ERSTE GROUP

Erste Sector Insurance

Benefitting from gaining momentum - 09 February 2011

Attractive valuation should draw investors' interest

Financials: Companies posting stronger profitability, quality of balance sheets improving

Valuation: Lowest P/E ratios for 2010 and 2011, comparison of P/B and ROE highly attractive

Growth potential: Rising GDPs to support top line growth, CEE holds additional potential

VIG remains top pick: target price lifted to EUR 50, Buy recommendation confirmed

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Executive summary

We see the insurance sector as highly attractive at the moment. The Euro Stoxx Insurance companies are currently posting strong results and constantly improving the quality of their balance sheets. The valuation of the sector is cheap, despite the enormous growth potential of the companies. An improving business environment, which is also reflected in the increasing consensus earnings estimates for the coming years, should help steer the sector to strong stock performance in 2011. In the first weeks of 2011, we have already experienced gaining momentum for the insurance sector.

Our top pick remains Vienna Insurance Group. We increase our target price to EUR 50 and therefore reiterate our Buy recommendation. VIG has high CEE exposure, ranking no. 1 in Czech Republic, Slovakia, Romania and Bulgaria (in addition to its no.1 rank in Austria). We like the company's attractive multiples and the strong balance sheet, including a solvency ratio of >200% and a war chest of more than EUR 1.2bn for further acquisitions and therefore stronger growth in the CEE region.

We upgrade our recommendation for PZU to Accumulate and reiterate our target price of PLN 400. PZU has the strongest balance sheet of our peer group and, thanks to its high financial asset position, outstanding profitability. The only flaw is the fact that PZU is still losing market share and thus does currently not participate in the fantastic CEE growth story.

UNIQA remains our less preferred share, although we also see some positive aspects, including the strong development of its top line in 2010 and an attractive Embedded Value. The company's main problem is its low profitability, which is actually due to a very poorly performing property and casualty segment. Thus, the P/E multiples (based on our estimates) are the highest among its peer group. The relatively weak balance sheet confirms our cautious stance on the share.

Insurance companies posting significant increase in premium income. 2010 was characterized by a remarkable catch-up of the overall economy. Euroland is expected to have achieved real GDP growth of 1.7%, after the slump of 4.1% in 2009. Since GDP growth is relevant for the development of the premium income of insurance companies, a favorable trend should also be reflected in the companies' top line growth, which was indeed the case in the first nine months of the previous year. The companies representing the DJ Euro Stoxx Insurance index registered, on average, top line growth of 6.8%. The driving force behind the increasing premium income was the life insurance segment, which benefited from the rising confidence that insurance companies were also able to fulfill their commitments, even in a difficult business environment. The tendency for households to increase savings resulted in a soaring amount of single premium income.

Soaring net income, improved quality of the companies' balance sheets. All in all, the 14 DJ Euro Stoxx Insurance companies were able to achieve total net income of EUR 15.7bn in the first three quarters of the year, which is a rise of 56.5% compared to the corresponding period of last year. It is worth mentioning that all 14 companies posted profits. The improving situation on the financial markets and the return to GDP growth are not only reflected in the companies' P&L, but also in the balance sheets. Due to movements in the revaluation reserves, changes in the companies' shareholders' equity positions exceeded in most of the cases the reported net profits.

Quality of balance sheet becomes more and more important. The improving quality of the companies' balance sheets can also be clarified by comparing the insurers' financial assets with the technical reserves, which represent the future liabilities of the companies. The higher the ratio, the better a company is funded. The financial assets should – at any time – cover the company's technical reserves. The quality of the balance sheets can also be measured by looking at the reported solvency ratios. All major composite insurance companies within our peer group reported solvency ratios significantly exceeding the minimum required 100%. However, since the quality of an insurance company's balance sheet becomes more and more important (especially with regards to Solvency II), we would strongly recommend investors to take this into consideration.

Debt problems in peripheral Europe among the main concerns of investors. The main issues European insurers have to deal with are the debt problems in peripheral Europe, which could impact investment results or lead to an impairment of financial assets. We also see investor concerns about the current low interest rate, which could lead to some problems for companies having policies open that were signed between 1995 and 2000 with guaranteed annual payments of more than 4% for the lifespan of the policies. Uncertainties remain with regards to

Solvency II, which should come effective on Jan. 1, 2013. A possible softening (lower prices for premiums) is also mentioned in our report.

Huge catch-up potential of the CEE region. The European insurance market cannot be seen as homogenous, nor can the different regions be viewed as uniform. In general, it can be stated that Western Europe is quite developed, while the CEE/SEE region has a huge catch-up potential. In Western Europe, the Netherlands and the UK have the highest insurance penetration rates (i.e. insurance premium income in % of total GDP). Most Western European countries are currently reporting insurance penetration rates of 6-10%. The CEE region can be divided into a quite developed market and a less developed market. Some markets like Turkey, Romania and Serbia record insurance penetration rates of below 2%, while in developed markets such as the Czech Republic, 4% or more of GDP is generated through insurance premium income. A look at insurance density confirms the gap between the Western European markets and the CEE/SEE ones. These figures clearly show the huge catch-up potential of the CEE region.

Gaining momentum for insurance sector. 2010 was not a good year for insurance stocks. While most sectors in the Euro Stoxx Index recorded increasing share prices, the Euro Stoxx Insurance Index registered a price decline of 8.7%. Hence, it was the fourth worst performing sector last year. However, it should also be mentioned that demand for insurance stocks significantly increased in the first weeks of the current fiscal year. The Euro Stoxx Insurance Index climbed by approximately 13% in January 2011, making the sector the second strongest (behind banks) in the current young year. Thus, the sector shows a clearly gaining momentum at present.

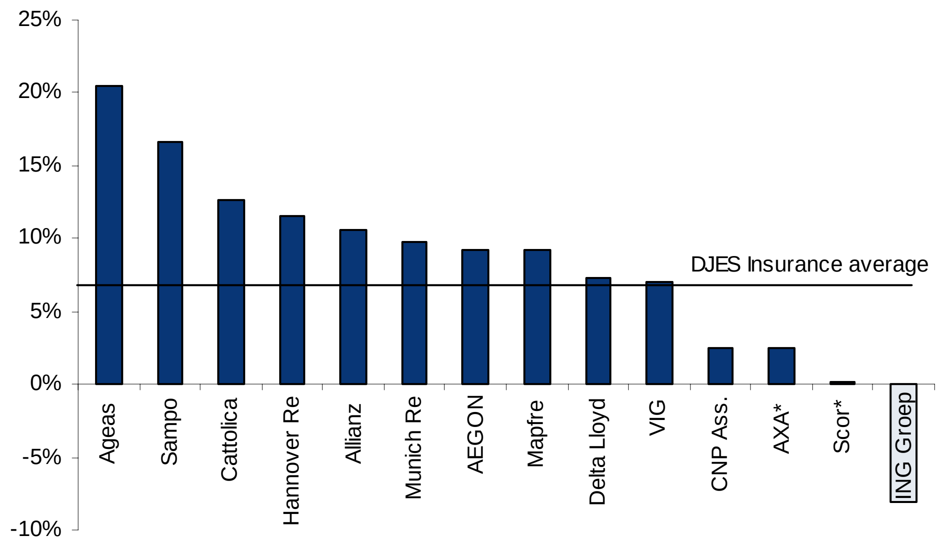
A look at the valuation shows that the insurance sector is traded at very attractive multiples. The P/E ratios for 2010 and 2011 are the lowest among all Euro Stoxx sectors. At the moment, the P/E ratio for 2010 stands at 9.5x; for 2011 and 2012, the consensus calculates 8.4x and 7.8x, respectively. Thus, the earnings yield for 2011 and 2012 amounts to 11.9% and 12.8%, respectively. A look at the comparison between P/B multiple and ROE confirms the picture that insurance companies are currently traded at rather low prices. The graph below shows the actual P/B and ROE figures based on the estimates for 2011. The ROE for insurance companies is calculated at 10.5%. According to the regression line, we could see a P/B multiple of some 1.2x. However, the current P/B multiple for 2011 amounts to 0.9x. This shows that investors are looking for a significant risk premium for investing in insurance companies. With regards to the P/B and ROE comparison, the insurance sector is one of the cheapest sectors at the moment.

Market development in 2010

Recovery on global scale supports industry. 2010 was characterized by a remarkable catch-up of the overall economy. Euroland is expected to have achieved real GDP growth of 1.7%, after the slump of 4.1% in 2009 (source: Eurostat). However, the growth dynamics varied from region to region. While many countries (e.g. Germany +3.7% and Finland +2.9%) presented significant growth rates, some countries were not able to achieve any GDP growth at all (Spain -0.2%, Greece -4.2%). The United States recorded GDP growth of 2.7%, Japan 3.5%. Thus, the situation of the overall economic environment is constantly improving; however, it remains somewhat uncertain. For 2011, we can expect the economic recovery to continue. Nevertheless, growth rates are very likely to moderate, as a result of the significantly increased sovereign debt.

Insurance companies with improving top-line. Since GDP growth is relevant for the development of the premium income of insurance companies, a favorable trend should also be reflected in the companies' top line growth, which was indeed the case in the first nine months of the previous year, as seen in the graph below. The companies representing the DJ Euro Stoxx Insurance index registered, on average, top line growth of 6.8%. Ten companies were able to beat this average, with Ageas (+20.4%) and Sampo (+16.6%) leading the way. ING Groep was the only company with a negative growth rate (-8.1%). French insurers Scor, AXA and CNP reported growth rates between 0.1% and 2.5%.

1-3Q10 premium income development (y/y)



**1-2Q10 premium income*

Source: Company data

Particularly strong development of life insurance sector. The driving force behind the increasing premium income was the life insurance segment, which benefited from the rising confidence that insurance companies were also able to fulfill their commitments, even in a difficult business environment. The tendency for households to increase savings resulted in a soaring amount of single premium income. Consequently, the main composite insurance companies of the DJ Euro Stoxx index reported strong growth rates in the life segment, but only moderate growth of the non-life business. The table below shows the premium income development of Allianz, AXA, Generali, Mapfre, Sampo and Vienna Insurance Group.

1-3Q premium income development of main composite insurers (EURmn)

Life	2009	2010	*ch %*
Allianz	35,567	42,033	*18%*
AXA	42,706	43,970	*3%*
Generali	34,237	37,272	*9%*
Mapfre	2,677	3,126	*17%*
Sampo	513	827	*61%*
VIG	2,521	2,940	*17%*

Non-life	2009	2010	*ch %*
Allianz	33,640	34,545	*3%*
AXA	20,524	21,389	*4%*
Generali	16,175	16,557	*2%*
Mapfre	9,225	9,746	*6%*
Sampo	2,889	3,142	*9%*
VIG	3,585	3,599	*0%*

Source: Company data

Diverse trends in different business lines. However, it is not the case that life insurance is booming in every European country. A comparison of the premium income development in the different countries of Allianz, Generali and Vienna Insurance Group shows diverse trends. In Germany, all three companies reported strong gains in life insurance premium income. The insurers' association in Germany GDF announced an estimated increase of 6.8% in life insurance premium income in 2010 (after +7.1% in 2009). In the property and casualty business, the official estimate amounted to 0.7% growth in 2010 (after +0.2% in 2009).

Shift of market shares among companies. In some other Western European countries, it is hard to find exact trends. In France, for example, Allianz reported strong growth in life insurance business, while Generali recorded a significant decline in premium income in the life segment. On the other side, Generali increased its premium income in the non-life segment, while Allianz registered a decrease. This also shows that the insurance sector is currently facing a shift of market shares among the companies. Spain can be mentioned as one of the countries experiencing a decline in both premium income in the life and non-life segments.

Selective premium income development of Allianz, Generali and VIG

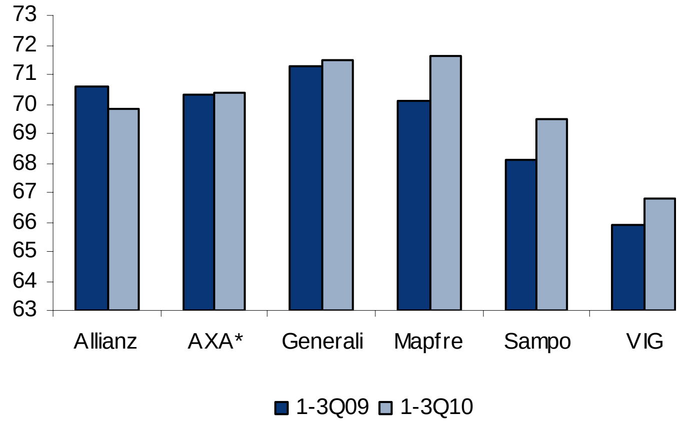
Life	Allianz	Generali	VIG
DE	11%	12%	6%
IT	15%	15%	-
FR	17%	-13%	-
ES	-4%	-23%	-
AT	-10%	9%	14%
CH	9%	1%	-
CEE	13%	-2%	17%

Non-life	Allianz	Generali	VIG
DE	-3%	-1%	2%
IT	-5%	1%	-
FR	-2%	4%	-
ES	-1%	-6%	-
AT	-1%	0%	-1%
CH	6%	4%	-
CEE	0%	-3%	1%

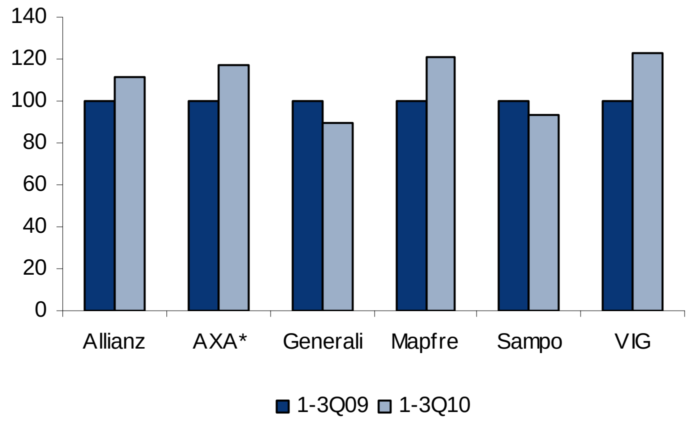
Source: Company data

Increasing profitability. 2010 was characterized by heavy burdens from natural catastrophes that resulted in higher claims ratios and therefore also higher combined ratios. On the other side, there were strong investment results, due to a friendly financial market environment.

Development of claims ratios



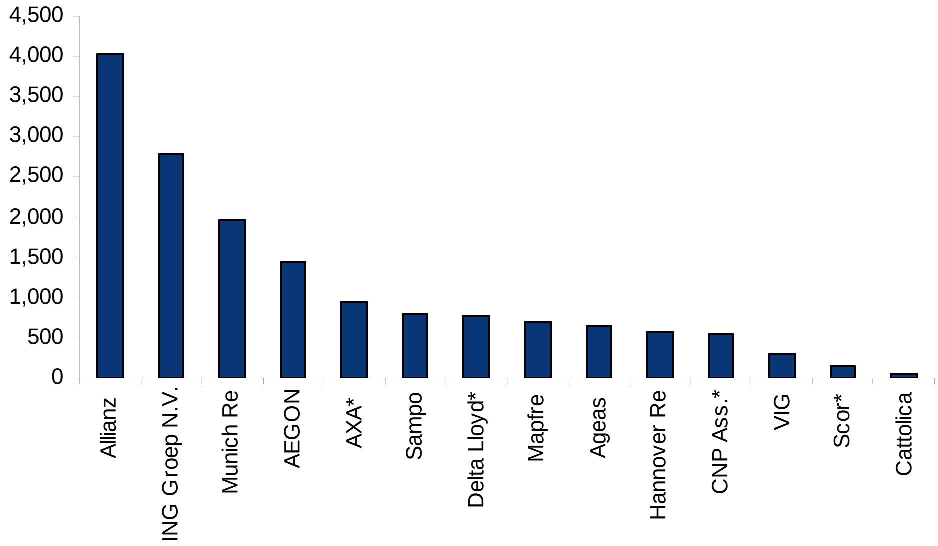
Development of investment income (in % of 1-3Q09)



**1-2Q10 figures*
Source: Company data

Net income increased by almost 57% in 1-3Q10. All in all, the 14 DJ Euro Stoxx Insurance companies were able to achieve total net income of EUR 15.7bn in the first three quarters of the year, which is a rise of 56.5% compared to the corresponding period of last year (AXA, Delta Lloyd, CNP and Scor figures as of 1-2Q10). It is worth mentioning that all 14 companies posted profits. Thus, ING Groep and AEGON (reporting losses in 1-3Q09) impressively turned positive. However, not all companies recorded improving results - five companies posted a declining net result compared to last year (AXA, Mapfre, Ageas, Hannover Re and Scor).

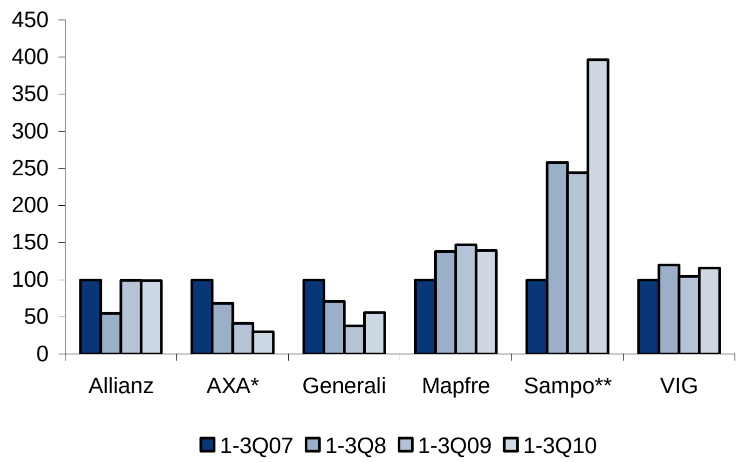
1-3Q10 net income (EURmn)



**1-2Q10 net income*
Source: Company data

For Mapfre, the decline in the net result was the first in the last three years and hence something to get over. AXA on the other side registered falling 1-2Q results for the third time in a row. Other companies like Allianz have now reached the level of 2007 again; in the cases of Mapfre, Sampo and VIG, they have exceeded this level. The graph below shows the development of the bottom line of the big composite insurers of Euroland in relation to their net results in 2007.

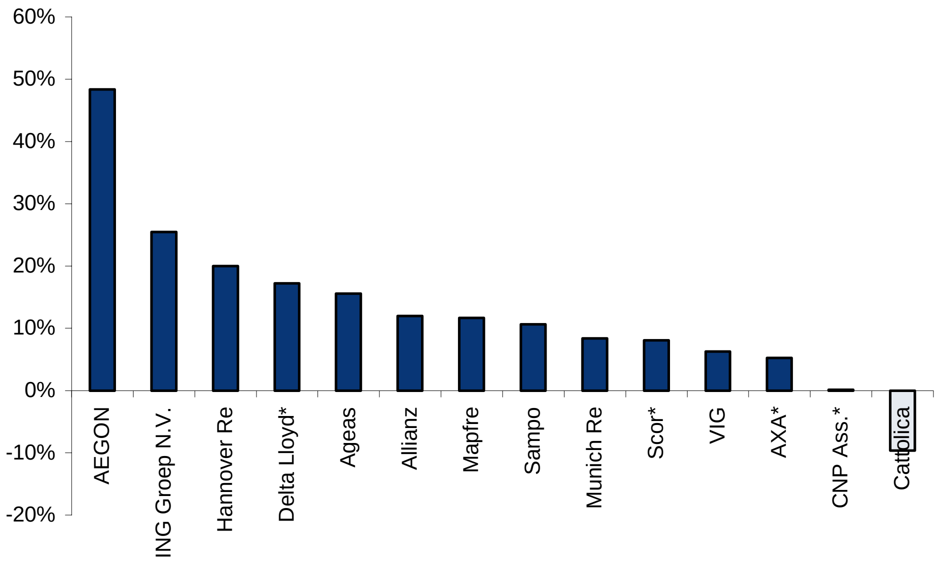
Development of net income (based on 1-3Q07 figures)



**1-2Q10 net income, **excl. discontinuing operations*
Source: Company data

Significantly improved quality of balance sheets. The improving situation on the financial markets and the return to GDP growth are not only reflected in the companies' P&L, but also in the balance sheets. Due to movements in the revaluation reserves, changes in the companies' shareholders' equity positions exceeded in most of the cases the reported net profits. Especially the Dutch insurers AEGON and ING Groep benefited from this issue. AEGON, for example, showed an increase of almost 50% compared to the shareholders' equity as of YE09. The total equity of all 14 on the DJ Euro Stoxx listed companies amounted to EUR 233.8bn, which is a rise of 13.8% compared to the equity positions as of end-2009.

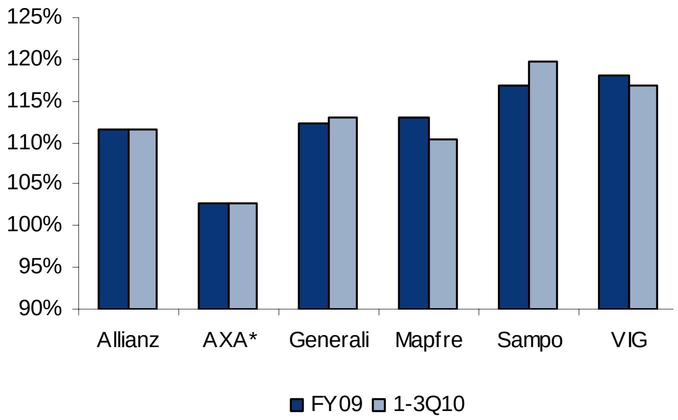
Shareholders' equity development 3Q10 compared to FY09



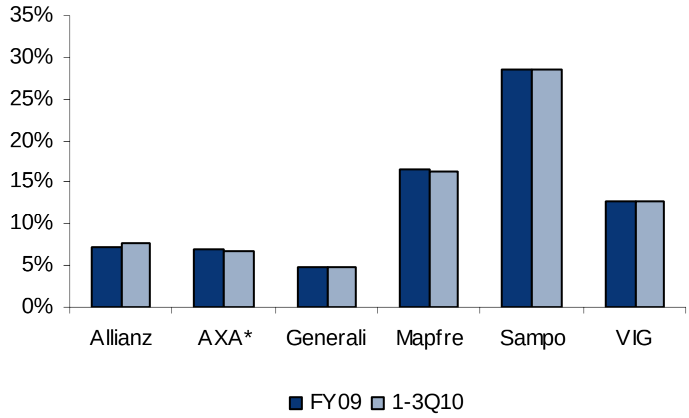
**Shareholders' equity after 2Q10*
Source: Company data

The improving quality of the companies' balance sheets can also be clarified by comparing the insurers' financial assets with the technical reserves, which represent the future liabilities of the companies. The higher the ratio, the better a company is funded. The financial assets should – at any time – cover the company's technical reserves. The highest multiples among our peer group are presented by Sampo and Vienna Insurance Group (119.7% and 116.9%, respectively, as of 3Q10). AXA has the weakest balance sheet according to this ratio within our peer group, but still has financial assets exceeding technical reserves by almost 3%.

Financial assets / technical reserves as of 3Q10



Equity ratios as of 3Q10



**1-2Q10 figures*
Source: Company data

The quality of the balance sheets can also be measured by looking at the reported solvency ratios. All major composite insurance companies within our peer group reported solvency ratios significantly exceeding the minimum required 100%. Vienna Insurance Group did not announce a detailed figure. However, the company states that its solvency ratio exceeded 200% in 3Q10. AXA reported 188%, Allianz 168%, Sampo 167% and Generali 150%. Mapfre did not disclose a figure after the first nine months of 2010, but reported a strong 285% at the end of 2009. The companies' equity ratios show an outstanding Sampo (28.6%), as well as strong Mapfre (16.3%) and Vienna Insurance Group (12.6%).

Main issues for insurers

Insurance companies are currently confronted with a lot of issues and therefore investors are concerned about the future performance of the sector.

Debt problems in peripheral Europe. One of the most mentioned topics in this context are the debt problems in peripheral Europe, which could impact the companies' investment results or lead to an impairment of the financial assets. This is certainly true; however, many insurance companies have only a limited exposure to the PIGS states. Allianz reported a government and government related fixed income portfolio exposure of 4% for Spain as of its 1-3Q10 results. Generali and Vienna Insurance Group's sovereign debt exposure to PIGS states is – on the other side – well below 1% of their financial assets.

Another point to consider is the fact that, in many countries (such as Germany and Austria), the main performance risk in the life segment is borne by the policy holders, since a predominant part of the performance of the investments covering the technical reserves of a company have to be allocated to the policy holder (as excess profit on top of the guaranteed payments and flexible payments). At this point, we also want to point out the above-mentioned ratio 'financial assets to technical reserves', which in most cases includes a nice cushion for insurance companies (see page 8).

Low interest landscape. Mentioning guaranteed and flexible payments brings us to the next fear of investors, which is the current low interest landscape. It is the current low level of interest rates that theoretically could lead to problems for those insurance companies that have a large amount of policies open that were signed between 1995 and 2000, having guaranteed annual payments of some 4% for the lifespan of the policies.

For this reason, some responsible authorities in Europe are (or have been) thinking about a cut in the guaranteed payments. Germany, for example, is considering cutting the guaranteed minimum interest rate to 1.75% (from 2.25%). In Austria, the minimum rate will be reduced to 2% (from 2.25% as of April 2011). However, we do not see the insurance companies experiencing big trouble. Indeed, the currently low interest rates will force most insurance companies to reduce the guaranteed/flexible payments. But this should not be a serious problem for most of the companies. Allianz (for example) stated recently that it will cut the interest rate to 4.1% (from 4.3%) for new policies. This shows that the flexible amount of the interest rate is big enough to absorb any negative impact deriving from the currently low interest rates and sufficient profitability on financial assets.

Softening premium income. Another concern investors might have is a possible further softening of the premium income. Although a general hardening of the markets cannot be expected in all markets, it can be stated that, in many countries, insurance companies have already started to increase prices. In its presentation of the 1-3Q10 results, Allianz estimated a rather neutral pricing trend in the German-speaking countries, with ongoing price pressure on the motor segment. An early hardening was not expected, despite some companies already announcing price increases.

