



REPORT

ON THE ANALYSIS OF FOREIGN INSURANCE BUSINESS OF AUSTRIAN INSURANCE GROUPS

Division II/4 – Team Supervision of Insurance Groups

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CONTENT

Management Summary.....	3
1. Analysis of Foreign Insurance markets	6
1.1 Impact of Macroeconomic Framework	7
1.2 Level of Maturity	8
1.3 Premium Development	11
1.4 Market Position.....	13
2 Analysis of Key Markets.....	14
2.1 Czech Republic	15
2.1.1 Insurance Market Overview	15
2.2 Poland	17
2.2.1 Insurance Market Overview	17
2.3 Slovakia.....	19
2.3.1 Insurance Market Overview	19
2.4 Romania	21
2.4.1 Insurance Market Overview	21
2.5 Hungary.....	23
2.5.1 Insurance Market Overview	23
2.6 Croatia.....	25
2.6.1 Insurance Market Overview	25
ANNEX 1: Risk Map Insurance Market and Macroeconomic Indicators	28

MANAGEMENT SUMMARY

Structure and content of the Report

Subject to this report is the foreign insurance business of Austrian insurance groups containing a cross-sectional analysis of the relevant insurance markets (Chapter 1) and a more detailed analysis of key markets (Chapter 2).

The analysis focuses on the macroeconomic framework, level of maturity and development of relevant foreign insurance markets as well as on the market position of Austrian insurance groups in these markets. The analysis is based on figures of insurance subsidiaries and related undertakings, data of branches and free provision of services are not considered.

Five Austrian Insurance Groups (i.e. Vienna Insurance Group, Uniqa Group, Grawe Group, Merkur Group and Wüstenrot Group) are active via subsidiaries or related undertakings on foreign markets. For the purpose of streamlining the analysis, the relevant countries are clustered in 4 geographical segments:

Western Europe (WE)	Central Europe (CE)	South Eastern Europe (SEE)	Eastern Europe (EE)
Germany	Czech Republic	Albania	Belarus
Liechtenstein	Estonia	Bosnia Herzegovina	Georgia
Switzerland	Hungary	Bulgaria	Moldova
	Latvia	Croatia	Russia
	Lithuania	Cyprus	Turkey
	Poland	Macedonia	Ukraine
	Slovakia	Montenegro	
		Romania	
		Serbia	
		Slovenia	

Table 1: Countries divided into clusters (Western, Central, South Eastern and Eastern Europe)

Results of cross-sectional analysis of relevant insurance markets

The scope of business of Austrian insurance groups comprised about 100 insurance companies in 26 countries, mainly in Central, Eastern and South Eastern Europe.

The accumulated premium volume (written premiums net of reinsurance ceded) generated by these groups in 2016 amounted to 13.611 Mio. Euro in total. Thereof, premiums of 5.266 Mio. Euro were generated outside Austria, this means a share of foreign business of 38,7% (2015: 41,6%).

Compared to 2015, total written premium volume generated in foreign markets decreased by 14%. This was mainly due to a substantial drop in premium volume in Western Europe resulting from the sale of the Italian subsidiaries of Uniqa Group. With a premium share of 63,8% of foreign premiums, Central Europe (CE) represents the major stake in foreign business.

With regard to macroeconomic conditions, overall, all CESEE markets saw a positive economic development in 2016. The effect of the macroeconomic development on the insurance sector approximately can be assessed by looking at the indicators Growth of Gross Written Premiums, Insurance Penetration (i.e. premiums in % of GDP) and Insurance Density (i.e. premiums per capita). Considering the CESEE region as a whole, economic growth as measured by the GDP growth goes along with a moderate growth of the insurance sector as measured by the increase in gross written premiums.

Insurance markets relevant for Austrian insurance groups differ significantly regarding size, concentration and level of maturity: regarding size, Russia, Turkey, Poland and the Czech Republic are by far the biggest markets. Referring to the level of maturity, insurance markets in Central Europe already are much more developed than insurance markets in Eastern Europe. The insurance markets of South Eastern Europe mostly are in between.

Monitoring the market premium development per geographical segment, an increase in market premium volume can be observed for all geographical segments except for Central Europe (CE):

- In Central Europe, the non-life sector saw a positive trend with motor insurance being the main growth driver. However, the life segment showed a poor dynamic and the decline in life premiums could not fully be compensated by the premium growth in non-life.
- In Western Europe a marginal increase in premiums also resulted from the non-life segment, the life insurance sector was still under pressure due to low yield and the negative effect on sales of traditional savings, pension and annuity products.
- Regarding South Eastern Europe the dominance of the non-life insurance sector has to be considered: non-life insurance contributes 75% to total gross written premium volume. An increase in premiums could be observed for both insurance segments.
- In the segment Eastern Europe it's Turkey and Russia, which are by far the biggest markets and determine premium development of the area. Both countries reported significant growth rates in life insurance as well as in non-life insurance. However, also for these countries insurance markets are dominated by the non-life insurance sector.

In some countries Austrian insurance groups have a high market share and therefore a dominant position on the local insurance market. Slovakia and the Czech Republic are the countries with the highest market shares of Austrian groups with the particularity of significant market positions in life and non-life insurance. In Eastern Europe and South Eastern Europe, Austrian insurance groups have much stronger positions on the life insurance market. This results from the fact, that life insurance markets are still smaller and Austrian insurance groups entered into it rather early. In Albania, Austrian insurance groups dominate the insurance market in both lines of business. In Western Europe, Austrian insurance groups do not play a significant role on local markets.

Analysis of Key Markets

All relevant insurance markets are categorized according to the premium share, i.e. the relation of gross written premiums generated in a market to total foreign gross written premium volume.

Dependent on the premium share, an impact rating is assigned to the markets. Markets with an impact rating of 3 or 4 (highest category) are defined as key markets. Based on the figures at the end of 2016, the following countries are identified as key markets for Austrian insurance groups:

- Czech Republic
- Poland
- Slovakia
- Romania
- Hungary
- Croatia

For these markets a more detailed analysis and risk assessment is carried out considering macroeconomic conditions, structure and development of the insurance market as well as the political, legal and regulatory framework.

1. ANALYSIS OF FOREIGN INSURANCE MARKETS

The analysis of the foreign insurance markets takes into consideration the impact of macroeconomic framework, the status of maturity and the development of the insurance markets, market characteristics and the market position of Austrian insurance groups.

At the end of 2016, five Austrian insurance groups (i.e. Vienna Insurance Group, Uniqa Group, Grawe Group, Merkur Group and Wüstenrot Group) carried out insurance business abroad via subsidiaries or related undertakings. The scope of business of these groups comprised about 100 insurance companies in 26 countries, mainly in Central, Eastern and South Eastern Europe.

The accumulated premium volume (written premiums net of reinsurance ceded, pure reinsurance undertakings not included) generated by these groups in 2016 amounted to 13.611 Mio. Euro in total. Thereof, premiums of 5.266 Mio. Euro were generated outside Austria, this means a share of foreign business of 38,7% (2015: 41,6%).

Domestic and Foreign Business of Austrian Groups (in Mio. Euro)	2016		2015		CHANGE GWP AT Groups 2016/2015
	Written Premiums*	Ratio	Written Premiums*	Ratio	
AUSTRIA	8.345,05	61,31%	8.587,85	58,39%	↓ -2,83%
FOREIGN MARKETS	5.266,42	38,69%	6.120,35	41,61%	↓ -13,95%
WE	326,30	6,20%	1.258,71	20,57%	↓ -74,08%
CE	3.359,11	63,78%	3.445,89	56,30%	↓ -2,52%
SEE	1.295,83	24,61%	1.152,82	18,84%	↑ 12,41%
EE	285,18	5,42%	262,93	4,30%	↑ 8,46%
Total	13.611,47	100,00%	14.708,20	100,00%	↓ -7,46%

Table 2: Domestic and Foreign business operations of Austrian insurance groups in Austria and per geographical segment (2015-2016) (Source: FMA Reporting per 31.12.)

Compared to 2015, total written premium volume generated in foreign markets decreased by 14%. This was mainly due to a substantial drop in premium volume in Western Europe resulting from the sale of large Italian subsidiaries of Uniqa Group. With a premium share of 63,8% of foreign premiums, Central Europe (CE) represents the major stake in foreign business.

