	136	140	96	134	135	73	99	-219	21
Hannover Rueck	124	169	284	145	151	101	-395	16	216
ING Groep	1,894	2,558	2,307	2,482	1,540	1,920	-478	-3,711	-793
Irish Life & Permanent Plc	223		226		210		-161		
Mapfre SA	170	166	170	226	286	243	186	185	287
Muenchener Rueck	958	1,140	1,196	546	775	599	7	122	415
Sampo Oyj	202	214	191	113	106	240	175	154	127
SCOR SA	181		229		225		90		
Unipol SpA	100	160	72	57	116	122	-59	-86	39
Vienna Insurance Group	76	85	90	62	91	116	93	108	95

Source: Company data, Erste Group calculations

...due to higher leverage

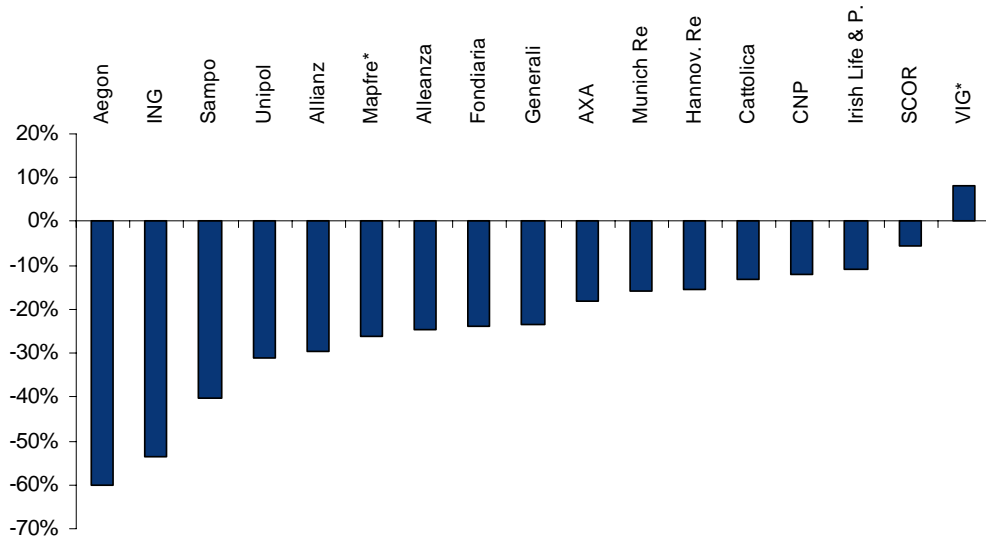
The different level of leverage explains why banks and life insurers are suffering more from the crisis. According to a study of the Dutch National Bank, the average leverage (total assets to equity) of banks was 18x in 2007, while life insurers showed a ratio of 12x and non-life and health insurers of 4x. This, of course, has something to do with the nature of the different business segments. However, a certain loss of the portfolio has a bigger impact on companies that are highly leveraged.

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Big impact on companies' equity

The impact on the companies' P/Ls only tells part of the story of their suffering in the financial crisis. Since the biggest part of the insurers' portfolios is classified as available-for-sale, the bulk of the losses are only shown in the companies' shareholders' equity. The amendment of IAS 39 to allow banks and insurance companies to reclassify their assets has had little consequence so far. In 2008, many insurance companies were facing significant declining shareholders' equity. Top decliners in this respect were again AEGON (-60%) and ING (-53%). Only one insurance company was able to present increased equity - Vienna Insurance Group.

Shareholders' equity development among DJES insurance companies in 2008



* Mapfre and VIAG excluding capital increases

Source: Company data, Erste Group estimates

In total, the 17 DJES insurance companies recorded a decline in equity of EUR 65.5bn (-28%) in 2008. Interestingly, the insurers with banking business (-40%) and the life insurers (-35%) were the most affected. Reinsurers and composite insurers lost an average 15%.

Quarterly equity development of DJES insurance members

Shareholders' equity (EURm)	FY07	1Q08	2Q08	3Q08	FY08	1Q09
Aegon	15,151	12,597	11,624	9,412	6,055	4,899
Alleanza	3,036	2,974	2,412	2,497	2,293	2,317
Allianz SE	47,753	44,981	40,457	37,548	33,684	33,030
Assicurazioni Generali SpA	14,790	13,758	12,178	12,510	11,313	11,013
AXA SA	45,642	n.a.	40,547	n.a.	37,440	n.a.
Cattolica Assicurazioni	1,457	1,419	1,291	1,305	1,265	1,311
CNP Assurances	11,405	n.a.	10,615	n.a.	10,038	n.a.
Fonditalia (Sai Spa)	3,858	n.a.	3,431	3,286	2,935	n.a.
Hannover Rueck	3,349	3,140	2,804	2,613	2,830	2,937
ING Groep	37,208	31,584	28,060	23,723	17,334	19,370
Irish Life & Permanent Plc	2,630	n.a.	2,639	n.a.	2,347	n.a.
Mapfre SA	4,331	4,004	3,594	5,073	4,902	4,966
Muenchener Rueck	24,957	23,245	21,059	21,032	20,966	21,391
Sampo Oyj	7,733	7,469	6,481	6,256	4,631	4,573
SCOR SA	3,594	n.a.	n.a.	n.a.	3,410	n.a.
Unipol SpA	4,988	4,911	3,842	3,636	3,433	3,273
Vienna Insurance Group	2,338	2,399	2,497	3,844	3,872	3,901

Source: Company data, Erste Group calculations

The downside trend, however, stopped in 1Q09. The 12 insurance companies announcing their shareholders' equity recorded an almost unchanged level (EUR 113.0bn, after EUR 112.6bn in FY08).

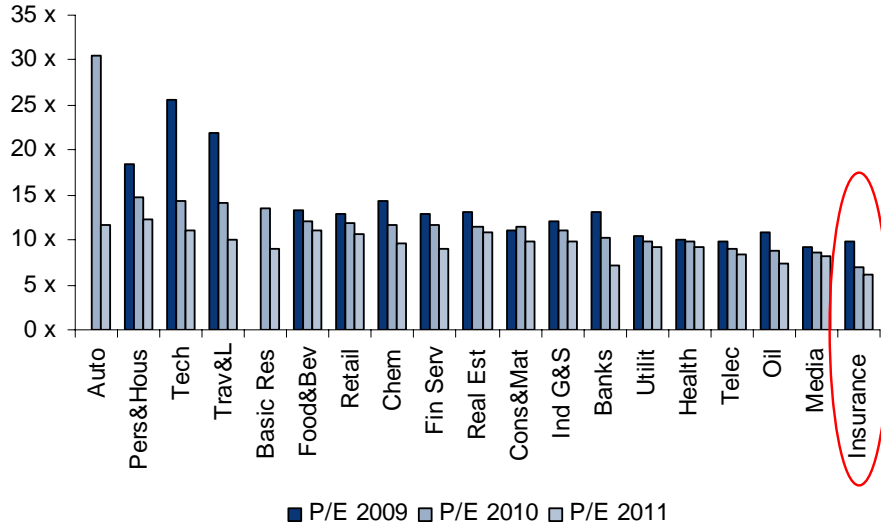
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Current Valuation

Attractive valuation

The valuation of the insurance sector looks pretty attractive. The sector is currently traded at a PE ratio of 7.0x for 2010, which is the cheapest of the DJ Euro Stoxx sectors. The P/E ratio for 2011 amounts to 6.1x.

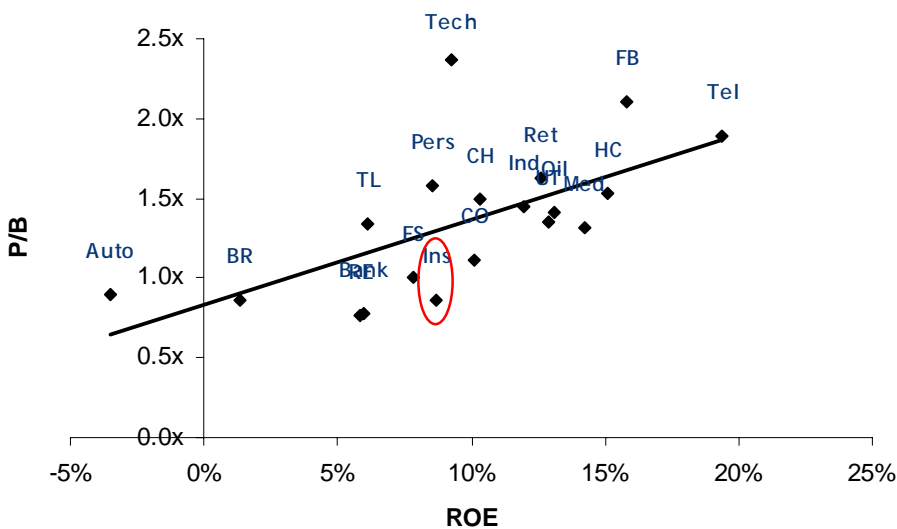
Sector comparison DJ Euro Stoxx based on P/E ratios



Source: FactSet

A comparison based on Return on Equity and P/B multiples confirms the positive picture. We see insurance companies with very low P/B multiples, but nevertheless attractive ROEs (despite the catch-up potential of the companies' earnings).

Sector comparison DJ Euro Stoxx based on ROE and P/B multiples 2009

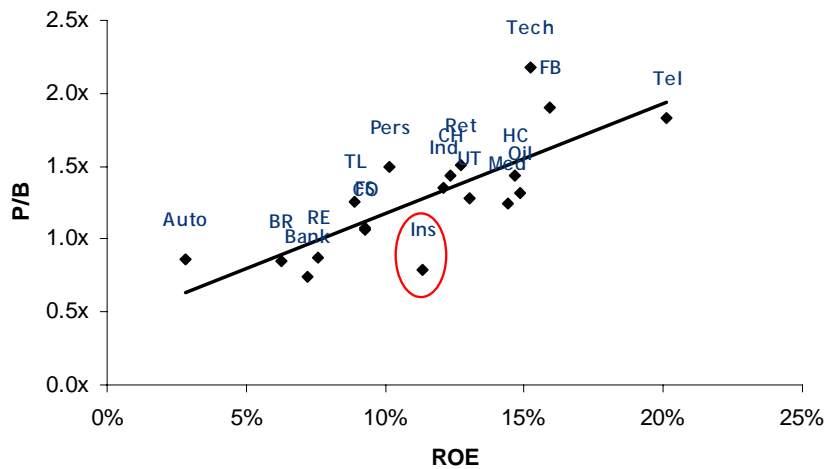


Source: FactSet

One could argue that we can still expect further write-offs of financial assets, which would burden the companies' shareholders' equity and therefore the book values. This is of course likely. However, we do not think that it would significantly change the overall picture.

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Sector comparison DJ Euro Stoxx based on ROE and P/B multiples 2010



Source: FactSet

Valuation of composite insurance companies

Composite insurers multiples higher but nonetheless cheap

A peer group comparison of composite insurance companies shows that the sector is traded at higher multiples than the average for the whole industry. This can be explained by the fact that property and casualty are less susceptible to risk than life insurance or bancassurance. Nevertheless, we think that the multiples of composite insurers are quite attractive.

Composite insurer peer group

	P/E			P/B			ROE (%)		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Allianz	7.5x	5.9x	5.4x	0.8x	0.7x	0.7x	10.2	12.6	12.5
AXA	8.4x	6.4x	5.8x	0.7x	0.7x	0.6x	9.0	11.0	10.9
Generali	12.4x	9.5x	8.3x	1.6x	1.5x	1.3x	12.9	14.7	15.1
Mapfre	7.4x	7.4x	7.3x	1.2x	1.1x	1.1x	16.2	15.3	14.5
Sampo	8.7x	10.6x	10.9x	1.3x	1.2x	1.1x	14.5	10.9	9.9
UNIQA	13.6x	10.8x	9.5x	1.3x	1.2x	1.0x	9.9	11.2	11.5
VIG	10.2x	8.6x	7.0x	1.1x	1.0x	0.9x	10.5	11.9	13.4
MEDIAN	8.7x	8.6x	7.3x	1.2x	1.1x	1.0x	10.5	11.9	12.5

Source: FactSet, Erste Group estimates

We still strongly recommend also looking at the development of the companies' shareholders' equity, the ratio of goodwill to shareholders' equity and especially the ratio of investments to technical reserves. The chart below also shows the actual combined ratios, the price/premium multiples (based on FY08 figures) and the price/embedded value multiples.

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Key figures overview - composite insurers

(EURmn)		Allianz	AXA*	Generali	MAPFRE	Sampo	UNIQA	VIG
1Q 2008 results	Gross written premiums	26,899	38,720	18,479	4,502	1,470	1,655	2,345
	Ch. y/y	3.3%	-0.8%	0.3%	11.1%	-5.3%	1.3%	1.5%
	Net profit	29	923	104	287	127	28	95
	Ch. y/y	-97%	-63%	-89%	0%	19%	100%	4%
	Shareholders' equity	33,030	37,440	11,013	4,966	4,573	1,166	3,901
	Ch. y/y	-27%	-18%	-20%	24%	-39%	-8%	63%
	Combined ratio	98.5%	95.5%	96.3%	94.2%	94.2%	98.0%	96.5%
	Cost ratio	27.4%	28.4%	27.5%	23.7%	23.5%	33.8%	30.5%
	Loss ratio	71.1%	67.1%	68.8%	70.5%	70.7%	64.2%	66.0%
	Goodwill in % of shareholders' equity	36%	45%	52%	33%	10%	42%	45%
	Investments in % of technical reserves	109%	99%	110%	115%	121%	101%	114%
	Share price	65.6	13.4	14.8	2.3	13.5	13.7	31.0
	Market cap.	29,688	27,586	19,933	6,368	7,550	1,797	3,965
	Price/premium 08	0.33 x	0.33 x	0.29 x	0.45 x	1.64 x	0.31 x	0.50 x
	Price/book value	0.90 x	0.74 x	1.81 x	1.28 x	1.65 x	1.54 x	1.02 x
Price/embedded value**	2.37 x	0.89 x	0.89 x	n.a.	12.20 x	0.97 x	0.95 x	

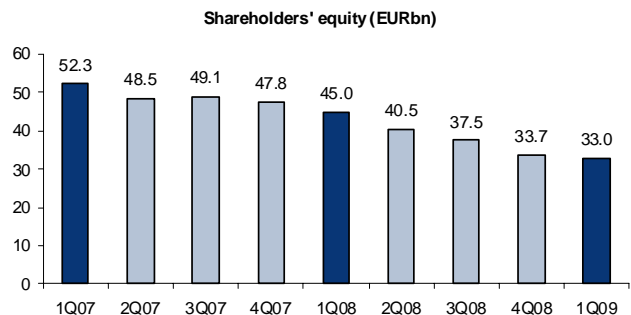
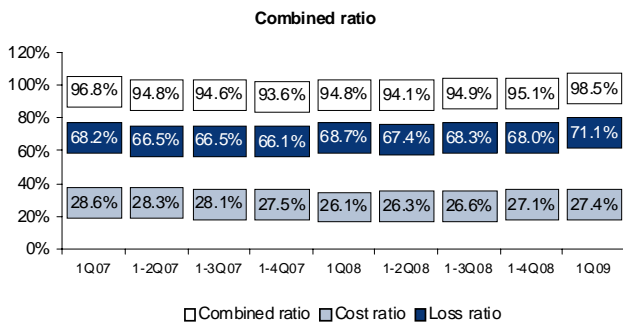
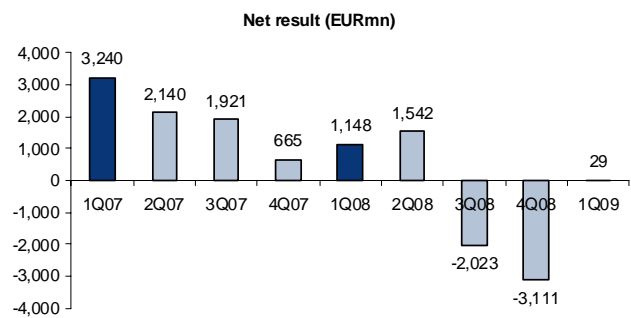
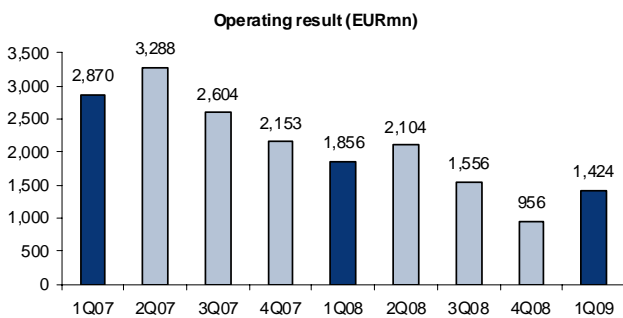
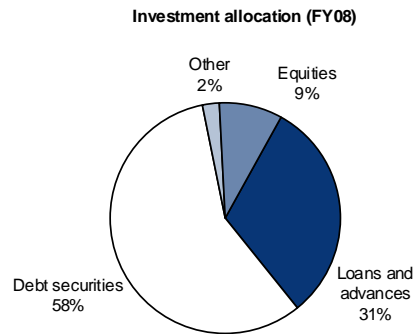
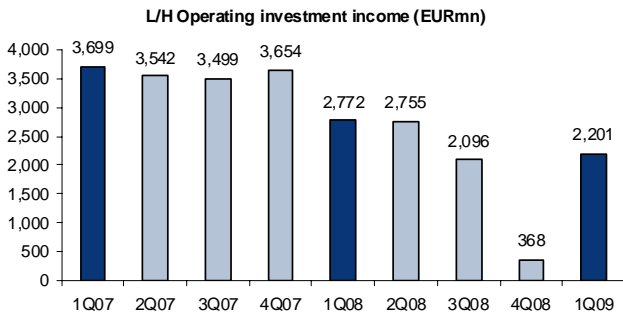
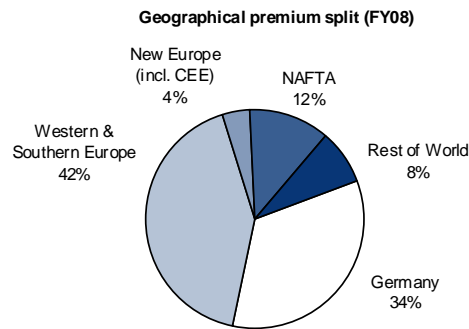
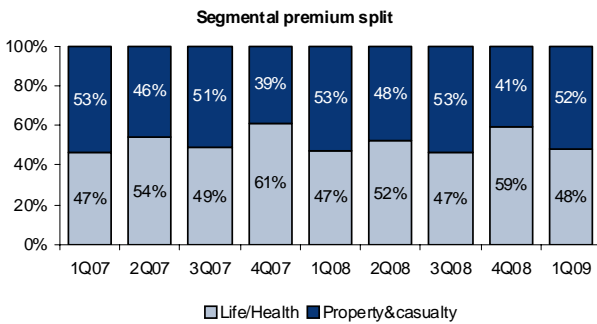
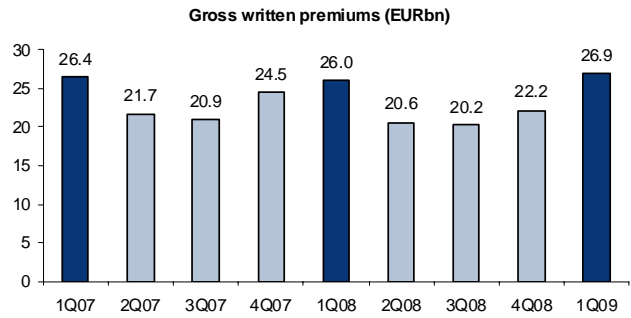
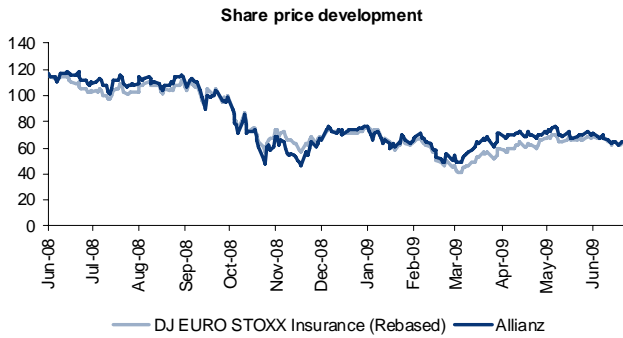
* AXA: 2H08 results