In France, market prices are already increasing, especially in the non-motor and commercial segment. Italy is reporting price increases in the motor segment, but strong competition in the non-motor segment. Spain is currently facing first signs of motor retail, but other segments are still impacted by recession. In the UK, the hardening of the motor market is continuing, but the non-motor segment remains under-priced. All in all, there is no uniform picture, but in many countries the evidence suggests a trend to price increases, i.e. hardening of the markets.

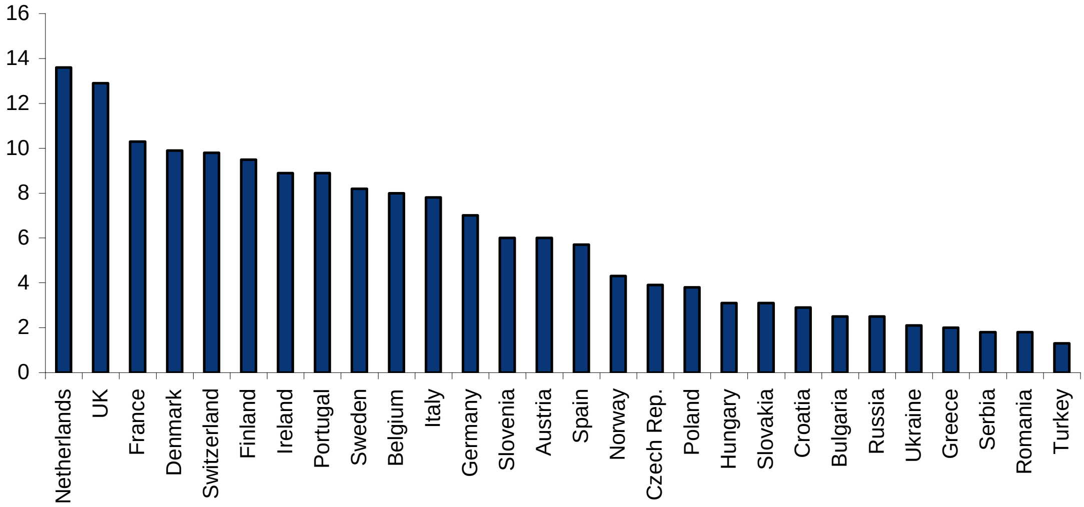
Solvency II. The updated set of regulatory requirements of European insurance companies is planned to come into effect on January 1, 2013. The three main areas of Solvency II are (1) the quantitative requirements that will possibly force some insurance companies to strengthen their shareholders' equity, (2) requirements for risk management and (3) disclosure requirements.

It is rather clear that the first point is the most interesting. We hear controversial discussions about the capital adequacy requirements of certain asset classes; we think, however, that a final version of Solvency II is a long way off. Several transition periods could further complicate reaching the goal of clear standards. For the time being, we do not see a big impact on insurance companies in the near future. However, we would recommend investors have a close look at company balance sheets.

Insurance market in Europe

CEE region with low insurance penetration. The European insurance market cannot be seen as homogenous, nor can the different regions be viewed as uniform. In general, it can be stated that Western Europe is quite developed, while the CEE/SEE region has a huge catch-up potential. In Western Europe, the Netherlands and the UK have the highest insurance penetration rates (i.e. insurance premium income in % of total GDP). While in the Netherlands, health insurance is the driving force behind the high insurance penetration rate (the Netherlands and Germany together account for two thirds of the health insurance premium income in Europe), the UK is strongly supported by the premium income of the life insurance segment. Most Western European countries are currently reporting insurance penetration rates of 6-10%.

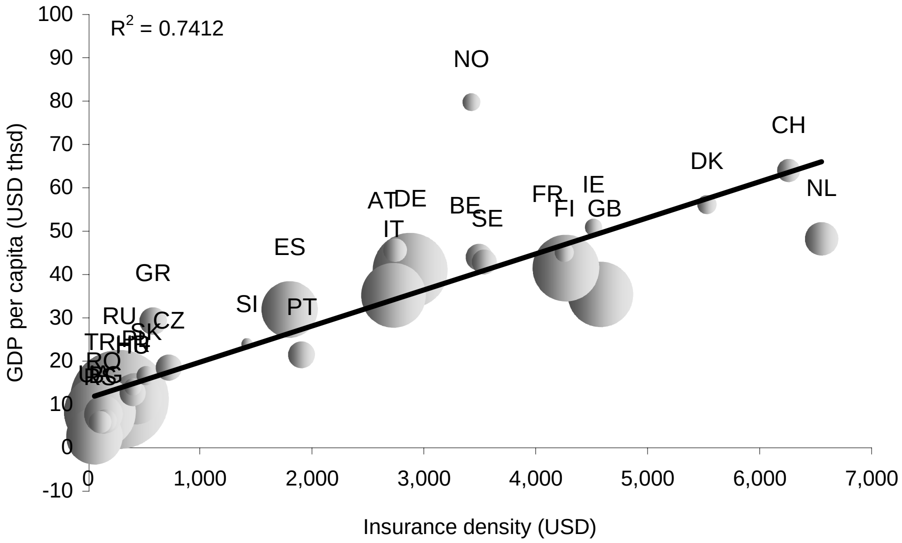
Insurance penetration (as of 2009)



Source: Swiss Re Sigma, Erste Group Research

The CEE region can be divided into a quite developed market and a less developed market. Some markets like Turkey, Romania and Serbia record insurance penetration rates of below 2%, while in developed markets such as the Czech Republic, 4% or more of GDP is generated through insurance premium income.

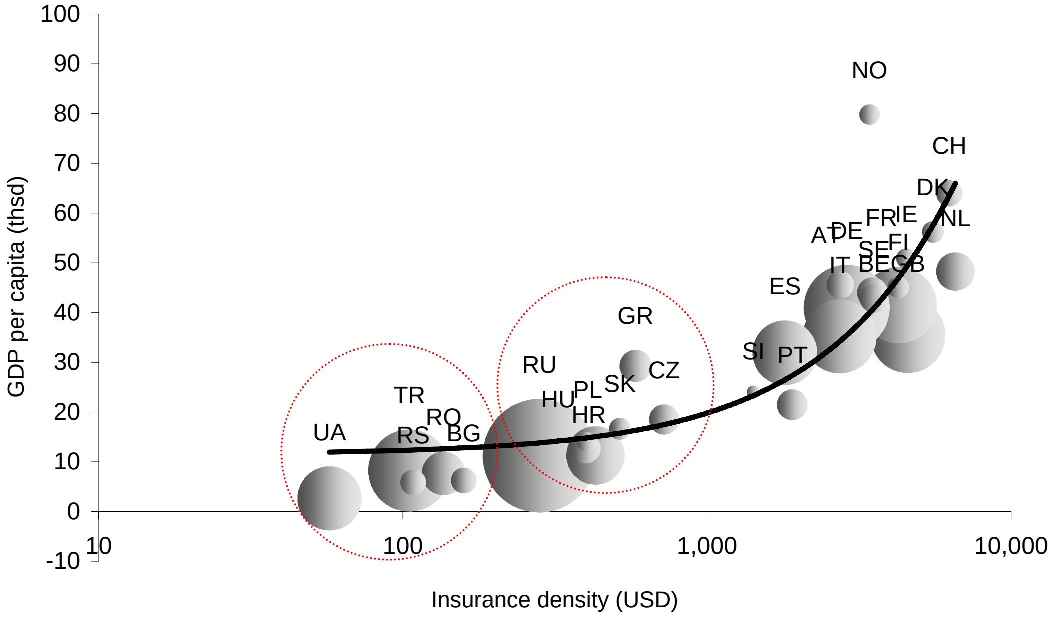
Insurance density in comparison with GDP per capita (in USD, 2009)
(Bubble size reflects population of countries)



Source: Swiss Re Sigma, Erste Group Research

A look at insurance density confirms the gap between the Western European markets and the CEE/SEE ones. Insurance density is the absolute amount of premium income per capita, which we compare with the GDP per capita in the graph below. We see a clear correlation between the wealth of a country (measured in GDP per capita) and the expenditure on insurance contracts. It can also be seen that CEE/SEE countries are far behind Western European ones. The same graph, but logarithmized, shows three different groups of countries: the mature Western European countries; the developed CEE countries; and the undeveloped CEE countries.

Insurance density in comparison with GDP per capita II (in USD, 2009)

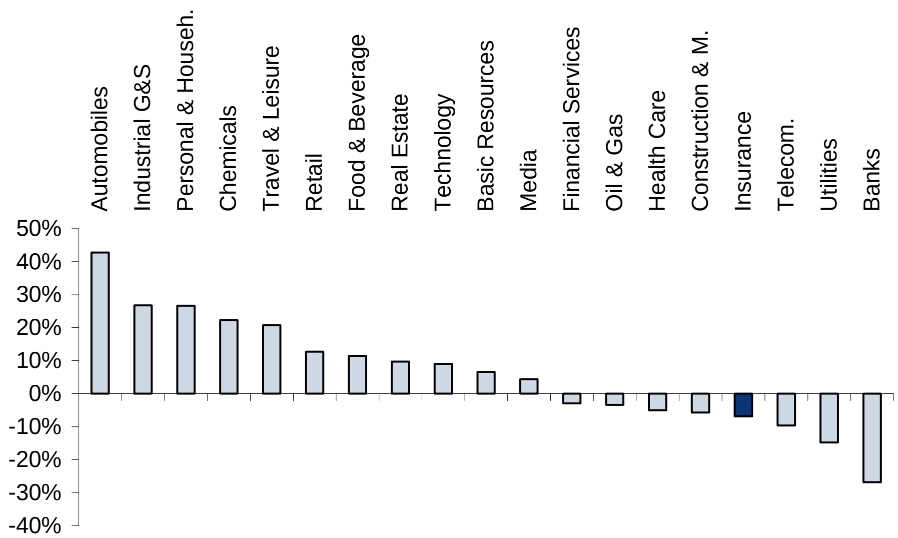


Source: Swiss Re Sigma, Erste Group Research

Sector performance and valuation

2010 was not a good year for insurance stocks. While most sectors in the Euro Stoxx Index recorded increasing share prices, the Euro Stoxx Insurance Index registered a price decline of 8.7%. Hence, it was the fourth worst performing sector last year. Only telecoms, utilities and banks reported worse share price performances.

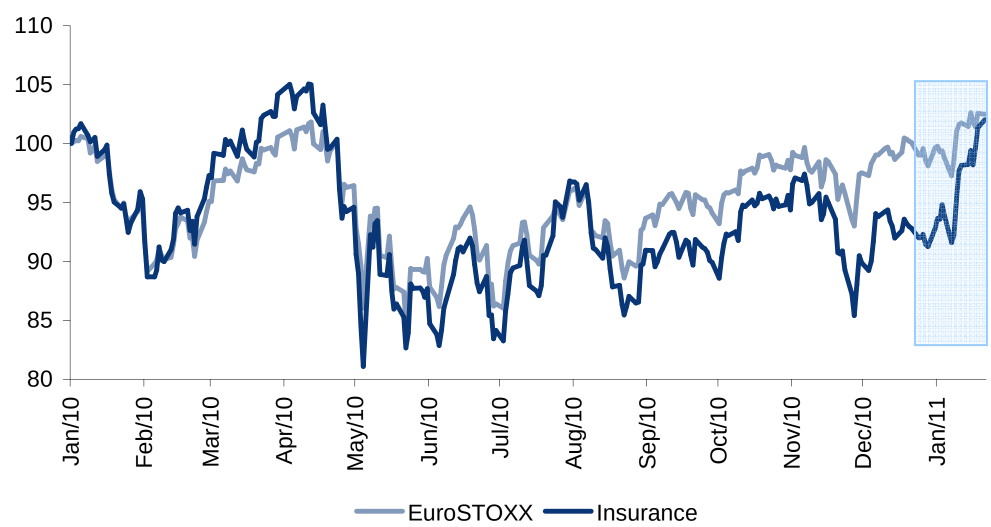
Euro Stoxx segments' price development in 2010



Source: FactSet

The bad performance of the big segments insurance companies, telecoms, utilities and banks were also responsible for an overall slightly negative performance of the Euro Stoxx Index, which dropped by 1.9% in 2010. However, the insurance sector had a good start in 2010, with an index price increase of some 5% until April. The escalation of the crisis around the Greek sovereign debt made the sector an under-performer within a short period of time. At the end of the previous year, the insurance sector had lost around 4% compared to the broad Euro Stoxx Index. However, it should also be mentioned that demand for insurance stocks significantly increased in the first weeks of the current fiscal year. The Euro Stoxx Insurance Index climbed by approximately 11% in the first three weeks of 2011, making the sector the second strongest (behind banks) in the current young year. Thus, the sector shows a clearly gaining momentum at present.

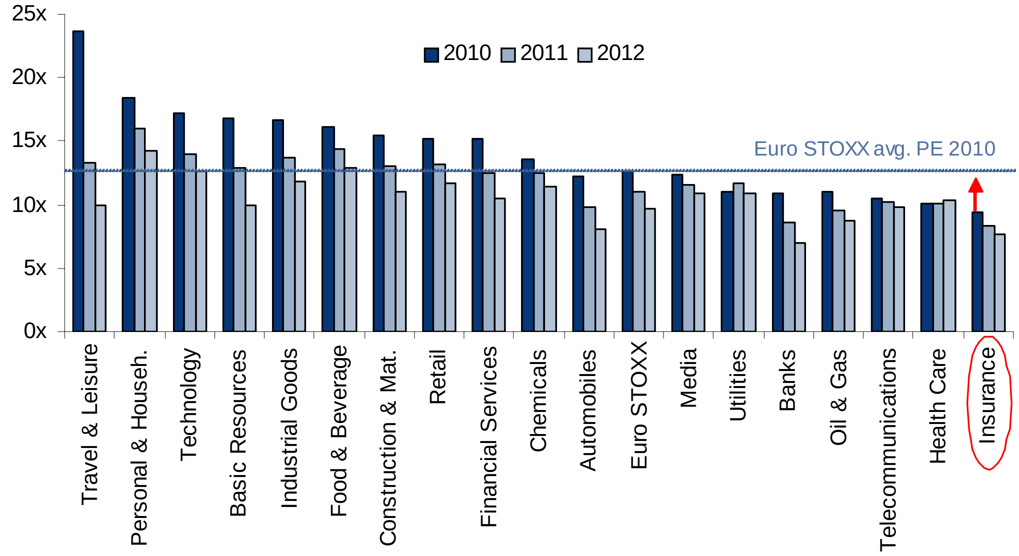
Insurance sector performance vs. Euro Stoxx since 2010



Source: Reuters

Insurance companies with lowest P/E multiples. A look at the valuation shows that the insurance sector is traded at very attractive multiples. The P/E ratios for 2010 and 2011 are the lowest among all Euro Stoxx sectors. At the moment, the P/E ratio for 2010 stands at 9.5x; for 2011 and 2012, the consensus calculates 8.4x and 7.8x, respectively. Thus, the earnings yield for 2011 and 2012 amounts to 11.9% and 12.8%, respectively.

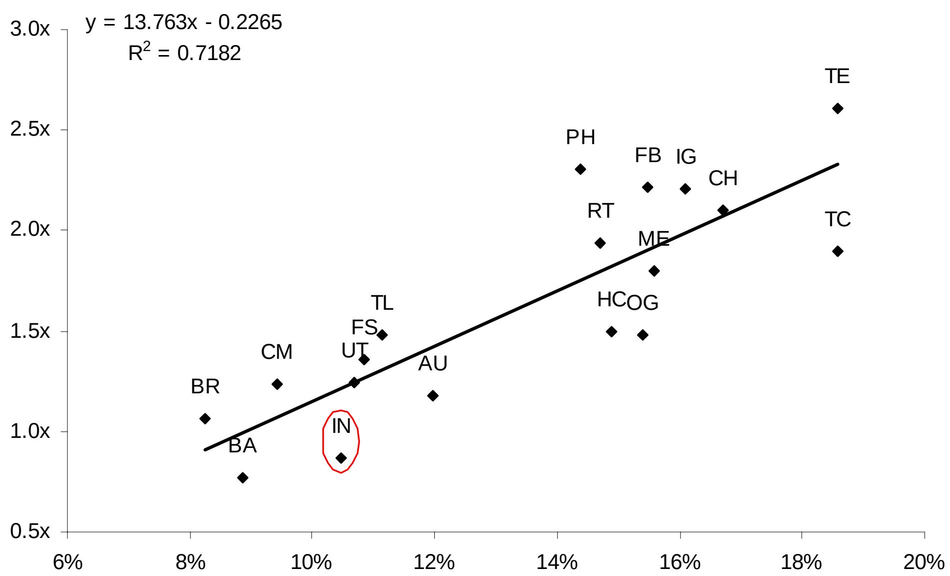
Euro Stoxx P/E 2010, 2011 and 2012 multiples



Source: FactSet

P/B and ROE comparison confirms picture. A look at the comparison between P/B multiple and ROE confirms the picture that insurance companies are currently traded at rather low prices. The graph below shows the actual P/B and ROE figures based on the estimates for 2011. The ROE for insurance companies is calculated at 10.5%. According to the regression line, we could see a P/B multiple of some 1.2x. However, the current P/B multiple for 2011 amounts to 0.9x. This shows that investors are looking for a significant risk premium for investing in insurance companies. With regards to the P/B and ROE comparison, the insurance sector is one of the cheapest sectors at the moment.

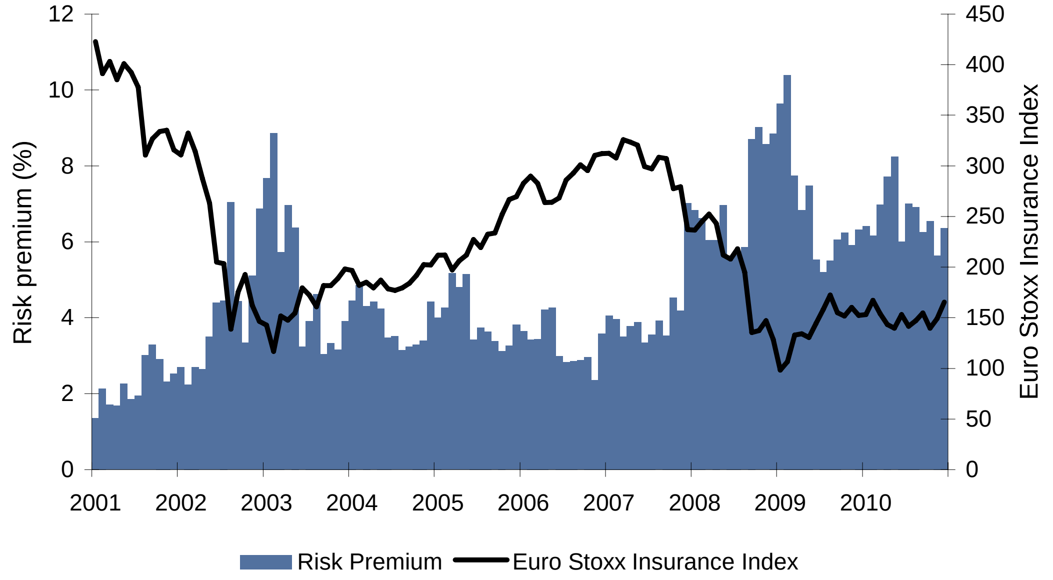
Sector comparison based on P/B and ROE (2011)



Source: FactSet

Declining risk premium. The risk premium is defined as the difference between the earnings yield and the 10-year government bond yield. Although we have noticed a significant decline from more than 1,000 basis points in March 2009 to a more moderate level today, the current 635 basis points are still clearly higher than the 10-year average of 474. A drop of the risk premium to the 10-year average would actually imply an earnings yield of 8.3% and therefore a P/E of some 12x.

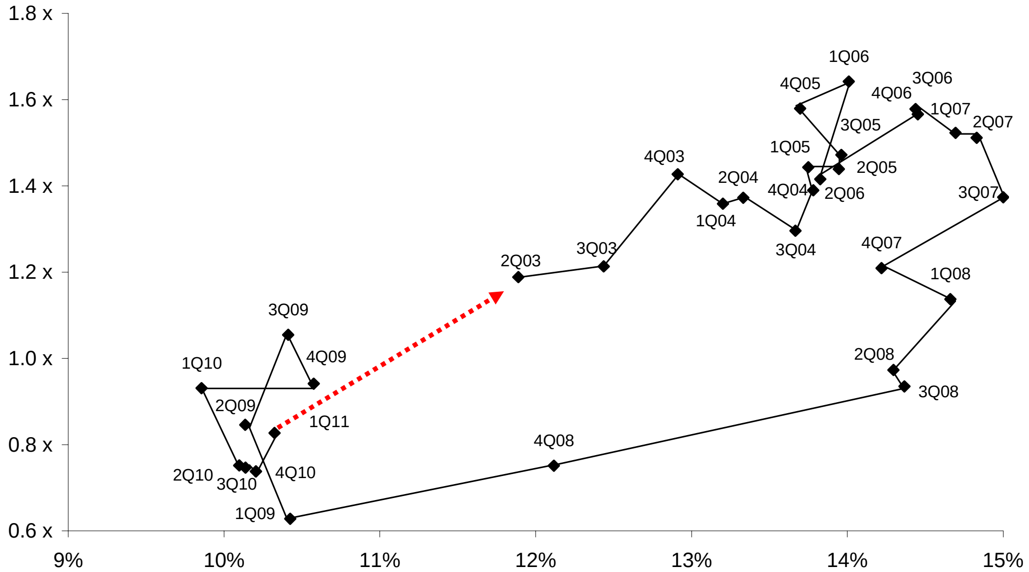
Risk premium development since 2001



Source: FactSet

A look at the P/B and ROE development of the Euro Stoxx Insurance Index shows that the price of the index strongly correlates with the development of the sector's profitability. During the beginning of the last decade, insurance companies constantly increased their ROE, despite rising levels of shareholder equity. The rising profitability of the sector was appreciated by investors until 2007. Falling share prices led to declining P/B multiples. In 2008, analysts had to reduce their profit estimates. These negative earnings revisions were reflected in significantly dropping ROEs. At the moment, the insurance sector is facing stabilizing ROEs as well as low P/B multiples. Rising profitability in the next two years should lead a closing of the 10-year ROE-P/B cycle.

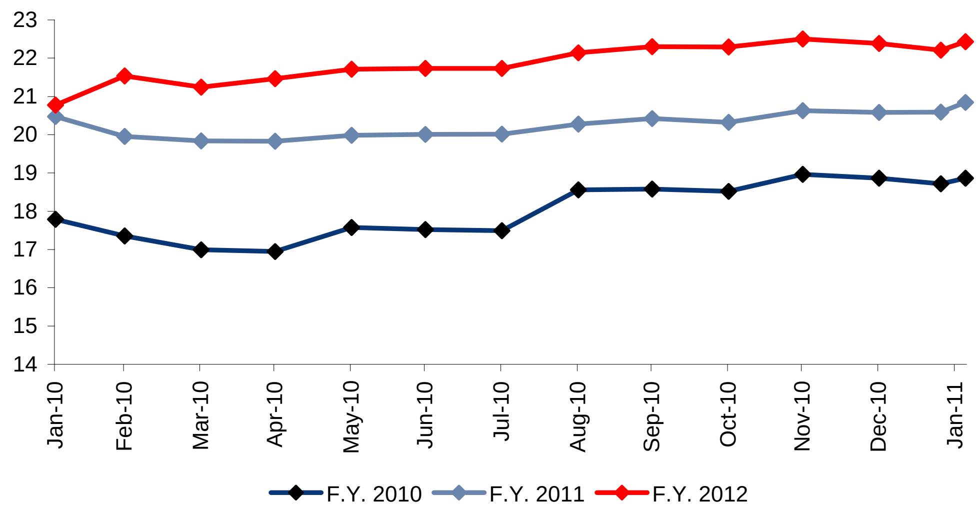
Euro Stoxx Insurance Index - P/B and ROE development



Source: FactSet

Looking at the earnings revisions, it can be seen that the consensus expects growing profits in 2011 and 2012. The Euro Stoxx Insurance Index is – like most other sectors – currently experiencing generally positive earnings revisions. The estimates for 2010-12 are today higher than one year ago.

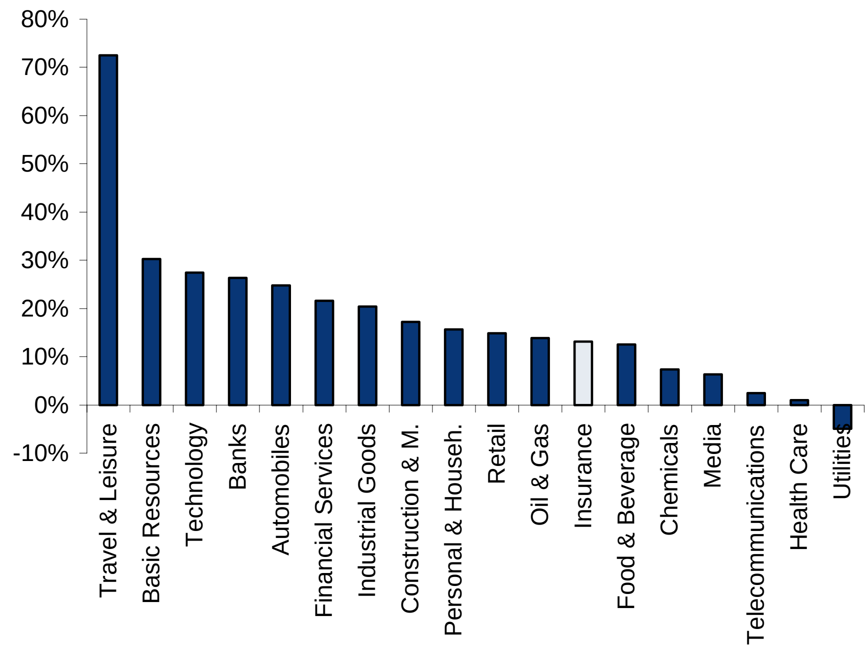
EPS estimates trend (2010-12)



Source: FactSet

At the moment, analysts are looking for EPS growth of 11% in 2011 and a further 8% in 2012. These figures may provide an additional explanation for the rather poor performance of the sector. Comparing the estimated growth with other industries, it is clear that analysts are not too enthusiastic about the earnings growth of the sector.

