



FIB REPORT 2021
ANALYSIS OF FOREIGN
INSURANCE BUSINESS
OF AUSTRIAN
INSURANCE GROUPS

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MANAGEMENT SUMMARY

The Foreign Insurance Business Report provides detailed information on the foreign insurance business of Austrian insurance groups. Foreign insurance business can either be performed by subsidiaries or by use of the single-licensing-principle (branches and free provision of services). It's the foreign subsidiaries which are in the focus of this report, but to get a complete picture a section dealing with branches and free provision of services is included in Chapter 2.3. of this report.

The main aim of the Foreign Insurance Business Report is to assess which (additional) risks for the profitability, financial situation and solvency of insurance groups may arise due to their foreign insurance business activities. Furthermore, the developments of insurance markets most relevant from Austrian perspective shall be monitored on a regular basis, allowing for effective and target-oriented supervisory activities of FMA in the frame of insurance group supervision.

The analysis combines two different perspectives: a market perspective (cross market analysis and detailed analysis of insurance markets most relevant for Austrian insurance groups) and a group perspective.

Generally, the cut-off date for the data analysis is 31 December 2020. However, reference is made to more actual data and information as far as available. The latest insurance data refer to 30 June 2021. Due to technical reasons when referred to amounts in this report a comma (,) is used as decimal while a dot (.) is used to separate thousands. Furthermore, abbreviations are used for million (m.) and billion (bn.).

CROSS MARKET ANALYSIS (MARKET PERSPECTIVE)

SCOPE OF BUSINESS

There are five Austrian insurance groups with foreign insurance subsidiaries: Vienna Insurance Group, UNIQA Group, GRAWE Group, Merkur Group and Wüstenrot Group. At the end of 2020, the scope of business of these groups comprised 100 domestic and foreign insurance and five domestic and foreign reinsurance companies in 27 countries besides Austria, mainly in Central, Eastern and South Eastern Europe ("CESEE"). There have been no changes in the geographical scope compared to the previous year.

For the purpose of the analysis, all relevant countries were clustered into four geographical segments: Central Europe (CE), South Eastern Europe (SEE), Eastern Europe (EE) and Western Europe (WE).

MACROECONOMIC OVERVIEW OF CESEE REGION

As a consequence of the COVID-19 pandemic, GDP growth rates in 2020 have deteriorated in the CESEE-region. The GDP decline in foreign insurance business countries in the CE-area was -3,7%, in EE -3,2% and -5,3% in SEE. In Austria, the drop in GDP was with -6,3% more severe compared to the CESEE average. Despite the COVID-19 crisis, unemployment rates did not increase proportionally in the CESEE-region. Instead, overall debt-to-GDP ratios worsened in all CESEE-countries remaining although on a moderate level. With regard to inflation, the COVID-19 crisis put a slight dampener on consumer price increases in 2020. In addition, strong central bank activity in the CESEE-region has caused many currencies of non-Euro area countries to depreciate towards the Euro in 2020. For mitigating the adverse effects of the pandemic, EU member countries in CESEE will be (relative to their GDP) among the largest beneficiaries from the 2020 adopted Recovery and Resilience Facility by the European Commission.

COVID-19 AND ECONOMIC OUTLOOK

Data on COVID-19 shows that per one million population, the death toll was higher in CESEE compared to Austria. Unfortunately, for now countries have also been very unevenly successful in reaching a large proportion of population being vaccinated to effectively prevent another surge in infections. After more than a year of difficult crisis management, political risks remain high. At the same time, there is a chance for new trends in fundamental economic variables. A rise in inflation is also observable in many CESEE-countries. Although the ECB considers these inflationary effects as transitory as the economy recovers from the COVID-19 restrictions, forecasts for the Euro area show elevated price levels to remain also in 2022. For the CESEE area the average growth rate in 2021 is forecasted to be at 5,4% and will therefore even exceed the downturn in 2020. For 2022, forecasts show strong GDP growth to continue, however, not as much as the rebound effect in 2021.

INSURANCE MARKETS

Foreign insurance markets are rather heterogenic regarding size and the level of maturity. With regard to the level of maturity as measured by insurance density (i.e. premiums per capita) and insurance penetration (i.e. premiums in % of GDP), insurance markets in the CE region are more mature than the markets in EE and SEE. In the SEE segment, Slovenia and Cyprus are outliers, because they show significantly higher insurance density and insurance penetration figures than all other markets in this region. Bulgaria and Croatia are catching up to the average insurance market indicators in CE.

Referring to market size, Poland is the flagship market of the CE region, followed by Czechia and Hungary. In the SEE segment, Romania, Bulgaria and Croatia are the biggest markets as measured by GWP volume. The EE segment is dominated by the huge insurance markets Russia and Turkey.

The premium development in 2020 was to a large extent affected by the COVID-19 pandemic but also by the on-going low yield environment, especially in life insurance. Except for five markets in the CE-SEE region (Romania, Serbia, Slovenia, Lithuania and Kosovo), all markets recorded a negative trend. The largest drop in GWP by -8,3% was recorded for Poland which is the biggest market in the region.

In the analysis of premium development, the change in exchange rates in the respective period needs to be considered, because especially the EE-segment (Turkey, Belarus, Russia, Ukraine) experienced a significant depreciation ($\geq 30\%$) of their local currencies from YE-2019 to YE-2020. Even though on a lower level (between 3% and 10%), also some markets in the CE-area (Hungary, Poland, Czechia) faced a depreciation of their local currency.

In contrast, overall premium development in the first half year 2021 was positive year-over-year. For the WE-segment half year data is not available, but all insurance markets in the three other geographical segments reported an increase in market premiums with the only exception of Turkey.