** Allianz and Sampo based on Life Embedded Value

Source: company data, Erste Group calculations

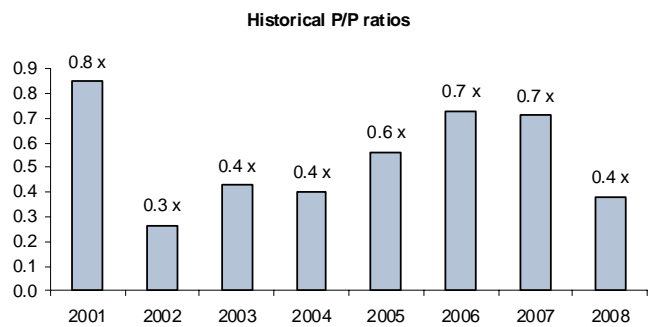
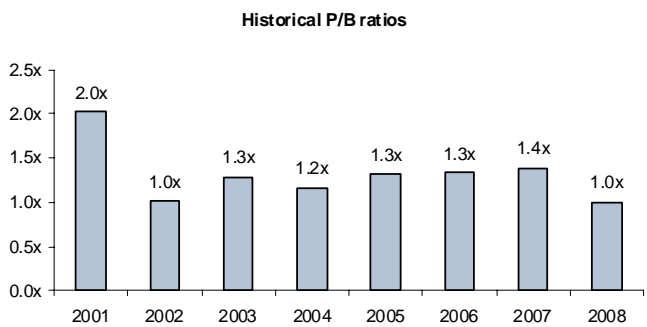
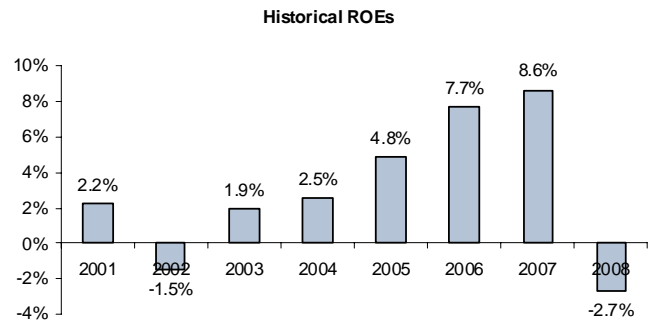
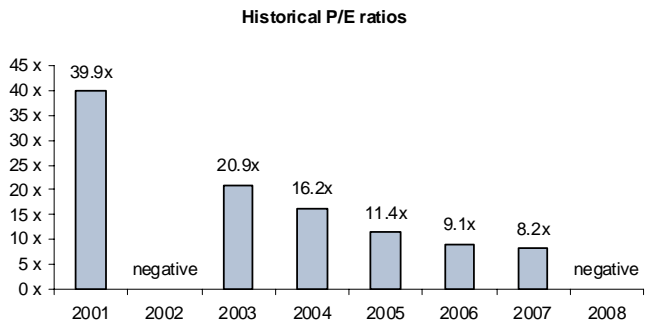
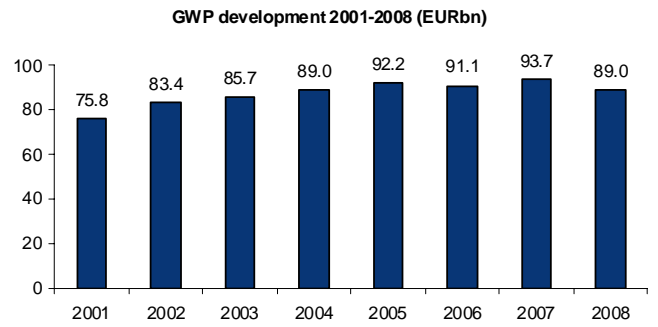
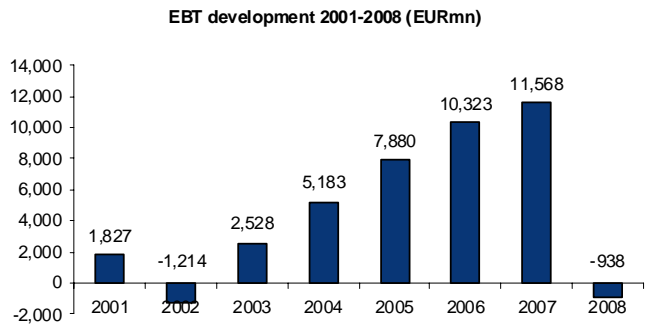
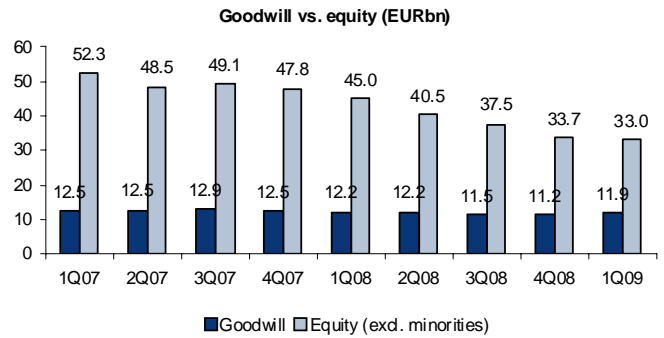
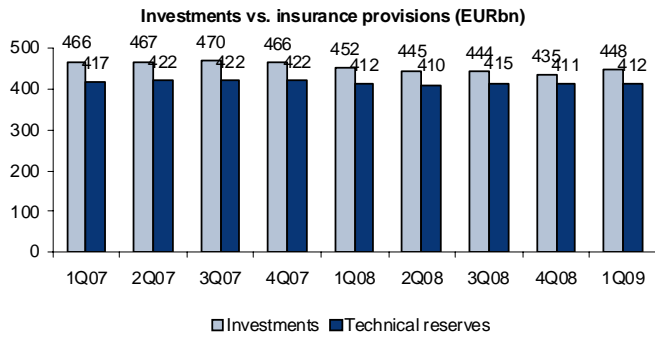
Sector Report – INSURANCE

Key figures overview: Allianz (I)



Sector Report – INSURANCE

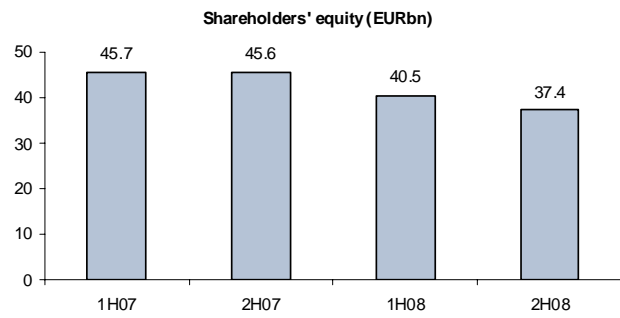
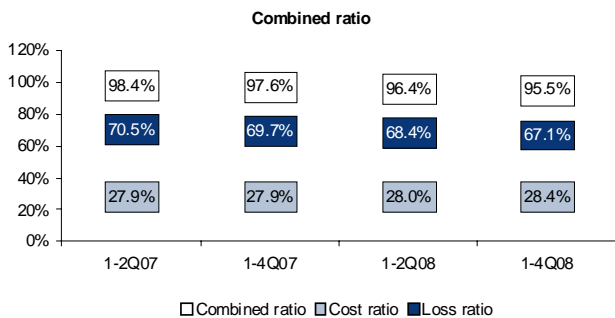
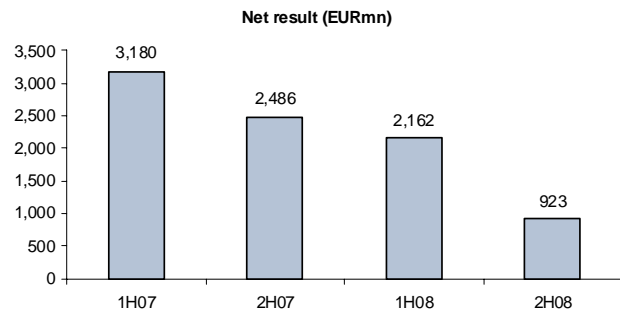
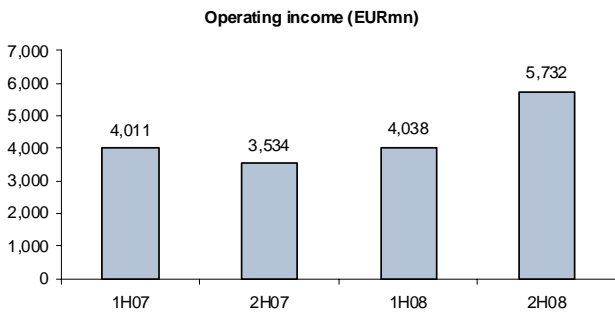
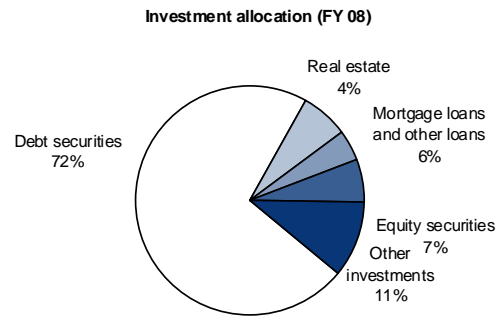
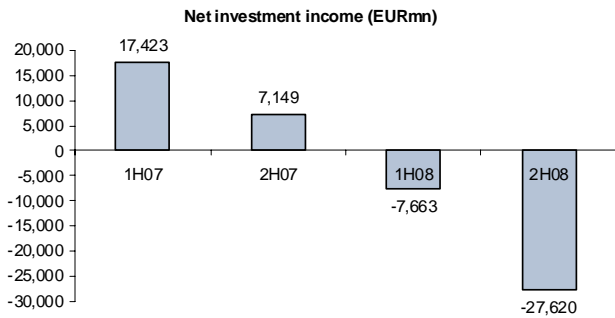
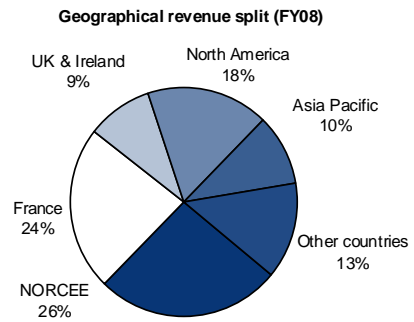
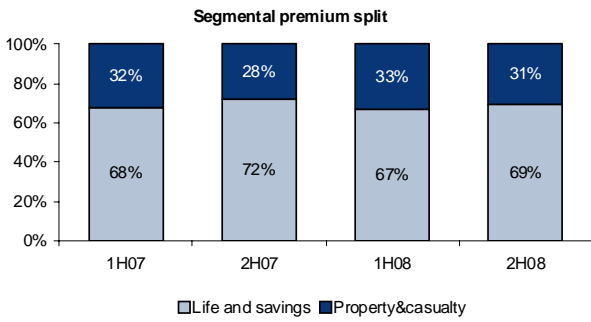
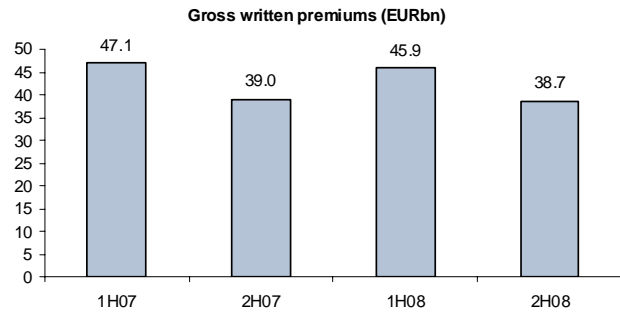
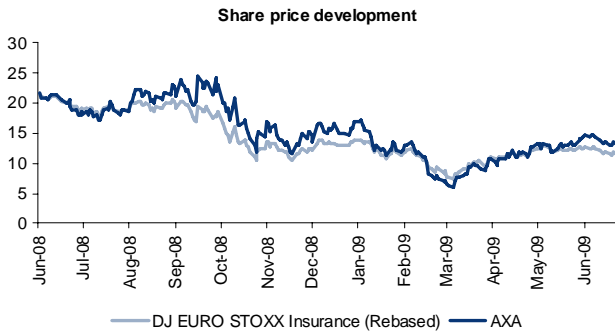
Key figures overview: Allianz (II)



Source: Company data, FactSet, Erste Group calculations

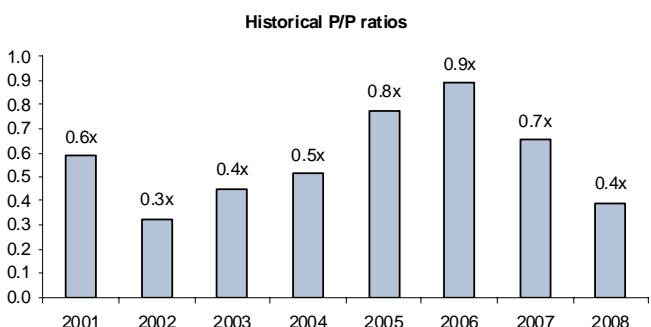
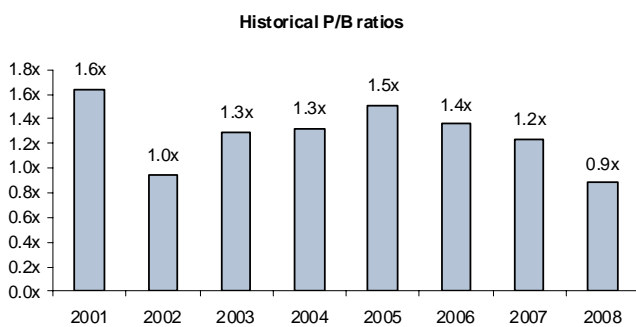
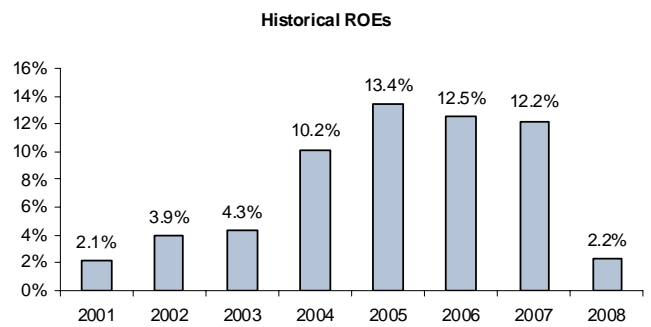
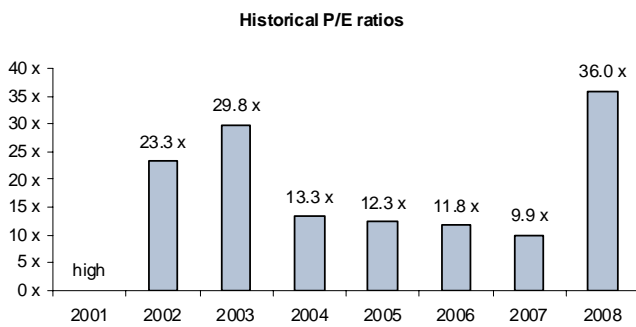
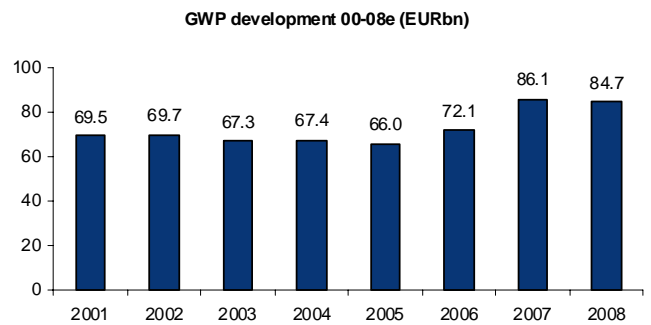
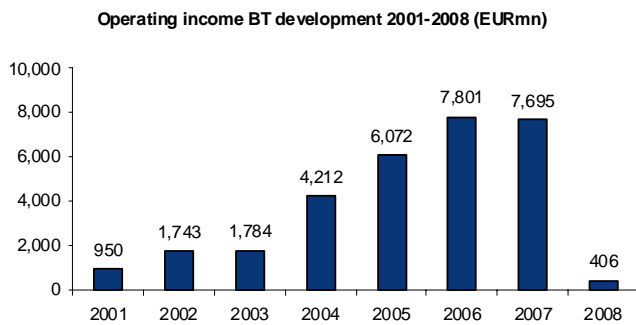
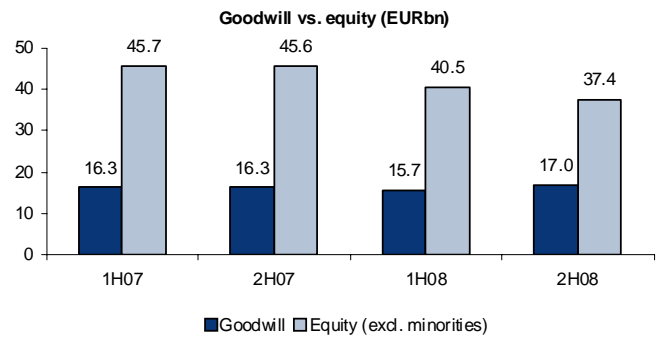
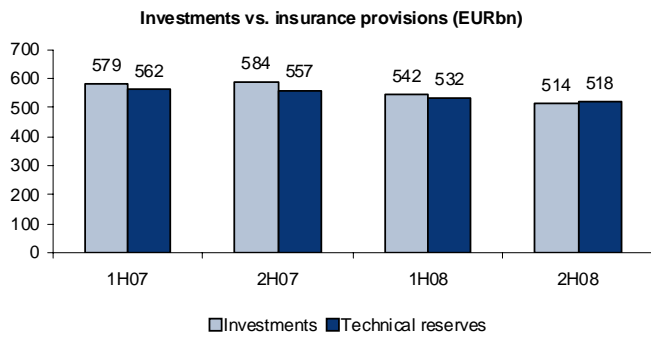
Sector Report – INSURANCE