Expected EPS growth (2011)



Source: FactSet

Peer group comparison

A peer group comparison shows that companies with the highest P/E ratios are supposed to present the highest earnings growth rates in the coming years. The volatile growth rates in 2010 and 2011 are caused by negative or weak results in 2009 on the one side and some one-off effects on the other. The dividend yield of the sector is very attractive at the moment. The average dividend yield amounts to 4% for fiscal year 2010 and will increase to more than 5% by 2012.

Peer group comparison – based on consensus estimates
Euro Stoxx Insurance companies, UNIQA and PZU

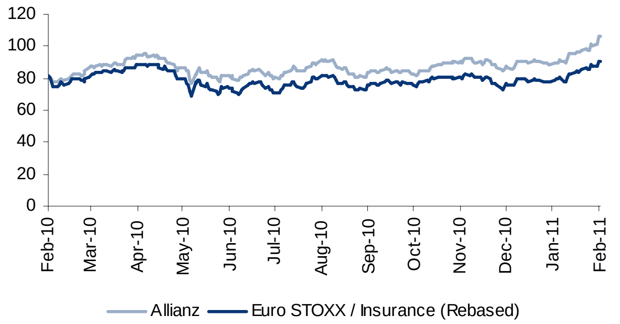
					P/E			Earnings growth	
	Country	Price	Mcap	2010	2011	2012	2010	2011	2012
Aegon N.V.	Netherl.	5.58	9,685	6.7x	8.1x	7.2x	n.m.	-17.7%	11.9%
Ageas N.V.	Belgium	2.32	5,701	8.6x	12.2x	10.5x	-42.4%	-29.5%	15.8%
Allianz SE	Germany	106.10	48,159	9.4x	8.8x	8.2x	18.1%	6.8%	7.6%
Assicurazioni Generali S.p.A.	Italy	16.79	26,140	13.8x	11.1x	10.2x	31.9%	25.1%	8.6%
AXA S.A.	France	15.88	36,850	9.3x	7.9x	7.6x	11.1%	16.9%	4.6%
Cattolica Assicurazioni S.p.A.	Italy	20.03	1,083	13.4x	9.5x	9.2x	34.2%	42.0%	2.5%
CNP Assurances	France	16.86	10,014	9.3x	8.5x	8.0x	7.7%	8.8%	6.9%
Delta Lloyd N.V.	Netherl.	19.06	3,193	4.2x	8.3x	7.9x	n.m.	-49.8%	5.3%
Hannover Rueckversicherungs AG	Germany	43.01	5,187	7.2x	8.1x	8.1x	-1.7%	-11.1%	0.5%
ING Groep N.V.	Netherl.	8.99	34,434	9.3x	6.4x	5.9x	n.m.	44.5%	9.4%
Mapfre S.A.	Spain	2.70	8,133	8.7x	8.4x	7.9x	-3.8%	3.2%	6.3%
Muenchener Rueckversicherungs-G.	Germany	122.50	23,087	9.4x	9.3x	8.6x	0.6%	1.2%	7.7%
Sampo Oyj	Finland	21.95	12,320	11.2x	10.5x	9.7x	71.2%	7.1%	8.1%
Scor SE	France	20.81	3,906	10.3x	8.7x	8.2x	-2.4%	18.8%	6.3%
Vienna Insurance Group	Austria	42.18	5,398	13.9x	12.0x	10.9x	14.2%	16.1%	9.8%
UNIQA Versicherungen AG	Austria	16.50	2,359	22.9x	20.1x	20.1x	119.0%	13.8%	0.0%
Powszechny Zaklad Ubezpieczen S.A.	Austria	91.05	7,862	13.1x	11.0x	10.3x	-34.3%	18.6%	7.3%

		P/B			ROE			Dividend yield	
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Aegon N.V.	0.6x	0.6x	0.5x	8.9%	7.3%	7.6%	0.0%	1.4%	4.5%
Ageas N.V.	0.7x	0.6x	0.6x	7.6%	5.2%	5.7%	3.4%	3.9%	4.3%
Allianz SE	1.1x	1.0x	0.9x	11.4%	11.5%	11.5%	4.2%	4.7%	5.0%
Assicurazioni Generali S.p.A.	1.4x	1.4x	1.2x	10.3%	12.2%	12.1%	3.0%	3.6%	3.9%
AXA S.A.	0.8x	0.8x	0.7x	9.0%	9.6%	9.2%	4.4%	5.0%	5.4%
Cattolica Assicurazioni S.p.A.	0.8x	0.7x	0.7x	5.8%	7.9%	7.7%	4.3%	4.9%	5.0%
CNP Assurances	0.8x	0.8x	0.8x	9.1%	9.3%	9.7%	4.5%	4.7%	5.1%
Delta Lloyd N.V.	0.8x	0.7x	0.7x	18.3%	8.7%	8.6%	4.8%	5.2%	5.5%
Hannover Rueckversicherungs AG	1.1x	1.1x	1.0x	15.8%	13.0%	12.2%	5.3%	4.9%	5.1%
ING Groep N.V.	0.8x	0.8x	0.7x	9.0%	11.9%	12.0%	0.0%	0.0%	3.9%
Mapfre S.A.	1.2x	1.1x	1.0x	13.6%	13.3%	12.9%	5.6%	5.9%	6.3%
Muenchener Rueckversicherungs-G.	1.0x	0.9x	0.9x	10.3%	9.9%	10.1%	5.1%	5.1%	5.2%
Sampo Oyj	1.4x	1.3x	1.2x	12.6%	12.6%	12.7%	5.0%	5.2%	5.6%
Scor SE	1.0x	0.9x	0.9x	9.2%	10.8%	10.5%	4.8%	5.3%	5.8%
Vienna Insurance Group	1.3x	1.2x	1.1x	9.3%	10.0%	10.3%	2.4%	2.6%	2.9%
UNIQA Versicherungen AG	1.7x	1.6x	1.5x	7.4%	8.1%	7.7%	2.4%	2.4%	2.4%
Powszechny Zaklad Ubezpieczen S.A.	2.5x	2.1x	1.9x	18.9%	19.4%	18.9%	3.4%	4.4%	4.7%

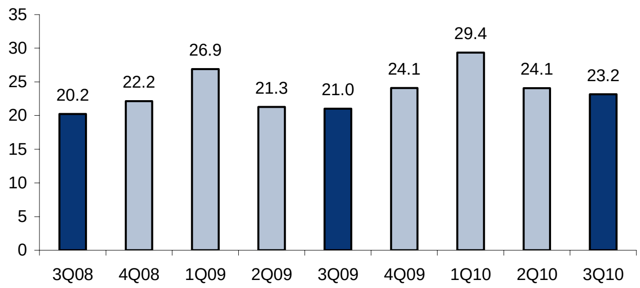
Source: FactSet

ALLIANZ

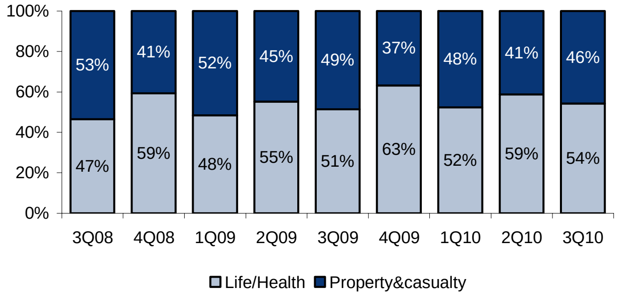
Share price development



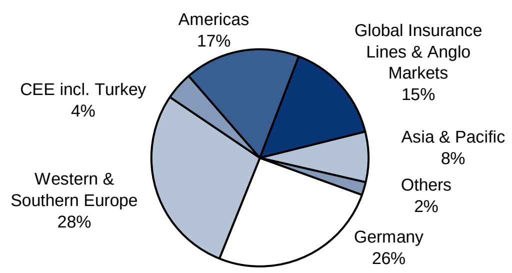
Gross written premiums (EURbn)



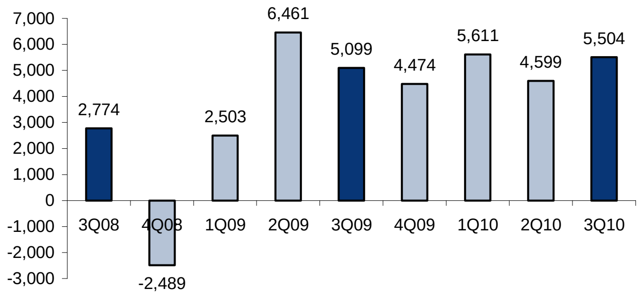
Segmental premium split



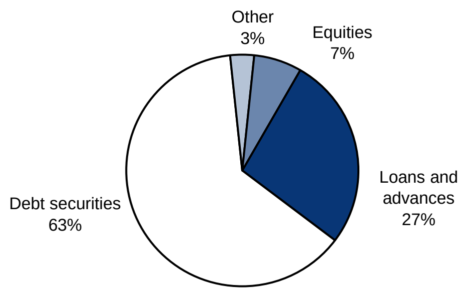
Geographical premium split (3Q10)



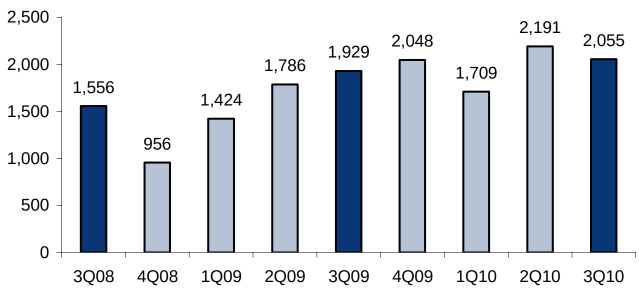
Net investment income (EURmn)



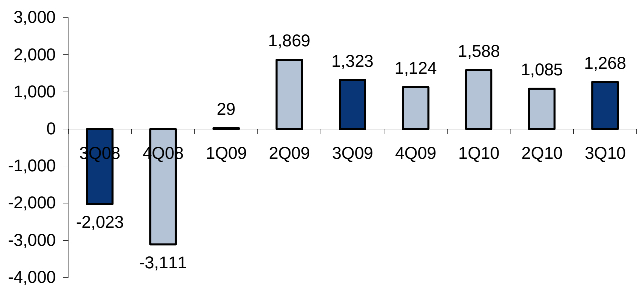
Investment allocation (3Q10)



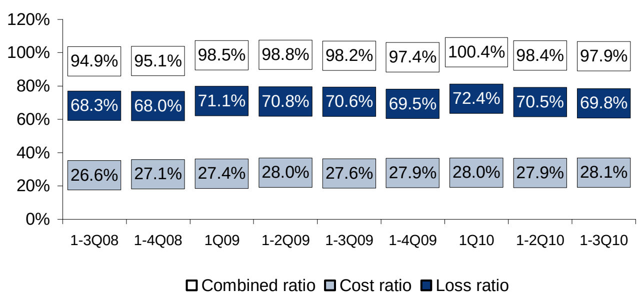
Operating result (EURmn)



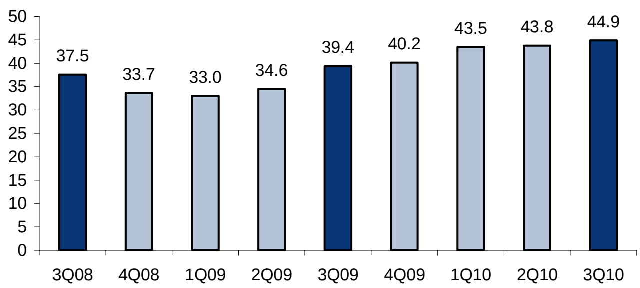
Net result (EURmn)



Combined ratio

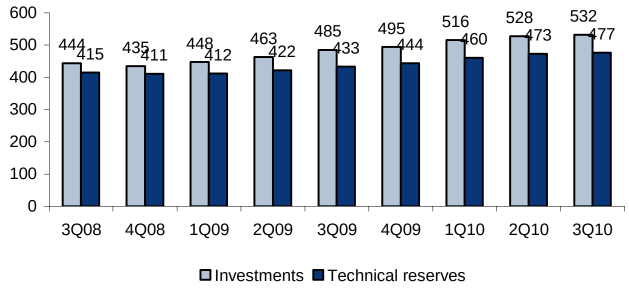


Shareholders' equity (EURbn)

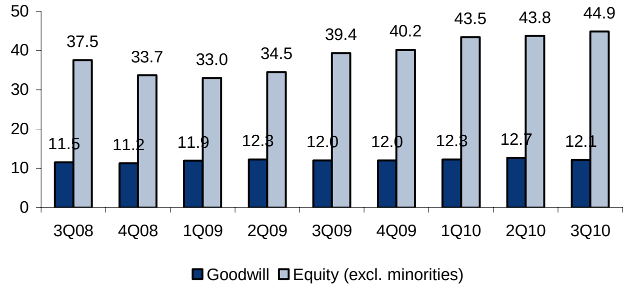


ALLIANZ

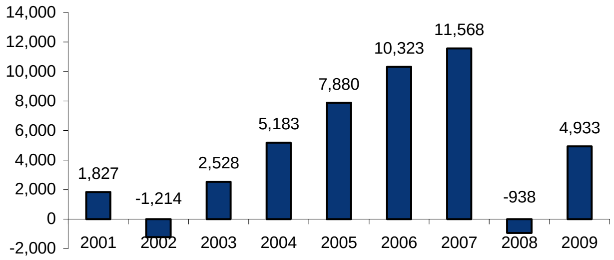
Investments vs. insurance provisions (EURbn)



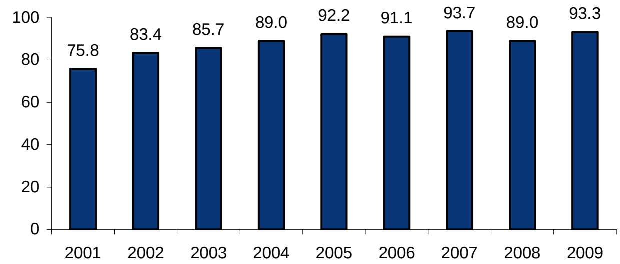
Goodwill vs. equity (EURbn)



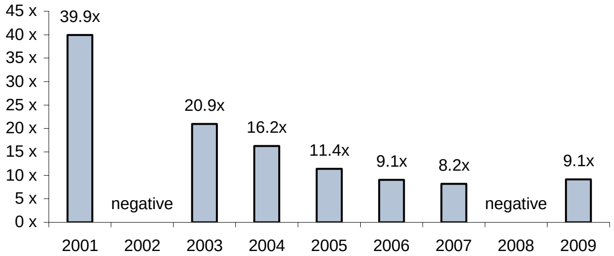
EBT development 2001-2009 (EURmn)



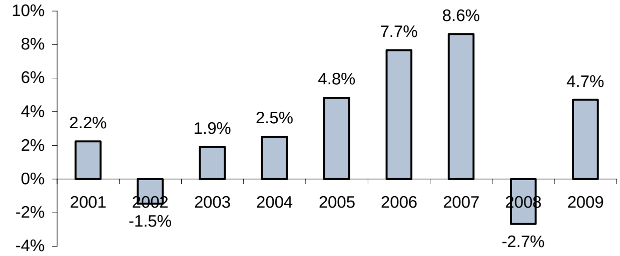
GWP development 2001-2009 (EURbn)



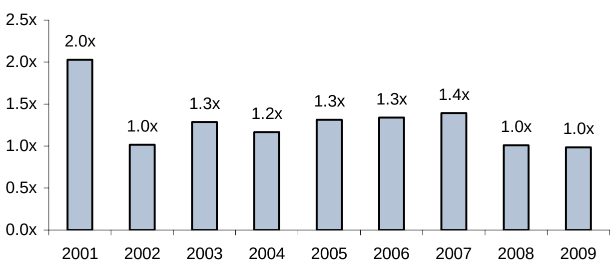
Historical P/E ratios



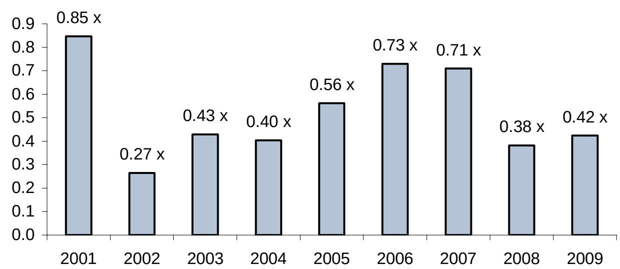
Historical ROEs



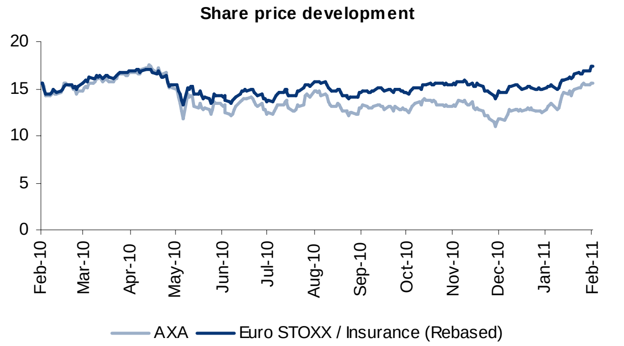
Historical P/B ratios

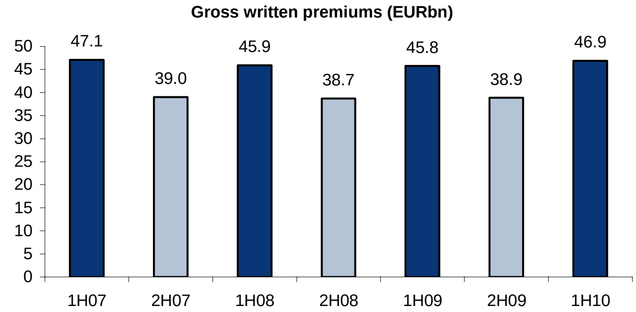


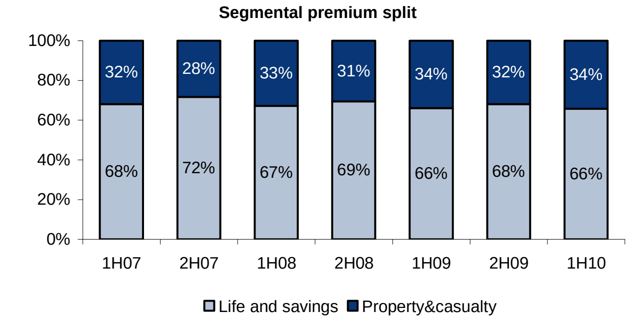
Historical P/P ratios

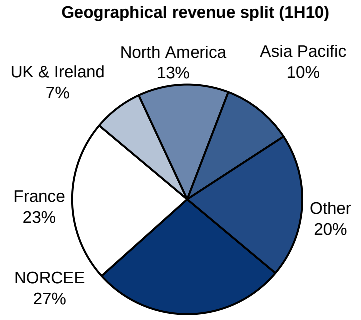


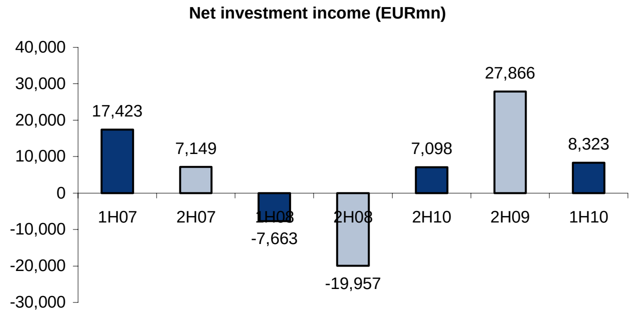
AXA

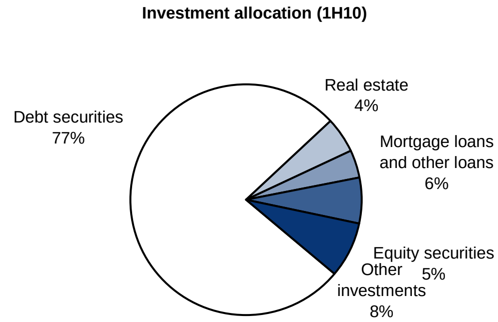

Share price development
20
15
10
5
0
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
AXA
Euro STOXX / Insurance (Rebased)

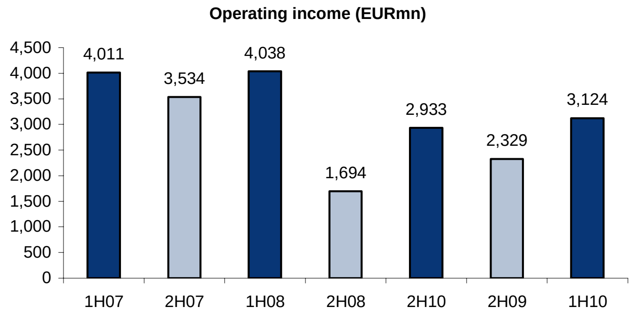

Gross written premiums (EURbn)
47.1
39.0
45.9
38.7
45.8
38.9
46.9
1H07
2H07
1H08
2H08
1H09
2H09
1H10

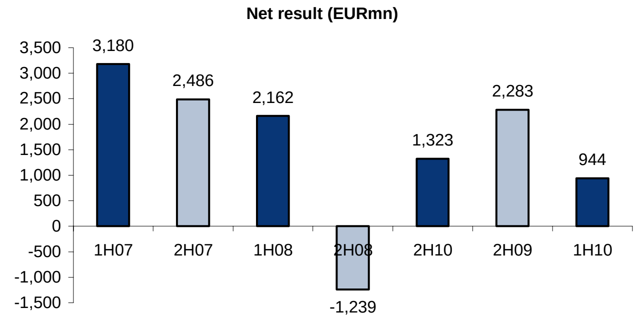

Segmental premium split
32%
28%
33%
31%
34%
32%
34%
68%
72%
67%
69%
66%
68%
66%
1H07
2H07
1H08
2H08
1H09
2H09
1H10
Life and savings
Property&casualty

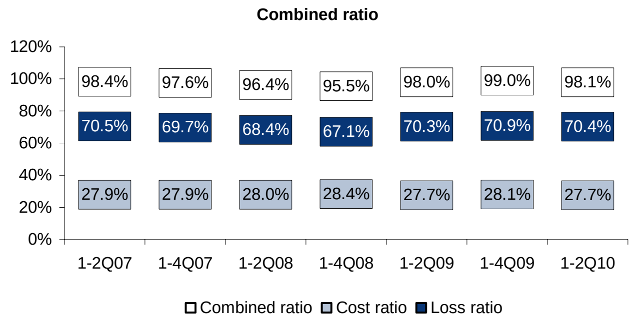

Geographical revenue split (1H10)
North America
13%
Asia Pacific
10%
UK & Ireland
7%
France
23%
Other
20%
NORCEE
27%

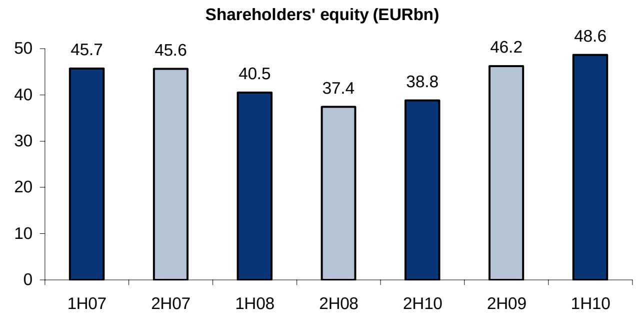

Net investment income (EURmn)
17,423
7,149
-7,663
-19,957
7,098
27,866
8,323
1H07
2H07
1H08
2H08
2H10
2H09
1H10


Investment allocation (1H10)
Debt securities
77%
Real estate
4%
Mortgage loans
and other loans
6%
Equity securities
5%
Other
investments
8%


Operating income (EURmn)
4,011
3,534
4,038
1,694
2,933
2,329
3,124
1H07
2H07
1H08
2H08
2H10
2H09
1H10

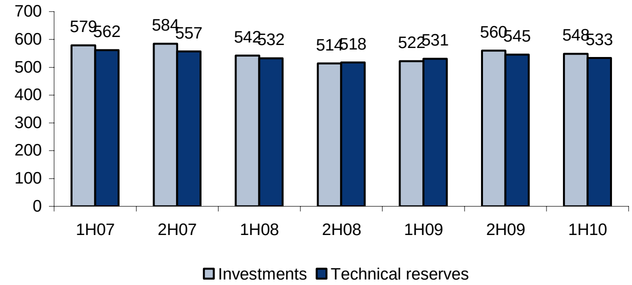

Net result (EURmn)
3,180
2,486
2,162
-1,239
1,323
2,283
944
1H07
2H07
1H08
2H08
2H10
2H09
1H10


Combined ratio
98.4%
97.6%
96.4%
95.5%
98.0%
99.0%
98.1%
70.5%
69.7%
68.4%
67.1%
70.3%
70.9%
70.4%
27.9%
27.9%
28.0%
28.4%
27.7%
28.1%
27.7%
1-2Q07
1-4Q07
1-2Q08
1-4Q08
1-2Q09
1-4Q09
1-2Q10
Combined ratio
Cost ratio
Loss ratio

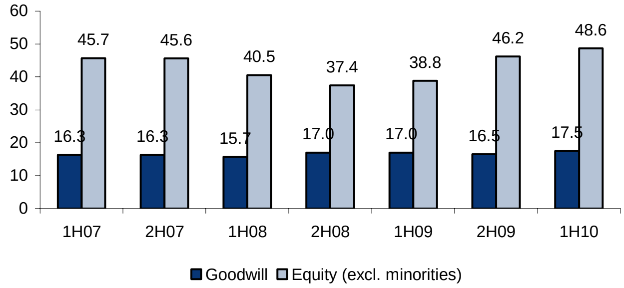

Shareholders' equity (EURbn)
45.7
45.6
40.5
37.4
38.8
46.2
48.6
1H07
2H07
1H08
2H08
2H10
2H09
1H10