1.1 Impact of Macroeconomic Framework

Focusing on the CESEE region¹, the regional GDP saw a 2,28% y-o-y increase (current prices), while the average GDP per capita indicator went up from 10.065 Euro in 2015 to 10.324 Euro in 2016. The better performance was driven largely by an acceleration in Poland as well as faster growth in Romania. Overall, at different paces, all CESEE markets saw a positive economic development in 2016.

Labor markets in the CESEE region are continuing to improve. Unemployment rates have reached the lowest levels ever recorded and most CESEE economies are enjoying lower unemployment than EU average. Rising wages and low inflation, amid improving consumer sentiment, have made household consumption the main driving force behind economic expansion.² Some important macroeconomic factors, such as real GDP growth, consumer prices growth and unemployment rate are shown in the graph below.

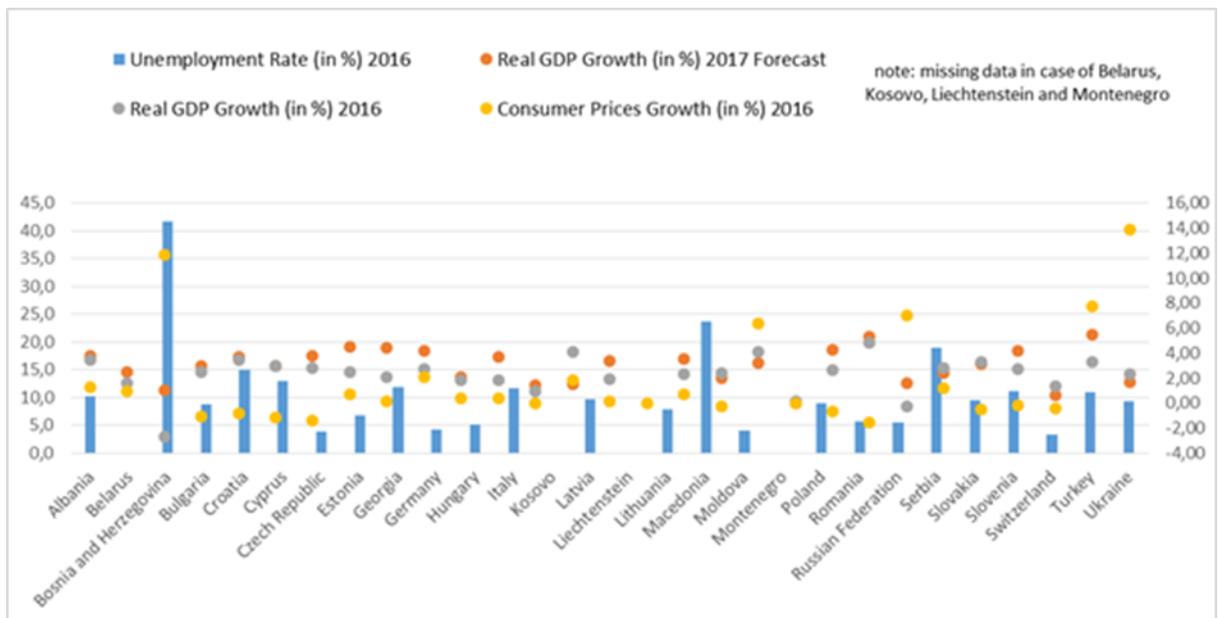


Table 3: Macroeconomic indicators (Sources: SNL; Swiss Re sigma; WEO April 2016 IMF)

The effect of the macroeconomic development on the insurance sector approximately can be assessed by looking at the indicators Growth of Gross Written Premiums, Insurance Penetration (i.e. premiums in % of GDP) and Insurance Density (i.e. premiums per capita). Considering the CESEE region as a whole, economic growth as measured by the GDP growth goes along with a moderate growth of the insurance sector as measured by the increase in gross written premiums.

¹ CESEE region in this respect comprises the geographical segments CE and SEE except for Cyprus

² See X-Primm Insurance Report FY 2016

CESEE-Region	GDP (in bn. Euro)	Gross Written Premiums (in Mio. Euro)	Insurance Penetration	Insurance Density
2015	1.224,14	30.814	2,52%	253,34
2016	1.252,11	31.314	2,50%	258,20
Δ in % or %-Points	2,28%	1,62%	-0,02%PP	1,92%

Table 4: Insurance market indicators (Source X-Primm Report 2016)

It has to be noted that figures are affected by the currency effects which in some cases have altered visibly the market results when denominated in European currency. In Poland, for example, the almost 4% devaluation of the local currency has pulled the modest positive market growth rate of 2,25% in local currency into negative (-1,5%) when translated in Euro. In other countries, as Albania or Croatia, the national currencies' strengthening resulted in higher growth rates for the market results denominated in Euro. Overall, according to the estimations of the data provider for CESEE markets (X-Primm), the nominal regional average dynamic, excluding the currency effects, is in line with the average economic growth rate, meaning that the regional insurance penetration didn't improve significantly.

1.2 Level of Maturity

Insurance markets relevant for Austrian insurance groups differ significantly regarding size, concentration and level of maturity. Insurance penetration and insurance density are the indicators to be used not only to link insurance sector and macroeconomic development but also to give an indication on the level of maturity of an insurance market. The following graph shows insurance density and insurance penetration for life and non-life business for each country.

As can be seen from the graph below, insurance markets in Central Europe are much more mature showing a significantly higher insurance density and insurance penetration as most of the markets in Eastern Europe and South Eastern Europe. However, with an insurance density above 900 Euro and a total insurance penetration of 4,88% Slovenia is an outlier in the SEE segment with a well-developed insurance market. The same is valid for Cyprus showing a quite mature insurance market (total insurance penetration over 4% and insurance density over 890 Euro).

As the insurance markets of Western Europe are much more mature as the markets in the other geographical segments, a separate diagram has been prepared for this region. In this diagram, also the indicators for Austria and the European Union are included.

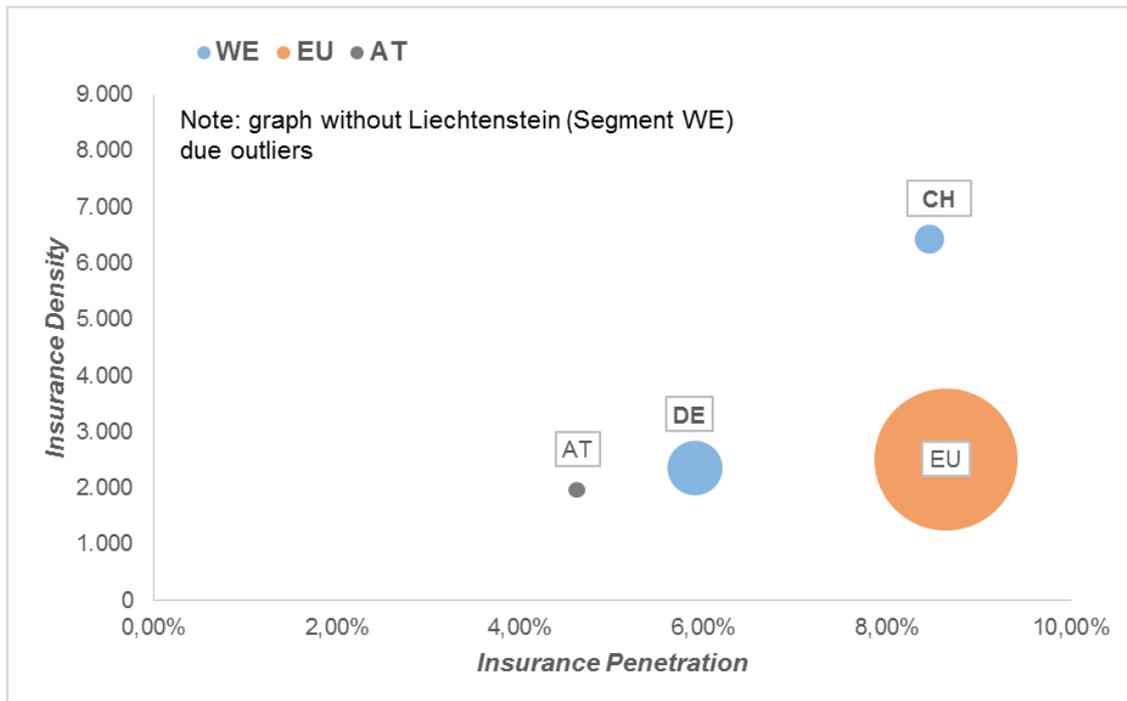


Table 7: Insurance Density, Insurance Penetration and GWP per country (Segment WE) (Sources: X Primm; SNL; Swiss Re sigma; WEO April 2016 IMF) – without UNQA's Italian business

In order to detect more significant changes in the insurance landscape, last year's indicators have been compared to 2016 figures. Regarding the size of the markets, especially the big markets Russia and Turkey show high growth rates. Two-digit-growth rates can also be observed for the still small markets in Albania, Belarus and Lithuania.