Key figures overview: AXA (I)



Sector Report – INSURANCE

Key figures overview: AXA (II)

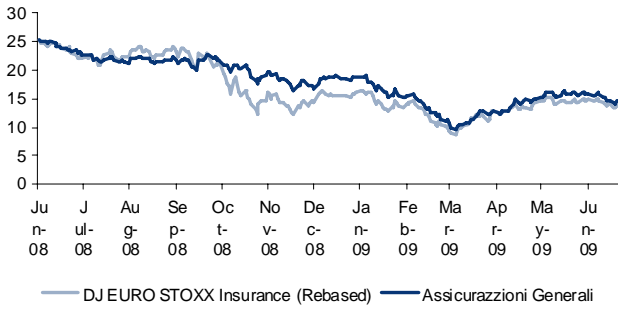


Source: Company data, FactSet, Erste Group calculations

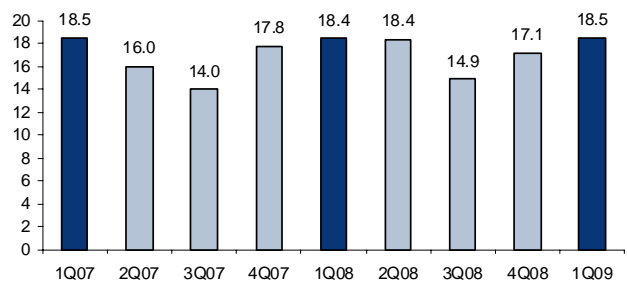
Sector Report – INSURANCE

Key figures overview: Generali (I)

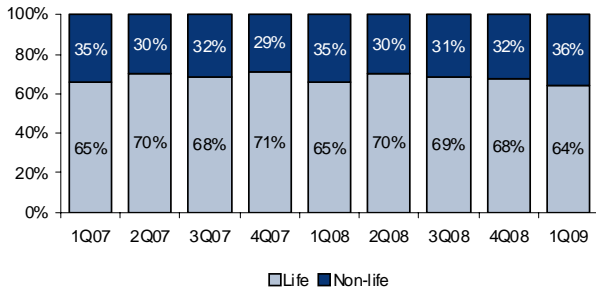
Share price development



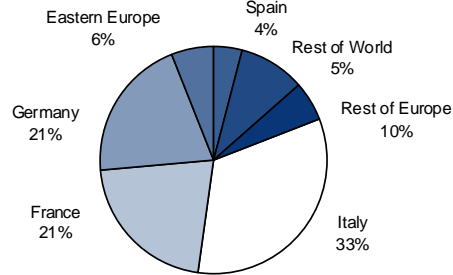
Gross written premiums (EURbn)



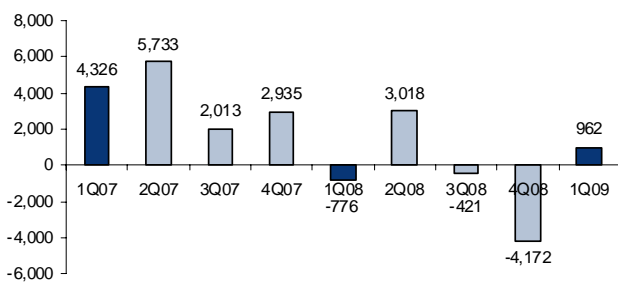
Segmental premium split



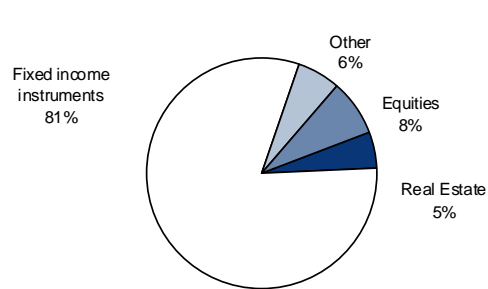
Geographical premium split (FY08)



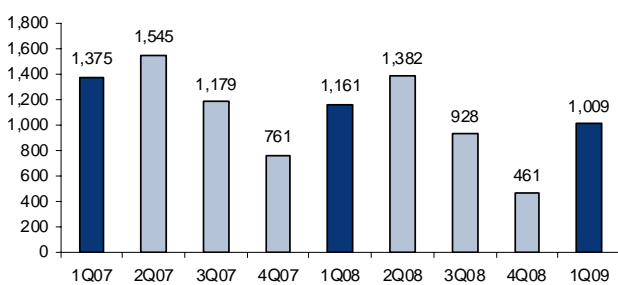
Net investment income (EURmn)



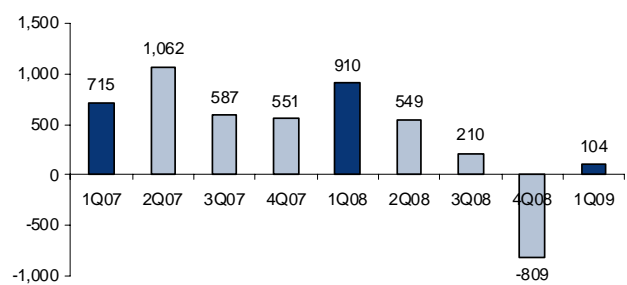
Investment allocation (FY08)



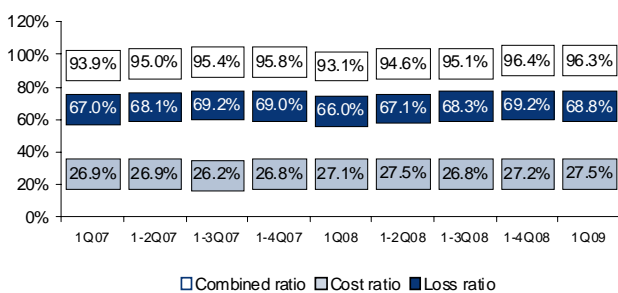
Operating result (EURmn)



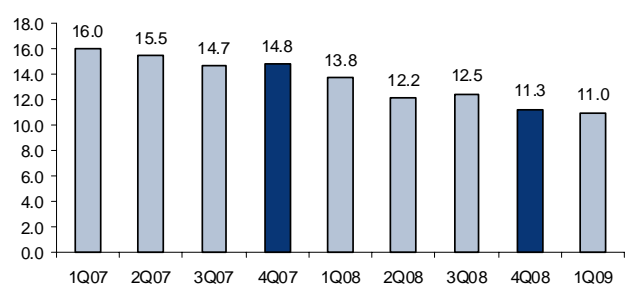
Net result (EURmn)



Combined ratio

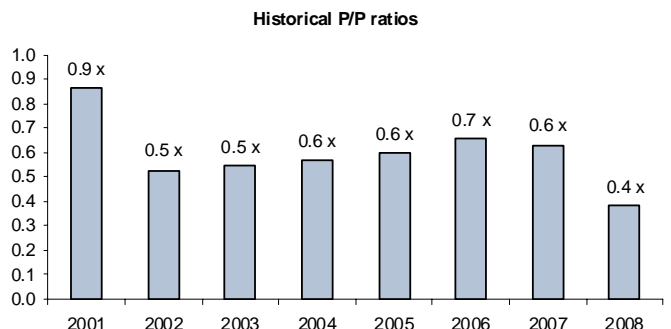
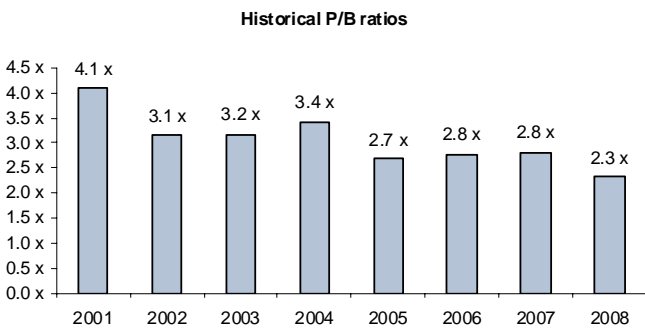
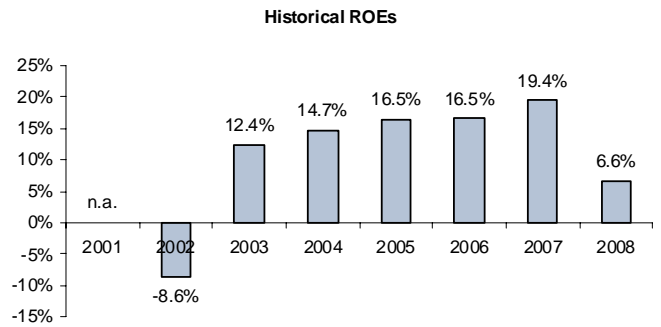
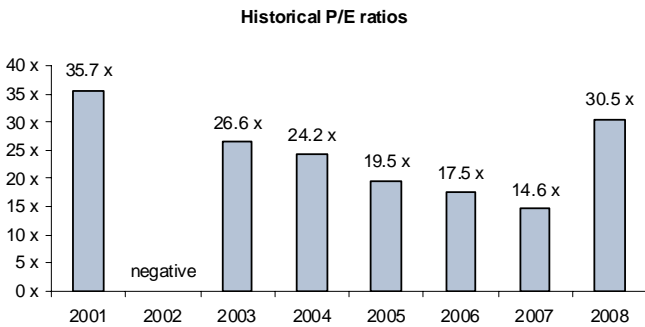
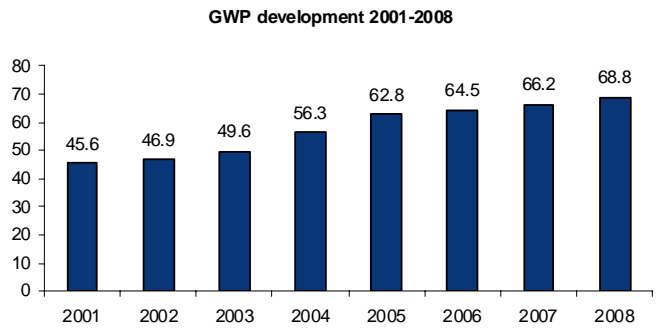
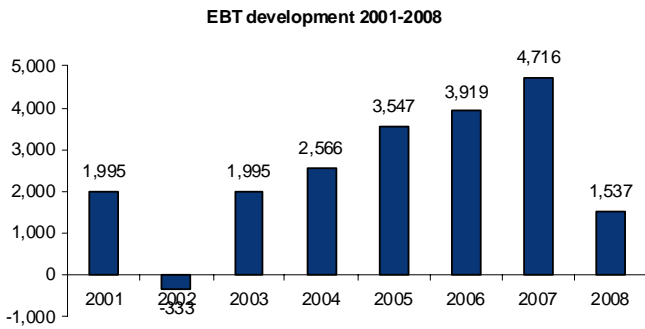
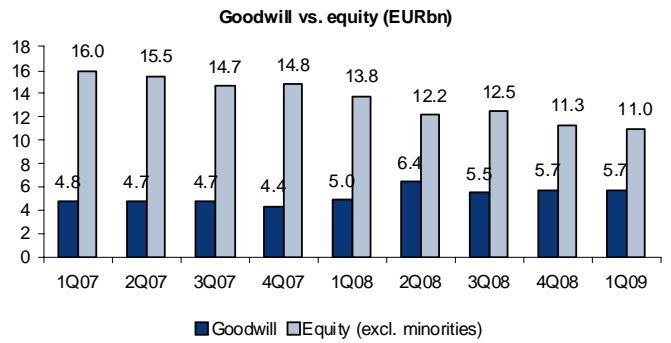
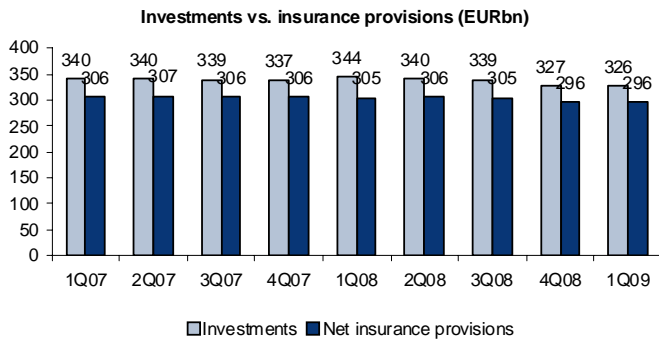


Shareholders' equity (EURbn)



Sector Report – INSURANCE

Key figures overview: Generali (II)

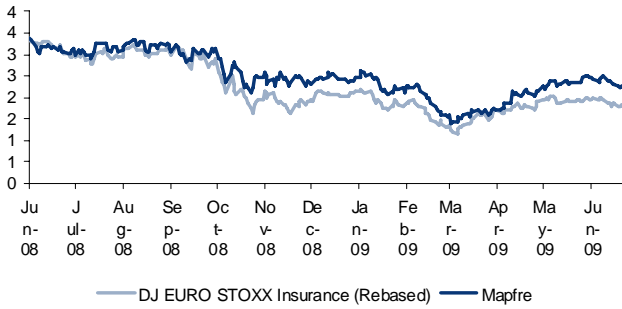


Source: Company data, FactSet, Erste Group calculations

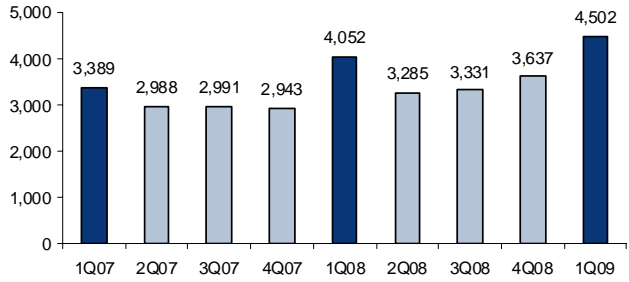
Sector Report – INSURANCE

Key figures overview: Mapfre (I)

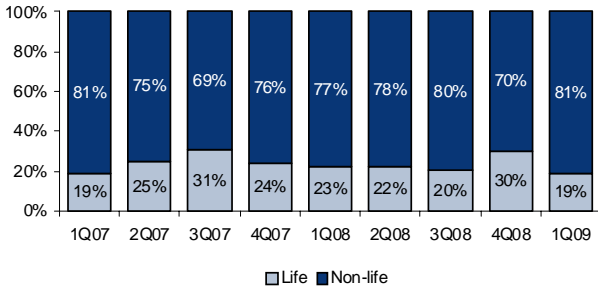
Share price development



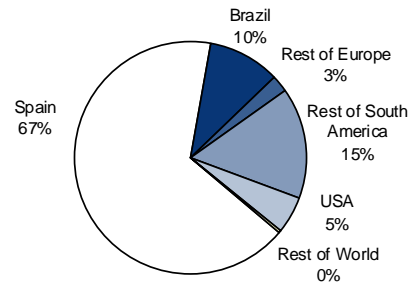
Gross written premiums (EURmn)