AXA

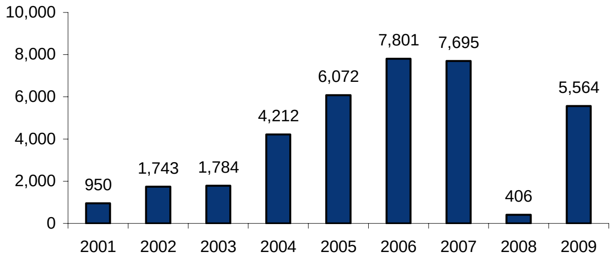
Investments vs. insurance provisions (EURbn)



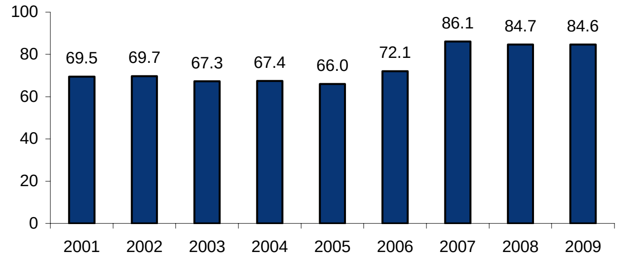
Goodwill vs. equity (EURbn)



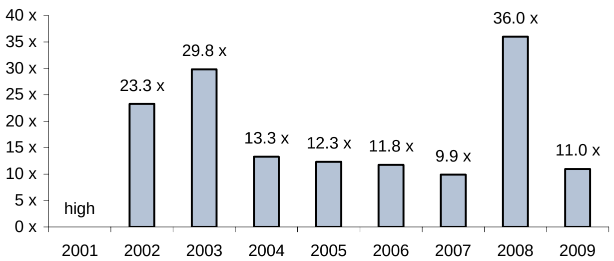
Operating income BT development 2001-2009 (EURmn)



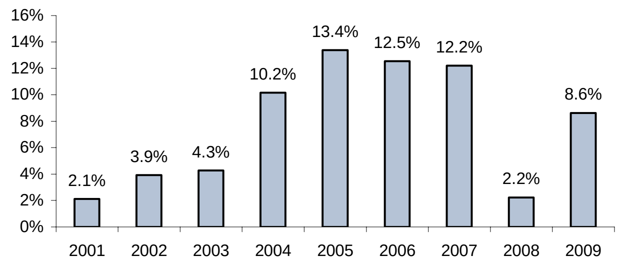
GWP development 2001-2009 (EURbn)



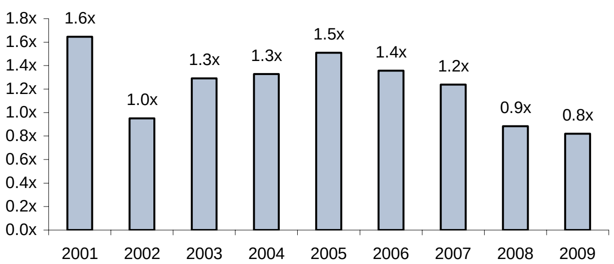
Historical P/E ratios



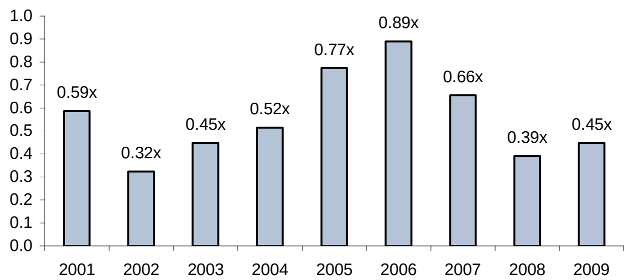
Historical ROEs



Historical P/B ratios

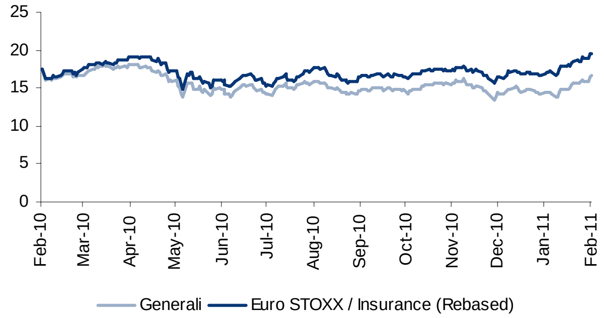


Historical P/P ratios

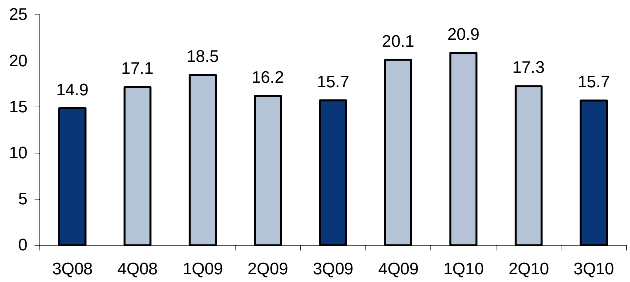


GENERALI

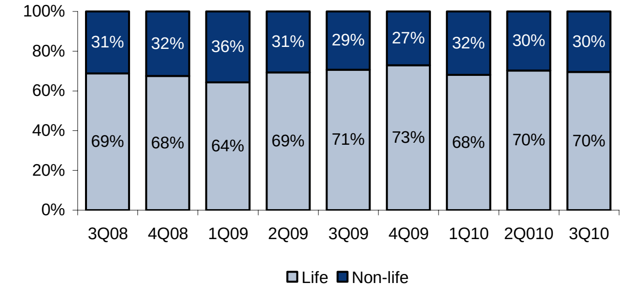
Share price development



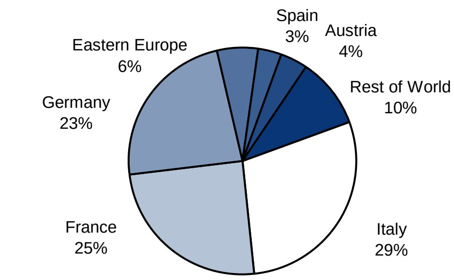
Gross written premiums (EURbn)



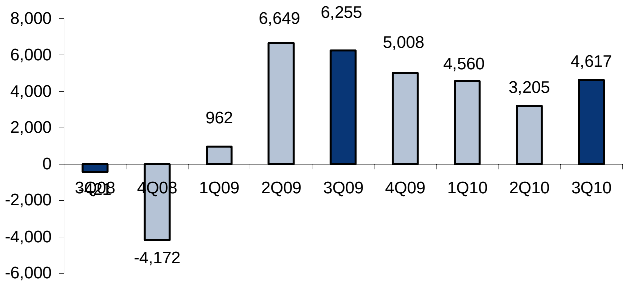
Segmental premium split



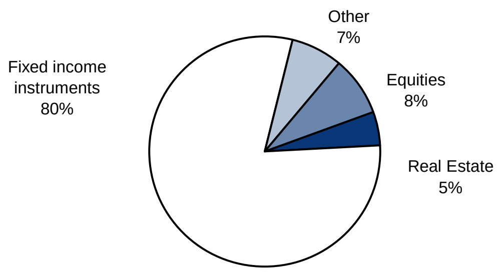
Geographical premium split (1-3Q10)



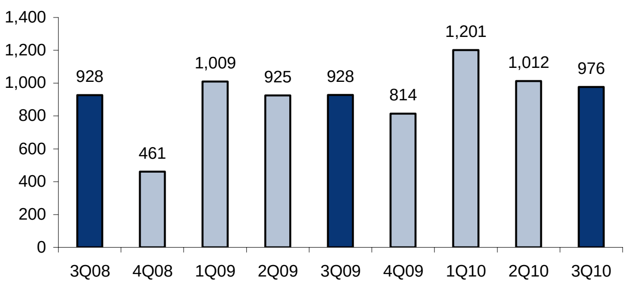
Net investment income (EURmn)



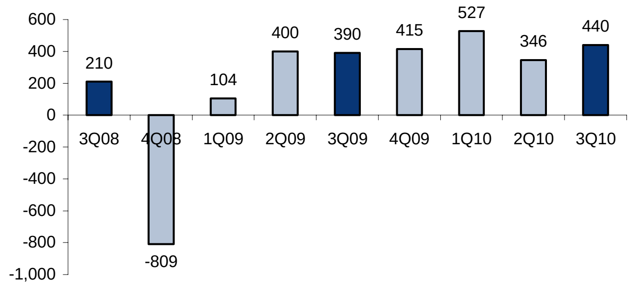
Investment allocation (3Q10)



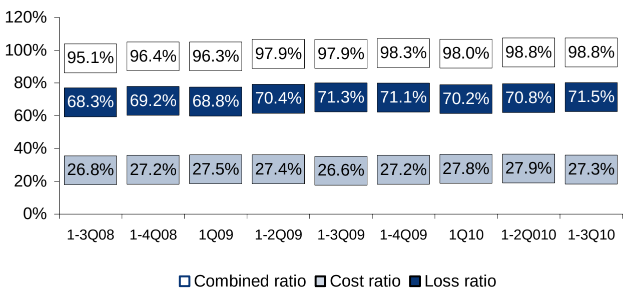
Operating result (EURmn)



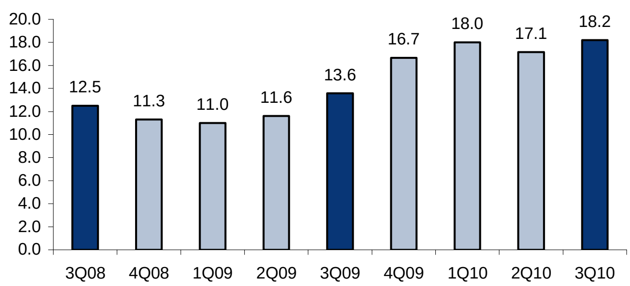
Net result (EURmn)



Combined ratio

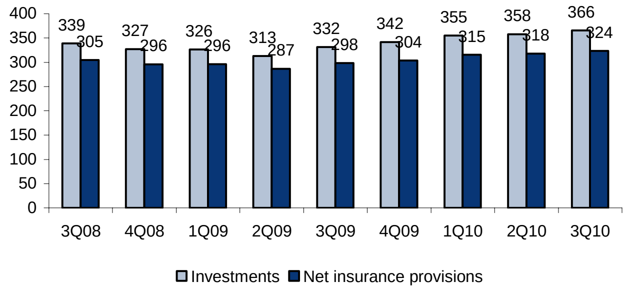


Shareholders' equity (EURbn)

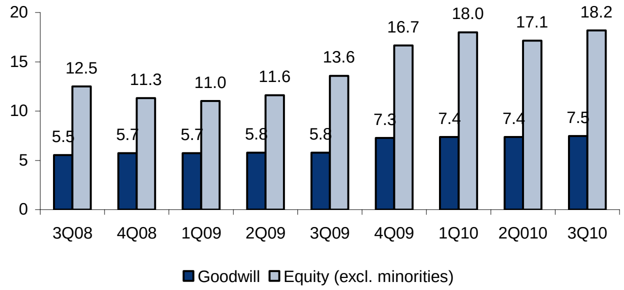


GENERALI

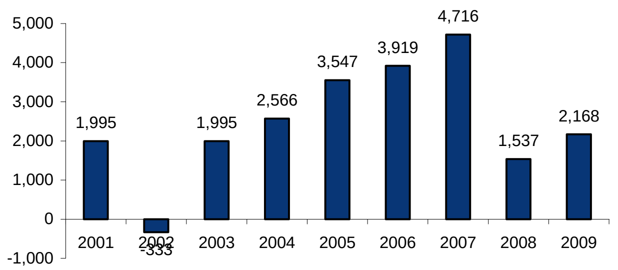
Investments vs. insurance provisions (EURbn)



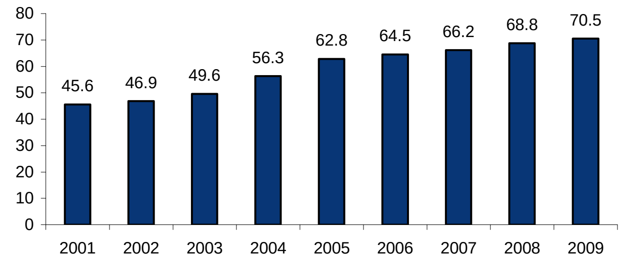
Goodwill vs. equity (EURbn)



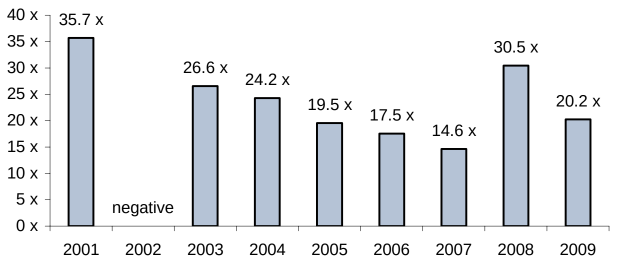
EBT development 2001-2009 (EURmn)



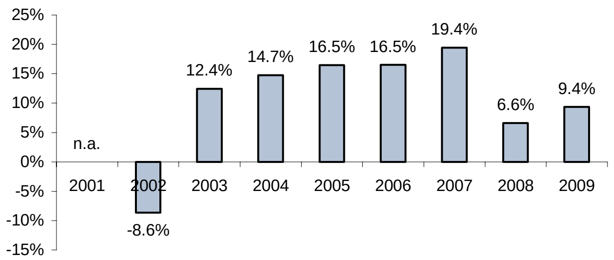
GWP development 2001-2009 (EURbn)



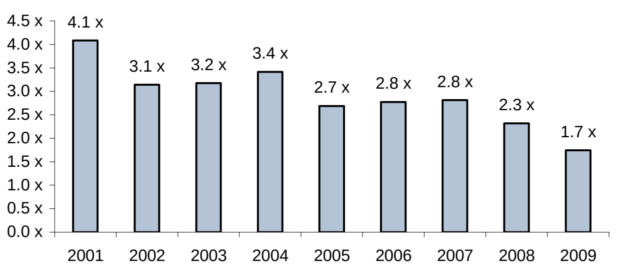
Historical P/E ratios



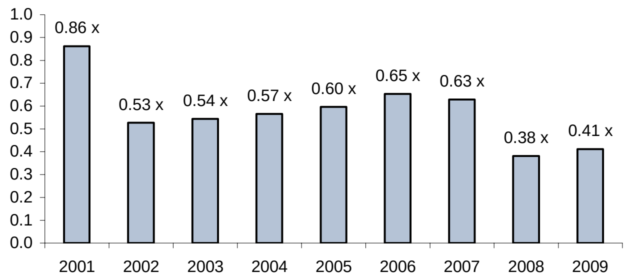
Historical ROEs



Historical P/B ratios

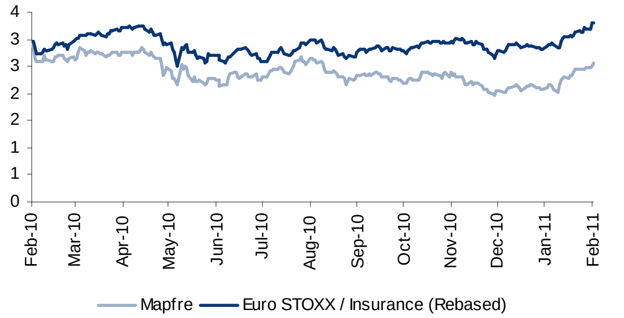


Historical P/P ratios

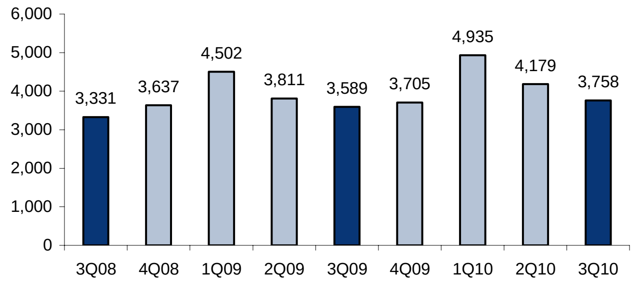


MAPFRE

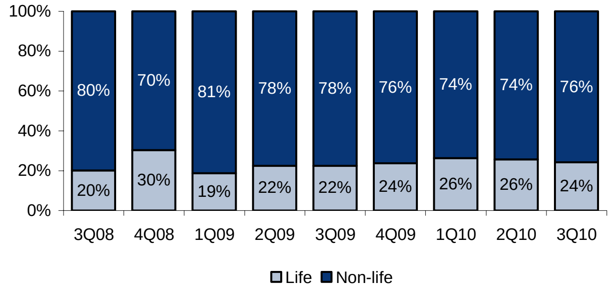
Share price development



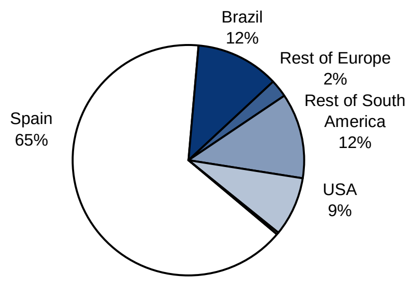
Gross written premiums (EURmn)



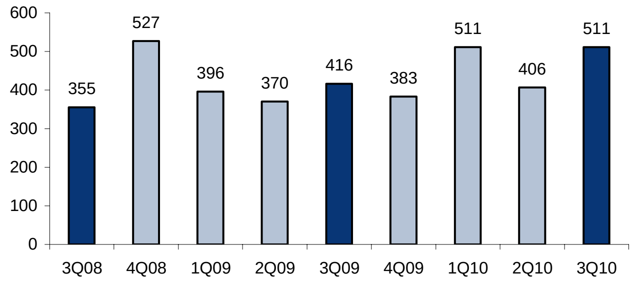
Segmental premium split



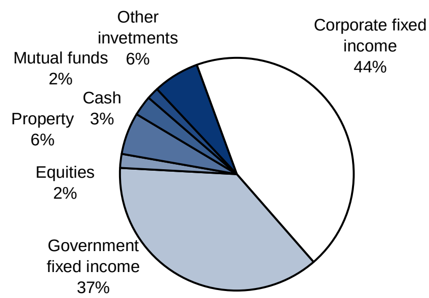
Geographical premium split (1-3Q10)



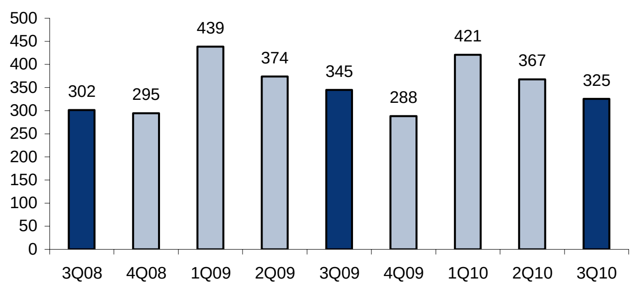
Net investment income (EURmn)



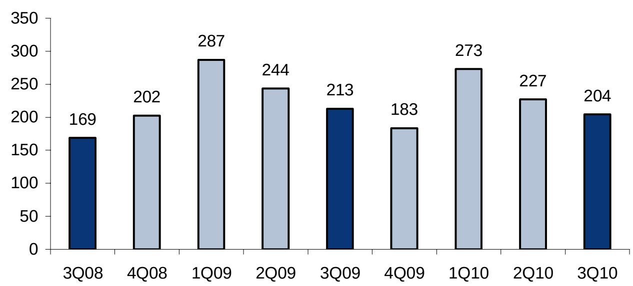
Investment allocation (FY09)



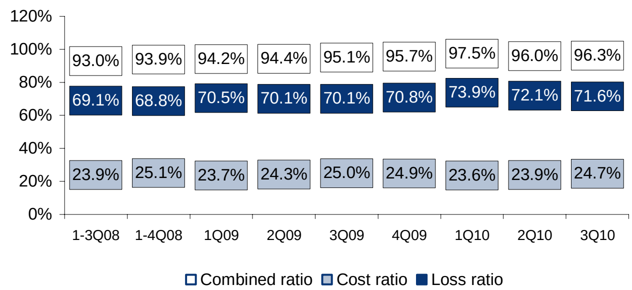
EBT (EURmn)



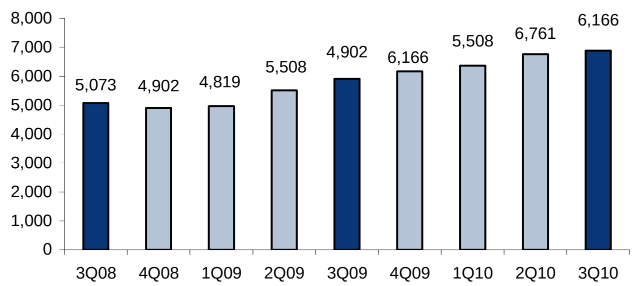
Net result (EURmn)



Combined ratio

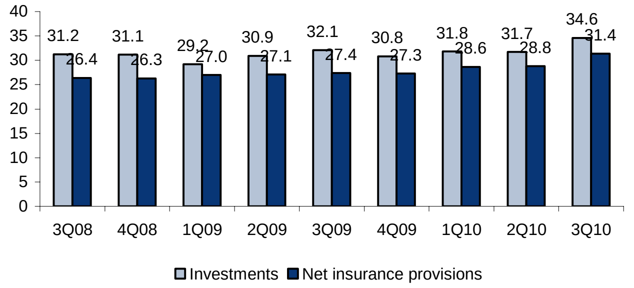


Shareholders' equity (EURmn)

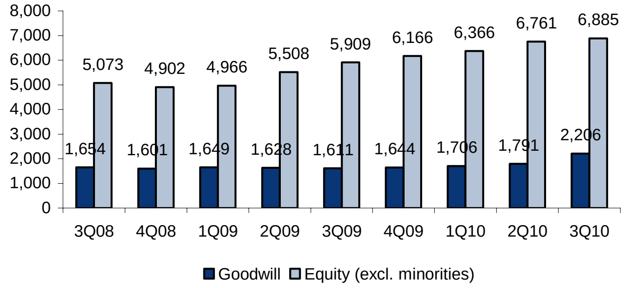


MAPFRE

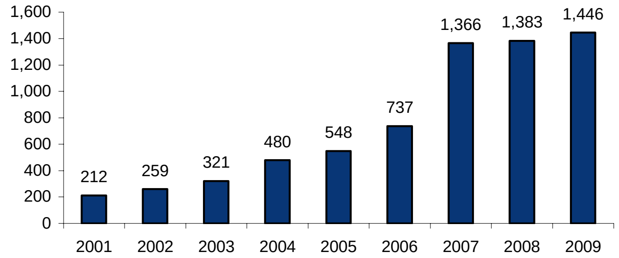
Investments vs. insurance provisions (EURbn)



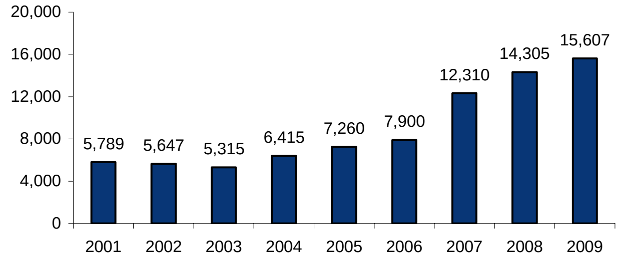
Goodwill vs. equity (EURmn)