1.3 Premium Development

The following table provides information on the development of market premiums of the foreign insurance markets (according to geographical segments) relevant for Austrian insurance groups.

Total Insurance Market (In Mio. Euro)	2016	2015	CHANGE MARKET GWP 2016/2015
	Gross Written Premiums	Gross Written Premiums	
AUSTRIA	18.653	19.009	↓ -1,87%
FOREIGN MARKETS	315.596	306.874	↑ 2,84%
WE	251.139	249.625	↑ 0,61%
CE	24.582	24.762	↓ -0,73%
SEE	8.562	8.181	↑ 4,65%
EE	31.313	24.307	↑ 28,82%
Total	334.249	325.883	↑ 2,57%

Table 8: GWP Development 2015-2016 per Segment (Sources: FMA Reporting Local GAAP per 31.12.2016 for Austrian business; X Primm and Swiss Re sigma for foreign business)

Market premium volume in the segment **Western Europe (WE)** consisting of Germany, Liechtenstein and Switzerland increased marginally by 0,61%. A slight increase in gross written premiums in Germany offset a premium decrease in Switzerland and Liechtenstein. Premium growth in Germany results from non-life insurance, the life insurance sector in all the three countries was still under pressure due to low yield and the negative effect on sales of traditional savings, pension and annuity products.

In **Central Europe (CE)** gross written premiums decreased by 0,73%. It's again the non-life sector that saw a positive trend across the region with motor insurance being the main growth driver. Not by chance, the best growth rates were recorded for markets, where the motor insurance lines, especially MTPL performed very well, such as Poland or Hungary. It has to be noted that in these countries the main reason of the growth in motor lines was the substantial increase in MTPL tariffs.

The life insurance segment saw in many of the regional big markets a poor dynamic. In Poland - as one of the biggest markets in the region-, life insurance lines providing for products with an investment component are responsible for the segment's decrease in premium volume. A negative change in the life insurance premium volume also was recorded for the Czech Republic where single premiums life insurance contracts saw a significant fall in business volume. In general, the persistence of the low yield environment remains the main challenge for insurers, especially for those managing a relevant portfolio of policies with guaranteed return. In fact, in many cases, market players restrain the efforts put in the traditional product sales, but focus on saving product lines for which the investment risk is at least shared or fully beard by the policy holders.

Regarding **South Eastern Europe (SEE)** the dominance of the non-life insurance sector has to be considered: non-life insurance contributes nearly 75% to total gross written premium volume. An increase in premiums could be observed for both insurance segments. In non-life insurance, it's Romania - the biggest market in this geographical segment – that is responsible for the growth of non-life premium volume, especially in the motor insurance business. Regarding life insurance business, except for Albania and Slovenia, a growth of life insurance premiums was recorded.

In the segment **Eastern Europe (EE)** it's Turkey and Russia, which are by far the biggest markets and determine premium development of the area. Both countries reported significant growth rates in life insurance as well as in non-life insurance. However, also in these countries insurance markets are dominated by the non-life insurance sector.

In order to illustrate the trends and developments presented above, the following table shows the development of gross written premiums per segment and per line of business including annual change:

Total Insurance Market (In Mio. Euro)	2016			2015			CHANGE GWP 2016/2015		
	Gross Written Premiums			Gross Written Premiums			Life	Non-Life	Total
	Life	Non-Life	Total	Life	Non-Life	Total			
AUSTRIA	8.115	10.538	18.653	8.675	10.335	19.009	↓ -6,45%	↑ 1,97%	↓ -1,87%
FOREIGN MARKETS	133.883	181.712	315.596	135.950	170.924	306.874	↓ -1,52%	↑ 6,31%	↑ 2,84%
WE	116.376	134.763	251.139	119.281	130.344	249.625	↓ -2,44%	↑ 3,39%	↑ 0,61%
CE	10.445	14.136	24.582	11.620	13.141	24.762	↓ -10,11%	↑ 7,57%	↓ -0,73%
SEE	2.173	6.389	8.562	2.117	6.064	8.181	↑ 2,66%	↑ 5,35%	↑ 4,65%
EE	4.889	26.424	31.313	2.933	21.375	24.307	↑ 66,73%	↑ 23,62%	↑ 28,82%
Total	141.998	192.250	334.249	144.625	181.259	325.883	↓ -1,82%	↑ 6,06%	↑ 2,57%

Table 9: GWP Development 2015-2016 per Segment and per line of business (Sources: FMA Reporting Local GAAP per 31.12.2016 for Austrian business; X Primm and Swiss Re sigma for foreign business)

1.4 Market Position

In some countries Austrian insurance groups have a high market share and therefore a dominant position on the local insurance market. However, there are significant differences with regard to lines of business. The following graph shows the accumulated market share of Austrian insurance groups in the relevant markets per life segment, non-life segment and total market.

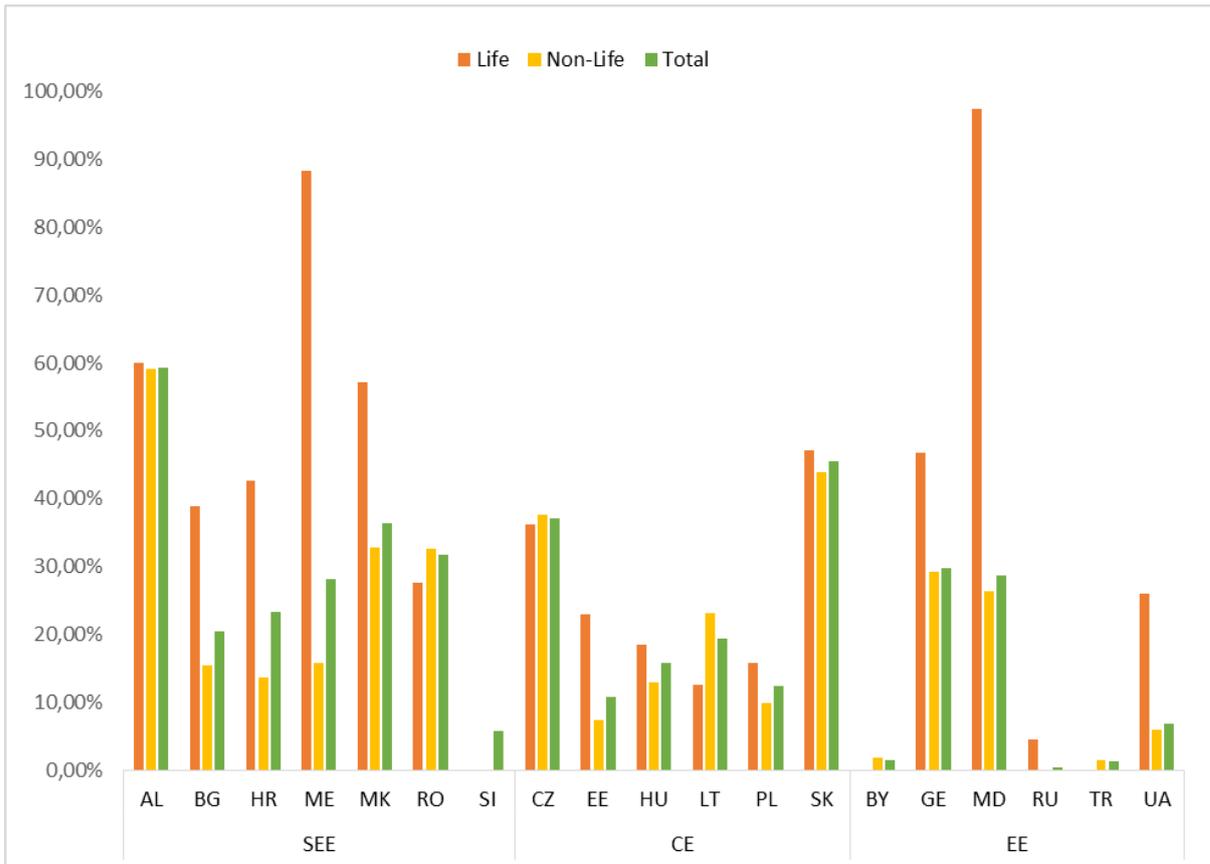


Table 10: Market share of Austrian Insurance Groups per Segment (Sources: X Primm; Swiss Re sigma)

In **Central Europe (CE)**, Slovakia and the Czech Republic are the countries with the highest market shares of Austrian groups with the particularity of significant market positions in life and non-life insurance.