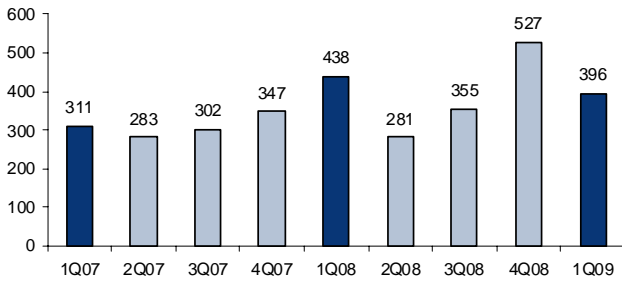
Segmental premium split



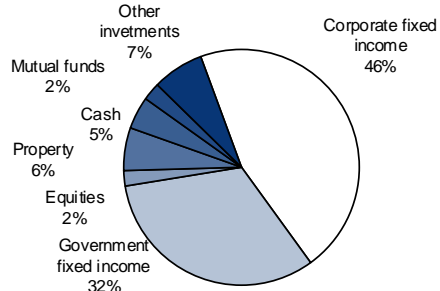
Geographical premium split (FY08)



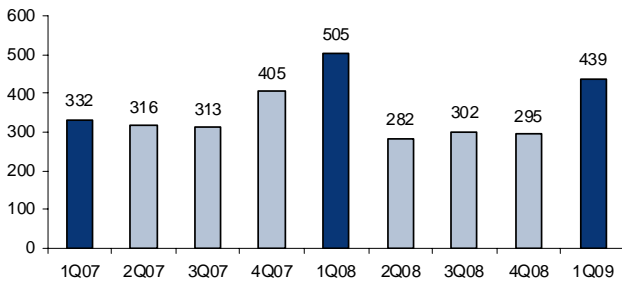
Net investment income (EURmn)



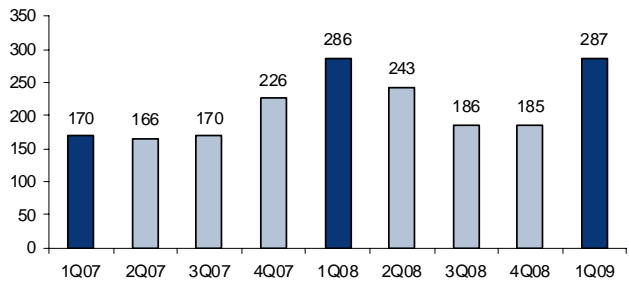
Investment allocation (FY08)



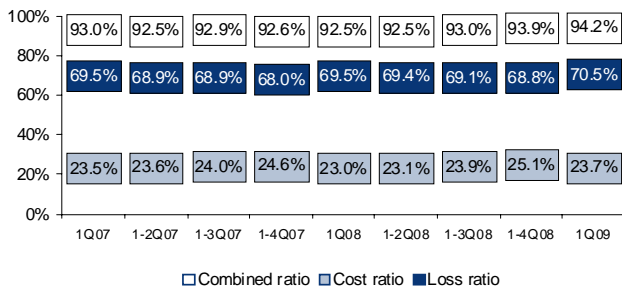
EBT (EURmn)



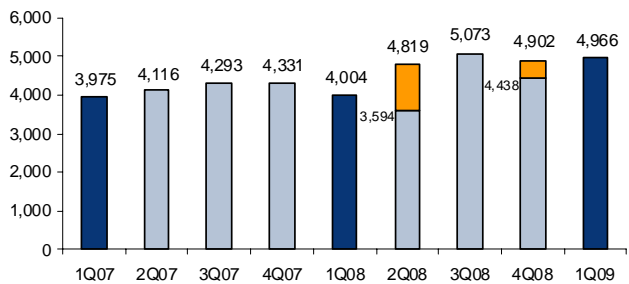
Net result (EURmn)



Combined ratio

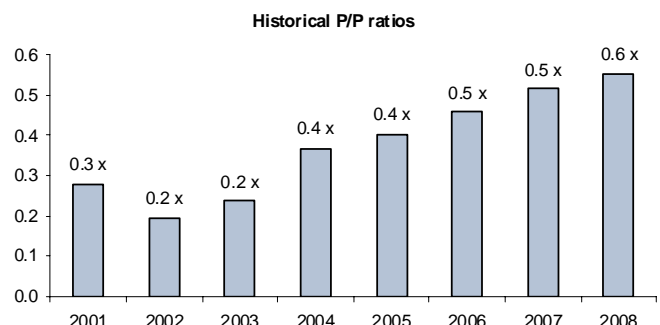
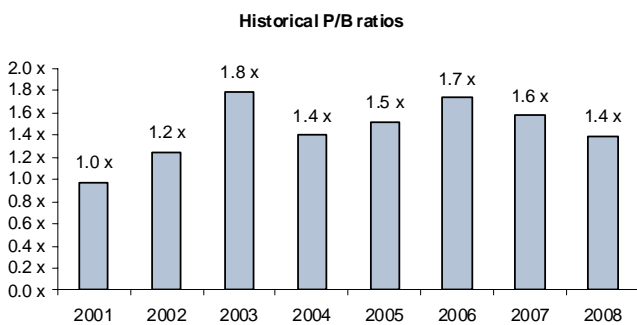
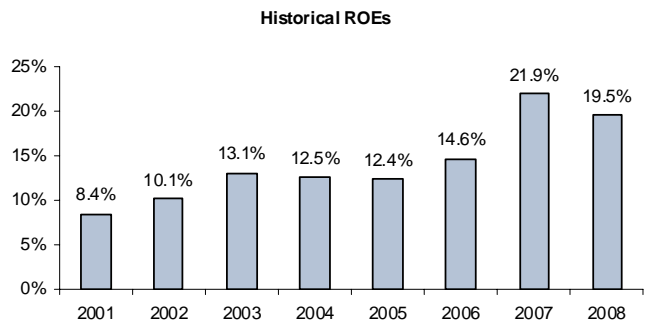
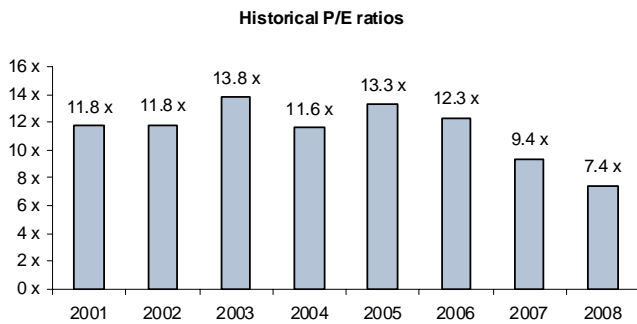
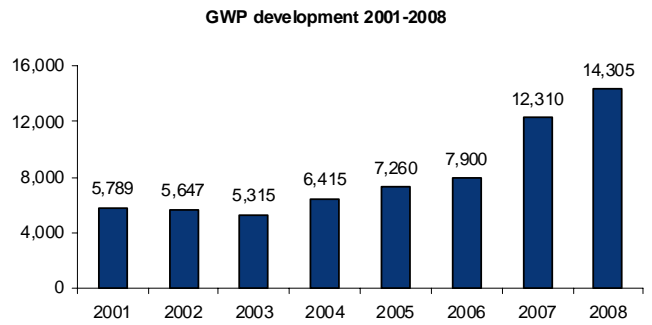
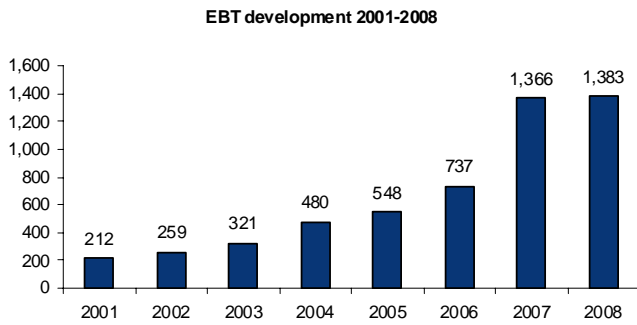
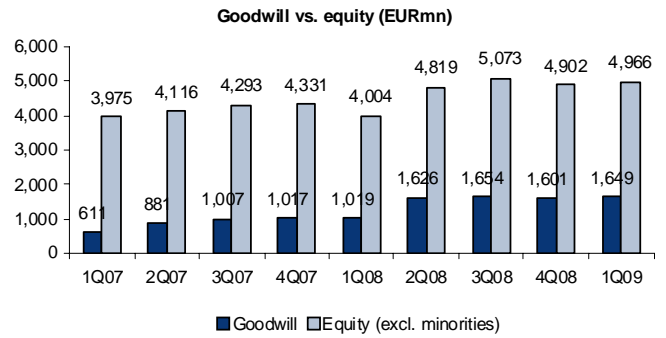
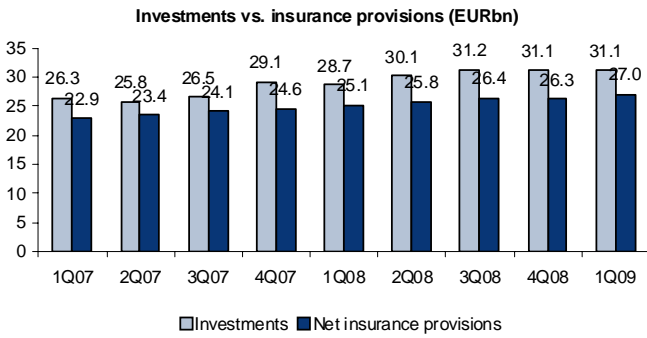


Shareholders' equity (EURmn)



Sector Report – INSURANCE

Key figures overview: Mapfre (II)

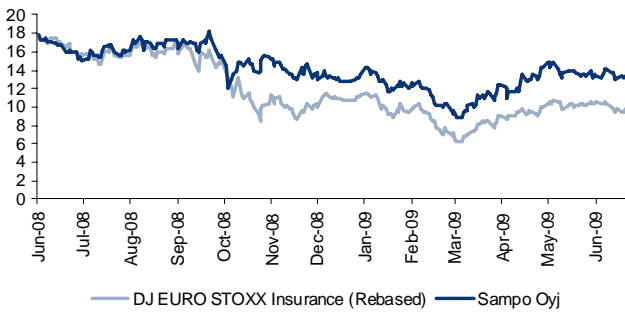


Source: Company data, FactSet, Erste Group calculations

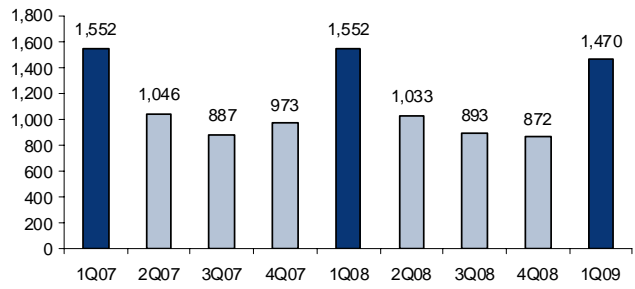
Sector Report – INSURANCE

Key figures overview: Sampo (I)

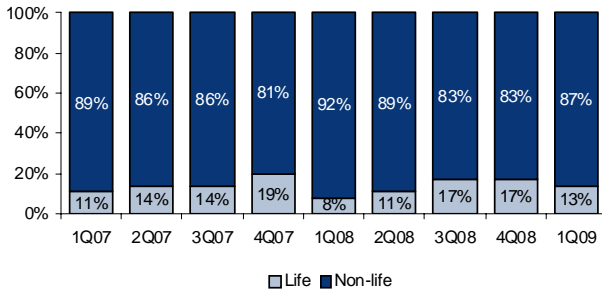
Share price development



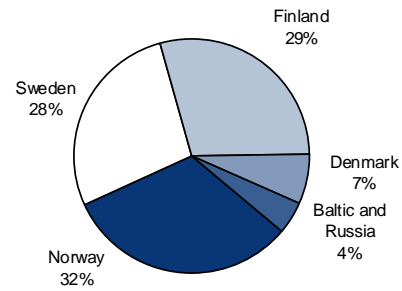
Gross written premiums (EURmn)



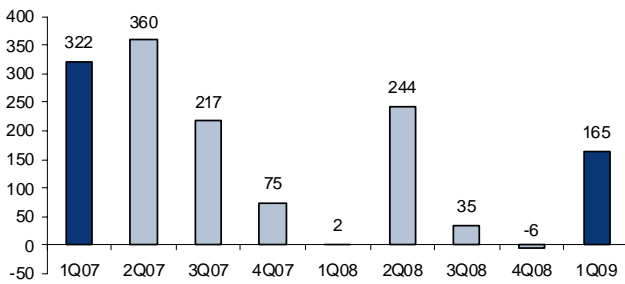
Segmental premium split



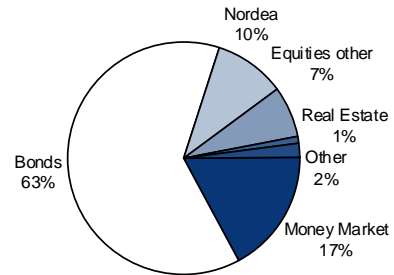
Geographical premium split (FY08)



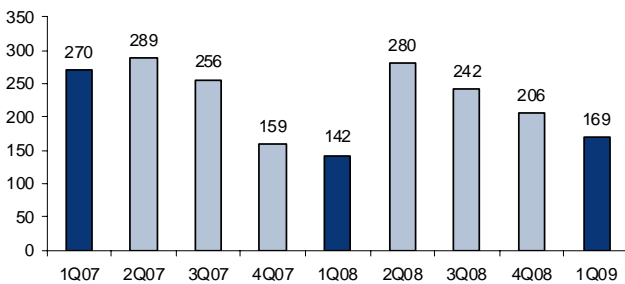
Net investment income (EURmn)



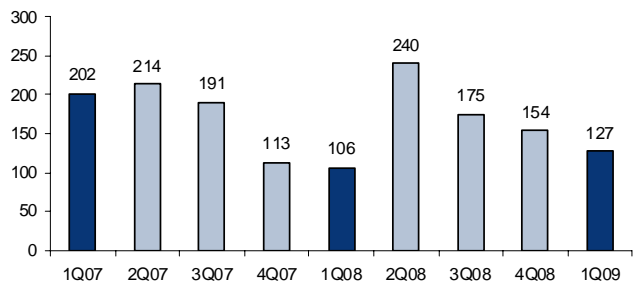
Investment allocation (FY08)



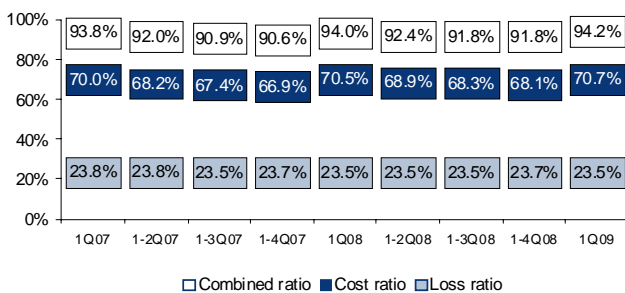
EBT - continuing operations (EURmn)



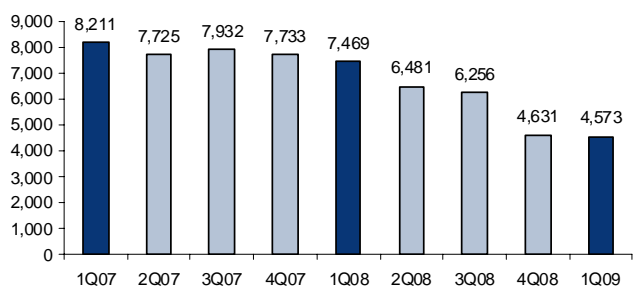
Net result - continuing operations (EURmn)