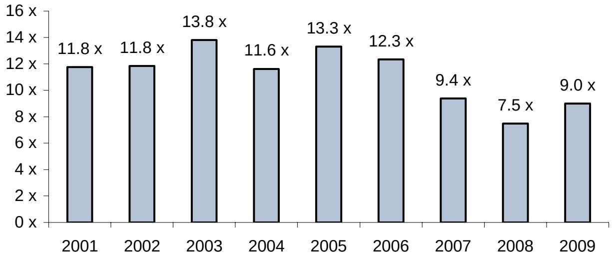
EBT development 2001-2009



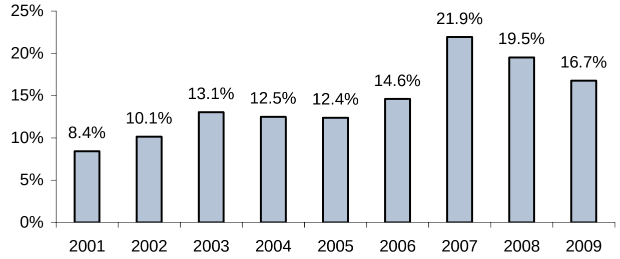
GWP development 2001-2009



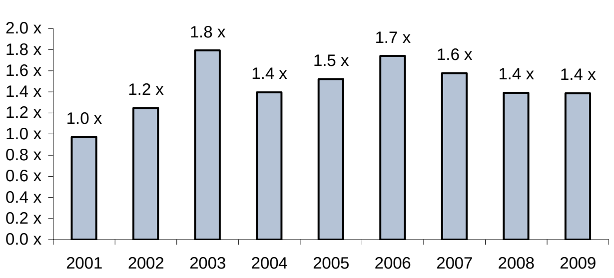
Historical P/E ratios



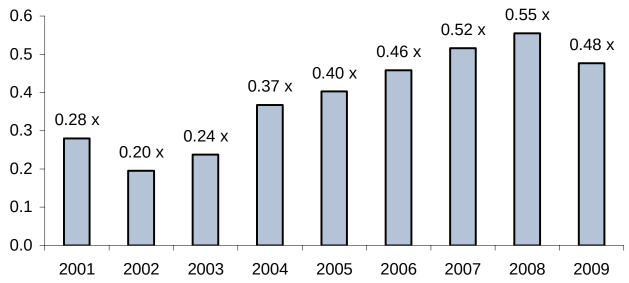
Historical ROEs



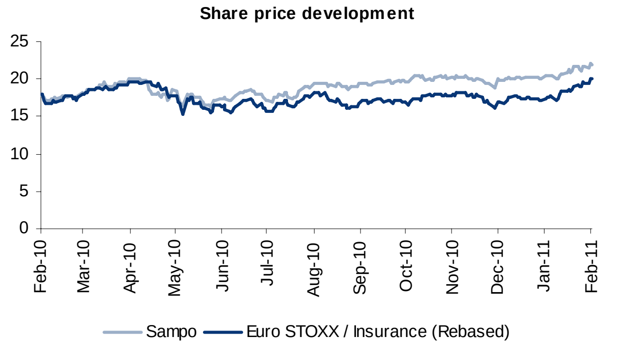
Historical P/B ratios

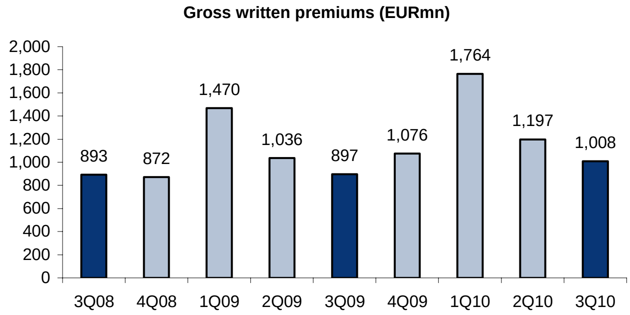


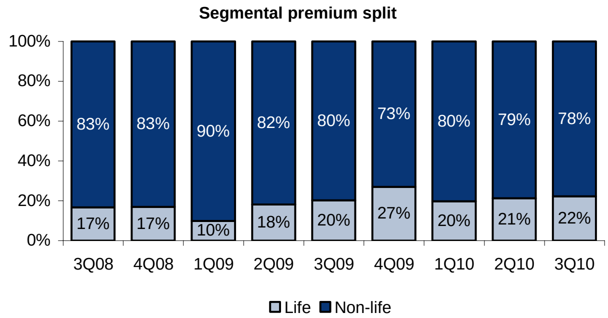
Historical P/P ratios

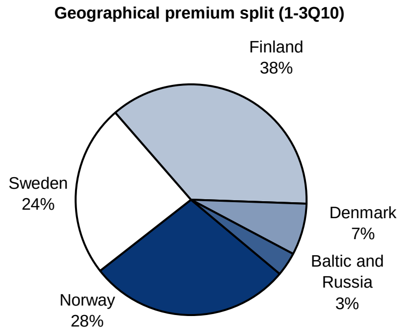


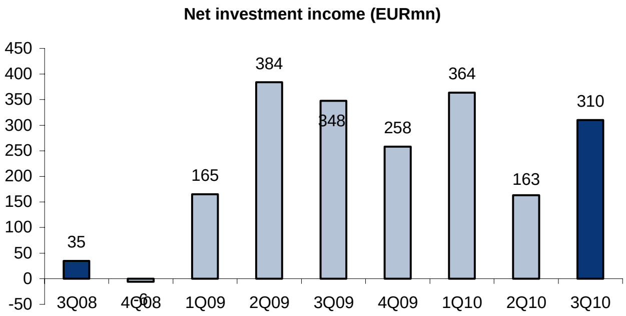
SAMPO

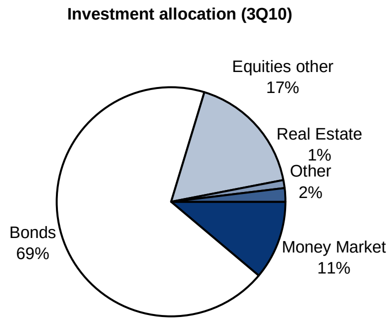

Share price development
25
20
15
10
5
0
Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11
Sampo
Euro STOXX / Insurance (Rebased)

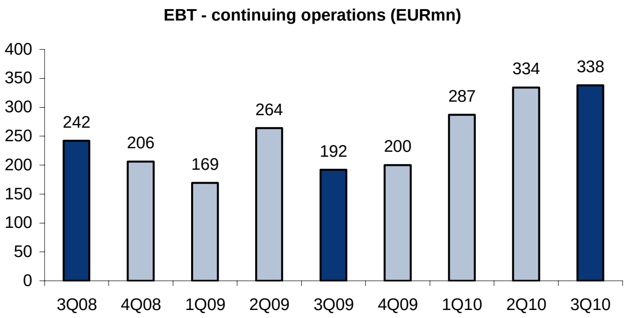

Gross written premiums (EURmn)
3Q08 893
4Q08 872
1Q09 1,470
2Q09 1,036
3Q09 897
4Q09 1,076
1Q10 1,764
2Q10 1,197
3Q10 1,008

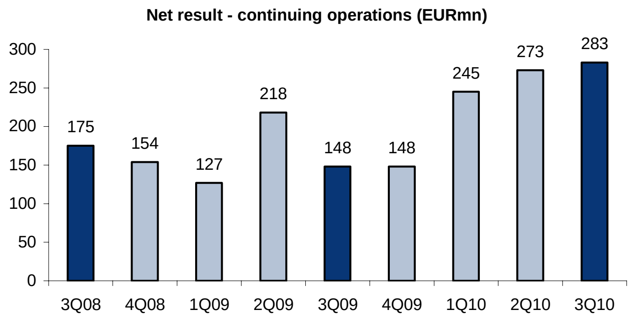

Segmental premium split
3Q08 83% 17%
4Q08 83% 17%
1Q09 90% 10%
2Q09 82% 18%
3Q09 80% 20%
4Q09 73% 27%
1Q10 80% 20%
2Q10 79% 21%
3Q10 78% 22%
Life
Non-life

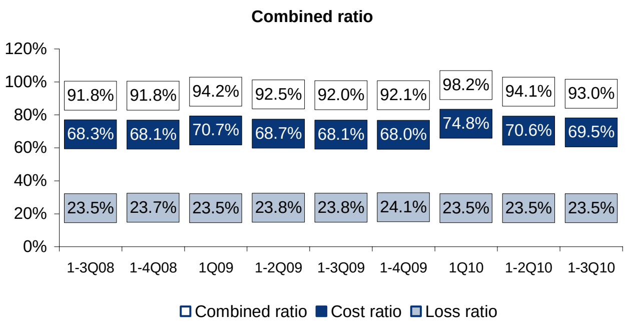

Geographical premium split (1-3Q10)
Finland
38%
Denmark
7%
Baltic and
Russia
3%
Norway
28%
Sweden
24%

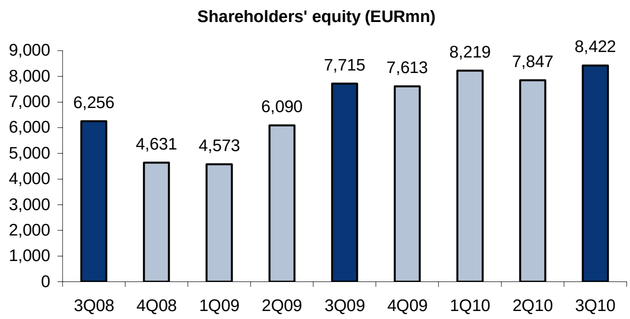

Net investment income (EURmn)
3Q08 35
4Q08 -6
1Q09 165
2Q09 384
3Q09 348
4Q09 258
1Q10 364
2Q10 163
3Q10 310


Investment allocation (3Q10)
Equities other
17%
Real Estate
1%
Other
2%
Money Market
11%
Bonds
69%


EBT - continuing operations (EURmn)
3Q08 242
4Q08 206
1Q09 169
2Q09 264
3Q09 192
4Q09 200
1Q10 287
2Q10 334
3Q10 338

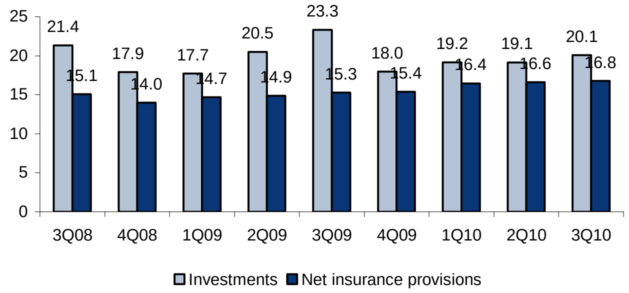

Net result - continuing operations (EURmn)
3Q08 175
4Q08 154
1Q09 127
2Q09 218
3Q09 148
4Q09 148
1Q10 245
2Q10 273
3Q10 283


Combined ratio
1-3Q08 91.8% 68.3% 23.5%
1-4Q08 91.8% 68.1% 23.7%
1Q09 94.2% 70.7% 23.5%
1-2Q09 92.5% 68.7% 23.8%
1-3Q09 92.0% 68.1% 23.8%
1-4Q09 92.1% 68.0% 24.1%
1Q10 98.2% 74.8% 23.5%
1-2Q10 94.1% 70.6% 23.5%
1-3Q10 93.0% 69.5% 23.5%
Combined ratio
Cost ratio
Loss ratio

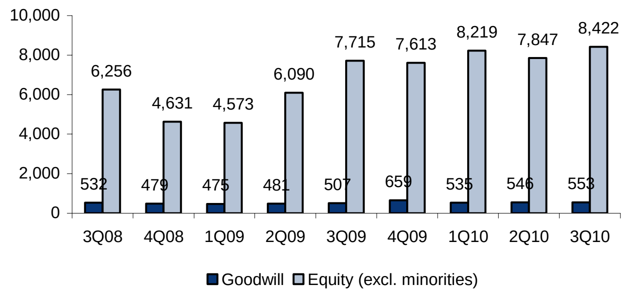

Shareholders' equity (EURmn)
3Q08 6,256
4Q08 4,631
1Q09 4,573
2Q09 6,090
3Q09 7,715
4Q09 7,613
1Q10 8,219
2Q10 7,847
3Q10 8,422

SAMPO

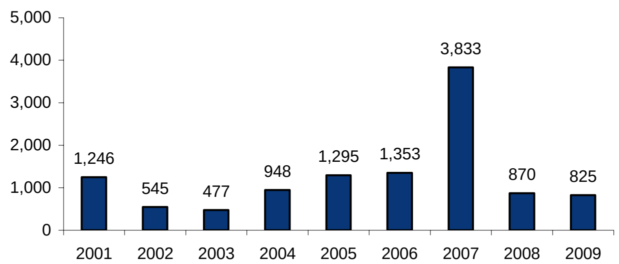
Investments vs. insurance provisions (EURbn)



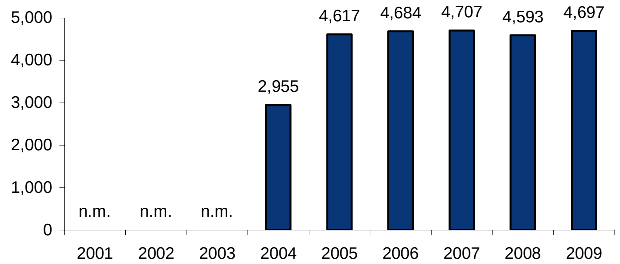
Goodwill vs. equity (EURmn)



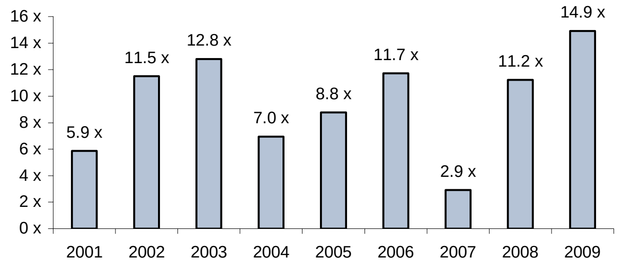
EBT development 2001-2009



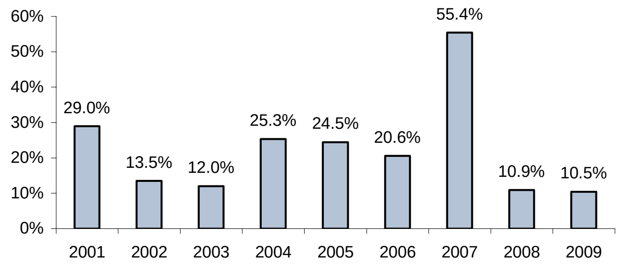
GWP 2001-2009



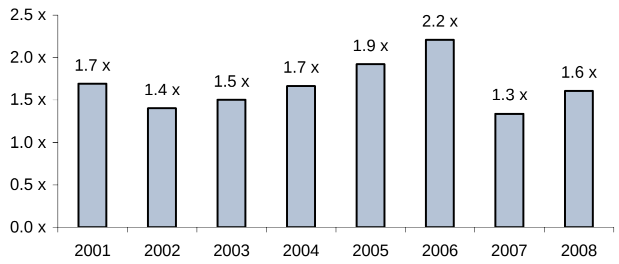
Historical P/E ratios



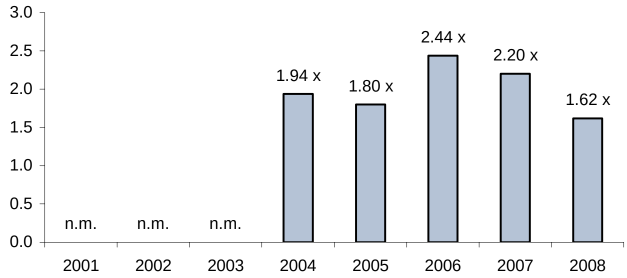
Historical ROEs



Historical P/B ratios

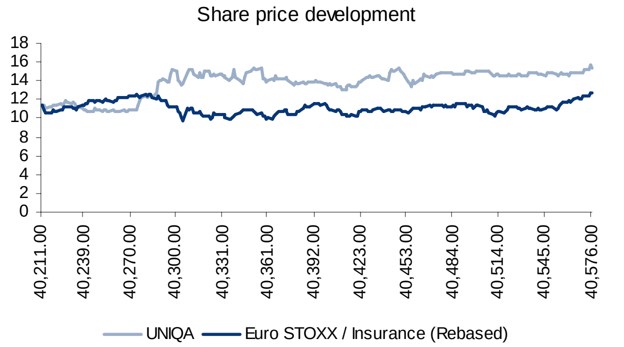


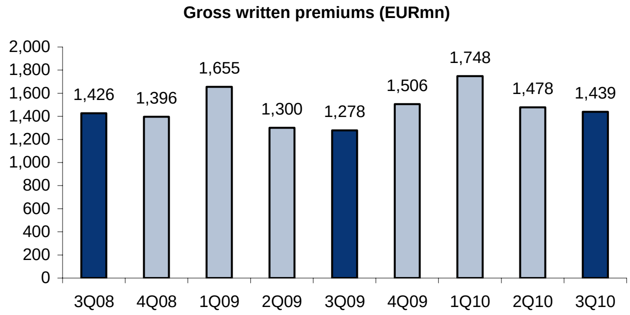
Historical P/P ratios

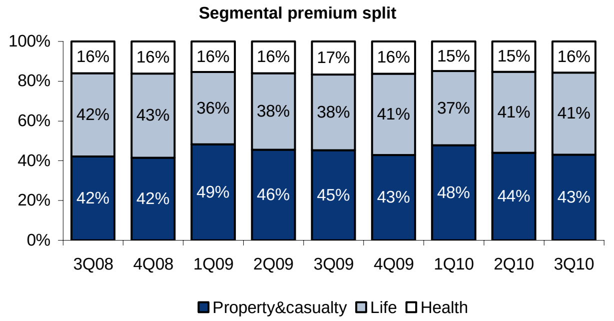


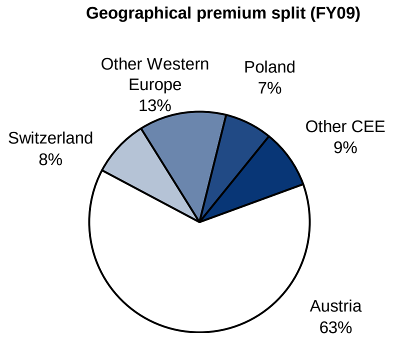
Sector Report – Erste Sector Insurance

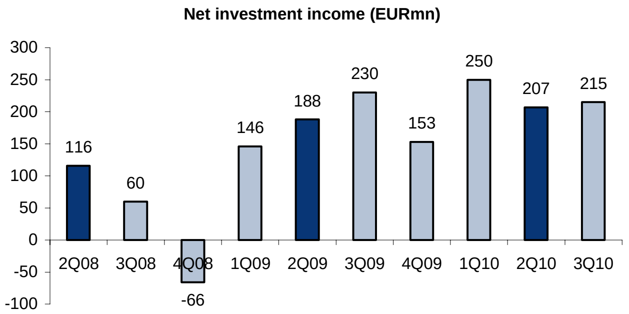
UNIQA

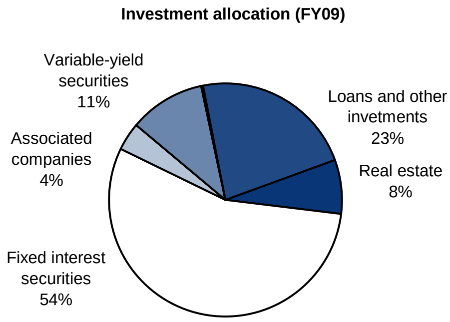


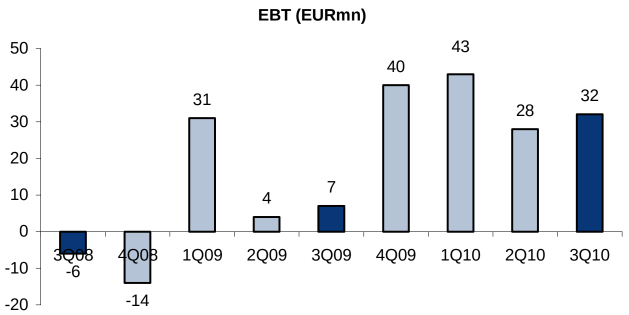


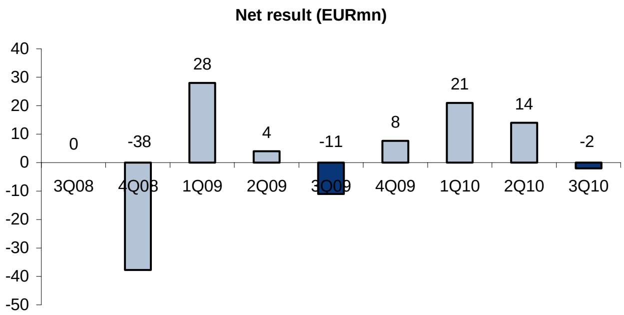


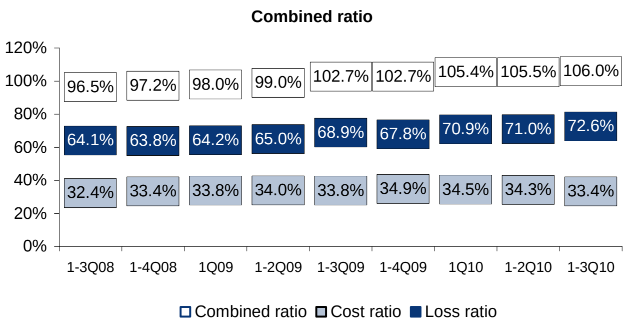


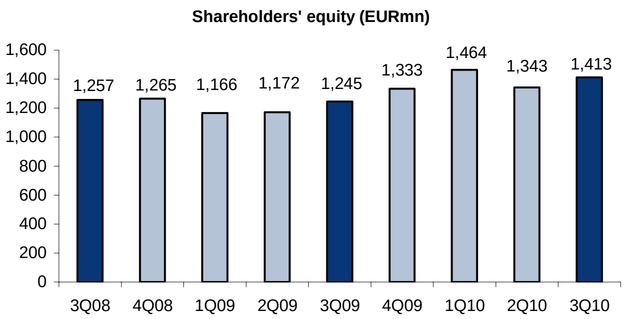






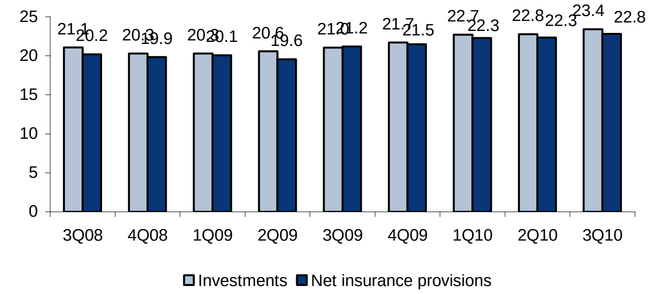




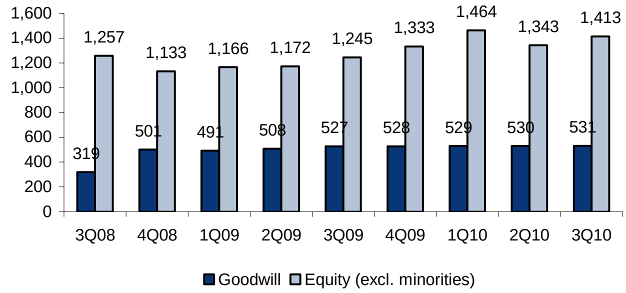


UNIQA

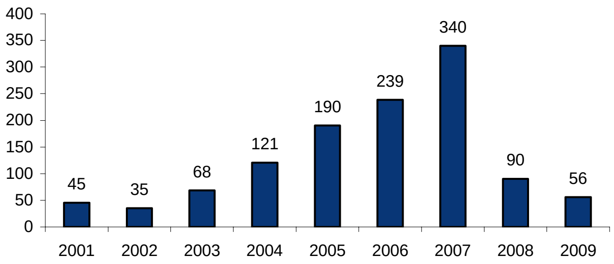
Investments vs. insurance provisions (EURbn)



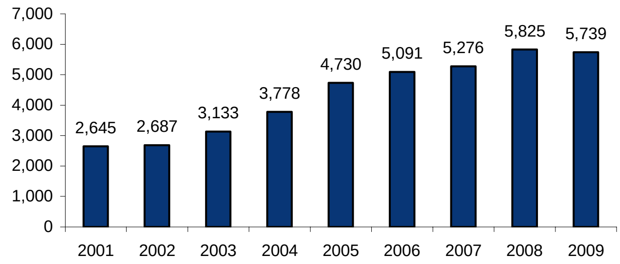
Goodwill vs. equity (EURmn)



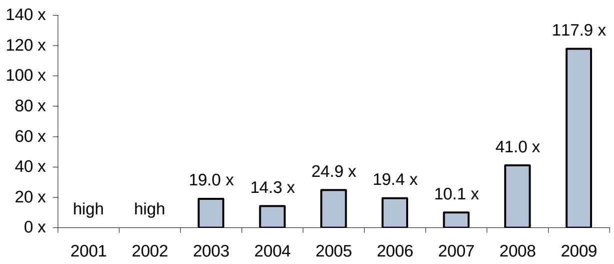
EBT development 2001-2009



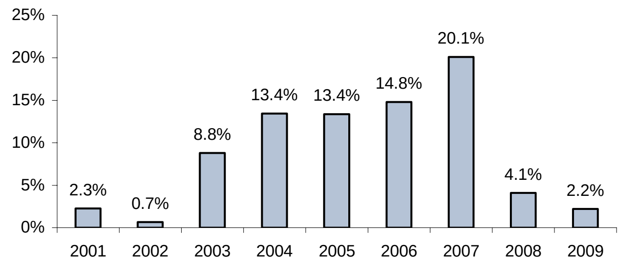
GWP development 2001-2009



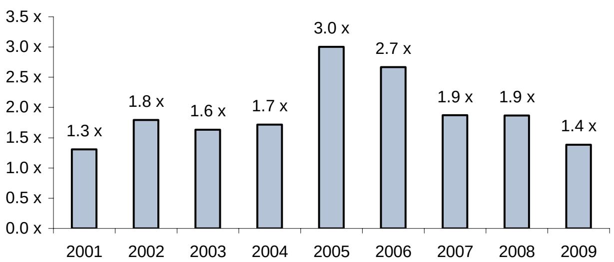
Historical P/E ratios



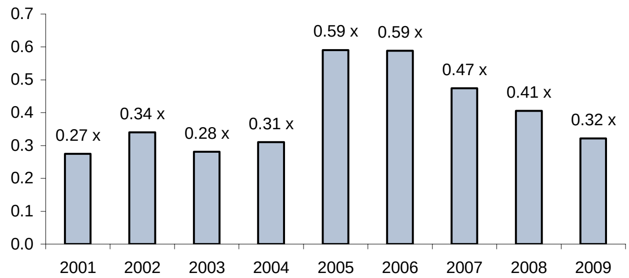
Historical ROEs



Historical P/B ratios

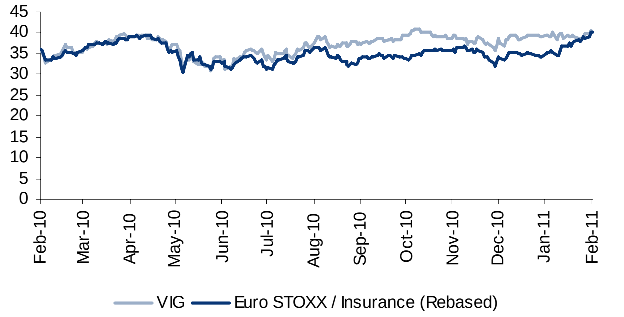


Historical P/P ratios

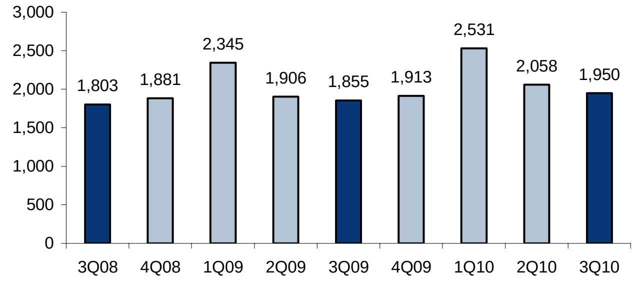


Vienna Insurance Group

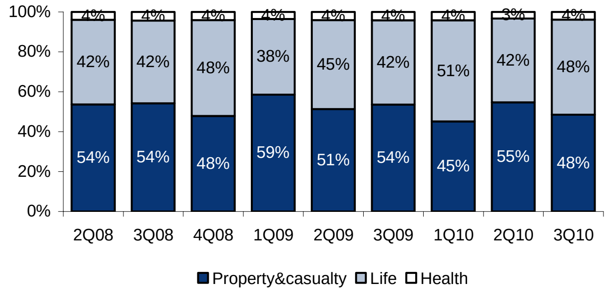
Share price development



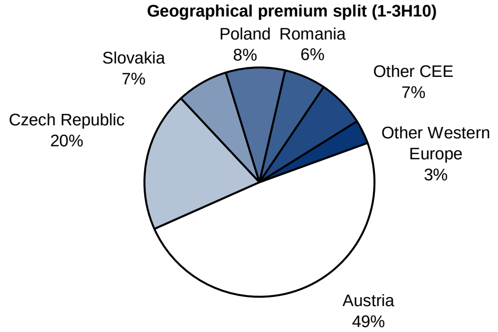
Gross written premiums (EURmn)