In **Eastern Europe (EE)** and **South Eastern Europe (SEE)**, Austrian insurance groups have much stronger positions on the life insurance market. This results from the fact, that life insurance markets are still smaller and Austrian insurance groups entered into it rather early. In Albania, Austrian insurance groups dominate the insurance market in both lines of business.

In **Western Europe (WE)**, Austrian insurance groups do not play a significant role on the local markets, therefore Western Europe has not been considered in the graph.

2 ANALYSIS OF KEY MARKETS

Out of the 26 countries, where Austrian insurance groups carry out insurance business, six key markets were defined. All markets are categorized according to the premium share, i.e. the relation of gross written premiums generated in a market to total foreign gross written premium volume. Dependent on the premium share, an impact rating is assigned to the markets. Markets with an impact rating of 3 or 4 (highest category) are defined as key markets.

According to this methodology, the following markets were classified as key markets:

- Czech Republic
- Poland
- Slovakia
- Romania
- Hungary
- Croatia

For these markets a more detailed analysis is carried out considering macroeconomic conditions, structure and development of the insurance market as well as the political, legal and regulatory framework.

2.1 Czech Republic

Country		Performance Indicators 2016	
CZECH REPUBLIC	Macro	Population (mil)	10,61
		Real GDP Growth	2,49%
		Real GDP Growth Forecast 2017	4,50%
		Unemployment rate	3,50%
		S&P Credit Rating	AA-
	Insurance market total	Premium Total (mil)	5.448,42
		Life	2.205,43
		Non-Life	3.242,99
		Premium growth	-4,01%
		Insurance Penetration	2,94%
		Insurance Density	513,52

Table 11: Key Performance Indicators 2016 Czech Republic

Solid external balances and low levels of indebtedness in both the private and the public sector will support moderate growth of above 2% in the period 2017-2019. Some uncertainties persist, however, as to the future course of fiscal policy and the impacts of the expected strengthening of the domestic currency.³

2.1.1 Insurance Market Overview

At the end of 2016, gross written premiums amounted to about 5.448 Mio. Euro, which means a decline of 4% compared to 2015.

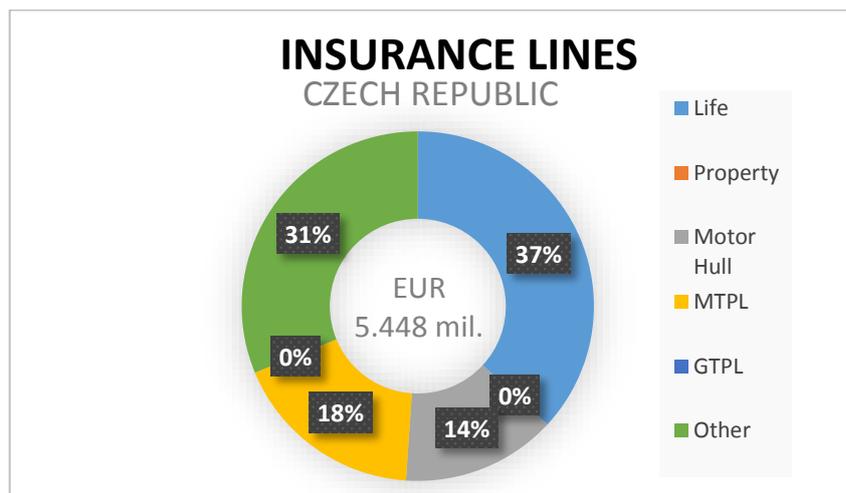


Table 12: Insurance Lines in Czech Republic 2016 (Source: X Primm Report 2016)

The life insurance segment showed a negative dynamic, while the non-life sector developed positively. Single Paid Premiums life insurance contracts saw the most visible fall in business

³ See WIIW Forecast Report Spring 2017

volume. Yet, as the line's weight in the life insurance business volume is very small (~3.3%), the overall effect was less dramatic.

As far as the non-life segment was concerned - the two motor sub-segments (MTPL and Motor Hull) and Industry & Business policies generated together about 77% of non-life GWP or 48% of total market. Somehow atypically in the region, the Motor Hull line recorded a higher growth rate in GWP terms than the market average and most of the other non-life lines, including the MTPL class.

The MTPL line saw a calm year, the rather modest GWP growth recorded in 2016 being mainly attributable to the increasing number of insured cars.⁴

Information on 1 HY 2017:

Czech insurers ended the first half of 2017 with an increase in gross written premium volume almost exclusively attributed to the non-life segment. As far as life insurance is concerned a rather stagnant evolution could be observed for the 1 HY 2017: the Unit-Linked insurance line saw a 26% decrease in GWP, single premium products are recording the most significant fall, while underwritings for products with regular premiums are quasi stagnant.

Non-life insurance fared well, the almost 7% increase in GWP being a quite high one compared with the steady growth that the Czech market has showed during the last decade. Motor insurance lines have recorded the best dynamic. Considering the official statistics, most of this growth came from the increasing number of contracts sold. At the same time it seems that, at least for the MTPL segment, tariffs did not record significant changes, while the claims costs are increasing, challenging the segment's profitability.

According to CNB's statistical database, the Czech insurance market's profitability improved significantly as compared with the first half of 2016. Non-life insurance technical account saw the most impressive improvement, from the almost 270 Mio. CZK loss in 1H2016, to almost 3,7 Bn. CZK in 1H2017. On the life insurance side, the technical account value increased only marginally, to 4,7 bn. CZK.⁵

Market Structure:

The biggest company on the Czech insurance market is Česká pojišťovna with a market share of about 24%, followed by KOOPERATIVA pojišťovna – which is a subsidiary of Vienna Insurance Group – with a market share of 23%. At the end of 2016, Austrian insurance groups held a market share of about 37% of total market.

⁴ See X-Primm Insurance Report FY 2016

⁵ See X-Primm Insurance Report 1 HY 2017

2.2 Poland

Country		Performance Indicators 2016	
POLAND	Macro	Population (mil)	38,35
		Real GDP Growth	2,68%
		Real GDP Growth Forecast 2017	4,30%
		Unemployment rate	8,95%
		S&P Credit Rating	BBB+
	Insurance market total	Premium Total (mil)	12.667,08
		Life	5.392,56
		Non-Life	7.274,52
		Premium growth	-1,50%
		Insurance Penetration	2,85%
		Insurance Density	330,30

Table 13: Key Performance Indicators 2016 Poland

Under the impact of policies that seek to imbue the national economic and social life with ‘law and order’, Poland’s economy clearly underperformed in 2016. This was epitomised by a dramatic decline in gross fixed capital formation. But the economy is still in pretty good shape. It is expected to grow at a respectable pace, provided the institutional changes imposed consider more carefully the needs of the business sector and the limits to what can be achieved through administrative regulation.⁶

2.2.1 Insurance Market Overview

At the end of 2016, gross written premiums amounted to about 12.667 Mio. Euro, which means a decline of 1,5% compared to 2015. However, measured in local currency an increase in premiums of 2,25% could be realized.