Combined ratio

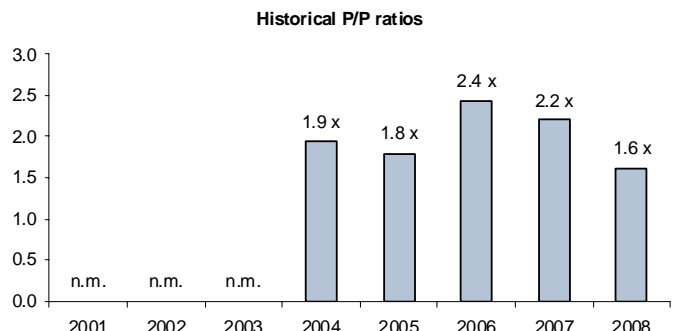
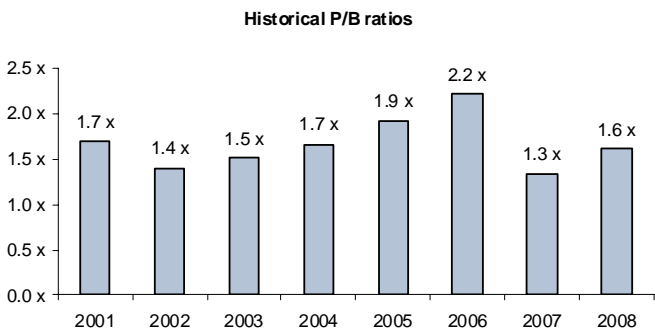
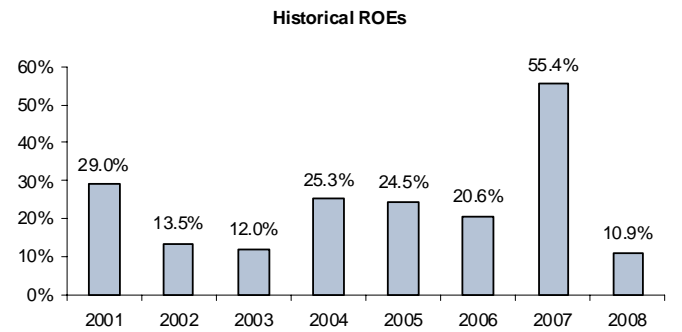
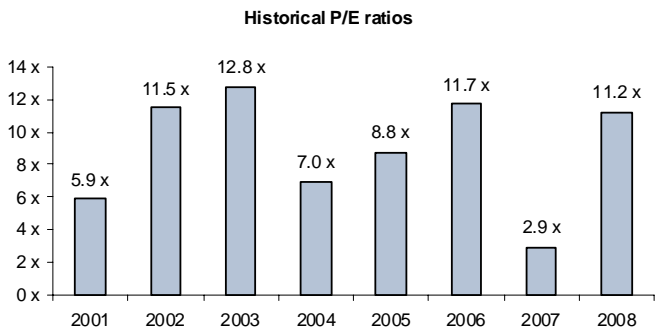
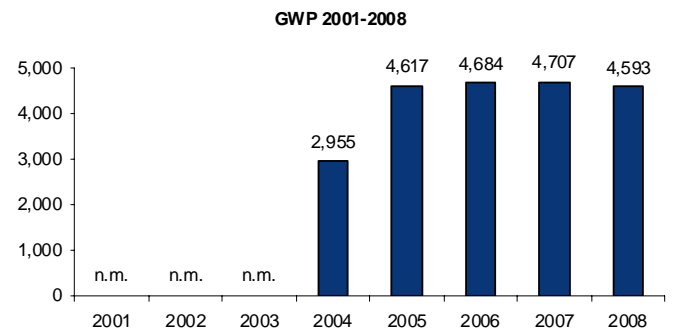
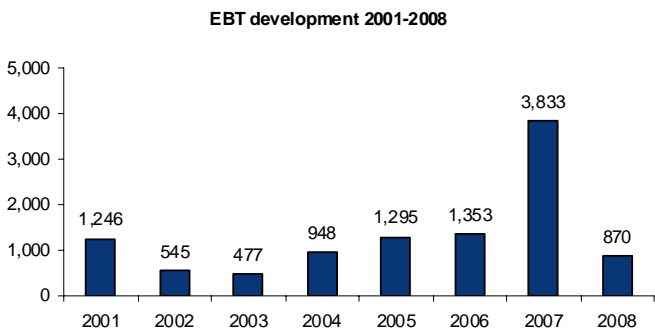
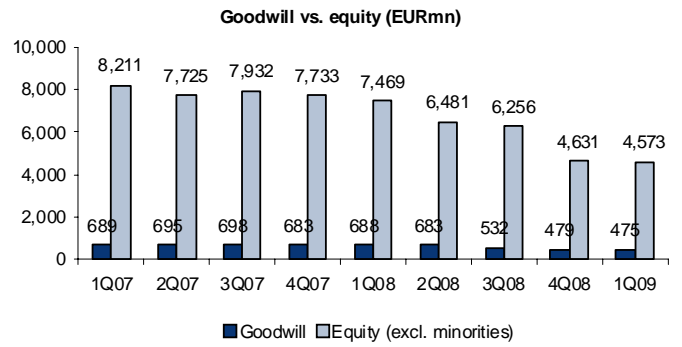
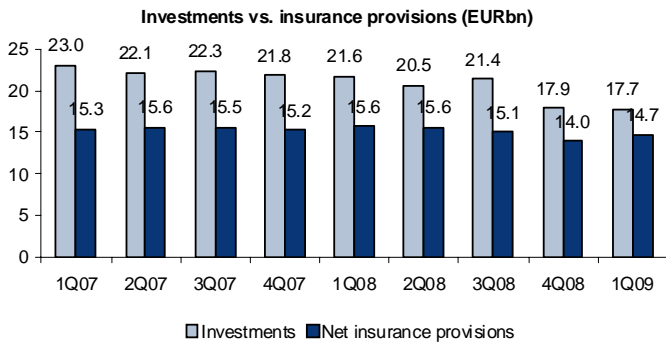


Shareholders' equity (EURmn)



Sector Report – INSURANCE

Key figures overview: Sampo (II)

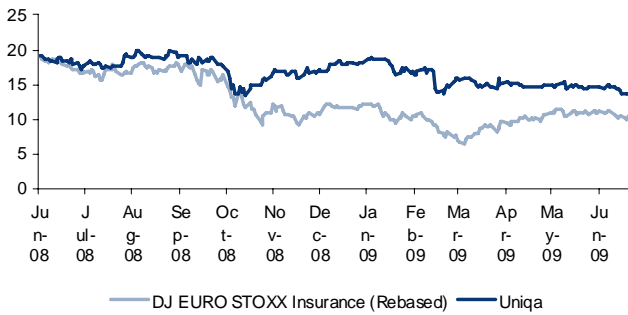


Source: Company data, FactSet, Erste Group calculations

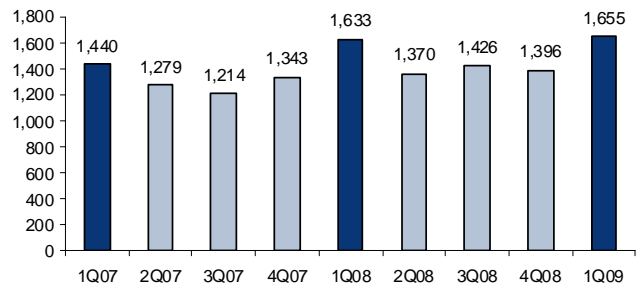
Sector Report – INSURANCE

Key figures overview: UNIQA (I)

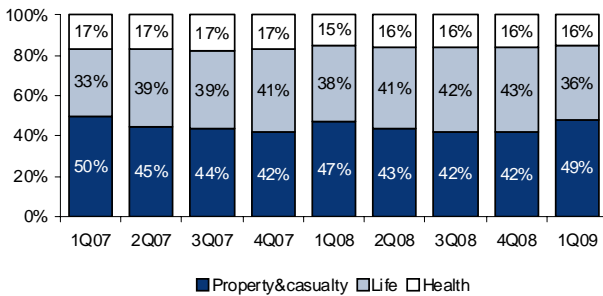
Share price development



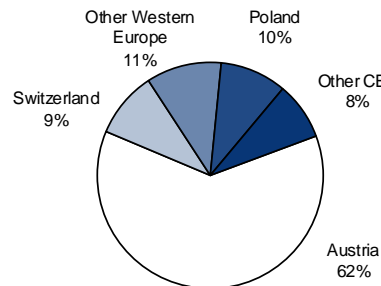
Gross written premiums (EURmn)



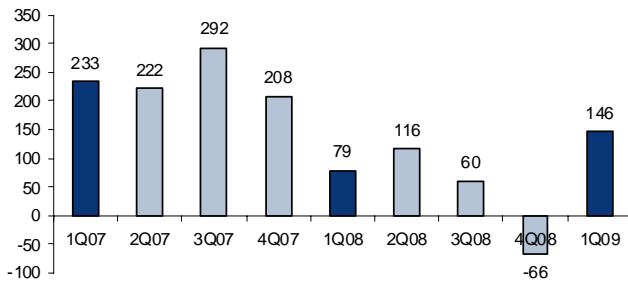
Segmental premium split



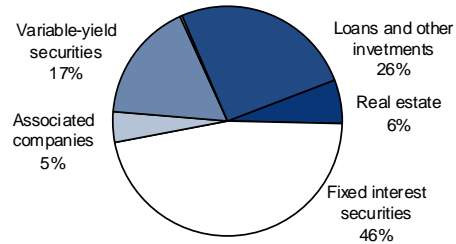
Geographical premium split (FY08)



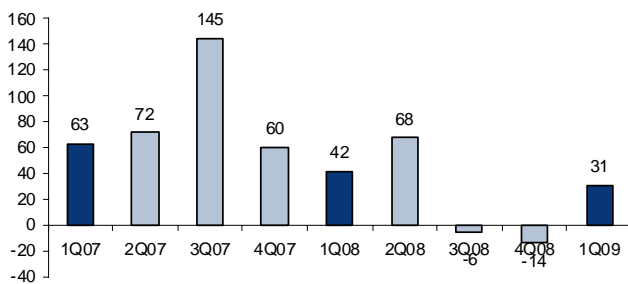
Net investment income (EURmn)



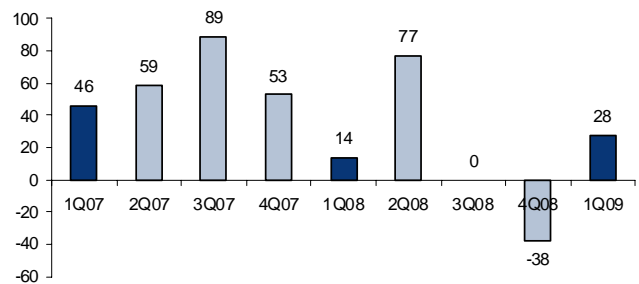
Investment allocation (Q208)



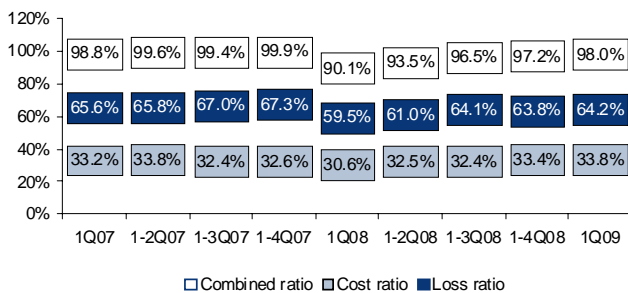
EBT (EURmn)



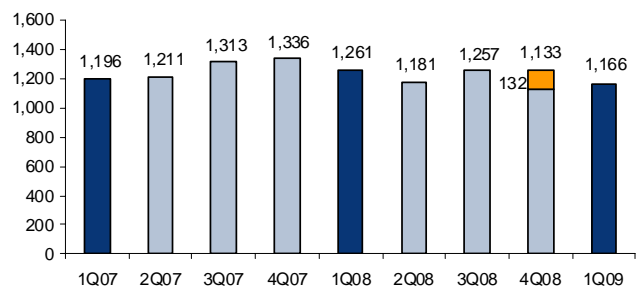
Net result (EURmn)



Combined ratio

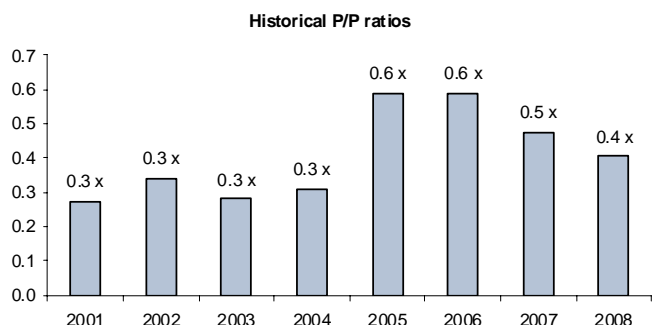
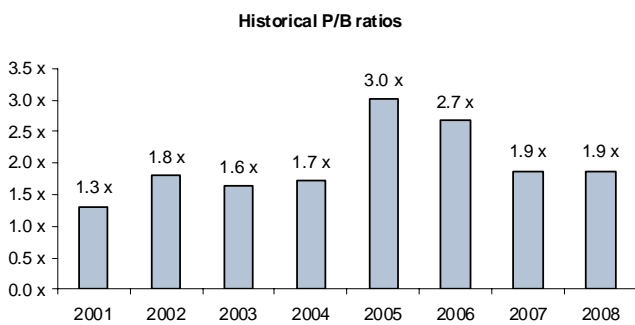
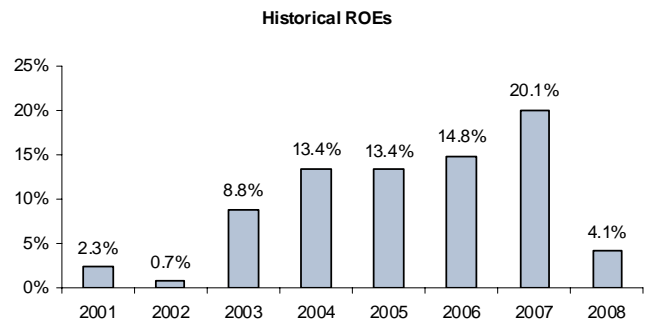
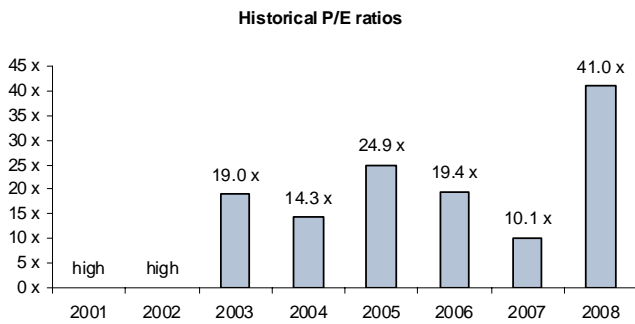
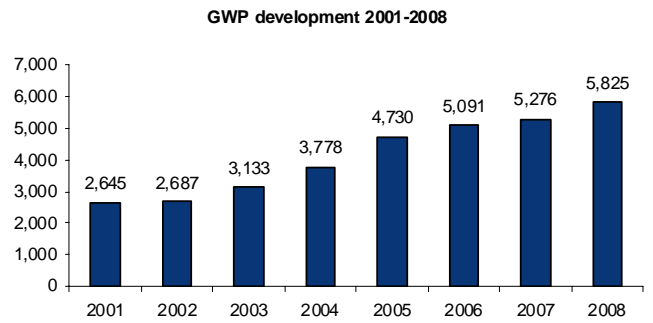
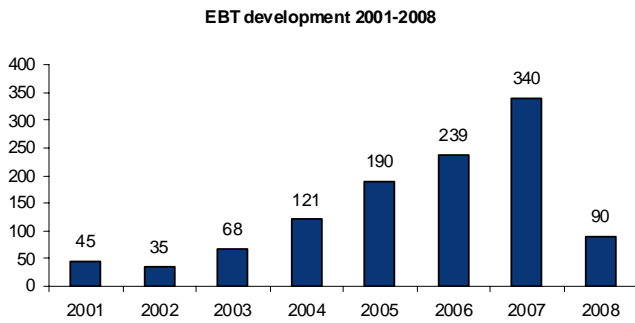
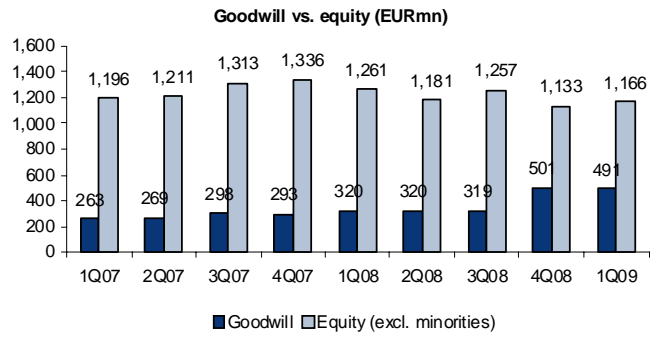
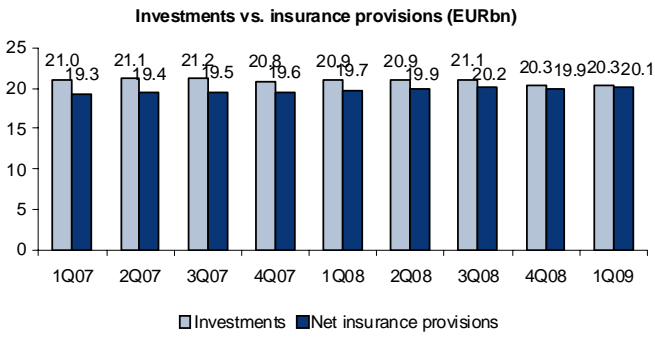


Shareholders' equity (EURmn)



Sector Report – INSURANCE

Key figures overview: UNIQA (II)

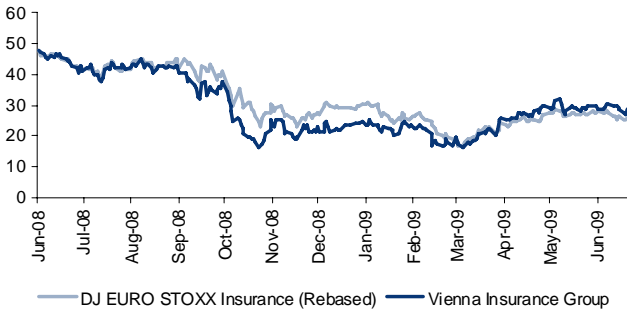


Source: Company data, FactSet, Erste Group calculations

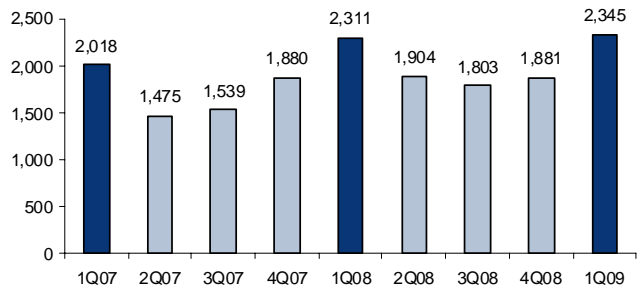
Sector Report – INSURANCE

Key figures overview: Vienna Insurance Group (I)

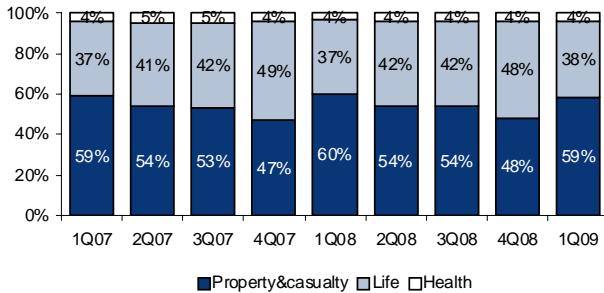
Share price development



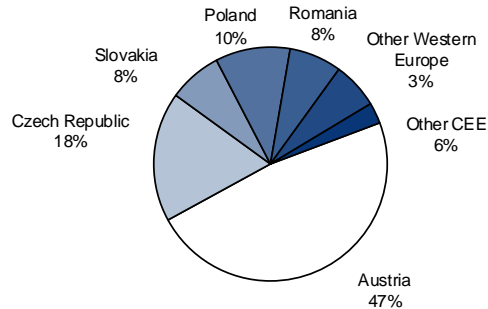
Gross written premiums (EURmn)