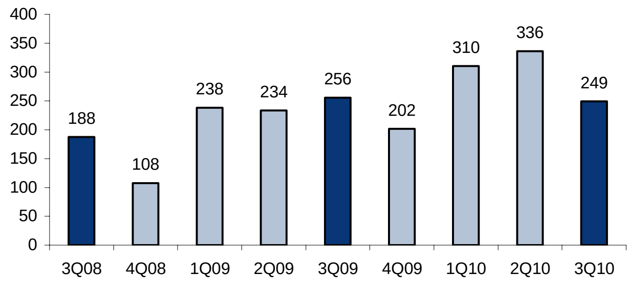
Segmental premium split



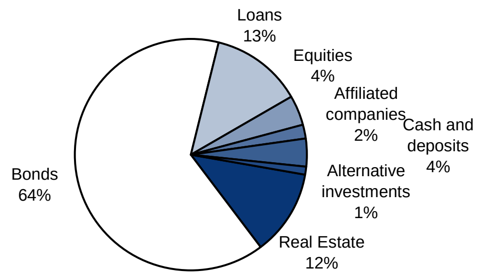
Geographical premium split (1-3H10)



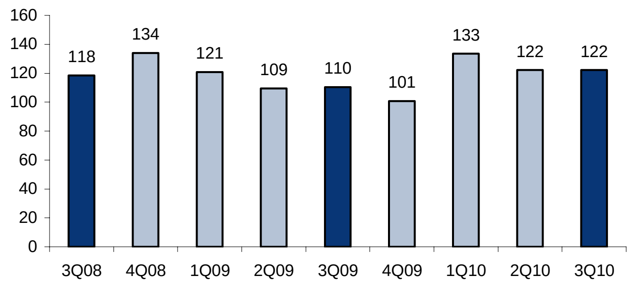
Net investment income (EURmn)



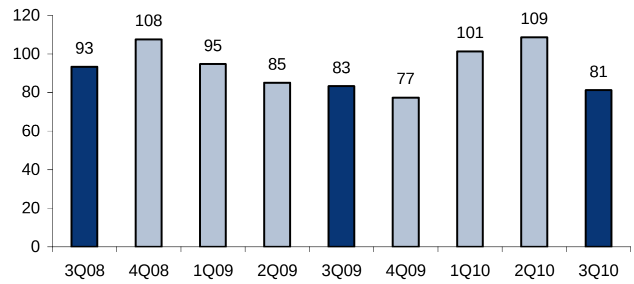
Investment allocation (3Q10)



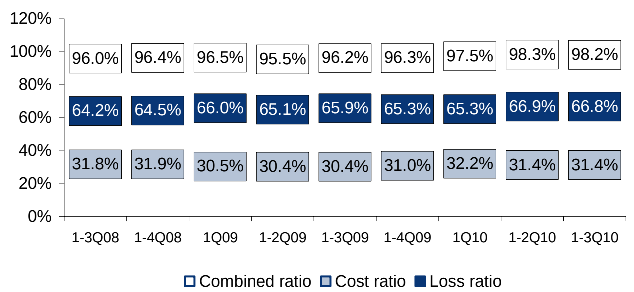
EBT (EURmn)



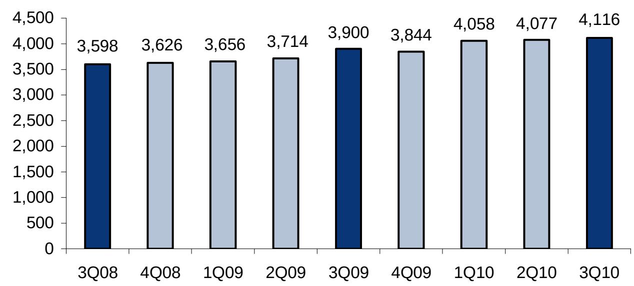
Net result (EURmn)



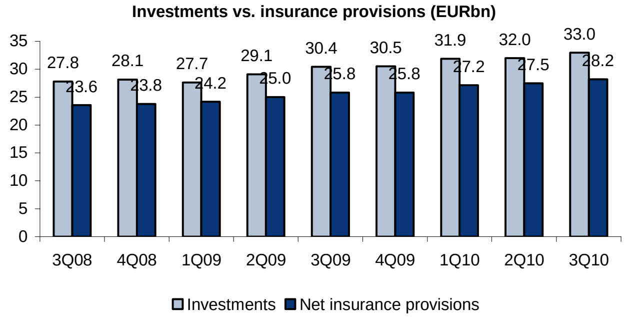
Combined ratio

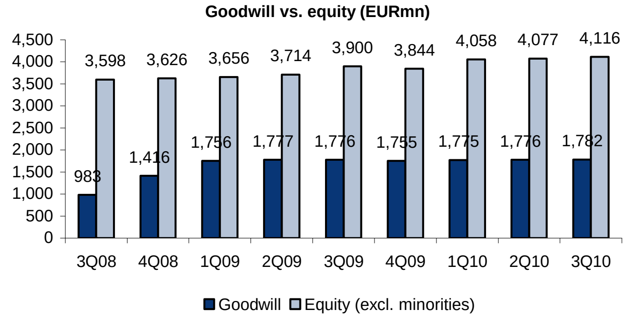


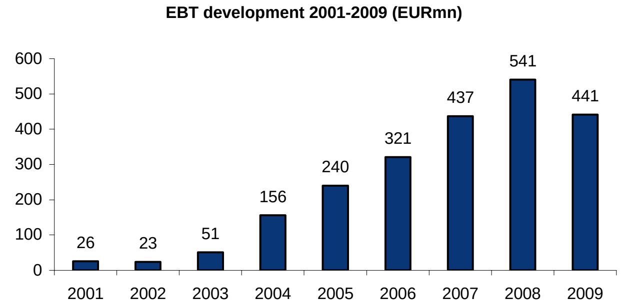
Shareholders' equity (EURmn)

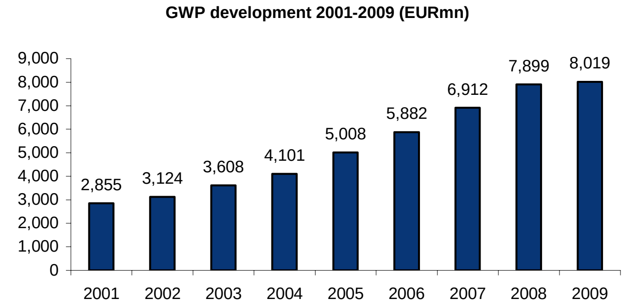


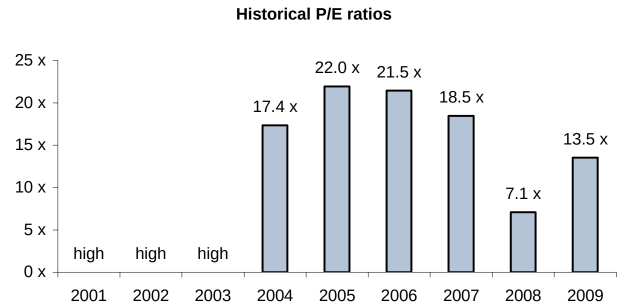
Vienna Insurance Group

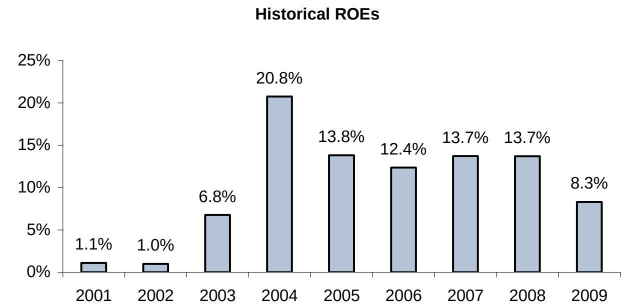


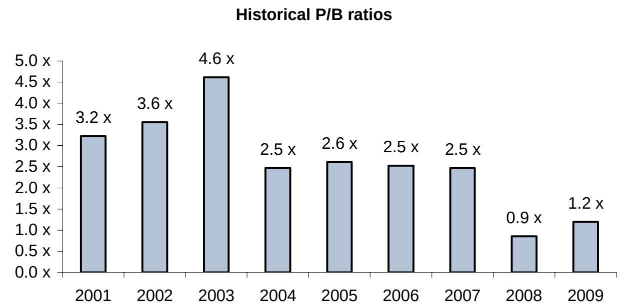


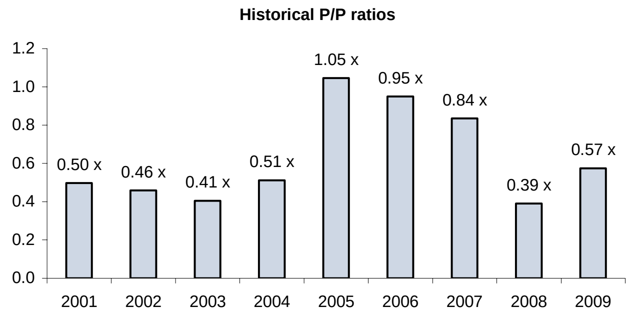






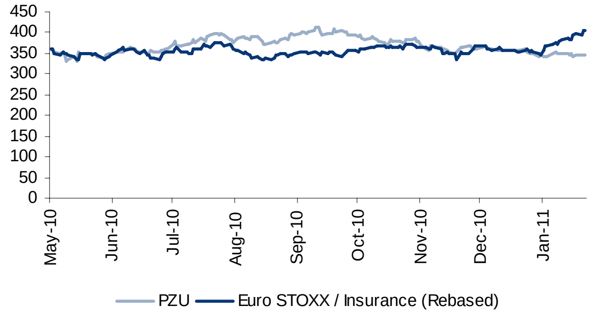




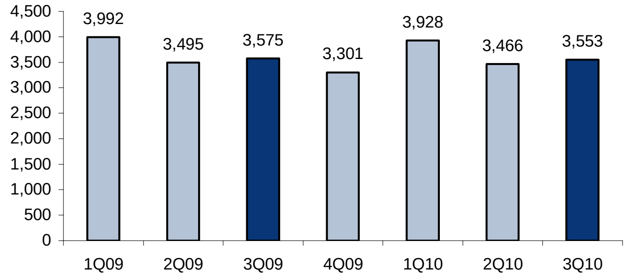


PZU

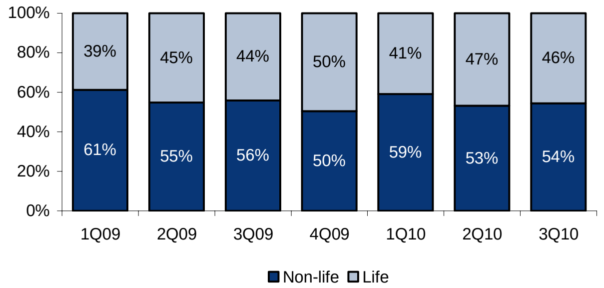
Share price development



Gross written premiums (PLNmn)

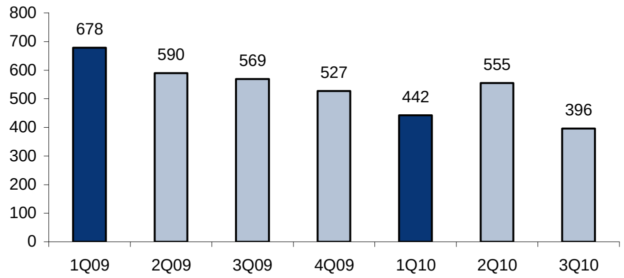


Segmental premium split

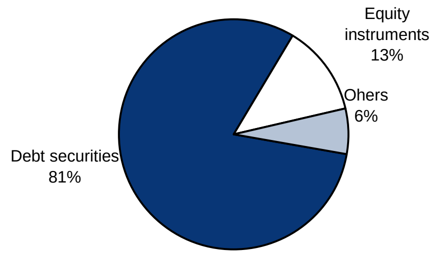


Geographical premium split (1-3H10)

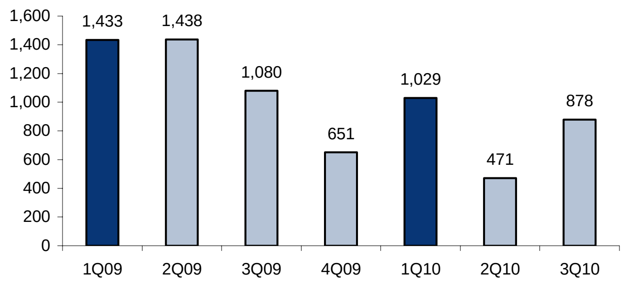
Net investment income (PLNmn)



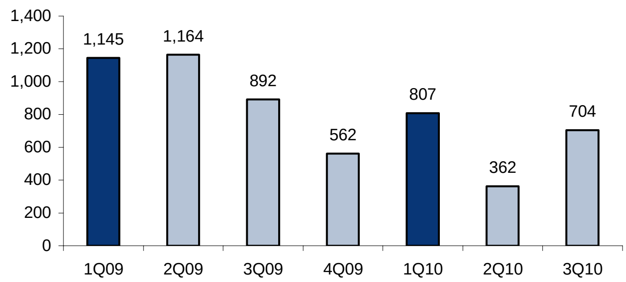
Investment allocation (3Q10)



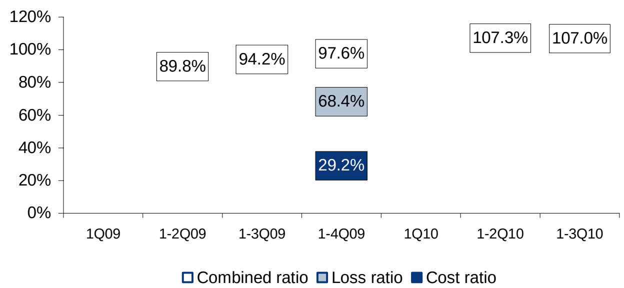
EBT (PLNmn)



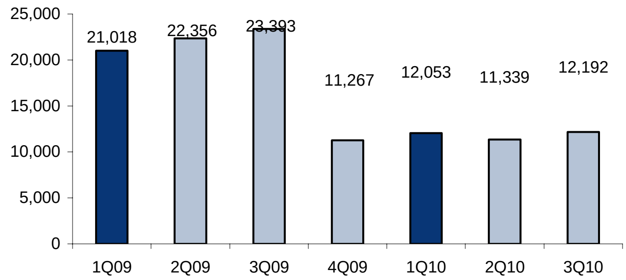
Net result (PLNmn)



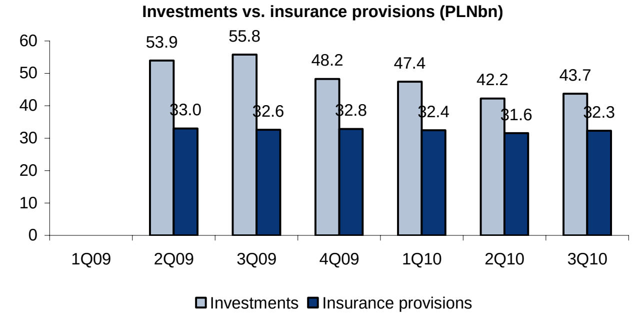
Combined ratio

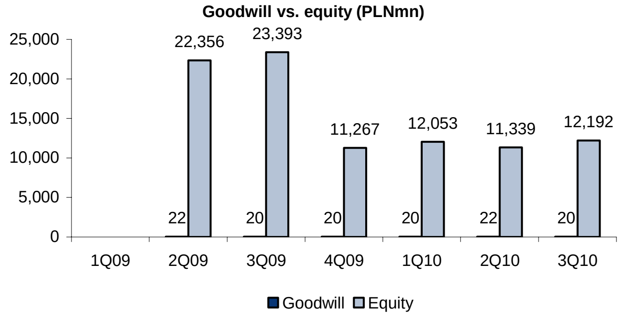


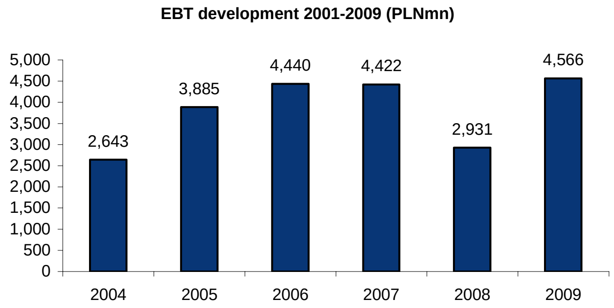
Shareholders' equity (PLNmn)

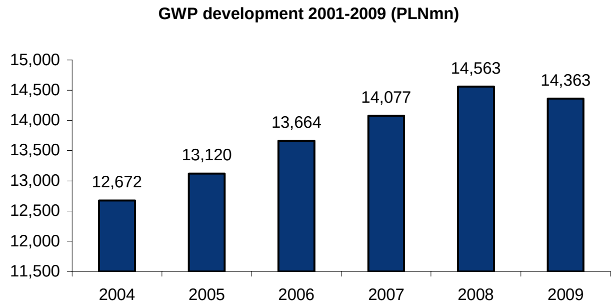


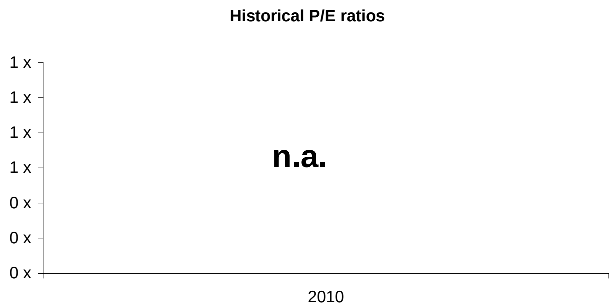
PZU

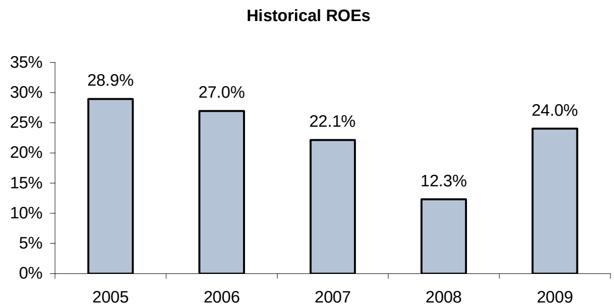

Investments vs. insurance provisions (PLNbn)
60
50
40
30
20
10
0
53.9
55.8
48.2
47.4
42.2
43.7
33.0
32.6
32.8
32.4
31.6
32.3
1Q09
2Q09
3Q09
4Q09
1Q10
2Q10
3Q10
Investments
Insurance provisions

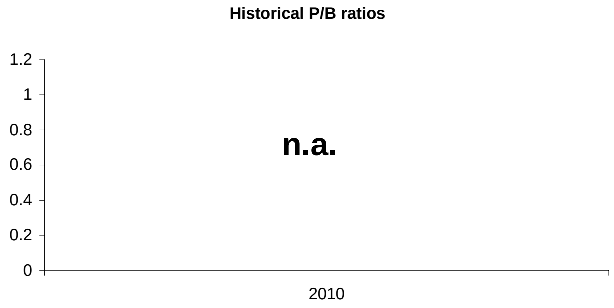

Goodwill vs. equity (PLNmn)
25,000
20,000
15,000
10,000
5,000
0
22,356
23,393
11,267
12,053
11,339
12,192
22
20
20
20
22
20
1Q09
2Q09
3Q09
4Q09
1Q10
2Q10
3Q10
Goodwill
Equity

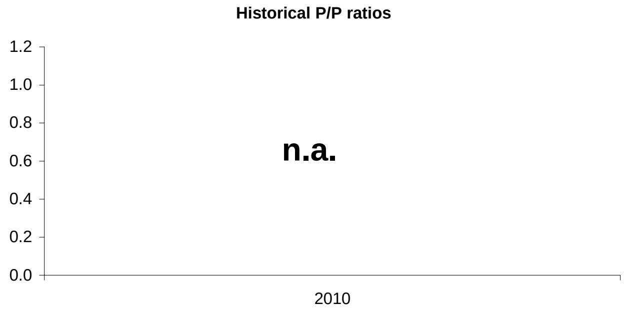

EBT development 2001-2009 (PLNmn)
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2,643
3,885
4,440
4,422
2,931
4,566
2004
2005
2006
2007
2008
2009


GWP development 2001-2009 (PLNmn)
15,000
14,500
14,000
13,500
13,000
12,500
12,000
11,500
12,672
13,120
13,664
14,077
14,563
14,363
2004
2005
2006
2007
2008
2009


Historical P/E ratios
1 x
1 x
1 x
1 x
0 x
0 x
0 x
n.a.
2010


Historical ROEs
35%
30%
25%
20%
15%
10%
5%
0%
28.9%
27.0%
22.1%
12.3%
24.0%
2005
2006
2007
2008
2009

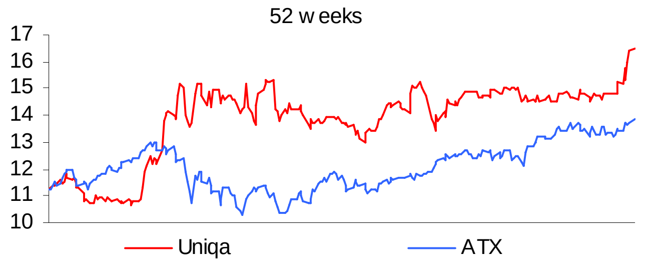

Historical P/B ratios
1.2
1
0.8
0.6
0.4
0.2
0
n.a.
2010


Historical P/P ratios
1.2
1.0
0.8
0.6
0.4
0.2
0.0
n.a.
2010

Uniqa   Reduce

Christoph Schultes, CIIA (Analyst) +43 (0)50100-16314 christoph.schultes@erstegroup.com

EUR mn	2009	2010e	2011e	2012e
Premium income	5,011.7	5,421.7	5,521.3	5,733.0
Investment income	751.6	909.0	839.8	875.1
EBT	82.3	138.3	182.2	200.8
Net result after min.	14.1	49.6	101.9	112.4
EPS (EUR)	0.11	0.35	0.72	0.79
BVPS (EUR)	9.38	9.62	10.08	10.63
EV/share (EUR)	16.59	17.37	17.90	18.67
Div./share (EUR)	0.40	0.40	0.40	0.40
ROE	1.1%	3.7%	7.3%	7.6%
P/E (x)	120.7	47.3	23.0	20.9
P/BV(x)	1.4	1.7	1.6	1.6
Dividend Yield	3.1%	2.4%	2.4%	2.4%



Performance	12M	6M	3M	1M
in EUR	49.3%	18.4%	11.8%	11.6%

Share price (EUR)	16.50	Reuters	UNIQ.VI	Free float	8.0%
Number of shares (mn)	142.2	Bloomberg	UQA AV	Shareholders	Raiffeisen group (47.8%)
Market capitalization (EUR mn)	2,345.8	Div. Ex-date	13/06/11		Austria Vv Bet. (36.1885%)
Enterprise value (EUR mn)		**Target price**	**13.8**	Homepage:	www.uniqagroup.com

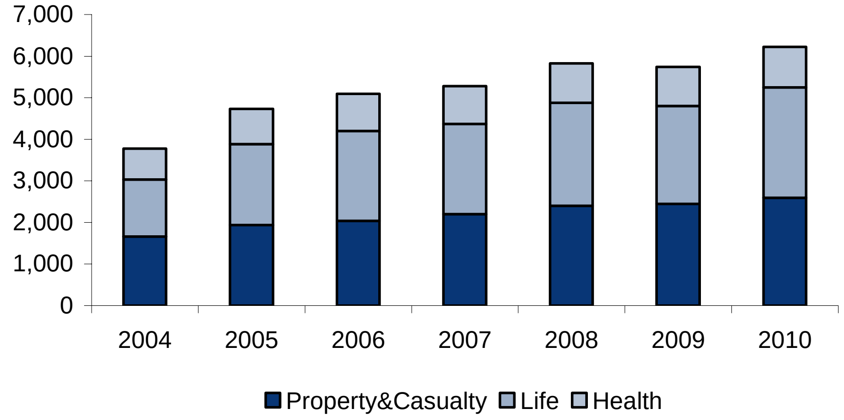
Increasing profitability urgently needed

- **We reiterate our Reduce recommendation but lift our target price to EUR 13.8, since we no longer include a 10% liquidity discount. We marginally reduce our EPS estimate for 2010 to EUR 0.35 (from EUR 0.37), but leave our estimates for 2011 and 2012 unchanged at EUR 0.72 and 0.79, respectively. For 2013, we estimate EPS of EUR 0.93.**
- **A peer group comparison shows relatively high P/B ratios, which are not endorsed by satisfactory ROEs. The P/E ratios (based on our earnings estimates) are much higher than those of UNIQA's competitors. Strong Price/Embedded Value multiples alone are not enough to justify a higher target price from our point of view.**
- **A look at UNIQA's balance sheet confirms our cautious view on the stock. We wouldn't say that a solvency ratio of around 150% is insufficient at the moment, but other companies report much higher comparable figures. We also don't like the ratio of financial assets to technical reserves and UNIQA's equity ratio.**
- **UNIQA's preliminary FY figures showed a very strong development of the company's top line, including 8.4% premium growth. The pre-tax profit should amount to in the range of EUR 135-140mn.**
- **UNIQA's main problem is the loss in the property and casualty segment. Indeed, the company suffered from natural catastrophes, but so did other companies. UNIQA has the highest cost ratio within its peer group, which is a burden for the company's profitability.**
- **For the time being, UNIQA's share looks less attractive than other stocks. We are waiting for improving results which would justify a higher target price.**

Preliminary FY10 figures: more than EUR 6bn premium income for the first time. UNIQA presented its preliminary FY10 figures on January 28, with a top line exceeding the EUR 6bn mark for the first time. The company achieved a premium growth (including savings portion of unit- and index-linked products) of 8.4%, to EUR 6,219mn. The driving force behind that favorable development was the strong performance of the international business, with a premium increase of more than 20%. The 31.5% premium growth in Western Europe was due mainly to an outstanding 82.2% premium increase in life insurance boosted by an extraordinary demand situation in Italy. But the CEE region also contributed a 12.7% growth in premium. In Austria, UNIQA recorded a sound top-line growth of 2%.