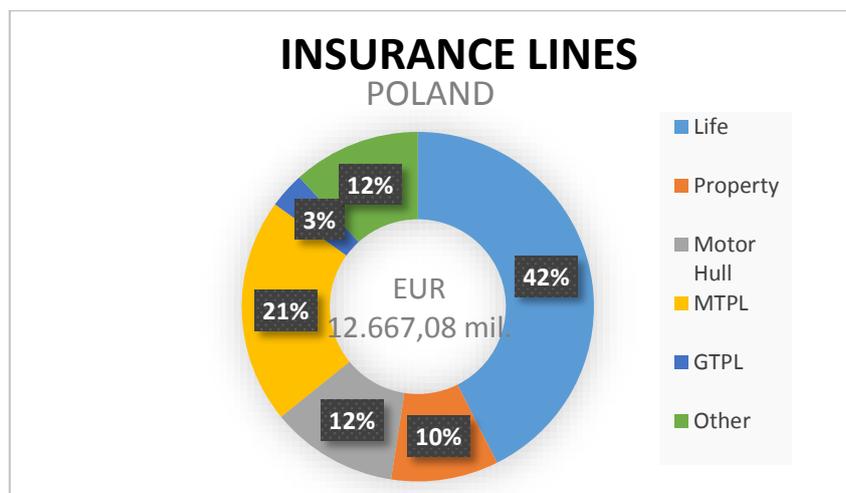


Table 14: Insurance Lines in Poland 2016 (Source: X Primm Report 2016)

⁶ See WIIW Forecast Report Spring 2017

Life insurance continued to witness a falling trend, especially on the Unit Linked products line, which saw a 23% reduction in premiums. Life insurance segment's weight in the total market decreased from 50,2% in 2015, to about 42,5% at the end of 2016. Life insurance lines providing for products with an investment component are responsible for the segment's decrease in premiums volume.

On the non-life side, gross written premium volume went up by almost 18% in local currency, mostly driven by the spectacular increase in the motor insurance segment.⁷

Information on 1 HY 2017:

The Polish insurance market's recovery announced by the Q1 results, after four years of decline, seems to become confirmed reality, judging by the 1H results. Yet, if the negative trend was given mostly by the life insurance segment, the present double digit growth is based on non-life insurance sector's performance, in particular on the MTPL insurance line.

Life insurance recorded a 7,2% y-o-y GWP growth rate, the Unit-Linked sub-class performed best in underwriting terms, with GWP growing by over 13%.

With very few exceptions, non-life insurance lines fared very well, recording positive double digit growth rates. Motor insurance lines saw, however, the best dynamics, especially on the MTPL side. As several sources in the market explained, the main driver of the MTPL GWP spectacular growth was the tariffs increase. The MTPL market also recorded an encouraging improvement in profitability.

Property insurance GWP also recorded a strongly positive evolution, growing by over 16% y-o-y. On the other hand, the real balance on this market segment will be visible only at the year end, as the paid claims figures for 1H do not yet contain any compensation for the last storms.

An important information that has to be mentioned is the increasing significance of the bancassurance channel in the Polish insurance products' distribution. According to the latest PIU report on bancassurance, this distribution channel provided for about 35% of the life insurance GWP and little less than 5% of the non-life GWP.⁸

Market Structure:

With a market share of about 35%, the domestic insurance company PZU dominates the Polish insurance market. The subsidiaries of Austrian insurance groups considered together hold a market share of 12%.

⁷ See X-Primm Insurance Report FY 2016

⁸ See X-Primm Insurance Report 1 HY 2017

2.3 Slovakia

Country		Performance Indicators 2016	
SLOVAKIA	Macro	Population (mil)	5,44
		Real GDP Growth	3,29%
		Real GDP Growth Forecast 2017	3,20%
		Unemployment rate	9,49%
		S&P Credit Rating	A+
	Insurance market total	Premium Total (mil)	1.987,25
		Life	980,16
		Non-Life	1.007,09
		Premium growth	-1,61%
		Insurance Penetration	2,34%
		Insurance Density	365,30

Table 15: Key Performance Indicators 2016 Slovakia

In 2016, a strong decline in gross fixed capital formation depressed GDP growth to 3.3%. For 2017, Slovak growth is forecast to be around 3%, while in 2018 and 2019 an increase in the capacity of the automotive industry should stimulate faster growth close to 4%.⁹

2.3.1 Insurance Market Overview

At the end of 2016, gross written premiums amounted to about 1.987 Mio. Euro, a result which is more or less in line with the previous year's premium production.

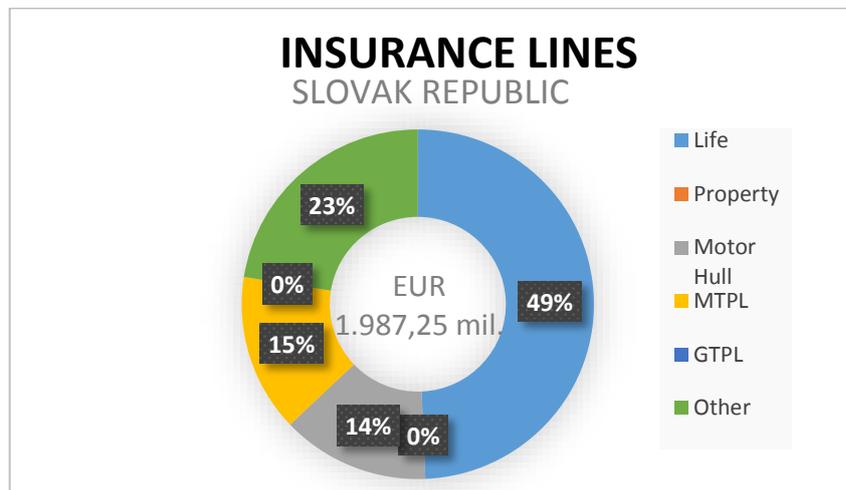


Table 16: Insurance Lines in Slovakia 2016 (Source: X Primm Report 2016)

Life insurance premium volume went down by about 7%, mostly because of the business reduction on the single premium segment. Non-life insurance lines saw an increase of gross written premiums of 4,3%, with several players mentioning motor insurance as the main driver.

⁹ See WIIW Forecast Report Spring 2017

By the end of 2016 a regulatory change - effective starting January 2017 – was announced: the Finance Ministry introduced an amendment to the Act on Insurance providing for charging a fee of 8% on the insurance premiums for all the facultative non-life insurance lines, not only on the MTPL premiums as before, to boost revenues to the state budget as the sector had not been subject to taxes on such products before.

The ministry estimated that the state could earn up to 80 Mio. Euro by introducing the 8% special levies to compensate for the lack of VAT in the insurance sector. Yet, as for the period between January and November, insurance companies will pay levies in December 2017 and for December in January 2018, the positive effects on the public budget are yet to be expected. One of the most discussed negative impacts of the levy is the rise in costs of non-life premiums.¹⁰

Information on 1 HY 2017:

In 1H2017, the Slovak insurance market totaled 1,06 bn. Euro, which means a y-o-y increase of 11,8% according to the preliminary financial data provided by the National Bank of Slovakia.

More in detail, the non-life insurance field generated more than half of total GWP (51,9%), while the life classes accounted for 48,1% of the market (513 Mio. Euro). The life unit-linked products have provided for about a quarter of the total life GWP (~115 Mio. Euro), while traditional policies and other supplementary life insurance generated premiums of about 400 Mio. Euro.

The non-life portfolio was dominated by the two motor insurance sub-classes which accounted together for 57% of total non-life insurers' business (MTPL: 29% of non-life GWP).

In case of property insurance segment, which generates about a quarter of non-life GWP, it was mentioned that although the climate changes caused a surprising hot spring and summer this year, the Slovak insurers have not recorded any significant increase in claims from farmers due to worse yields or agricultural losses. Agricultural insurance is still not so well developed in Slovakia as in other European countries where the farmers are used to insure their fields for the risk of natural catastrophes.¹¹

Market Structure:

The subsidiaries of Austrian insurance groups play an important role on the Slovak insurance market. Market leader is Allianz Slovensko poistovna, followed by Kooperativa Poistovna, the subsidiary of Vienna Insurance Group that holds the second position on the insurance market. The subsidiaries of Austrian insurance groups considered together hold a market share of 45%.