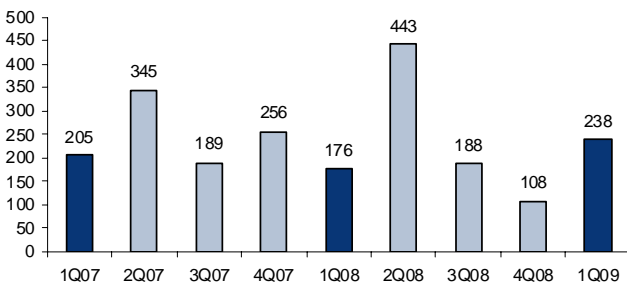
Segmental premium split



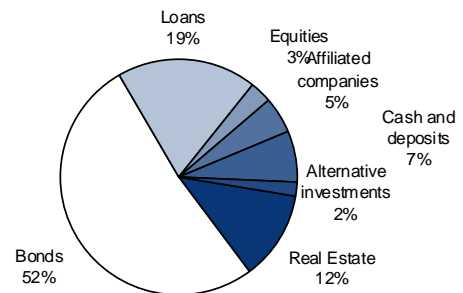
Geographical premium split (FY08)



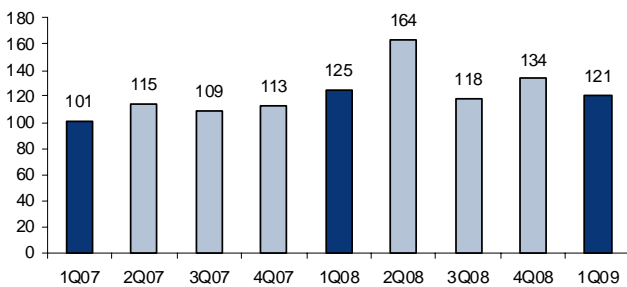
Net investment income (EURmn)



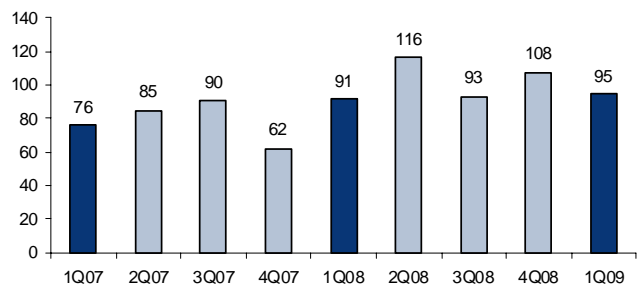
Investment allocation (FY08)



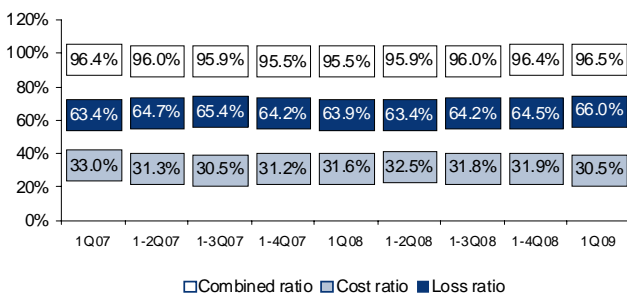
EBT (EURmn)



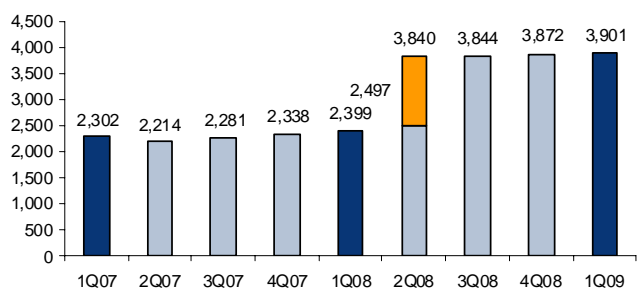
Net result (EURmn)



Combined ratio

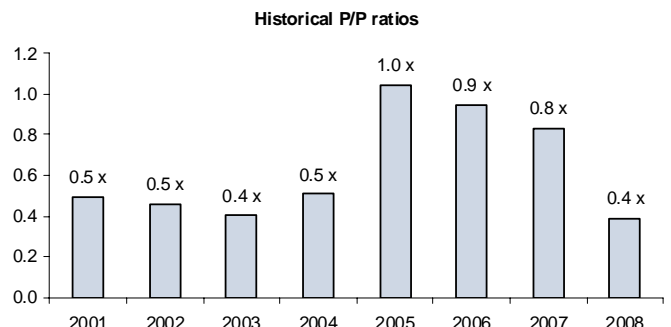
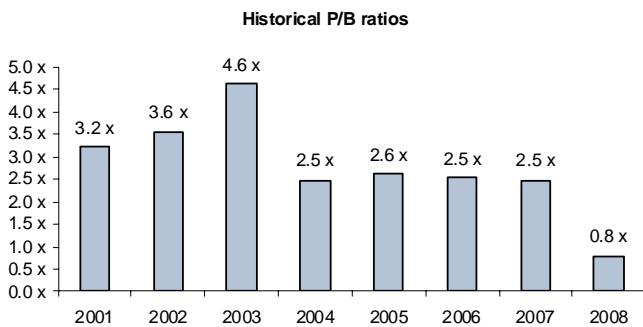
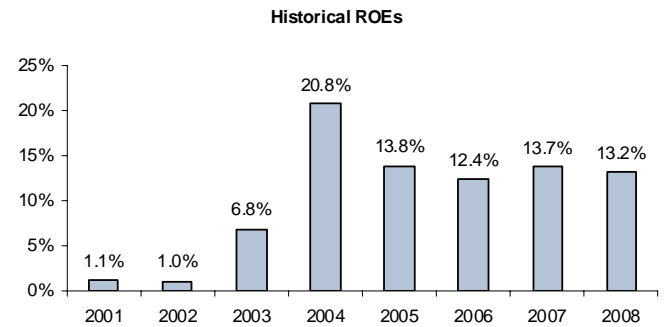
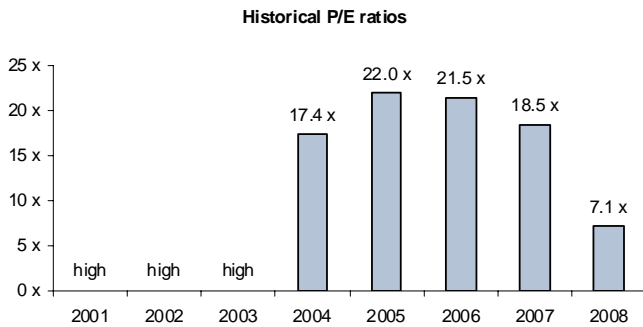
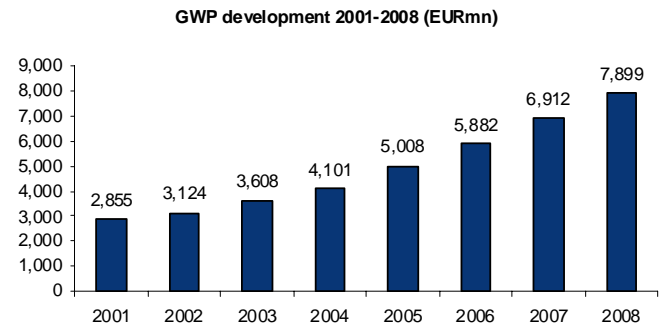
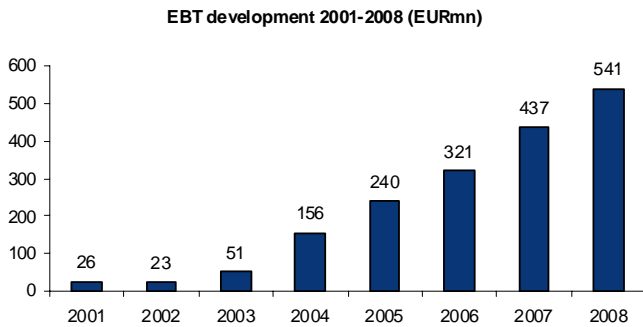
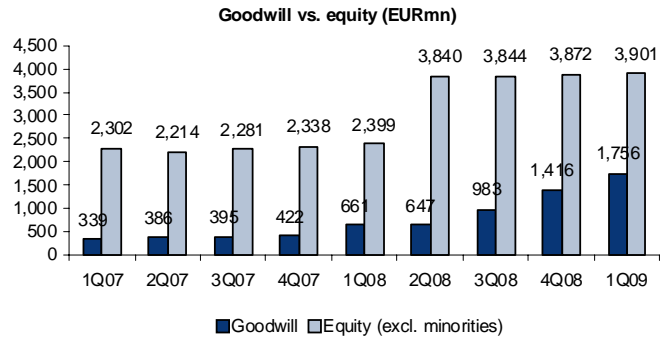
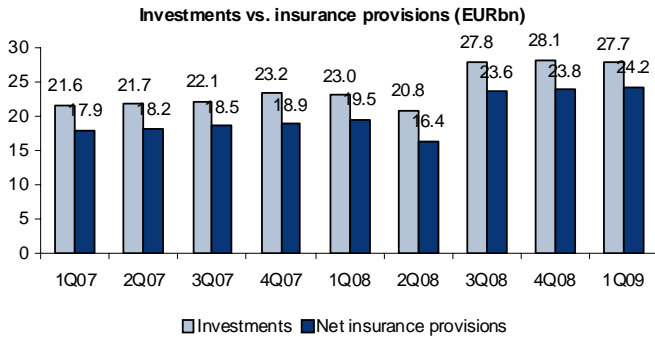


Shareholders' equity (EURmn)



Sector Report – INSURANCE

Key figures overview: Vienna Insurance Group (II)



Source: Company data, FactSet, Erste Group calculations

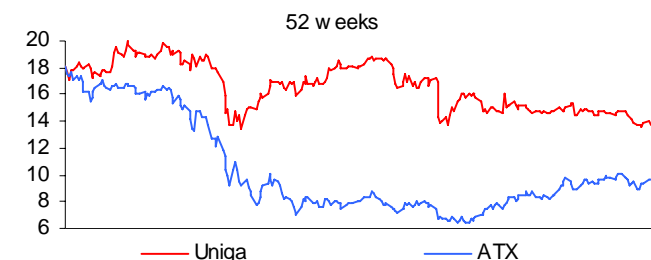
Sector Report – INSURANCE

Company Report – Insurance – Austria – July 2, 2009

Uniqa from Reduce to Hold

Christoph Schultes, CIIA +43 (0)5 0100 - 16314 christoph.schultes@erstegroup.com

EUR mn	2008	2009e	2010e	2011e
Premium income	5,002.4	5,258.0	5,472.0	5,742.7
Investment income	227.6	554.4	702.0	812.6
EBT	90.2	203.3	260.9	295.5
Net result after min.	53.3	132.0	165.6	190.0
EPS (EUR)	0.44	1.01	1.27	1.45
BVPS (EUR)	9.66	10.73	11.83	13.39
EV/share (EUR)	14.19			
Div./share (EUR)	0.40	0.61	0.37	0.42
ROE	4.1%	9.9%	11.2%	11.5%
P/E (x)	40.9	13.6	10.8	9.5
P/BV (x)	1.9	1.3	1.2	1.0
Dividend Yield	2.2%	4.4%	2.7%	3.1%



Performance	12M	6M	3M	1M
in EUR	-24.1%	-24.0%	-14.2%	-6.6%

Share price (EUR)	13.73	Reuters	UNIQ.VI	Free float	13.0%
Number of shares (mn)	119.8	Bloomberg	UQA AV	Shareholders	Austria VVBV (35.2%)
Market capitalization (EUR mn)	1,644.5	Div. Ex-date	02/06/08		BL Syndikat BG (32.45%)
Enterprise value (EUR mn)		Target price	14.0	Homepage:	www.uniqagroup.com

Much too early to step in

- We derive a new target price of EUR 14.0, which only slightly differs from our previous one (EUR 14.9). Due to the fact that UNIQA's share price has significantly dropped since our last update, we upgrade our recommendation to Hold (from Reduce).
- We reduce our EPS estimates for 2009 and 2010 from EUR 1.42 to EUR 1.01 and from EUR 2.13 to EUR 1.27, respectively. For 2011, we calculate EPS in the amount of EUR 1.45.
- A peer group comparison confirms our neutral stance on the share. While many other insurance stocks look quite attractive at the moment, UNIQA's stock (with the highest P/E ratios, relatively high P/B multiples, but rather low ROEs) does not.
- UNIQA's 1Q09 figures were mixed. On the positive side, the company was able to present growing premium income (+1.4% y/y). The pre-tax profit (-27.4%), however, was rather disappointing. The net result was supported by the positive contribution of the minorities and thus better than expected.
- UNIQA also presented its Embedded Value for 2008, which amounted to EUR 1,857mn, or EUR 14.2 per share. This means that UNIQA is currently traded at its Embedded Value.
- Our assumptions for FY09 include an increasing top line, whereas the first-time consolidation of Romania's UNITA should compensate for declining premiums related to unit- and index-linked products. We also expect UNIQA to present a stronger financial result, which should also lead to an improved bottom line. However, we do not expect UNIQA to reach the levels of the year 2007 in the near future.

Sector Report – INSURANCE

1Q09 earnings discussion

Sound development of top line...

UNIQA presented 1Q09 figures that were mixed. Gross written premiums (including the savings portion from the premiums of unit-linked and index-linked life insurance) increased by 1.4% to EUR 1,655mn, although the growth was negatively impacted by the development of currencies in CEE (particularly in Poland, Romania and Hungary). Based on local currencies, premium growth was 3.6%. With an increase of 4.1% (to EUR 1,442mn) in recurring premiums, UNIQA was able to compensate for the significant drop of 14.0% in single premiums (to EUR 213mn).

...mainly due to strong P&C business

Segment-wise, property and casualty insurance reported growth of 4.2% to EUR 797mn in the first quarter, due mainly to the first-time consolidation of UNITA, which significantly strengthened the CEE business (+18.7% to EUR 188mn). Gross written premiums in the health insurance segment came in strong at EUR 257mn (+4.8% y/y), supported by the solid development of international business, which grew by 9.1% (to EUR 58mn). However, life insurance business declined by 3.4% to EUR 602mn, as a result of the sharply falling single premiums (while recurring premiums even improved in this difficult business environment).

Key figures overview

(EUR mn)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
Gross premiums written	1,319	1,071	1,044	1,094	1,405	1,177	1,205	1,215	1,488
- thereof property & casualty	721	492	501	486	765	540	564	569	803
- thereof life	359	359	317	387	396	408	410	439	434
- thereof health	239	222	226	221	245	231	238	234	257
Total premium written	1,440	1,279	1,214	1,343	1,633	1,370	1,426	1,396	1,655
- thereof recurring premiums	1,329	1,084	1,070	1,119	1,385	1,208	1,050	1,269	1,442
- thereof single premiums	111	195	144	223	248	162	376	127	213
- thereof unit- and index linked life	121	209	170	249	227	193	222	181	168
EBT	63	72	145	60	42	68	-6	-14	31
- thereof property & casualty	42	24	122	45	77	10	-3	14	25
- thereof life	21	21	-36	1	-44	54	-36	2	-15
- thereof health	2	23	57	20	10	0	34	-24	22

Source: UNIQA

Austria and CEE still growing

Region-wise, Austria contributed EUR 1,078mn to the group's overall premium income, which translates into growth of 1.2% y/y. The CEE countries were able to increase their premium income by 3.5% to EUR 298mn. Adjusted for the negative currency effects, premium growth amounted to 16.4%, mainly as a result of the first-time consolidation of UNITA, which contributed premium volume of some EUR 33mn in 1Q. The Western European premium volume came in at EUR 280mn, thus a touch below last year's EUR 281mn.

Combined ratio increased to 98%

The combined ratio stood at 98.0%, after the outstanding combined ratio seen in 1Q08 (which was likely influenced by the rather low building of technical reserves). Both the cost ratio (33.8%, after 30.5% in 1Q09) and the loss ratio (64.2%, after 59.5%) increased significantly and therefore came back to the reasonable level seen in the years before.

Rising investment income

Investment income rose by 86.2% to EUR 146mn, the highest level since 4Q07. The investment portfolio of UNIQA (including investments of unit-linked and index-linked products) amounted to EUR 21,353mn, slightly lower than in the previous year (EUR 21,647mn).

EBT disappointing

Earnings before tax declined by 27.4% to EUR 31mn, which was attributable to higher insurance benefits, increased operating expenses (partly due to the first-time consolidation of UNITA) and higher other expenses. Due to the unusual contributions of the minorities (losses of UNIQA Personenversicherung) to the group's net result, which compensated for the higher effective tax rate (due to minimum tax payments in the life insurance segment), the net result surprisingly doubled to EUR 28mn.

Sector Report – INSURANCE

Investment income - overview

(EUR mn)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
Properties held as financial investments	6	4	6	-21	23	2	8	20	7
Shares in associated companies	18	15	153	117	51	46	34	12	7
Variable-yield securities	109	135	-43	86	-101	-19	-73	-188	-18
Available for sale	88	112	-39	63	-83	-26	-52	-109	-32
Reported in the income statement	21	23	-4	24	-18	7	-21	-79	14
Fixed interest securities	92	60	64	11	-7	64	143	23	143
Held to maturity	0	0	0	0	0	0	2	7	7
Available for sale	86	56	67	10	6	58	144	32	137
Reported in the income statement	6	3	-2	1	-13	6	-3	-17	-1
Loans and other investments	10	9	20	11	29	42	20	91	61
Loans	10	9	7	10	10	12	1	41	35
Other investments	1	-1	14	1	19	30	19	51	26
Derivative financial instruments	12	6	91	49	86	-13	-69	21	-50
Expenditure for asset management, interest expenditure and other	-14	-7	0	-6	-2	-7	-2	-7	-4
Total	233	222	292	246	79	116	60	-27	146
- Ordinary income	163	178	202	184	186	195	199	291	186
- Write-ups and unrealised gains	50	68	307	88	88	56	135	122	88
- Realised capital gains	128	114	115	228	191	29	-10	149	191
- Write-offs and unrealised capital gains	-99	-122	-242	-221	-284	-117	-243	-491	-284
- Realised capital losses	-9	-14	-93	-32	-101	-49	-21	-96	-101

Source: UNIQA

Embedded Value at EUR 14.2 per share

EmbV at EUR 14.2 per share

UNIQA also presented its Embedded Value for 2008, which amounted to EUR 1,857mn (after the restated EUR 2,391mn for the previous year). Thus, the Embedded Value per share was EUR 14.2, meaning that UNIQA's share is currently traded at approximately its Embedded Value. The adjusted net asset value came in at EUR 1,642mn (after the restated EUR 1,950mn for 2007). The net asset value per share amounted to EUR 12.9.