Outstanding performance of life segment. Segment-wise, life insurance achieved the strongest growth, as premium income increased by 12.9% to EUR 2.66bn. Property and casualty business gained 5.9% to EUR 2.59bn, while health insurance premium income grew by 3.8% to EUR 0.97bn. The company said that it expects the pre-tax profit line to come in at around EUR 135-140mn and therefore a touch below our original estimate.

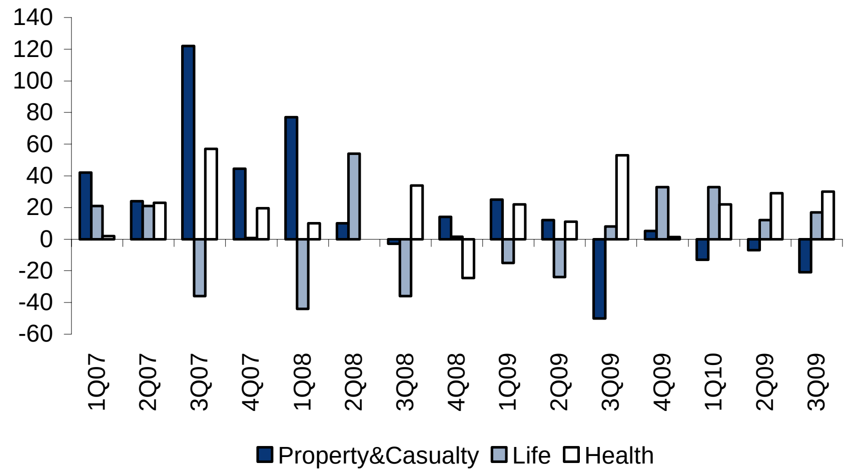
Premium income development



Source: Company data

Property and casualty business expected to post negative results in 2010. We do not have the full set of 2010 figures in front of us, but it is rather unlikely that the property and casualty segment will turn positive in Q4. The property and casualty segment is UNIQA's main problem at the moment. From 3Q09 until 3Q10, the company had only one quarter with a slightly positive result (4Q09). The life segment, on the other hand, has fully recovered since the financial crises. The health business of UNIQA is also doing well and has improved to become the by far most profitable segment of UNIQA in the last two years.

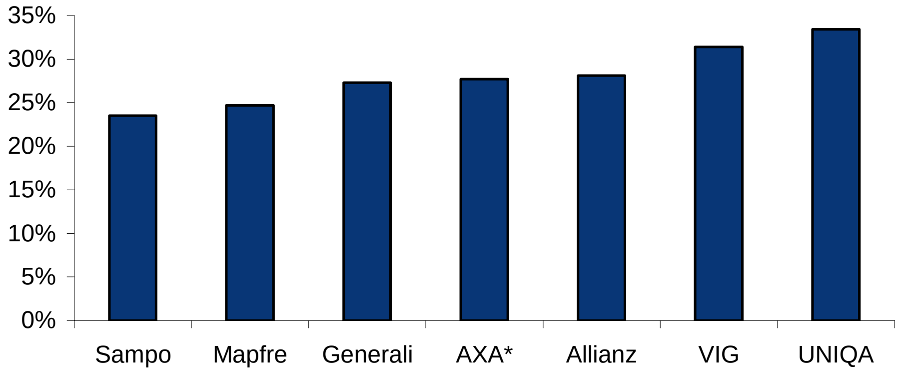
Pre-tax profit development by segments (EURmn)



Source: Company data

Indeed, UNIQA suffered from high losses due to natural catastrophes, which lifted the claims ratio to 67.8% in 2009 (from 63.8% in 2008), and to 72.6% in 1-3Q10. However, we also see another problem, which is the company's cost ratio. UNIQA's cost ratio has not improved in recent years and currently stands at 33.4% (in 1-3Q10). This high cost ratio is certainly partly due to the company's high CEE exposure, but other company's (e.g. Vienna Insurance Group) with an even higher CEE/Emerging markets exposure are able to post lower cost ratios. A reduction by two percentage points would mean an improvement in the results of some EUR 50mn, which would be urgently needed to improve the company's results in the property and casualty business line.

1-3Q10 cost ratio comparison



**AXA: 1-2Q10 figures*
Source: Company data

Almost unchanged EPS estimates. We marginally reduce our EPS estimate for 2010 to EUR 0.35 (from EUR 0.37) due to the fact that the company's guidance for pre-tax profit slightly missed our expectations. We leave our EPS estimates for 2011 and 2012 unchanged at EUR 0.72 and EUR 0.79. For 2013, we reckon with an improvement to EUR 0.93.

Valuation

(EURmn)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TV
Net income	102.3	111.9	129.2	137.9	157.0	186.1	195.6	212.8	229.8	246.4	262.0
Book value of equity	1,437.1	1,514.1	1,609.9	1,701.7	1,814.3	1,907.4	2,005.2	2,096.5	2,179.0	2,249.9	2,306.9
ROE	7.3%	7.6%	8.3%	8.3%	8.9%	10.0%	10.0%	10.4%	10.8%	11.1%	11.5%
EPS	0.72	0.79	0.91	0.97	1.10	1.30	1.37	1.49	1.61	1.72	1.83
DPS	0.40	0.40	0.50	0.50	0.60	0.65	0.68	0.85	1.03	1.23	1.43
Payout ratio	55.6%	50.8%	55.0%	51.6%	54.3%	50.0%	50.0%	57.1%	64.1%	71.2%	78.3%
Retention rate	44.4%	49.2%	45.0%	48.4%	45.7%	50.0%	50.0%	42.9%	35.9%	28.8%	21.7%
Cost of equity	104.6	109.9	116.4	123.4	131.0	138.6	145.7	152.8	159.3	165.0	227.8
Excess equity return	-2.4	2.0	12.9	14.5	26.0	47.5	49.9	60.0	70.5	81.4	455.7
Discount factor	1.01	1.08	1.17	1.25	1.35	1.45	1.55	1.67	1.79	1.93	1.93
PV of excess equity return	**-2.3**	**1.8**	**11.0**	**11.6**	**19.3**	**32.8**	**32.1**	**35.9**	**39.3**	**42.2**	**236.4**

Valuation	
Book value of equity	1,371.2
PV of equity excess return	460.1
PV of Equity	**1,831.4**
Number of shares	142.99
PV per share	12.8
Target price 12m	**13.8**

Main assumptions

Detailled period	
Risk free rate	3.6%
Beta	0.7
Risk premium	5.5%
Cost of equity	7.5%
Payout ratio	50.0%

Terminal value	
Risk free rate	4.5%
Beta	1.0
Risk premium	5.5%
Cost of equity	10.0%
Terminal value growth	2.5%

Source: Erste Group Research

Valuation parameters unchanged. We have not changed any parameters in our valuation model, which still contains a detailed planning period until 2015 and the assumption that UNIQA will be able to increase its ROE to 11.5%. We leave the risk free rate at 3.6% for the next 10 years and 4.5% for the terminal value. The risk premium remains at 5.5%. We assume a Beta of 0.7 for the detailed period, which helps UNIQA keep its cost of equity low. Nevertheless, the company is currently not able to earn its capital costs. As we decided to no longer include a liquidity discount on the stock, we raise our target price to EUR 13.8. Nevertheless, we reiterate our Reduce recommendation.

Peer group comparison with mixed aspects. A comparison with Vienna Insurance Group and PZU shows that UNIQA is currently traded significantly above its book value, which is unjustified when we look at the ROE. The P/E ratios are much higher than those of VIG and PZU. A look at the Price/Premium multiple shows that the company would have a strong premium income. UNIQA's problem is the profitability, which impedes a better P/E ratio. The Price/Embedded Value ratio is the best among its closer peer group. This is partly due to UNIQA's high exposure to life and health insurance (57% of the total premium income in 1-3Q10), but nevertheless remarkable. However, from our point of view, a strong Embedded Value alone is not enough to draw attention on the stock. UNIQA has to solve its problems with its property and casualty segment to improve its results and thus look more attractive.

Comparison with PZU und VIG

		PZU	UNIQA	VIG			PZU	UNIQA	VIG
P/P	**2010**	2.1x	0.4x	0.6x	**P/E**	**2010**	12.5x	47.3x	13.9x
	2011	2.1x	0.4x	0.6x		**2011**	11.1x	23.0x	12.1x
	2012	2.0x	0.4x	0.6x		**2012**	10.4x	20.9x	11.5x
P/B	**2010**	2.4x	1.7x	1.3x	**ROE**	**2010**	20.4%	3.7%	9.8%
	2011	2.1x	1.6x	1.2x		**2011**	20.3%	7.3%	10.4%
	2012	1.9x	1.6x	1.1x		**2012**	19.2%	7.6%	10.3%
DY	**2010**	3.5%	2.4%	2.4%	**P/EV**	**2010**	1.28x	0.95x	1.08x
	2011	4.0%	2.4%	2.6%		**2011**	1.22x	0.92x	1.01x
	2012	4.2%	2.4%	2.8%		**2012**	1.17x	0.88x	0.94x

Source: Erste Group Research

Weak balance sheet. A look at UNIQA's balance sheet confirms our currently cautious view on the stock. We would not say that UNIQA's solvency ratio of around 150% is a burden, but the comparable figures of UNIQA's peer group are stronger. UNIQA's financial assets are covering its technical reserves by 102.7%, which leaves a relatively low cushion. The equity ratio of 5.7% is also very low compared to other insurance companies, which raises the question of the necessity of further capital measures in the near future.

Key figures comparison (as of 3Q10)

	Allianz	AXA*	Generali	Mapfre	Sampo	VIG	PZU	**UNIQA**
Solvency ratio	168%	188%	150%	n.a.	167%	>200%	355%	**~150%**
Investments/technical reserves	111.6%	102.7%	113.0%	110.3%	119.7%	116.9%	131.3%	**102.7%**
Equity/total assets	7.6%	6.8%	4.9%	16.3%	28.6%	12.6%	24.8%	**5.7%**

*AXA as of 1H10

Source: Company data

Income Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Gross premiums written	4,527.89	5,002.36	5,011.65	5,421.69	5,521.27	5,733.00
Net premiums earned	4,106.38	4,730.37	4,770.16	5,142.91	5,237.02	5,437.46
Net investment income	993.01	227.60	751.60	908.99	839.79	875.13
Other income	37.13	80.01	60.62	105.10	95.10	93.79
Total income	5,207.94	5,057.38	5,597.21	6,177.60	6,192.94	6,428.26
Claims expenses and benefits paid	-3,237.18	-3,441.81	-3,433.89	-3,603.15	-3,610.36	-3,732.01
Changes in technical reserves	-345.50	-136.76	-606.99	-913.17	-875.96	-914.78
Acquisition and administrative expenses	-1,127.10	-1,256.81	-1,283.75	-1,332.81	-1,348.85	-1,399.68
Other expenses	-86.57	-99.42	-123.05	-147.16	-136.51	-141.77
Total expenses	-4,829.79	-4,928.37	-5,479.79	-6,008.29	-5,979.68	-6,196.24
Operating profit	378.15	129.00	117.42	169.32	213.26	232.02
Income taxes	-71.26	-23.47	-39.60	-46.74	-42.29	-46.67
Net profit for the period	268.99	66.75	42.73	91.56	139.87	154.16
Minority interests	-21.89	-13.44	-28.62	-42.00	-37.96	-41.74
Net result after minorities	**247.10**	**53.31**	**14.11**	**49.56**	**101.91**	**112.42**

Balance Sheet	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)						
Intangible assets	1,206.19	1,407.40	1,516.46	1,508.88	1,516.42	1,524.00
Investments	18,339.91	17,628.08	18,220.05	19,745.42	21,134.47	22,574.34
Unit-linked investments	2,470.34	2,642.46	3,473.55	4,410.41	5,411.13	6,519.16
Reinsurers' share in technical provisions	771.67	760.97	766.45	835.82	894.61	955.56
Receivables	806.38	932.32	1,019.90	948.80	966.22	1,003.28
Liquid funds	647.13	567.85	797.66	234.44	211.00	191.70
Deferred tax assets	77.06	69.10	96.30	69.15	91.08	100.42
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS	**25,588.66**	**25,630.09**	**27,392.74**	**29,342.86**	**31,928.81**	**34,687.53**
Shareholders'equity	1,336.38	1,264.67	1,333.06	1,367.96	1,433.48	1,510.91
Minorities	195.84	194.11	231.72	252.72	271.70	292.57
Subordinated liabilities	575.00	580.54	575.00	580.50	581.50	582.50
Other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Technical provisions (net)	18,264.88	18,420.59	19,199.71	20,385.74	21,819.83	23,306.40
Unit-linked technical provisions	2,412.94	2,580.00	3,416.23	4,261.27	5,228.14	6,298.70
Other provisions	703.81	644.40	659.16	680.92	703.39	726.60
LT liabilities	1,172.38	1,121.89	1,081.27	897.15	968.90	1,045.75
Current liabilities	885.82	766.61	847.85	900.00	900.00	900.00
Deferred tax liabilities	41.62	57.29	48.73	16.60	21.86	24.10
TOTAL LIAB. , EQUITY	**25,588.66**	**25,630.09**	**27,392.73**	**29,342.86**	**31,928.81**	**34,687.53**

Source: Company data, Erste Group estimates

Sector Report – Erste Sector Insurance

Company Report – Insurance – Austria – February 9, 2011

Vienna Insurance Group Buy

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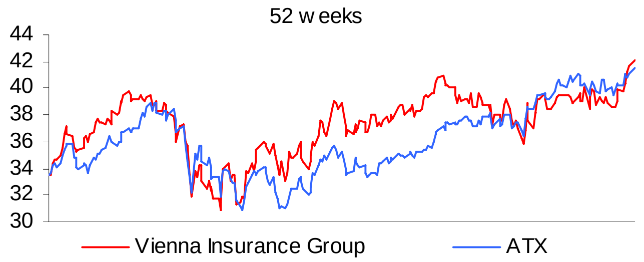
EUR mn	2009	2010e	2011e	2012e
Premium income	8,019.3	8,500.4	8,873.0	9,393.5
Investment income	930.0	1,080.1	1,006.0	1,058.0
EBT	441.2	505.1	580.2	616.4
Net result after min.	340.5	388.2	445.3	471.3
EPS (EUR)	2.66	3.03	3.48	3.68
BVPS (EUR)	30.03	32.15	34.63	37.22
EV/share (EUR)	35.81	38.89	41.66	44.98
Div./share (EUR)	0.90	1.00	1.10	1.20
ROE	9.1%	9.8%	10.4%	10.3%
P/E (x)	13.5	13.9	12.1	11.5
P/BV(x)	1.2	1.3	1.2	1.1
Dividend Yield	2.5%	2.4%	2.6%	2.8%



Performance	12M	6M	3M	1M
in EUR	28.2%	9.7%	8.8%	5.4%

Share price (EUR)	42.18	Reuters	VIGR.VI	Free float	29.0%
Number of shares (mn)	128.0	Bloomberg	VIG AV	Shareholders	WSWVV (71.0%)
Market capitalization (EUR mn)	5,398.4	Div. Ex-date	16/05/11		
Enterprise value (EUR mn)		**Target price**	**50.0**	Homepage:	www.vig.com

Preliminary FY10 figures as expected – stock still very attractive

- **We reiterate our Buy recommendation and lift our target price to EUR 50 (from EUR 44.5). We confirm our EPS estimates for 2010-12 of EUR 3.03, EUR 3.48 and EUR 3.68, respectively. For 2013, we calculate EUR 3.95.**

- **Vienna Insurance Group (VIG) is still traded at very attractive multiples. According to our estimates, the forward P/E is still around 12x, despite enormous growth potential in the coming years and despite the fact that the company is still holding a EUR 1.2bn war chest for further acquisitions.**

- **The current share price is only marginally above our estimated Embedded Value for 2010, which will be presented on March 31, together with the full set of FY10 figures. Thus, investors are buying the share at the net asset value plus the present value of the future profits of the existing life and health insurance portfolio (value in force). Therefore, they get the future profits of the property and casualty and the CEE growth fantasy for free.**

- **We like the strong balance sheet of VIG, including a solvency ratio of >200% and financial assets covering the technical reserves by 116.9%. The equity ratio amounts to a healthy 12.6%.**

- **The company presented its preliminary unconsolidated figures, including top line growth of 6.1%. Management said that the pre-tax profit for 2010 would reach EUR 505, an increase of 15% y/y, thus beating the latest stated guidance of the company (+10%). Management is confident that they will present another 10% EBT growth in 2011.**

- **The market share data as of 1-3Q10 is impressive. VIG ranks number one in Slovakia, the Czech Republic, Romania and Bulgaria, with market shares of 31.5%, 30.9%, 26.9% and 17.6%, respectively. In its home market Austria, the company is also number one, with a market share of 24.7%.**

Preliminary unconsolidated premium income for 2010 up 6.1% y/y. VIG presented its preliminary unconsolidated (and thus unfortunately not comparable to P/L figures) premium income for 2010. The company was able to increase its unconsolidated top line by 6.1% to EUR 8.7bn, which was strongly supported by an excellent development of the life insurance business, rising 11.7% to EUR 3.9bn. The non-life business recorded growth of 2%, reaching EUR 4.8bn.

Pre-tax profit to rise by 15%. The company also announced that its pre-tax profit would increase by 15% to EUR 505mn, more than the latest guidance stated (+10%), but in line with our estimates. The company sticks to its guidance of increasing its pre-tax profit in 2011 by another 10%. This forecast is due to the assumption that the combined ratio will drop to some 97% (from 98%). VIG plans to pay out a dividend of EUR 1.0 per share, which is less than we had expected (EUR 1.1).

Difficult life insurance business environment in Austria. The company also said that it expects a low percentage increase in premiums for 2011. While the property and casualty sector should benefit from a brighter economic outlook, including GDP growth of slightly above 2% in Austria, the life insurance sector is facing some changes in its legal framework. The extension of the minimum contract period to 15 years (from 10 years) for new business will certainly have a negative impact on the development of the company's top line. The decrease of the statutory guarantee in Austria to 2.0% (from 2.25%) should only have a limited impact on VIG's P/L. The fact that the new withholding tax on investment funds does not account for unit-linked life insurance business is definitely an advantage for insurance companies, which should at least partly offset the above-mentioned disadvantages.

Full set of 2010 figures to be reported on March 31. VIG will report its FY10 figures, including its embedded value, at the end of March. We fine-tuned our estimates, but keep our EPS estimate unchanged at EUR 3.03.

Key figures and 2010 estimates overview

(in EURmn)	2006	2007	2008	2009	2010e	%ch
Gross written premiums	5,881.5	6,911.9	7,898.9	8,019.3	8,500.4	6.0%
Net earned premiums	5,038.7	5,941.7	6,961.6	7,242.3	7,856.1	8.5%
Investment income	711.4	995.8	913.9	930.0	1,080.1	16.1%
Pre-tax profit	321.0	437.3	540.8	441.2	505.1	14.5%
Net result	260.9	312.6	408.5	340.5	388.2	14.0%
EPS (in EUR)	2.48	2.98	3.41	2.66	3.03	14.0%

Source: Erste Group Research, Vienna Insurance Group

New assumptions. We included the recent developments in our model and assume premium growth of 4.3% in 2011. For the non-life segment, we assume premium growth of 6.4%, while life insurance could be burdened by a declining premium in Austria. Therefore, we only included growth of 1.9% in the life segment in 2011. For 2012 and 2013, we are more optimistic and include premium growth rates of 5.8% and 5.1%, respectively, in our model.

EPS estimates unchanged. We leave our EPS estimates for 2010-12 unchanged at EUR 3.03, EUR 3.48 and EUR 3.68, respectively. Slightly lower pre-tax profits are compensated for by lower minorities, leaving the net result almost unchanged. For 2013, we calculate EPS of EUR 3.95.

Buy recommendation confirmed, target price raised to EUR 50. We reiterate our Buy recommendation and raise our target price to EUR 50 (from EUR 44.5). Our valuation is based on an excess equity return model, considering a detailed planning period until 2015. For 2016 to 2020, we assume an ROE increase from 10.5% to 13.2% and a payout ratio of 30%. Our assumptions also include a risk-free rate of 3.6% for the detailed period, as well as 4.5% for the terminal value. The risk premium amounts to 6%, while the terminal value growth is assumed to be 3%. We add the present value of equity excess return to the book value of VIG's equity and calculate a present value of EUR 45.7. Compounding that by 12 months, we derive a theoretical target price of EUR 50.1, which we round to EUR 50.

Valuation

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TV
Net income	445.3	471.3	505.5	550.2	596.1	644.9	694.1	791.6	891.2	989.3	1,081.4
Book value of equity	4,433.1	4,763.7	5,115.6	5,499.4	5,916.3	6,367.8	6,853.7	7,314.2	7,727.4	8,069.2	8,315.0
ROE	10.4%	10.3%	10.2%	10.4%	10.4%	10.5%	10.5%	11.2%	11.9%	12.5%	13.2%
EPS	3.48	3.68	3.95	4.30	4.66	5.04	5.42	6.18	6.96	7.73	8.45
DPS	1.10	1.20	1.30	1.40	1.50	1.51	1.63	2.59	3.73	5.06	6.53
Payout ratio	31.6%	32.6%	32.9%	32.6%	32.2%	30.0%	30.0%	41.8%	53.6%	65.5%	77.3%
Retention rate	68.4%	67.4%	67.1%	67.4%	67.8%	70.0%	70.0%	58.2%	46.4%	34.5%	22.7%
Cost of equity	410.3	441.4	474.2	509.5	548.0	589.6	634.6	680.1	722.0	758.2	860.2
Excess equity return	35.0	29.9	31.3	40.7	48.2	55.3	59.5	111.6	169.2	231.0	2,949.1
Discount factor	1.01	1.11	1.22	1.33	1.46	1.60	1.75	1.92	2.11	2.31	2.31
PV of excess equity return	**34.6**	**26.9**	**25.7**	**30.6**	**33.0**	**34.5**	**33.9**	**58.0**	**80.3**	**100.0**	**1,276.6**

Valuation	
Book value of equity	4,115.8
PV of equity excess return	1,734.0
PV of Equity	**5,849.8**
Number of shares	128
PV per share	45.7
Target price 12m	**50.1**

Main assumptions

Detailled period	
Risk free rate	3.6%
Beta	1.0
Risk premium	6.0%
Cost of equity	9.6%
Payout ratio	30.0%

Terminal value	
Risk free rate	4.5%
Beta	1.0
Risk premium	6.0%
Cost of equity	10.5%
Terminal value growth	3.0%

Source: Erste Group Research

Attractive multiples. VIG is currently traded at attractive multiples. We expect the P/E ratio to drop to 12.1x in 2011 and to 11.5x in 2012. The low insurance penetration in the CEE region should guarantee growth over the years (if not decades) and bring future P/E ratios down. The combined ratio of around 98% in 2010 has room for further improvements. What we have not mentioned so far is the fact that VIG has a war chest of more than EUR 1.2bn for further acquisitions, which should also support the company's P/L in the coming years. EUR 1.2bn means EUR 9.4 per share, which is almost 25% of the current share price.

Strong Embedded Value expected. For the first time, we also include Embedded Value estimates. For 2010, we estimate an Embedded Value of EUR 4.977bn, or EUR 38.9 per share. Our assumptions include increased equity, supporting the NAV, as well as a growing value-in-force (supported by the increasing premium income in the life segment). At the current share price, the Price/Embedded Value multiple amounts to 1.08x. This means that the current share price only reflects the actual business, but not any future growth of the company. Investors should consider that they can now buy VIG shares with all future growth for free.

Outstanding balance sheet. VIG has one of the strongest balance sheets among its peer group, including a solvency ratio of >200% and financial assets covering the technical reserves by 116.9%. The equity ratio amounts to 12.6%.