¹⁰ See X-Primm Insurance Report FY 2016

¹¹ See X-Primm Insurance Report 1 HY 2017

2.4 Romania

Country		Performance Indicators 2016	
ROMANIA	Macro	Population (mil)	19,78
		Real GDP Growth	4,81%
		Real GDP Growth Forecast 2017	5,80%
		Unemployment rate	5,60%
		S&P Credit Rating	BBB-
	Insurance market total	Premium Total (mil)	2.090,35
		Life	371,84
		Non-Life	1.718,51
		Premium growth	8,87%
		Insurance Penetration	1,18%
		Insurance Density	105,68

Table 17: Key Performance Indicators 2016 Romania

Economic growth in Romania is expected to hover around 4% in 2017 and beyond. Household demand will remain the main driver, but investments may also play a bigger role. Rising private sector wages may speed up the growth in household consumption; this constitutes an upside risk to the forecast. The capacity to absorb EU funds and political uncertainty constitute downside risks. Currently the government's official GDP forecast for 2017-2019 of annual growth above 5% looks unrealistic.¹²

2.4.1 Insurance Market Overview

At the end of 2016, gross written premiums amounted to about 2.090 Mio. Euro, which means an increase of 8,87% compared to 2015.

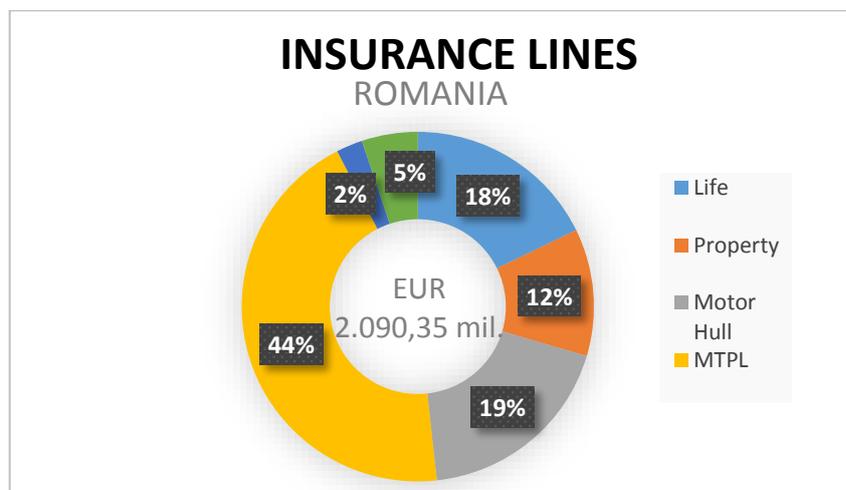


Table 18: Insurance Lines in Romania 2016 (Source: X Primm Report 2016)

¹² See WIIW Forecast Report Spring 2017

Romanian insurers had to deal with a challenging 2016, rich in legislative changes as well as bankruptcies, entrances and exits from the market, mergers, street protests challenging their MTPL pricing policy and many others, all of them impacting on the market's „architecture”.

With a share in total premiums of about 63%, motor lines (MTPL and Motor Hull) are the biggest market segment. Especially MTPL insurance showed a high dynamic bringing a nominal growth of over 26%, respectively of over 855 Mio. RON in absolute value. That was primarily the result of higher average premiums in MTPL insurance, particularly for corporate customers.

It is expected for the 2017 figures to be much lower than those reported for 2016, as by the end of the last year the Romanian Government decided to introduce a cap on the MTPL tariffs. The maximum tariffs were calculated by the Financial Supervisory Authority (ASF) taking into account the car's type and engine capacity and owner's age. The cap became effective on 17 November 2016 for a period of six months (until 17 May 2017). In its recent Country Report the European Commission pointed out that this intervention in the price setting of insurance premiums in the absence of a general system of price control does not appear to be in line with EU law, in particular with the provisions of the Solvency II directive. At the same time, the measure is also likely to aggravate current distortions and put further pressure, in the short term, on the profit generation capacity of insurers.¹³

Information on 1 HY 2017:

During 1H2017, the insurance market in Romania maintained its growth momentum registered in the past reporting periods, according to the market results published by Financial Supervisory Authority - ASF. The 31 local insurers reported a total GWP of 5,04 bn. RON (about 1,10 bn. Euro), 8.02% more y-o-y, in nominal terms and local currency.

As in the previous reporting periods, the MTPL sub-segment was the largest in the market, in GWP terms. During 1H2017, CITY INSURANCE, EUROINS Romania and ASIROM VIG were the companies to hold the largest market share on the MTPL segment, together accounting for more than 71% of the market GWP for MTPL.

According to the ASF report, the net result at the end of 1H2017 for the whole insurance market was positive, up by 11% as compared with the last year's similar period.¹⁴

Market Structure:

The local market features a high level of concentration: Out of the total 1H2017 GWP, 88% was covered by 10 insurance companies, while the Top 3 players (CITY Insurance, ALLIANZ TIRIAC and EUROINS Romania), generate together more than one third of the market. The subsidiaries of Austrian insurance groups put together reach a market share of 31,71%.

¹³ See X-Primm Insurance Report FY 2016

¹⁴ See X-Primm Insurance Report 1 HY 2017

2.5 Hungary

Country		Performance Indicators 2016	
HUNGARY	Macro	Population (mil)	9,75
		Real GDP Growth	1,85%
		Real GDP Growth Forecast 2017	3,70%
		Unemployment rate	5,10%
		S&P Credit Rating	BBB-
	Insurance market total	Premium Total (mil)	2.848,73
		Life	1.411,09
		Non-Life	1.437,64
		Premium growth	6,77%
		Insurance Penetration	2,42%
		Insurance Density	292,18

Table 19: Key Performance Indicators 2016 Hungary

Over the next three years, economic growth is forecast to remain above 3%. In 2016, the expansion of household consumption was the main driver of growth, and that will remain the case, at least until the election year 2018. A deterioration will begin in the external balances; there is expected to be a recovery in investment, largely financed by EU funds.¹⁵

2.5.1 Insurance Market Overview

At the end of 2016, gross written premiums amounted to about 2.849 Mio. Euro, which means an increase of about 6,7% compared to 2015.

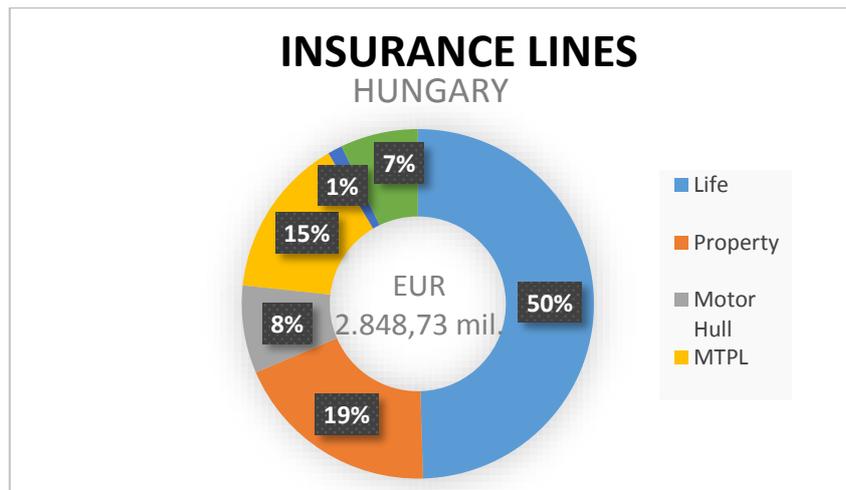


Table 20: Insurance Lines in Hungary 2016 (Source: X Primm Report 2016)

The increase in premium volume especially results from the positive effect exerted by the MTPL premium increase on the underwriting volume. Growing at a lower pace than the market

¹⁵ See WIIW Forecast Report Spring 2017

average, life insurance accounted for about 49,5% of the total premium production. U-L products saw the strongest downward trend with a decline of 12,4%. On the non-life side, the MTPL line recorded the most impressive positive trend, with GWP increasing by 37,42% to 422 Mio. Euro, supported by the strong increase in tariffs, but also by a revitalized car market. The Motor Hull class also saw a positive trend, with GWP increasing by 7,8% to 231,22 Mio. Euro. It is interesting to observe that while for the Motor Hull line the growth in premiums is almost fully in line in the increase of the number of contracts, on the MTPL side, the number of contracts concluded in 2016 is only by a little less than 10% higher than in 2015, thus indicating that the GWP increase must have been determined in a significant measure also by the insurance price increase.