No outlook given for 2009

Still high uncertainty

Management said that it sees narrowing bond spreads and rising equity markets, which are first signs of an overall improvement of the situation. However, due to the continued high volatility and uncertainty with regards to the capital markets and the real economy, management feels that it is not possible to give any reliable forecast for fiscal year 2009. Nevertheless, the company pointed out that the development of operating costs was in line with UNIQA's profit improvement program.

Increased stake in STRABAG SE

21.9% stake in STRABAG

UNIQA had a stake of 13.7% in STRABAG SE at the beginning of this year and acquired another 8.2% after the exit of Deripaska's Rasperia. Thus, the company now has a 21.9% stake in STRABAG SE. UNIQA is consolidating this stake at-equity, although the stock is currently traded significantly below its book value (actually at a ratio of 0.6x). In its annual report, UNIQA said that it assumed that STRABAG SE would benefit particularly well from the comprehensive stimulus package and that it expected the company to survive the current economic crisis largely unscathed. Nevertheless, UNIQA added that if that was not the case, depreciations would be required.

Sector Report – INSURANCE

New assumptions

We included the latest developments in our model. Our new assumptions are as follows:

- We think that UNIQA will be able to increase its top line (gross written premiums including the savings portion of premiums from unit- and index-linked life insurance) for fiscal year 2009 by some 1.7% to EUR 5.93bn, whereas the newly consolidated UNITA (with approximately EUR 130mn) will compensate for the declining unit- and index-linked products.
- As a consequence, gross written premiums (according to the company's P/L) will rise by some 5.1% to EUR 5.19bn. It should be mentioned that, in the case of a significant recovery of CEE currencies (especially the PLN, HUF and RON), UNIQA's top line would come in even stronger.
- We see UNIQA as able to significantly increase its net investment income to EUR 554mn, well above last year's figure (EUR 228mn), but far from the levels seen from 2005 to 2007 (between EUR 890mn and EUR 993mn). The investment income in 1Q09 of EUR 146mn can be seen as a solid base. Nevertheless, we would not exclude further write-offs on the company's investment portfolio.
- We assume a cost ratio of 32.8% for the property and casualty business for FY09, which is below the 33.8% recorded in 1Q09 (burdened by some additional costs related to the first-time consolidation of UNITA). At the presentation of the 1Q09 figures, management confirmed that operating costs are developing in line with the company's profit improvement program. We see the claims ratio at 64.0% at the end of this year (also slightly improved compared to the 64.2% presented for 1Q09).
- As a result, UNIQA should be able to improve its pre-tax profit to EUR 203mn (after EUR 90mn in 2008). We expect the net result to come in at EUR 132mn, clearly beating the bottom line of 2008 (EUR 53mn). However, we think that UNIQA is far from the record results seen in 2007 (net profit of EUR 247mn).
- For 2010 and 2011, we anticipate steadily improving results. The key issues will be the situation on the capital markets (we assume constantly improving financial results), as well as the further progress of the company's profit improvement program. However, we think that UNIQA will definitely benefit from its increased stake in the CEE region in the long run. Therefore, we estimate further increasing premium income, as well as rising net results.

New EPS estimates

EPS estimates reduced

The recent development led us to reduce our EPS estimates for 2009 and 2010 from EUR 1.42 to EUR 1.01 and from EUR 2.13 to EUR 1.27, respectively. For 2011, we calculate EPS of EUR 1.45.

Valuation

Hold, new target price EUR 14

We have changed our valuation model, which now refers to the company's profit for 2010 (instead of 2009). In addition, we changed our risk-free assumptions, as well as the risk premiums for the different regions, according to our detailed calculation (see below). We derive a new target price of EUR 14.0, which only slightly differs from our previous one (EUR 14.9). Due to the fact that UNIQA's share price has significantly dropped since our last update, we upgrade our recommendation to Hold (from Reduce).

Sector Report – INSURANCE

Valuation overview (EURmn)	Austria	Western Europe	Developed CEE/SEE	Other CEE/SEE
Risk free rate	4.1%	3.4%	6.5%	9.7%
Risk premium	4.5%	4.8%	6.0%	7.3%
Beta	1	1	1	1
Cost of equity	8.6%	8.2%	12.5%	17.1%
Sustainable (nominal) growth rate	1.0%	0.5%	2.0%	4.0%
Implied P/E (x)	13.2	13.0	9.5	7.7
EBT 10e	127.9	62.6	65.2	5.2
Tax rate	25.0%	25.3%	19.4%	15.5%
Profit after tax	95.9	46.8	52.6	4.4
Equity value as of 2010	1,261.6	610.3	499.6	33.8
				2,405.3
- Minorities (8.0%)				192.4
Equity value after minorities as of 2010				2,212.9
Equity value per share as of Dec. 31, 2010 (EUR)				16.9
Average cost of equity				9.6%
Equity value per share as of June, 2009 (EUR)				16.2
Liquidity discount (10%)				-1.6
Target price				14.5

Source: Erste Group estimates

	Weighting	S&P rating	Risk prem.	Risk free rate	Tax rate
Austria	-	AAA	4.50	4.3	25%
Germany	30%	AAA	4.50	3.5	30%
Switzerland	40%	AAA	4.50	2.4	20%
Italy	30%	A+	5.50	4.6	28%
Western Europe			4.80	3.4	25%
Czech Republic	15%	A	5.75	5.8	21%
Slovakia	7%	A+	5.50	4.9	19%
Hungary	12%	BBB-	6.75	10.1	20%
Poland	66%	A-	6.00	6.2	19%
Developed CEE/SEE			6.02	6.5	19%
Bulgaria	16%	BBB	6.50	7.6	10%
Romania	55%	BB+	7.15	9.7	16%
Croatia	6%	BBB	6.50	6.2	20%
Serbia	7%	BB-	7.95	5.9	10%
Others	16%	B	8.75	15.0	20%
Other CEE/SEE			7.32	9.7	16%

Source: Reuters, Bloomberg, Erste Group estimates

Peer group comparison

Neutral stance confirmed

The peer group comparison clearly shows that UNIQA is currently rather expensive compared to its peer group. While many other stocks look really attractive at the moment, UNIQA does not. UNIQA has the highest P/E multiples. Its P/B ratios are above the median of its peer group, while the ROEs are well below. UNIQA's current multiples confirm our neutral stance on the share. There is no reason to step in to the stock at the moment.

Sector Report – INSURANCE

	P/E			P/B			ROE		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Allianz	7.5x	5.9x	5.4x	0.8x	0.7x	0.7x	10.2%	12.6%	12.5%
AXA	8.4x	6.4x	5.8x	0.7x	0.7x	0.6x	9.0%	11.0%	10.9%
Generali	12.4x	9.5x	8.3x	1.6x	1.5x	1.3x	12.9%	14.7%	15.1%
Mapfre	7.4x	7.4x	7.3x	1.2x	1.1x	1.1x	16.2%	15.3%	14.5%
Sampo	8.7x	10.6x	10.9x	1.3x	1.2x	1.1x	14.5%	10.9%	9.9%
VIG	10.2x	8.6x	7.0x	1.1x	1.0x	0.9x	10.5%	11.9%	13.4%
Peer group	8.6x	8.0x	7.1x	1.1x	1.1x	1.0x	11.7%	12.2%	13.0%
UNIQA	13.6x	10.8x	9.5x	1.3x	1.2x	1.0x	9.9%	11.2%	11.5%

Source: FactSet, Erste Group estimates

Sector Report – INSURANCE

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IFRS, EUR mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Gross premiums written	4,532.14	4,527.89	5,002.36	5,258.00	5,471.98	5,742.73
Net premiums earned	4,129.67	4,106.38	4,730.37	4,992.19	5,194.04	5,449.37
Net investment income	890.34	993.01	227.60	554.38	702.01	812.55
Other income	41.88	37.13	80.01	56.59	59.84	63.19
Total income	5,142.76	5,207.94	5,057.38	5,625.48	5,979.25	6,349.77
Claims expenses and benefits paid	-2,629.28	-3,237.18	-3,441.81	-3,469.36	-3,557.14	-3,727.79
Changes in technical reserves	-1,086.12	-345.50	-136.76	-501.35	-705.07	-807.48
Acquisition and administrative expenses	-1,047.81	-1,127.10	-1,256.81	-1,287.89	-1,287.91	-1,344.89
Other expenses	-107.02	-86.57	-99.42	-110.95	-115.52	-121.42
Total expenses	-4,878.91	-4,829.79	-4,928.37	-5,379.56	-5,675.66	-6,011.59
Operating profit	263.85	378.15	129.00	245.92	303.59	338.18
Income taxes	-63.42	-71.26	-23.47	-50.82	-65.23	-73.88
Net profit for the period	175.06	268.99	66.75	152.45	195.70	221.65
Minority interests	-23.17	-21.89	-13.44	-20.43	-30.11	-31.64
Net result after minorities	151.90	247.10	53.31	132.02	165.60	190.00
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IFRS, EUR mn, 31/12)						
Intangible assets	1,163.66	1,206.19	1,407.40	1,414.43	1,421.51	1,428.61
Investments	18,596.29	18,339.91	17,628.08	18,622.78	19,897.12	21,316.61
Unit-linked investments	1,952.90	2,470.34	2,642.46	3,416.85	4,338.75	5,375.71
Reinsurers' share in technical provisions	740.95	771.67	760.97	794.59	842.24	897.88
Receivables	708.23	806.38	932.32	946.44	957.60	976.26
Liquid funds	263.16	647.13	567.85	943.87	983.39	1,040.83
Deferred tax assets	85.00	77.06	69.10	101.63	57.41	65.02
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS	24,587.13	25,588.66	25,630.09	28,075.38	30,499.45	33,341.60
Shareholders' equity	1,122.49	1,336.38	1,264.67	1,403.78	1,548.67	1,752.33
Minorities	207.30	195.84	194.11	208.41	229.48	251.63
Subordinated liabilities	475.00	575.00	580.54	580.50	580.50	580.50
Other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Technical provisions (net)	18,199.48	18,264.88	18,420.59	19,380.19	20,542.35	21,899.46
Unit-linked technical provisions	1,911.52	2,412.94	2,580.00	3,895.18	4,946.14	6,128.26
Other provisions	722.32	703.81	644.40	665.66	687.63	710.32
LT liabilities	1,110.11	1,172.38	1,121.89	970.51	1,033.37	1,083.64
Current liabilities	772.17	885.82	766.61	900.00	900.00	900.00
Deferred tax liabilities	66.75	41.62	57.29	71.14	31.31	35.46
TOTAL LIAB., EQUITY	24,587.13	25,588.66	25,630.09	28,075.38	30,499.45	33,341.60

Source: Company data, Erste Group estimates

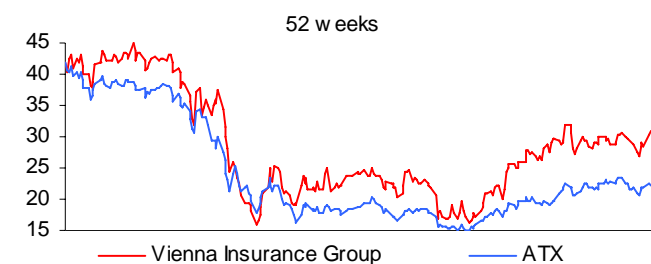
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Company Report – Insurance – Austria – July 2, 2009

Vienna Insurance Group Buy

Christoph Schultes, CIAA +43 (0)5 0100 - 16314 christoph.schultes@erstegroup.com

EUR mn	2008	2009e	2010e	2011e
Premium income	7,898.9	8,003.3	8,929.6	9,617.7
Investment income	913.9	821.6	967.9	1,154.4
EBT	540.8	507.7	600.7	738.8
Net result after min.	408.5	387.9	461.3	567.4
EPS (EUR)	3.41	3.03	3.60	4.43
BVPS (EUR)	28.33	29.20	31.51	34.44
EV/share (EUR)	32.52			
Div./share (EUR)	2.00	1.30	1.50	1.80
ROE	13.7%	10.5%	11.9%	13.4%
P/E (x)	7.1	10.2	8.6	7.0
P/BV (x)	0.9	1.1	1.0	0.9
Dividend Yield	8.3%	4.2%	4.8%	5.8%



Performance	12M	6M	3M	1M
in EUR	-26.1%	28.4%	43.2%	3.3%

Share price (EUR)	30.98	Reuters	VIGR.VI	Free float	29.0%
Number of shares (mn)	128.0	Bloomberg	VIG AV	Shareholders	WSWV (71.0%)
Market capitalization (EUR mn)	3,965.4	Div. Ex-date	04/05/09		
Enterprise value (EUR mn)		Target price	44.0	Homepage:	www.vig.com

Strong share price recovery, but still a Buy

- We reiterate our Buy recommendation and target price of EUR 44.0. We slightly increase our EPS estimates for 2009-11 to EUR 3.03, EUR 3.60 and EUR 4.43, respectively (from EUR 2.96, EUR 3.56 and EUR 4.39, respectively).
- A peer group comparison confirms our positive stance on VIG's shares. As far as P/B multiples are concerned, VIG is still cheaper than its peers. With respect to ROE multiples we see VIG's ratios to exceed those of its peers from 2010 on. VIG is currently traded at a price/embedded value multiple of 0.9x, which is also attractive.
- With its 1Q09 results, VIG announced its solvency ratio at >180%, which is higher than the figures of VIG's competitors (Allianz: 159%, AXA: 127%, Generali [YE08]: 123%). Management also said that the current war chest exceeds EUR 1bn.
- We assume that VIG will continue to suffer from the weak CEE currencies, particularly the FX development in the important markets of the Czech Republic, Poland and Romania. Therefore, we do not expect significant growth in premium income for FY09. For 2010, however, we assume an improved situation.
- Nevertheless, we do not think that this has a significant impact on the company's bottom line, since VIG partially hedges its net income from CEE subsidiaries. For the net result, the future development of the capital markets is critical. Improving equity markets and narrowing bond spreads should have a positive impact on insurance companies' P/L and therefore could lead to a positive surprise.
- The 1Q09 figures clearly showed that VIG is able to present sound figures even in a very difficult business environment. The positive highlight was VIG's bottom line, which increased by 3.7% y/y.

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1Q09 earnings discussion

- Sound start to 2009** VIG presented a sound start to fiscal year 2009. Gross written premiums increased by 1.5% to EUR 2.35bn, whereas strong growth rates based on local currencies were partly eaten up by negative FX effects. Net earned premiums came in at EUR 1.80bn, up 3.5% compared to the corresponding period of last year.
- Weaker P&C business** Segment-wise, the property and casualty business was down 0.7% to EUR 1.37bn. The positive development of the Austrian market (recording remarkable growth of 2.0%) and Germany (+4.6%) could not compensate for the losses of the CEE markets, which were heavily burdened by the negative depreciation of CEE currencies and thus reported a decline of 3.1%.
- Life insurance growing 5%** The life insurance business grew by 5.0% to EUR 0.89bn. Supported by the first-time consolidation of the former Erste Group insurance business, Austria presented premium growth of 2.7%, while the CEE region was able to increase premium volume by 24.0%. Thus, the CEE region contributed 36.1% to the group's life insurance premium income. The health insurance segment reported a premium increase of 2.7% to EUR 84mn.
- CEE growth hit by weaker currencies** Region-wise, VIG presented very mixed results. Austria's premium income was up 2.4% to EUR 1.24bn. The Czech Republic (EUR 405mn) and Slovakia (EUR 186mn) also benefited from the first-time consolidation of s Versicherung and therefore showed strong growth rates of 12.5% and 15.4%, respectively. On the other side, Poland and Romania were hit by the currency losses, which turned the positive development of local currencies into a negative. Poland's premium income of EUR 143mn was down 17.8%, while Romania's premium income of EUR 168mn dropped by 17%. Other countries registered strong growth rates, such as Hungary (+48.7%), Croatia (+17.7%) and Bulgaria (+55.2%, mainly due to consolidation effects).