Key ratios overview (as of 3Q10)

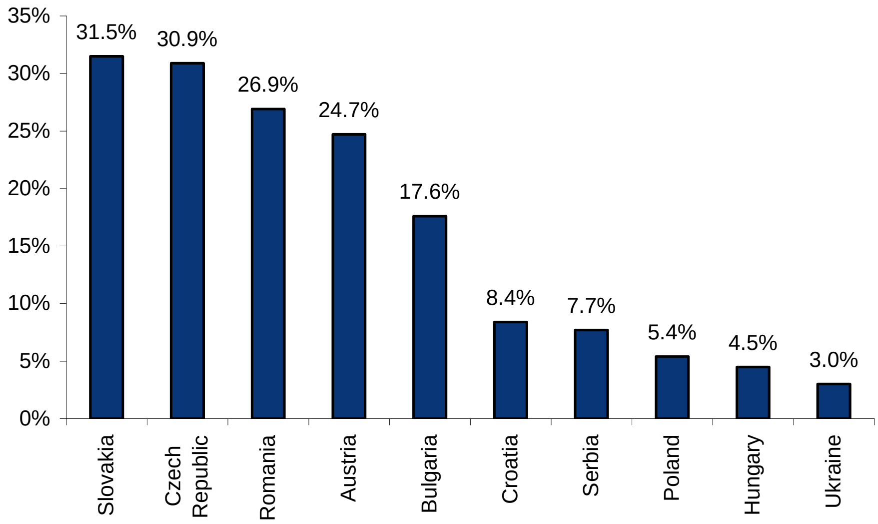
	Allianz	AXA*	Generali	Mapfre	Sampo	**VIG**	PZU	UNIQA
Solvency ratio	168%	188%	150%	n.a.	167%	**>200%**	355%	~150%
Investments/technical reserves	111.6%	102.7%	113.0%	110.3%	119.7%	**116.9%**	131.3%	102.7%
Equity/total assets	7.6%	6.8%	4.9%	16.3%	28.6%	**12.6%**	24.8%	5.7%

*AXA as of 1H10

Source: Erste Group Research

Impressive market shares in CEE. VIG is number one in the CEE region, with market shares of 31.5% in Slovakia, 30.9% in the Czech Republic, 26.9% in Romania and 17.6% in Bulgaria. In Poland, the company has a 9.8% market share in non-life business and a total market share of 5.4%. In Austria, the home market, the company is also number one, with a market share of 24.7%.

Market shares as of 1-3Q10



Source: Company data

Multiple comparison with PZU und UNIQA

		PZU	UNIQA	VIG
P/P	**2010**	2.1x	0.4x	0.6x
	2011	2.1x	0.4x	0.6x
	2012	2.0x	0.4x	0.6x
P/B	**2010**	2.4x	1.7x	1.3x
	2011	2.1x	1.6x	1.2x
	2012	1.9x	1.6x	1.1x
DY	**2010**	3.5%	2.4%	2.4%
	2011	4.0%	2.4%	2.6%
	2012	4.2%	2.4%	2.8%

		PZU	UNIQA	VIG
P/E	**2010**	12.5x	47.3x	13.9x
	2011	11.1x	23.0x	12.1x
	2012	10.4x	20.9x	11.5x
ROE	**2010**	20.4%	3.7%	9.8%
	2011	20.3%	7.3%	10.4%
	2012	19.2%	7.6%	10.3%
P/EV	**2010**	1.28x	0.95x	1.08x
	2011	1.22x	0.92x	1.01x
	2012	1.17x	0.88x	0.94x

Source: Erste Group Research

Income Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Gross premiums written	6,911.93	7,898.87	8,019.28	8,500.39	8,873.04	9,393.52
Net premiums earned	5,941.69	6,961.61	7,242.28	7,856.14	8,196.66	8,680.00
Net investment income	995.77	913.93	929.97	1,080.06	1,006.04	1,057.95
Other income	51.96	127.46	124.99	138.14	141.64	150.95
Total income	6,989.43	8,002.99	8,297.23	9,074.35	9,344.34	9,888.90
Claims expenses and benefits paid	-3,162.60	-4,233.77	-4,812.29	-4,182.58	-4,307.87	-4,567.99
Changes in technical reserves	-1,868.91	-1,373.59	-1,064.87	-2,382.84	-2,432.48	-2,552.58
Acquisition and administrative expenses	-1,345.11	-1,562.12	-1,649.42	-1,685.42	-1,698.16	-1,803.88
Other expenses	-182.38	-296.92	-328.56	-326.67	-331.68	-353.03
Total expenses	-6,552.13	-7,462.20	-7,855.98	-8,569.21	-8,764.19	-9,272.48
Operating profit	437.30	540.80	441.25	505.14	580.16	616.42
Income taxes	-88.43	-98.45	-77.53	-94.97	-109.65	-117.12
Net profit for the period	348.87	442.34	363.71	410.17	470.51	499.30
Minority interests	-36.25	-33.81	-23.23	-21.94	-25.17	-27.96
Net result after minorities	**312.62**	**408.53**	**340.49**	**388.23**	**445.33**	**471.34**

Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)						
Intangible assets	524.51	1,648.94	1,975.42	2,045.42	2,058.42	2,071.42
Investments	20,171.39	24,547.57	25,894.05	27,952.75	29,948.37	32,029.36
Unit-linked investments	3,065.99	3,602.40	4,628.45	5,352.59	6,090.44	6,863.03
Reinsurers' share in technical provisions	1,186.66	1,222.26	1,117.24	1,669.60	1,766.89	1,885.90
Receivables	1,200.28	1,500.07	1,563.45	1,669.60	1,766.89	1,885.90
Liquid funds	277.70	619.33	484.52	378.20	886.27	1,400.38
Deferred tax assets	33.86	131.17	122.33	129.67	135.35	143.29
Other assets	284.69	393.39	486.81	516.02	538.64	570.24
TOTAL ASSETS	**26,745.07**	**33,665.12**	**36,272.27**	**39,713.83**	**43,191.29**	**46,849.52**
Shareholders'equity	2,338.11	3,626.27	3,843.68	4,115.80	4,433.14	4,763.68
Minorities	277.46	266.92	289.29	321.24	356.41	394.37
Subordinated liabilities	0.00	245.60	495.60	495.60	495.60	495.60
Other reserves	442.91	501.24	545.35	545.35	545.35	545.35
Technical provisions (net)	17,092.13	21,682.37	22,578.26	24,712.22	26,821.74	29,021.62
Unit-linked technical provisions	2,948.52	3,346.77	4,376.16	5,100.30	5,838.15	6,610.75
Other provisions	668.77	599.17	584.90	726.15	756.31	787.79
LT liabilities	1,976.72	1,910.36	2,184.42	2,432.20	2,632.79	2,825.30
Current liabilities	1,000.45	1,486.42	1,374.60	1,264.97	1,311.80	1,405.07
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL LIAB. , EQUITY	**26,745.07**	**33,665.12**	**36,272.27**	**39,713.83**	**43,191.29**	**46,849.52**

Source: Company data, Erste Group estimates

Company Report – Insurance – Poland – February 9, 2011

PZU from Hold to Accumulate

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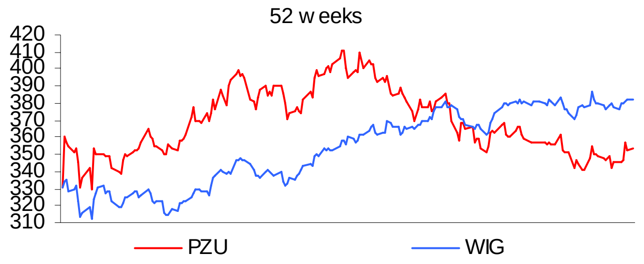
PLN mn	2009	2010e	2011e	2012e
Premium income	14,362.7	14,279.8	14,548.1	14,979.7
Investment income	3,809.9	2,935.1	2,957.1	3,136.3
EBT	4,565.8	3,057.8	3,429.6	3,665.8
Net result after min.	3,762.9	2,446.2	2,743.7	2,932.7
EPS (PLN)	43.58	28.33	31.77	33.96
BVPS (PLN)	130.47	147.29	166.30	186.80
EV/share (PLN)		276.85	288.40	302.30
Div./share (PLN)	158.56	12.50	14.00	15.00
ROE	24.0%	20.4%	20.3%	19.2%
P/E (x)		12.5	11.1	10.4
P/BV(x)		2.4	2.1	1.9
Dividend Yield		3.5%	4.0%	4.2%



Performance	12M	6M	3M	1M
in PLN	6.6%	-10.6%	-7.5%	0.6%
in EUR	10.5%	-8.0%	-6.6%	0.5%

Share price (PLN)	353.00	Reuters	PZU.WA	Free float	54.8%
Number of shares (mn)	86.4	Bloomberg	PZU PW	Shareholders	State treasury (45.1%)
Market capitalization (PLN mn / EUR mn)	30,482 / 7,862	Div. Ex-date	23/08/10		
Enterprise value (PLN mn / EUR mn)	0 / 0	**Target price**	**400.0**	Homepage:	www.pzu.pl

Recommendation upgrade to Accumulate

- **We confirm our target price of PLN 400, but upgrade our recommendation to Accumulate (from Hold), due to the decline of the share price since our last update. We also increase our EPS estimates for 2010-12 to PLN 28.3, PLN 31.8 and PLN 34.0, respectively (from PLN 27.1, PLN 30.9 and PLN 32.7, respectively).**

- **On March 17, the company will present its FY10 figures. We expect gross written premiums to come in at PLN 14.28bn, a touch below last year's figure. PZU's top line will still be burdened by a sharp decline of premium income in the corporate client segment of the non-life business, which was intended in order to improve the company's profitability. We are looking for a net result amounting to PLN 2.45bn.**

- **PZU is currently acting in an interesting business environment. Polish life insurance business reported growth of 4.3%, while non-life business could show growth of 5.5% in the first three quarters of 2010. However, the non-life segment posted significant losses, which were a result of the high losses due to natural catastrophes and generally low prices due to higher competition. At least the latter can be influenced by the companies themselves. We are currently watching a hardening of the property and casualty segment, which should result in declining combined ratios and therefore increasing results.**

- **PZU is currently traded at quite attractive multiples. According to our estimates, the P/E ratio for 2011 will amount to slightly above 11x and should decline further in 2012. Indeed, it is a challenge for the company to maintain its market shares as a former monopolist; nevertheless, PZU should be able to benefit from the growth opportunities in the region. A very strong balance sheet confirms our positive view on the stock at the current share price level.**

- **PZU has excess capital of some PLN 4-5bn. The management recently reiterated the possibility of paying out a special dividend in case the company fails to find adequate acquisition targets.**

PZU will present its FY10 figures on March 17. We expect the company to present a gross written premium income of PLN 14,280mn, only a touch below last year's figure (-0.5%). The non-life segment will still be burdened by the decline in premium income due to the restructuring of the corporate client portfolio, which we expect to be around -3.8%. On the other side, we expect the top line in the life segment to rise by 3.5%. Investment income will drop significantly, as a result of the much smaller asset base after the dividend payments in the previous year. Pre-tax profit could reach PLN 3,058mn, after PLN 4,566mn in 2009. We also expect – unsurprisingly – a lower net result of PLN 2,446mn (after PLN 3,763mn the previous year). Thus, EPS will drop to PLN 28.3 (from PLN 43.6), according to our estimates.

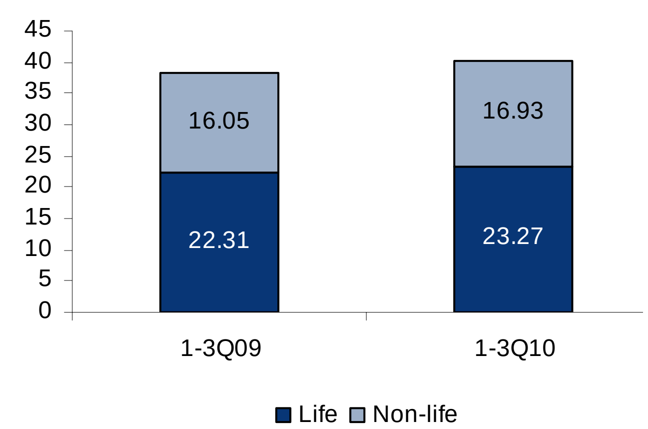
Erste Group Research estimates for FY10

(in PLNmn)	2007	2008	2009	2010e	% ch.
Gross written premium income	14,077	14,563	14,363	14,280	-0.6%
- thereof life	5,884	6,130	6,341	6,563	3.5%
- thereof non-life	8,193	8,433	8,022	7,717	-3.8%
Investment income	2,646	576	3,469	2,610	-24.8%
EBT	4,422	2,931	4,566	3,058	-33.0%
Net result	3,560	2,330	3,763	2,446	-35.0%
EPS (PLN)	41.2	27.0	43.6	28.3	-35.0%

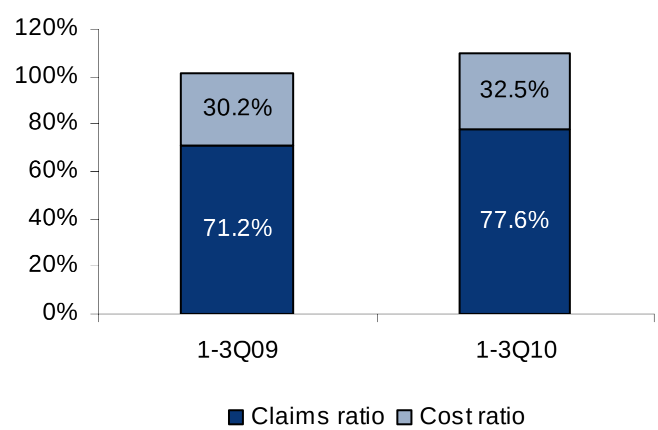
Source: Erste Group Research

Still favorable business environment. The Polish insurance market recorded attractive premium growth in the first three quarters of business year 2010. The life insurance segment benefited from a significant increase in single premiums and consequently registered growth of 4.3% to PLN 23.27bn. The non-life segment reported an increase of 5.5% to PLN 16.93bn. Thus, the total growth of the Polish insurance market amounted to 4.8%, while the total gross written premium income reached PLN 40.2bn in 1-3Q10.

GWP development (PLNbn)



Combined ratio development



Source: Quarterly Bulletin Insurance Market III/2010, Polish Financial Supervision Authority

Property and casualty segment reporting clearly negative results. While Poland's life insurance business segment was able to present a clearly positive net result after three quarters, the non-life segment suffered from a soaring combined ratio, including a claims ratio jump from 71.2% (in 1-3Q09) to 77.6%. This development was based on two effects. Firstly, natural catastrophes led to an increase of the amount of claims incurred (PLN 10.37bn, after PLN 9.17bn in 1-3Q09); secondly, there were extremely low price levels. However, the deterioration in profitability of the non-life segment should end in 2011, since most of the companies have already started to increase prices. Higher price levels on one side and a 'normalized' situation as far as natural catastrophes are concerned should lead to a significant decline of the combined ratio this year.

PZU, which saw its combined ratio soar to 107% (from 94.2%), said that it aims to reach a combined ratio close to the level seen in 2009. Hence, assuming an average year without any extraordinary losses, we might expect the company's combined ratio to significantly come down below the 100% mark.

Main assumptions: 2011 should be a year in which PZU is able to present slight growth of its top line. We expect a sound development of the life insurance business (+3.5%) and a slightly growing property and casualty segment (+0.5%). Although we do not assume that PZU will be able to grow with the market in this segment, we think that the restructuring of its corporate client portfolio is almost done. A hardening of the whole segment should additionally support PZU's premium income in the non-life segment.

We assume strong investment income for the coming years, although we do not assume that PZU will be able to achieve the same yields on its portfolio as in 2010. Nevertheless, a strong investment result (also based on an constantly increasing asset base), in combination with a reduced combined ratio in the non-life business, should lead to an increase of the company's bottom line. We do not think that the cut in transfers to Polish pension funds (to 2.3%, from 7.3%) will have a significant impact on PZU's profitability.

Due to the good development in 3Q10, we slightly increase our EPS estimate for 2010 to PLN 28.3 (from PLN 27.1). We also increase our estimates for 2011 and 2012 to PLN 31.8 and PLN 34.0, respectively (from PLN 30.9 and PLN 32.7, respectively).

Valuation: Upgrade to Accumulate. We upgrade our recommendation to Accumulate (from Hold) and confirm our target price of PLN 400. We think that the current share price is an interesting opportunity for investors to step in. Our valuation is based on an excess equity return model, with detailed estimates until 2015. For 2016 to 2020, we assume an ROE jump from 16.5% to 19%. Our assumptions also include a risk-free rate of 6.3% for the detailed period, as well as 5.5% for the terminal value. The risk premium amounts to 5.8% in the detailed period and 6% for the terminal value. In our model, we included terminal value growth of 3.75%. We add the present value of equity excess return to the book value of PZU's equity and calculate a present value of PLN 357.7. Compounding that by 12 months, we derive a target price of PLN 400.

Valuation

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TV
Net income	2,743.7	2,932.7	3,000.4	3,117.7	3,291.6	3,763.0	4,120.7	4,654.9	5,187.7	5,697.9	6,161.8
Book value of equity	14,360	16,131	17,916	19,774	21,771	23,841	26,107	28,257	30,196	31,822	33,039
ROE	20.3%	19.2%	17.6%	16.5%	15.8%	16.5%	16.5%	17.1%	17.8%	18.4%	19.0%
EPS	31.77	33.96	34.75	36.10	38.12	43.58	47.72	53.91	60.08	65.99	71.36
DPS	14.00	15.00	16.00	17.00	18.00	19.61	21.47	29.01	37.63	47.15	57.27
Payout ratio	44.1%	44.2%	46.0%	47.1%	47.2%	45.0%	45.0%	53.8%	62.6%	71.4%	80.3%
Retention rate	55.9%	55.8%	54.0%	52.9%	52.8%	55.0%	55.0%	46.2%	37.4%	28.6%	19.7%
Cost of equity	1,626.1	1,831.0	2,044.5	2,263.3	2,494.8	2,739.0	2,999.4	3,264.6	3,510.1	3,724.2	3,729.5
Excess equity return	1,117.6	1,101.7	955.9	854.5	796.8	1,024.0	1,121.3	1,390.4	1,677.6	1,973.7	31,384
Discount factor	1.02	1.14	1.27	1.43	1.60	1.79	2.01	2.25	2.52	2.82	2.82
PV of excess equity return	**1,100.7**	**968.7**	**750.4**	**598.8**	**498.6**	**572.0**	**559.2**	**619.0**	**666.8**	**700.4**	**11,137**

Valuation

Book value of equity	12,719
PV of equity excess return	18,172
PV of Equity	**30,890**
Number of shares	86.35
PV per share	357.7
Target price 12m	**400.7**

Main assumptions

Detailled period	
Risk free rate	6.3%
Beta	1.0
Risk premium	5.8%
Cost of equity	12.0%
Payout ratio	45.0%

Terminal value	
Risk free rate	5.5%
Beta	1.0
Risk premium	6.0%
Cost of equity	11.5%
Terminal value growth	3.8%

Source: Erste Group Research

Multiple comparison with UNIQA und VIG

		PZU	UNIQA	VIG
P/P	**2010**	2.1x	0.4x	0.6x
	2011	2.1x	0.4x	0.6x
	2012	2.0x	0.4x	0.6x
P/B	**2010**	2.4x	1.7x	1.3x
	2011	2.1x	1.6x	1.2x
	2012	1.9x	1.6x	1.1x
DY	**2010**	3.5%	2.4%	2.4%
	2011	4.0%	2.4%	2.6%
	2012	4.2%	2.4%	2.8%

		PZU	UNIQA	VIG
P/E	**2010**	12.5x	47.3x	13.9x
	2011	11.1x	23.0x	12.1x
	2012	10.4x	20.9x	11.5x
ROE	**2010**	20.4%	3.7%	9.8%
	2011	20.3%	7.3%	10.4%
	2012	19.2%	7.6%	10.3%
P/EV	**2010**	1.28x	0.95x	1.08x
	2011	1.22x	0.92x	1.01x
	2012	1.17x	0.88x	0.94x

Source: Erste Group Research

Income Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS, PLN mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Gross premiums written	14,077.12	14,563.15	14,362.72	14,279.81	14,548.10	14,979.72
Net premiums earned	13,649.91	14,285.61	14,485.21	14,144.09	14,326.10	14,713.79
Net investment income	2,962.44	913.56	3,809.88	2,935.08	2,957.14	3,136.26
Other income	158.22	192.27	260.07	211.88	215.89	222.31
Total income	16,770.57	15,391.43	18,555.16	17,291.06	17,499.14	18,072.37
Claims expenses and benefits paid						
Changes in technical reserves						
Acquisition and administrative expenses	-3,185.97	-3,275.75	-3,648.49	-3,531.37	-3,454.32	-3,408.77
Other expenses	-753.50	-567.64	-904.58	-847.53	-863.58	-889.24
Total expenses	-12,348.09	-12,460.38	-13,989.35	-14,233.28	-14,069.52	-14,406.52
Operating profit	4,422.48	2,931.06	4,565.81	3,057.77	3,429.62	3,665.84
Income taxes	-862.13	-601.34	-802.90	-611.55	-685.92	-733.17
Net profit for the period	3,560.35	2,329.72	3,762.91	2,446.22	2,743.70	2,932.68
Minority interests	0.01	-0.02	-0.03	0.02	0.03	0.03
Net result after minorities	**3,560.36**	**2,329.70**	**3,762.88**	**2,446.24**	**2,743.72**	**2,932.70**

Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IFRS, PLN mn, 31/12)						
Intangible assets	146.16	89.79	104.70	108.95	113.42	118.11
Investments	49,366.34	54,220.99	48,237.59	47,458.07	50,502.01	53,757.44
Unit-linked investments						
Reinsurers' share in technical provisions	1,030.47	884.85	748.31	781.66	801.62	822.24
Receivables	1,272.75	1,412.18	1,383.98	1,411.66	1,439.89	1,468.69
Liquid funds	573.36	533.21	366.56	-142.06	-469.85	-836.83
Deferred tax assets	9.57	9.87	24.91	25.41	25.92	26.44
Other assets	770.66	839.58	832.19	857.54	883.70	910.70
TOTAL ASSETS	**54,682.35**	**59,359.04**	**53,176.21**	**52,008.76**	**54,834.39**	**57,835.21**
Shareholders'equity	17,835.94	20,052.22	11,266.75	12,718.80	14,360.12	16,130.70
Minorities	0.15	0.17	0.13	0.14	0.15	0.15
Subordinated liabilities						
Other reserves						
Technical provisions (net)	29,425.85	33,966.72	31,096.35	31,266.38	32,064.81	32,889.71
Unit-linked technical provisions	4,537.86	2,791.82	3,111.98	5,030.81	5,282.35	5,546.47
Other provisions	469.90	498.39	575.54	588.66	602.59	617.38
LT liabilities	1,573.84	1,299.37	6,424.69	1,668.16	1,751.76	1,839.57
Current liabilities	838.82	750.36	700.77	735.81	772.60	811.23
Deferred tax liabilities						
TOTAL LIAB. , EQUITY	**54,682.35**	**59,359.04**	**53,176.21**	**52,008.76**	**54,834.39**	**57,835.21**

Source: Company data, Erste Group estimates

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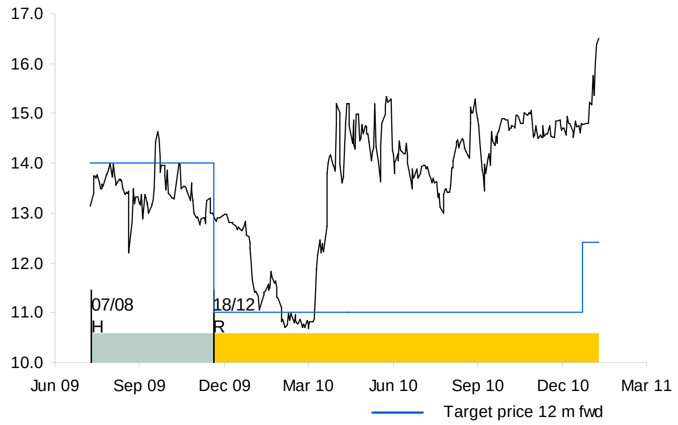
Uniqa

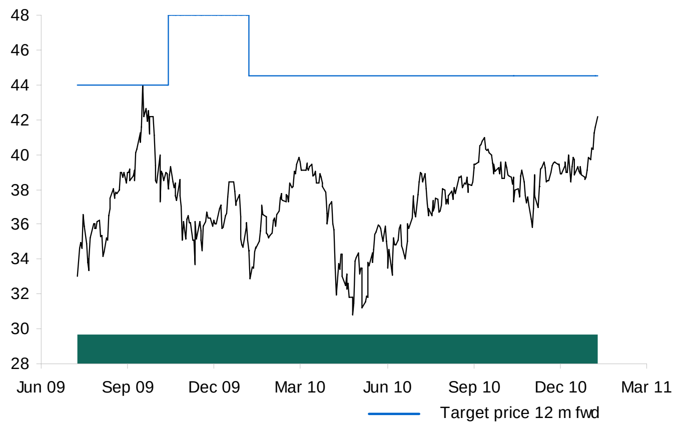


Rating history

Date	Rating	Price	Target Price
18. Dec 09	Reduce	12.92	11.00
02. Jul 09	Hold	13.60	14.00
10. Dec 08	Reduce	17.20	14.90
27. Jul 06	Accumulate	24.48	28.00

Company	Disclosure
Uniqa	2

Vienna Insurance Group

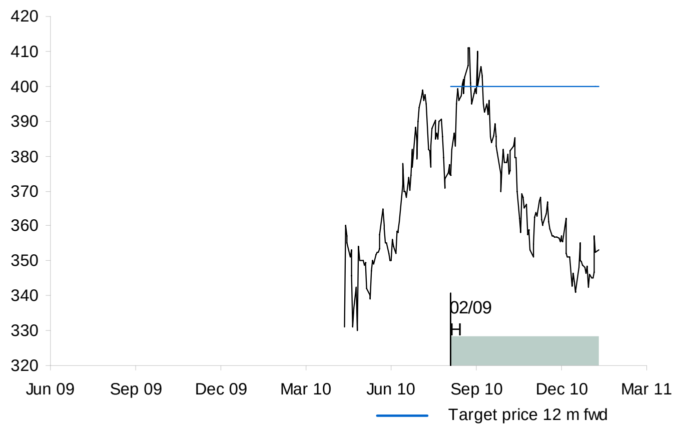


Rating history

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, 4

PZU



Rating history

Date	Rating	Price	Target Price
02. Sep 10	Hold	374.60	400.00

Company	Disclosure
PZU	

Important Disclosures

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

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Distribution of ratings

	Coverage universe		Inv. banking-relationship	
Recommendation	**No.**	**in %**	**No.**	**in %**
Buy	43	27.4	7	43.8
Accumulate	41	26.1	5	31.3
Hold	49	31.2	4	25.0
Reduce	8	5.1	0	0.0
Sell	6	3.8	0	0.0
N.R./UND.REV./RESTR.	10	6.4	0	0.0
Total	**157**	**100.0**	**16**	**100.0**

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