Yet, three non-life insurance classes have recorded a real collapse in the GWP volume: accident insurance (GWP down by 61%), health insurance (down by 71,6%) and GTPL (down by almost 47%).¹⁶

Information on 1 HY 2017:

Hungarian insurers' first half GWP was up by 6,16% y-o-y to 1,57 bn. Euro, according to the market data published by the National Bank of Hungary (MNB). Life insurance GWP increased by 3,19%, while non-life GWP increased by 8,93% (both motor insurance lines saw a positive y-o-y change in GWP).¹⁷

Market Structure:

The market structure didn't change much in 2016, but 2017 will bring a novelty, as Vienna Insurance Group (VIG) announced it will merge its three Hungarian subsidiaries - ERSTE Biztosito, UNION Biztosito and VIENNA Life Biztosito - into one company. The new insurer will operate under the "UNION brand" as of the beginning of 2018. Total market share of Austrian insurance subsidiaries amounted to about 16% in 2016.

¹⁶ See X-Primm Insurance Report FY 2016

¹⁷ See X-Primm Insurance Report 1 HY 2017

2.6 Croatia

Country		Performance Indicators 2016	
CROATIA	Macro	Population (mil)	4,21
		Real GDP Growth	2,98%
		Real GDP Growth Forecast 2017	3,00%
		Unemployment rate	14,96%
		S&P Credit Rating	BB
	Insurance market total	Premium Total (mil)	1.159,09
		Life	386,09
		Non-Life	773,00
		Premium growth	1,45%
		Insurance Penetration	2,41%
		Insurance Density	275,32

Table 21: Key Performance Indicators 2016 Croatia

Croatia's economy returned to a stable path of growth in 2016. Prospects are favorable as well, with annual GDP growth of up to 3% until the end of the forecasting period in 2019. The upswing will primarily be driven by a rise in domestic demand, both private consumption and investments. EU funding will play a major role in stimulating investments. Apart from fiscal consolidation, demographic changes will become a major challenge in the future.¹⁸

2.6.1 Insurance Market Overview

At the end of 2016, gross written premiums amounted to about 1.159 Mio. Euro, which means an increase of about 1,45% compared to 2015.

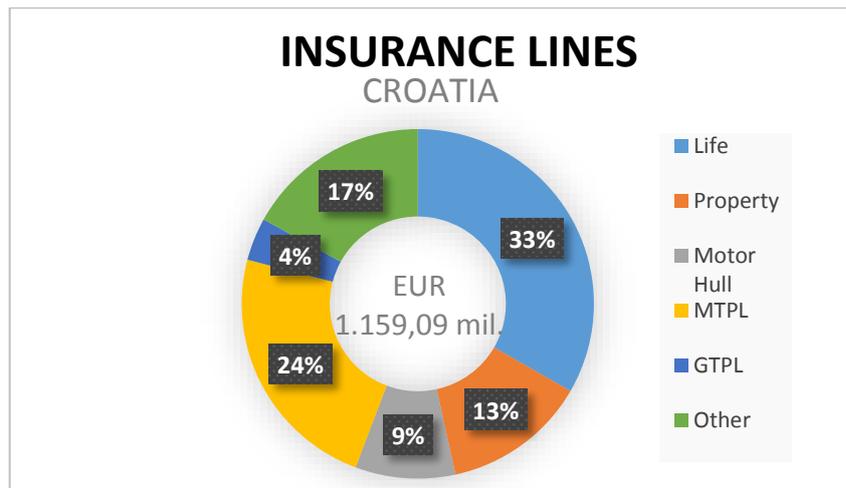


Table 22: Insurance Lines in Croatia 2016 (Source: X Primm Report 2016)

¹⁸ See WIIW Forecast Report Spring 2017

For the non-life sector an increase of GWP could be observed, while the life insurance segment went down. Despite a decrease in GWP, the traditional life insurance policies dominate the life portfolio followed by unit-linked products, which in turn have experienced a doubling of the volume of underwritings. Interest rates are currently low and are expected to remain low in the long run; therefore the traditional composite insurance products have become less attractive. This led to a shift in insurance companies' focus towards unit-linked products.

In the non-life sector, the motor insurance lines account for over 32% of the total GWP, the largest part (24%) being held by the MTPL class. The fast depreciation of the MTPL tariffs witnessed after the market liberalization has started to slow down, the prices most probably reaching the lowest possible limit. One of the main changes in the MTPL pricing occurred on the corporate segment, insurers adopting a uniform pricing policy for the entire territory of the country. As a result, carriers registered in some of the Croatia's counties have seen their insurance expenses decreasing significantly. On the retail segment, introducing the new criteria led to greater diversification of tariffs.¹⁹

Information on 1 HY 2017:

The Croatian insurance market fared a pretty calm first half year. Premium growth in 1H2017 was of 2,7% in total (3,8% in nonlife and 0,4% in life insurance) in comparison with the same period last year. The structure of the premium did not significantly change, non-life share being of 69% while life insurance accounts for the remaining 31% of the total GWP.

Life insurance increased at a lower pace than the market average, but the modest growth rate recorded in the first half of 2017 represents, in fact, an improvement in comparison with the performance recorded last year. The main difference came from the main sub-class, of the traditional life insurance, which seems to enter in "remission": although still on a negative trend, the GWP volume decreased at a lower pace than in the recent past periods.

On the other hand, Unit-linked premium increased by 32,9% y-o-y, almost doubling as compared with 1H2015. The main reason for that is a low interest rates environment and strong bancassurance sales channel. Another aspect is a significant increase in the indemnities paid for life insurance contracts, mostly for the products including an investment component.

Motor insurance remains the dominant line in non-life insurance, its weight equaling the one of the entire life insurance segment (31%). This prevalence is obviously owed to the MTPL insurance line, which accounts for 21,5% of the market GWP. Preserving the line's profitability in the very competitive environment remains a challenging task, but profitability of MTPL business has stabilized compared to the previous year.

The property insurance classes maintained their weight in the GWP portfolio and didn't record a significant growth in paid claims despite the eventful summer, in terms of extreme weather episodes.²⁰

¹⁹ See X-Primm Insurance Report FY 2016

²⁰ See X-Primm Insurance Report 1 HY 2017

Market Structure:

At the end of 2016, the market leader on the Croatian insurance market was Allianz Zagreb with a market share of 18,5%, followed by Croatia Osiguranje with a market share of 18,3%. All Austrian insurance subsidiaries considered together reached a market share 23,30%.