Gross written premium development

Total GWP (EURmn)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	y/y
Austria	1,196.3	761.4	779.0	958.7	1,215.8	904.6	839.0	796.3	1,244.6	2.4%
Czech Republic	312.6	264.5	265.2	288.2	359.7	331.3	315.7	413.0	404.5	12.5%
Slovakia	141.3	102.5	119.0	131.7	161.3	136.2	125.3	182.8	186.2	15.4%
Poland	121.4	126.2	143.1	152.4	174.0	219.9	215.2	186.0	143.1	-17.8%
Romania	106.2	86.1	109.4	111.8	200.9	159.6	134.3	113.4	167.8	-16.5%
Hungary	22.9	23.3	24.5	26.0	29.8	23.9	25.3	36.2	44.3	48.7%
Croatia	21.4	20.6	19.6	22.1	23.1	23.2	21.8	28.9	27.2	17.7%
Serbia	8.2	13.5	11.2	12.4	12.3	13.9	13.8	13.6	11.2	-8.9%
Bulgaria	17.4	20.5	19.2	26.3	30.8	23.4	20.9	29.4	47.8	55.2%
Ukraine				26.0	9.6		12.5	9.2	5.3	-44.8%
Turkey				48.7	18.7		20.6	25.0	16.7	-10.7%
Baltics									4.7	
Liechtenstein	39.1	27.7	19.7	42.7	42.7	7.9	28.1	13.3	8.2	-80.8%
Germany	31.4	28.6	28.7	33.2	32.6	29.5	30.2	33.8	33.8	3.7%
	2,018.4	1,474.7	1,538.7	1,880.1	2,311.2	1,903.9	1,802.7	1,881.1	2,345.4	1.5%

Source: Vienna Insurance Group

- Increased bottom line** The combined ratio came in at 96.4%, unchanged compared to the fourth quarter of last year, but slightly higher (0.9 percentage points) than the corresponding figure for the previous year. VIG's investment income rose by 35.6% to EUR 238mn, due mainly to higher current income from the consolidation of s Versicherung (because of a higher asset base). Pre-tax profit came in at EUR 120.8mn and was therefore a touch below last year's EUR 124.9mn. A favorable development of the tax rate and lower minorities (due to the deconsolidation of BA-CA Versicherung) resulted in an increased bottom line (+3.7% to EUR 94.8%).

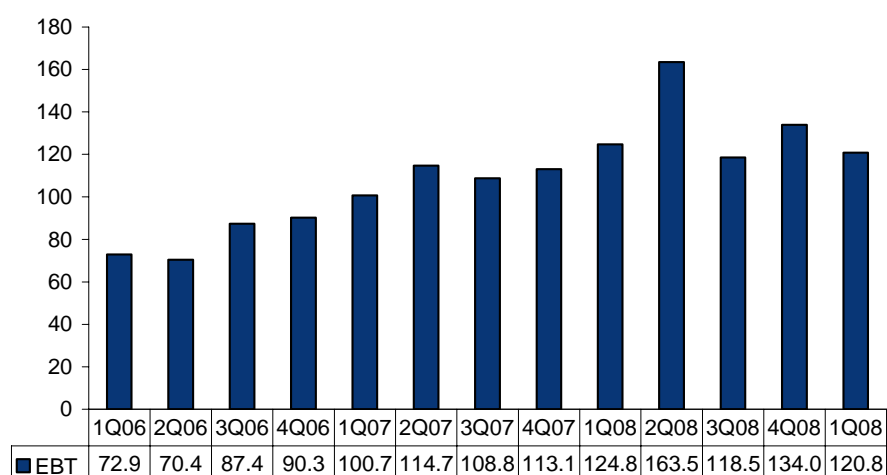
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Net investment income

EURmn	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
Current income	198.7	220.5	223.2	355.8	253.3	277.9	334.4	409.9	321.0
Income from write-ups	15.5	10.4	7.5	5.2	17.1	-5.0	14.2	27.2	31.0
Income from the disposal of investments	54.0	206.7	43.2	99.2	76.7	413.6	137.4	235.9	148.6
Other income									
Total income	268.2	437.6	273.8	460.2	347.1	686.6	486.0	673.0	512.3
Depreciation of investments	-24.7	-28.2	-29.3	-42.9	-59.0	-45.7	-72.2	-61.1	-72.1
Impairment of investments	-0.2	-0.9	-7.1	-22.8	-20.0	-27.3	-79.0	-237.4	-70.5
Exchange rate	0.0	-1.5	-0.8	1.0	1.1	-4.1	-2.8	17.6	13.5
Losses from the disposal of investments	-3.8	-24.2	-13.8	-29.3	-60.1	-100.6	-81.1	-188.4	-94.5
Interest expenses	-17.4	-23.5	-16.7	-64.1	-25.6	-28.2	-27.1	-57.1	-27.2
Other expenses	-17.7	-10.5	-16.3	-49.5	-24.5	-21.0	-36.3	-34.7	-23.4
Total expenses	-63.8	-88.8	-83.9	-207.6	-188.0	-227.0	-298.5	-561.1	-274.2
Net investment income	204.4	348.8	189.9	252.7	159.1	459.6	187.5	111.9	238.2

Source: Vienna Insurance Group

Pre-tax profit development



Source: Vienna Insurance Group

Outstanding solvency ratio at >180%

VIG was again able to increase its shareholders' equity, which now amounts to EUR 4.18bn. The company announced (for the first time) its solvency ratio, which amounts to >180%, higher than those of VIG's competitors (Allianz: 159%, AXA: 127%, Generali [YE08]: 123%). Management said that the current war chest exceeds EUR 1bn.

No guidance given

Outlook not possible

However, due to the persistently shaky situation on the capital markets and the uncertainty regarding future developments, the company is not able to define any targets for 2009 or give any outlook in the medium term. Nevertheless, VIG still expects premium growth, despite any adverse currency effects. Furthermore, the company underlined its intention to keep its combined ratio well below 100% throughout the business cycle.

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Outlook for 2Q09 and FY09

**2Q09
expected to
be difficult**

We assume that VIG will continue to suffer from the weak CEE currencies, especially from the FX development in the important markets of the Czech Republic, Poland and Romania. The first quarter already showed that the adverse FX movements turned the premium income growth in Poland and Romania into a negative. This is likely to hold true for the second quarter. Comparing the average FX rates in 2Q, we can see that the situation has not improved compared to 1Q. We therefore estimate that premium income in 2Q will not increase compared to the corresponding figure for last year. In the third quarter, the situation should even deteriorate with respect to the FX issue. According to our estimates, the situation in the FX markets will improve in 4Q. In 2010, VIG should benefit from then-appreciating CEE currencies.

FX developments of important CEE markets

	1Q08	1Q09	y/y	2Q08	2Q09*	y/y
CZK	25.6	27.6	-7.8%	24.9	26.7	-7.4%
PLN	3.57	4.49	-25.8%	3.41	4.43	-30.0%
RON	3.68	4.26	-15.6%	3.65	4.19	-14.8%

	3Q08	3Q09e	y/y	4Q08	4Q09e	y/y
CZK	24.1	26.3	-9.1%	25.4	25.7	-1.1%
PLN	3.30	4.46	-35.2%	3.78	4.38	-15.9%
RON	3.57	4.24	-18.8%	3.81	4.30	-12.9%

* Average April 1 - June 18, 2009

Source: Reuters, Erste Group estimates

New assumptions

- Based on our FX assumptions, we significantly reduced our top line estimate to EUR 8.00bn for 2009 (instead of EUR 8.42bn). However, we do not think that this has a significant impact on the company's bottom line, since VIG partially hedges its net income from its CEE subsidiaries.
- We still see VIG's pre-tax result for FY09 at slightly above EUR 0.5bn. However, the first quarter results showed that we had overestimated VIG's minorities. The deconsolidation of BA-CA Versicherung last year significantly reduced the stake of minorities in the group's net profit. We have now lowered our estimates for the minorities, leading to slightly stronger bottom lines.
- For the coming year, we expect a recovery of the CEE currencies, which should support VIG's premium growth. Our estimates include EUR/CZK, EUR/PLN and EUR/RON rates of 24.6, 3.90 and 4.00, respectively, as of the end of June 2010. We therefore assume strong top line growth of almost 12% in 2010. The company's profit should also improve. However, our new estimates are only the result of fine-tuning.

New estimates

**EPS
estimates
slightly
increased**

Our new assumptions lead to slightly increased EPS estimates. For 2009, we expect EPS of EUR 3.03 (instead of EUR 2.96). For 2010 and 2011, we calculate EUR 3.60 and EUR 4.43, respectively (instead of EUR 3.56 and EUR 4.39, respectively). We maintain our dividend estimates of EUR 1.30, EUR 1.50 and EUR 1.80, respectively, for our period under consideration 2009-11.

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Valuation

Buy recommendation and target price confirmed

Our valuation still refers to the company's profit for 2010. We adjusted our risk-free rate assumptions and risk premiums according to the developments on the local markets. We derive an equity value of EUR 38.2 per share, which alone would justify a Buy recommendation. As in our last reports, we add back the funds that were raised through the last capital increase in 2008 in the amount of EUR 0.75bn, or EUR 5.9 per share. We calculate a target price of EUR 44 and therefore maintain our Buy recommendation.

Valuation overview (EURmn)	Austria	Western Europe	Developed CEE/SEE	Other CEE/SEE
Risk free rate	4.3%	3.0%	5.9%	9.5%
Risk premium	4.5%	4.5%	5.8%	7.2%
Beta	1	1	1	1
Cost of equity	8.8%	7.5%	11.7%	16.8%
Sustainable (nominal) growth rate	1.0%	0.5%	2.0%	4.0%
Implied P/E (x)	12.8	14.2	10.3	7.8
EBT 10e	346.7	14.2	197.5	32.2
Tax rate	25.0%	25.8%	20.0%	15.9%
Profit after tax	260.0	10.5	158.0	27.1
Equity value as of 2010	3,333.8	149.8	1,630.0	212.0
				5,325.5
- Minorities (4.0%)				213.0
Equity value after minorities as of 2010				5,112.5
Equity value per share as of Dec. 31, 2010 (EUR)				39.9
Average cost of equity				9.6%
Equity value per share as of June, 2010 (EUR)				38.2
Adding back funds for further acquisitions due to last year's capital increase (EUR 0.75bn)				5.9
Target price as of June, 2010 (EUR)				44.0

Source: Erste Group estimates

	Weighting	S&P rating	Risk prem.	Risk free rate	Tax rate
Austria	-	AAA	4.50	4.3	25%
Germany	58%	AAA	4.50	3.5	30%
Liechtenstein	42%	AAA	4.50	2.4	20%
Western Europe			4.50	3.0	26%
Czech Republic	49%	A	5.75	5.8	21%
Slovakia	21%	A+	5.50	4.9	19%
Hungary	4%	BBB-	6.75	10.1	20%
Poland	25%	A-	6.00	6.2	19%
Developed CEE/SEE			5.80	5.9	20%
Bulgaria	13%	BBB	6.50	7.6	10%
Romania	58%	BB+	7.15	9.7	16%
Croatia	11%	BBB	6.50	6.2	20%
Serbia	5%	BB-	7.95	5.9	10%
Other CEE/SEE	13%	B	8.75	15.0	20%
Other CEE/SEE			7.24	9.5	16%

Source: Reuters, Bloomberg, Erste Group estimates

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Peer group comparison

Attractive multiples

VIG's PE ratio for 2009 is actually slightly higher than that of its peer group. However, from 2011 on, VIG's PE ratios will become more attractive. The P/B multiples (2009e-2011e) are currently below those of its peers and therefore underline the attractiveness of VIG stock. The ROEs are expected to exceed those of its peers from 2010 on. All in all, VIG's multiples confirm our positive stance on the stock.

Valuation comparison

	P/E			P/B			ROE		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Allianz	7.5x	5.9x	5.4x	0.8x	0.7x	0.7x	10.2%	12.6%	12.5%
AXA	8.4x	6.4x	5.8x	0.7x	0.7x	0.6x	9.0%	11.0%	10.9%
Generali	12.4x	9.5x	8.3x	1.6x	1.5x	1.3x	12.9%	14.7%	15.1%
Mapfre	7.4x	7.4x	7.3x	1.2x	1.1x	1.1x	16.2%	15.3%	14.5%
Sampo	8.7x	10.6x	10.9x	1.3x	1.2x	1.1x	14.5%	10.9%	9.9%
UNIQA	13.6x	10.8x	9.5x	1.3x	1.2x	1.0x	9.9%	11.2%	11.5%
Peer group	8.6x	8.4x	7.8x	1.2x	1.1x	1.0x	11.5%	11.9%	12.0%
VIG	10.2x	8.6x	7.0x	1.1x	1.0x	0.9x	10.5%	11.9%	13.4%

Source: FactSet, Erste Group estimates

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Income Statement	2006	2007	2008	2009e	2010e	2011e
(IFRS, EUR mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Gross premiums written	5,881.51	6,911.93	7,898.87	8,003.29	8,929.62	9,617.71
Net premiums earned	5,038.68	5,941.69	6,961.61	7,174.73	8,093.04	8,811.07
Net investment income	711.45	995.77	913.93	821.56	967.91	1,154.40
Other income	61.41	51.96	127.46	112.44	120.40	132.32
Total income	5,811.54	6,989.43	8,002.99	8,108.73	9,181.35	10,097.79
Claims expenses and benefits paid	-2,561.59	-3,162.60	-4,233.77	-4,412.62	-4,178.04	-4,540.43
Changes in technical reserves	-1,651.73	-1,868.91	-1,373.59	-1,487.60	-2,411.56	-2,564.81
Acquisition and administrative expenses	-1,136.40	-1,345.11	-1,562.12	-1,444.65	-1,694.00	-1,919.24
Other expenses	-145.85	-182.38	-296.92	-256.20	-297.04	-333.51
Total expenses	-5,490.57	-6,552.13	-7,462.20	-7,601.06	-8,580.64	-9,358.99
Operating profit	320.97	437.30	540.80	507.67	600.70	738.80
Income taxes	-56.65	-88.43	-98.45	-101.53	-120.14	-147.76
Net profit for the period	264.32	348.87	442.34	406.14	480.56	591.04
Minority interests	-3.42	-36.25	-33.81	-18.28	-19.22	-23.64
Net result after minorities	260.90	312.62	408.53	387.86	461.34	567.40
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IFRS, EUR mn, 31/12)						
Intangible assets	461.45	524.51	1,648.94	1,814.03	1,787.03	1,760.03
Investments	17,260.37	20,171.39	24,547.57	25,853.54	27,172.79	28,581.90
Unit-linked investments	2,340.58	3,065.99	3,602.40	3,784.02	4,876.32	6,033.03
Reinsurers' share in technical provisions	963.31	1,186.66	1,222.26	1,559.91	1,717.33	1,851.72
Receivables	983.70	1,200.28	1,500.07	1,559.91	1,717.33	1,851.72
Liquid funds	226.44	277.70	619.33	1,068.32	1,582.03	2,201.77
Deferred tax assets	23.54	33.86	131.17	132.90	148.29	159.71
Other assets	224.06	284.69	393.39	398.59	444.72	478.99
TOTAL ASSETS	22,483.45	26,745.07	33,665.12	36,171.23	39,445.85	42,918.87
Shareholders' equity	2,212.41	2,338.11	3,626.27	3,738.13	4,033.07	4,408.47
Minorities	70.80	277.46	266.92	295.19	324.42	358.06
Subordinated liabilities	0.00	0.00	245.60	495.60	495.60	495.60
Other reserves	413.20	442.91	501.24	501.24	501.24	501.24
Technical provisions (net)	14,628.42	17,092.13	21,682.37	23,409.28	24,916.65	26,495.35
Unit-linked technical provisions	2,238.86	2,948.52	3,346.77	3,528.39	4,620.69	5,777.40
Other provisions	758.78	668.77	599.17	782.86	815.04	848.61
LT liabilities	1,175.76	1,976.72	1,910.36	2,192.91	2,427.02	2,654.24
Current liabilities	985.23	1,000.45	1,486.42	1,227.62	1,312.12	1,379.90
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL LIAB., EQUITY	22,483.45	26,745.07	33,665.12	36,171.23	39,445.85	42,918.87

Source: Company data, Erste Group estimates

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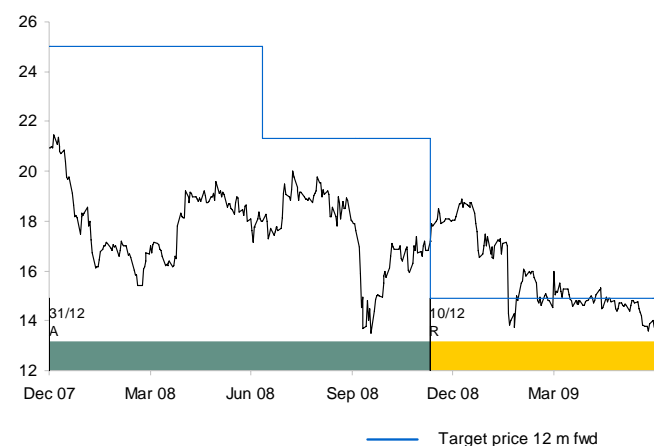
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Sector Report – INSURANCE

Uniq

Rating history



Date	Rating	Price	Target Price
10. Dec 08	Reduce	17.20	14.90
27. Jul 06	Accumulate	24.55	28.00

Company

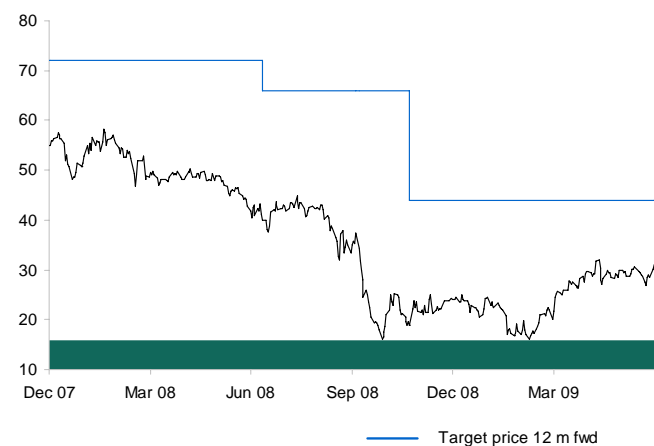
Disclosure

Uniq

2

Vienna Insurance Group

Rating history



Date	Rating	Price	Target Price
26. May 06	Buy	47.25	61.00
17. May 05	Accumulate	40.28	46.00

Company

Disclosure

Vienna Insurance Group

2, 3

Sector Report – INSURANCE

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Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	24	19.2	4	33.3
Accumulate	20	16.0	0	0.0
Hold	41	32.8	5	41.7
Reduce	23	18.4	2	16.7
Sell	9	7.2	0	0.0
N.R./UND.REV./RESTR.	8	6.4	1	8.3
Total	125	100.0	12	100.0

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