ANNEX 1: RISK MAP INSURANCE MARKET AND MACROECONOMIC INDICATORS

Country	Gross written premiums per country (in million Euro) ¹⁾			Premium development total ¹⁾	Insurance Density (in Euro) ²⁾			Insurance Penetration Degree ³⁾			Macroeconomic indicators ⁴⁾											
	Gross written premiums 2016 Life	Gross written premiums 2016 Non-Life	Gross written premiums 2016 Total	Premium development in % (Euro Basis) 2016	Insurance Density LIFE	Insurance Density NON-LIFE	Insurance Density TOTAL	Insurance Penetration Degree LIFE	Insurance Penetration Degree NON-LIFE	Insurance Penetration Degree TOTAL	Unemployment Rate (in %) 2017 Forecast	Unemployment Rate (in %) 2016	Real GDP Growth (in %) 2017 Forecast	Real GDP Growth (in %) 2016	Consumer Prices Growth 2016 (in %)	Population in million 2016	Long Term Rating Moody's	Long Term Rating Fitch	Long Term Rating S&P	Long Term Rating Direction Moody's	Long Term Rating Direction Fitch	Long Term Rating Direction S&P
ALBANIA	7,23	106,99	114,22	11,31%	2,49	36,77	39,25	0,06%	0,95%	1,01%	-	-	3,80%	3,46%	1,28%	2,91	B1	-	B+	Affirm	-	Upgrade
BELARUS	42,40	432,87	475,27	17,27%	4,57	46,70	51,27	0,09%	0,96%	1,06%	-	-	1,30%	-2,71%	11,82%	9,27	Caa1	B-	B	Affirm	Affirm	Upgrade
BOSNIA AND HERZEGOVINA	66,09	258,10	324,19	6,42%	17,35	67,74	85,09	0,41%	1,59%	2,00%	-	41,73%	2,60%	2,92%	-1,09%	3,81	B3	-	B	Affirm	-	-
BULGARIA	219,03	829,45	1.048,49	4,40%	30,72	116,33	147,05	0,44%	1,67%	2,11%	7,30%	8,69%	3,70%	3,44%	-0,80%	7,13	Baa2	BBB-	BB+	Affirm	Affirm	-
CROATIA	386,09	773,00	1.159,09	1,45%	91,71	183,61	275,32	0,80%	1,61%	2,41%	12,60%	14,96%	3,00%	2,98%	-1,13%	4,21	Ba2	BB	BB	Affirm	Affirm	-
CYPRUS	322,03	442,05	764,07	2,61%	378,85	520,05	898,91	1,71%	2,35%	4,07%	11,10%	13,03%	3,80%	2,84%	-1,43%	0,85	Ba3	BB	BB+	Upgrade	Upgrade	-
CZECH REPUBLIC	2.205,43	3.242,99	5.448,42	-4,01%	207,86	305,65	513,52	1,19%	1,75%	2,94%	-	3,50%	4,50%	2,49%	0,68%	10,61	A1	A+	AA-	Affirm	Affirm	Upgrade
ESTONIA	85,65	302,35	388,00	7,41%	64,89	229,06	293,94	0,39%	1,37%	1,75%	6,00%	6,78%	4,40%	2,06%	0,15%	1,32	A1	A+	AA-	Affirm	Affirm	-
GEORGIA	9,08	131,59	140,67	2,31%	2,31	33,48	35,79	0,07%	0,97%	1,04%	11,50%	11,80%	4,20%	2,74%	2,12%	3,93	Ba2	BB-	BB-	Upgrade	Affirm	Upgrade
GERMANY	85.548,00	108.773,00	194.321,00	0,50%	1.035,82	1.317,02	2.352,84	2,60%	3,30%	5,90%	4,30%	4,17%	2,10%	1,86%	0,38%	82,59	Aaa	AAA	AAA	Affirm	Affirm	-
HUNGARY	1.411,09	1.437,64	2.848,73	6,77%	144,73	147,45	292,18	1,20%	1,22%	2,42%	4,50%	5,10%	3,70%	1,85%	0,40%	9,75	Baa3	BBB-	BBB-	Upgrade	Affirm	-
ITALY	110.651,00	36.100,00	146.751,00	-2,90%	1.861,87	607,44	2.469,31	6,30%	2,06%	8,36%	11,30%	11,65%	1,40%	0,99%	-0,04%	59,43	Baa2	BBB	BBB	Affirm	Affirm	Upgrade
KOSOVO	2,60	81,24	83,84	2,91%	0,00	45,13	46,58	0,04%	1,28%	1,32%	-	-	1,52%	4,08%	1,82%	1,80	NA	NA	NA	NA	NA	NA
LATVIA	123,71	408,65	532,36	0,23%	62,79	207,44	270,23	0,47%	1,57%	2,04%	8,80%	9,63%	4,90%	1,43%	0,15%	1,97	A3	A-	A-	Affirm	Affirm	-
LIECHTENSTEIN	2.194,13	970,96	3.166,04	-2,08%	58.666,71	25.961,41	84.653,47	37,32%	16,52%	53,85%	-	-	0,00%	0,00%	-	0,04	NA	NA	NA	NA	NA	NA
LITHUANIA	246,72	463,12	709,84	10,04%	84,78	159,15	243,93	0,61%	1,14%	1,75%	7,10%	7,85%	3,50%	2,30%	0,68%	2,91	A3	A-	A-	Affirm	Affirm	-
MACEDONIA	21,01	120,85	141,86	5,53%	10,10	58,10	68,20	0,20%	1,17%	1,37%	22,40%	23,72%	2,00%	2,41%	-0,24%	2,08	-	BB	BB-	-	Affirm	Downgrade
MOLDOVA	4,27	60,22	64,48	12,76%	1,20	16,96	18,16	0,07%	0,94%	1,01%	4,30%	4,10%	3,20%	4,10%	6,38%	3,55	B3	-	-	Affirm	Remove	-
MONTENEGRO	13,68	66,46	80,14	4,17%	21,95	106,68	128,64	0,35%	1,70%	2,05%	-	-	0,00%	0,16%	-	0,62	-	-	-	-	-	-
POLAND	5.392,56	7.274,52	12.667,08	-1,50%	140,61	189,69	330,30	1,21%	1,64%	2,85%	7,40%	8,95%	4,30%	2,68%	-0,68%	38,35	A2	A-	BBB+	Affirm	Affirm	-
ROMANIA	371,84	1.718,51	2.090,35	8,87%	18,80	86,88	105,68	0,21%	0,97%	1,18%	5,20%	5,60%	5,80%	4,81%	-1,56%	19,78	Baa3	BBB-	BBB-	Affirm	Affirm	Upgrade
RUSSIAN FEDERATION	3.380,92	15.121,06	18.501,98	44,03%	23,00	102,86	125,86	0,28%	1,25%	1,52%	5,10%	5,53%	1,90%	-0,24%	7,03%	147,01	Ba1	BBB-	BB+	Affirm	Affirm	-
SERBIA	187,31	534,62	721,93	8,50%	26,49	75,62	102,11	0,52%	1,47%	1,99%	18,50%	18,90%	2,20%	2,80%	1,20%	7,07	Ba3	BB-	BB-	Upgrade	Affirm	-
SLOVAKIA	980,16	1.007,09	1.987,25	-1,61%	180,18	185,13	365,30	1,15%	1,19%	2,34%	7,50%	9,49%	3,20%	3,29%	-0,48%	5,44	A2	A+	A+	Affirm	Affirm	Upgrade
SLOVENIA	575,97	1.457,38	2.033,34	1,48%	276,91	700,66	977,57	1,36%	3,44%	4,80%	9,50%	11,20%	4,50%	3,29%	-0,15%	2,08	Baa1	A-	A+	Upgrade	Affirm	Upgrade
SWITZERLAND	28.633,55	25.018,78	53.652,33	-2,81%	3.437,40	3.003,46	6.440,86	4,51%	3,94%	8,46%	3,20%	3,32%	0,60%	1,39%	-0,44%	8,33	Aaa	AAA	AAA	Affirm	Affirm	-
TURKEY	1.355,76	9.537,75	10.893,50	11,99%	17,05	119,96	137,01	0,17%	1,17%	1,33%	11,10%	10,93%	5,50%	3,27%	7,77%	79,51	Ba1	BB+	BB	Affirm	Affirm	-
UKRAINE	96,97	1.140,44	1.237,41	9,12%	2,28	26,81	29,09	0,11%	1,29%	1,40%	9,00%	9,30%	2,00%	2,31%	13,91%	42,53	Caa2	B-	B-	Upgrade	Affirm	Upgrade
Risk Category				>15%	<10	<50	<100	<0,5%	<1%	<2%	>15%	>15%	<0%									
AUSTRIA	8.114,91	10.538,15	18.653,06	-2,46%	942,82	1.028,65	1.971,46	2,21%	2,41%	4,61%	5,40%	6,03%	2,50%	1,59%	0,97%	8,58	Aa1	AA+	AA+	Downgrade	Affirm	-

1) Sources: Xprim 2016 Marketportfolio; Swiss Re sigma No 3/2017, local reporting

2) Sources: Xprim 2016 Marketportfolio; snl.com; Swiss Re sigma No 3/2017; World Economic Outlook (April 2017, IMF)

3) Sources: Xprim 2016 Marketportfolio; snl.com; Swiss Re sigma No 3/2017; World Economic Outlook (April 2017, IMF)

4) Sources: snl.com; Swiss Re sigma No 3/2017; World Economic Outlook (April 2017, IMF)