SPECIAL TOPIC: NATURAL CATASTROPHES

In the first half year and during the summer months 2021, several severe weather events have occurred across Europe. The series of devastating natural disasters started in June with strong thunderstorms and a tornado hitting the South Moravia region in Czechia. Then, in mid-July extreme thunderstorms hit parts of Germany with the most devastating impacts in Rheinland-Pfalz and Nordrhein-Westfalen. In Austria several storm/hail events were recorded within the summer period. Further heavy natural disasters in 2021 were the forest fires occurring during the summer months in South Europe and Turkey.

According to the “Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970-2019)” published by the World Meteorological Organization (WMO) in September 2021, 1.672 recorded disasters cumulated 159.438 deaths and 476.5 bn. USD in economic damages in Europe from 1970–2019. Although floods and storms were the most prevalent cause in the recorded disasters, extreme temperatures accounted for the highest number of deaths.

It has to be noted, that the insurance coverage of natural catastrophes (briefly NatCat) is becoming an urgent matter. Across the CE-SEE-region, the NatCat insurance coverage degree of residential buildings is quite uneven. In markets such as Poland, Czechia, Hungary, Slovakia or Slovenia this indicator is quite high, while in Romania only 20% of homes are insured and the percentage goes down even more in the Western Balkan countries. This existing insurance gap could most recently be observed after the earthquakes hitting Croatia in 2020.

MARKET POSITION

Austrian insurance groups show high aggregated market shares in some foreign insurance business countries, mainly in the CE and SEE segment. The four countries showing aggregated market shares of Austrian insurance groups above 35% are North Macedonia, Slovakia, Czechia and Montenegro.

FOREIGN INSURANCE BUSINESS (GROUP PERSPECTIVE)

PREMIUM DEVELOPMENT

In 2020, Austrian insurance groups achieved an aggregated written premium volume (domestic and foreign business) of 15,1 bn. EUR (2019: 15,0 bn. EUR). Foreign business via subsidiaries accounts for a share of 42,1% and therefore remained at the level of 2019. This development was caused by an increase in domestic premium volume and a slight decline of foreign premiums.

An allocation of premiums to countries shows that over 70% of total foreign premium volume is generated in six countries: Czechia, Poland, Slovakia, Romania, Hungary and Croatia. In addition, the Baltic countries are of growing importance, the aggregated written premium volume of the three countries amounted to nearly 371 m. EUR in 2020, which means a premium share of 5,9% of total foreign premium volume of Austrian insurance groups.

GROUP SOLVENCY

For YE 2020, all insurance groups recorded sufficient group solvency ratios, however, at a considerably lower level as in the previous year. This is attributed to the impact of the COVID-19 crisis and the ongoing low-yield environment. Until Q2-2021 a recovery of the group solvency ratios can be observed for all Austrian insurance groups.

CROSS-BORDER BUSINESS VIA BRANCHES AND FPS

Austrian insurance groups not only operate abroad via subsidiaries but also use the system of free provision of services (FPS) and/or branches to generate business.

Considering the five Austrian insurance groups, premium volume of nearly 950 m. EUR results from operations via branches and/or free provision of services. With a share of 93%, the major part of premiums accounts for free provision of services. The main countries for free provision of service business are: Germany, Italy and Latvia.

ANALYSIS OF KEY MARKETS

All insurance markets relevant for Austrian insurance groups are ranked according to their premium share, i.e. the relation of written premiums generated in a country to the total foreign written premium volume of Austrian groups. Markets with a premium share above 4% are defined as so-called key markets.

Due to the acquisitions of UNIQA Group in Czechia and Poland (former AXA companies), the premium share of these two countries considerably increased and Croatia shows a premium share of only 3,9%. However, due to various reasons (e.g. all Austrian insurance groups have subsidiaries in Croatia, premium contribution is still significant), Croatia is further included in the list of key markets, that therefore comprises the following countries: Czechia, Poland, Slovakia, Romania, Hungary and Croatia.

1 CROSS MARKET ANALYSIS

1.1 SCOPE OF BUSINESS

The scope of insurance markets that are relevant for Austrian insurance groups is determined on the basis of information included in the annual quantitative reporting templates (Template S.32.01.04.01).

Five Austrian insurance groups (i.e. Vienna Insurance Group, UNIQA Group, GRAWE Group, Merkur Group and Wüstenrot Group) are active via insurance subsidiaries on foreign insurance markets.

At the end of 2020, the scope of business of these groups comprised 100 domestic and foreign insurance and 5 domestic and foreign reinsurance companies in 27 countries besides Austria, mainly in Central, Eastern and South Eastern Europe (“CESEE”). There have been no changes in the geographical scope compared to the previous year.

The reinsurance companies mainly serve as reinsurers within their groups. In order to avoid double counting of premiums, pure reinsurance companies are excluded in the following analyses, however, in chapter 2.1.3. information on geographical scope and premium volume of reinsurance companies is included.

For the purpose of streamlining the analysis, the relevant countries are clustered into 4 geographical segments:

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

Table 1: Countries allocated to geographical segments

If not otherwise stated, the CESEE definition used for the purpose of this report combines the CE, SEE and EE cluster with the relevant foreign countries listed above.

1.2 MACROECONOMIC OVERVIEW CESEE-REGION

In 2020, the global economy has experienced the greatest downturn since the 2008 financial crisis. This time, however, the world economy was not disrupted by speculative behaviour and bubbles on the financial markets but by an external shock from the COVID-19 pandemic affecting the real economy. While financial markets appear to have recovered quickly from the outbreak of the coronavirus in 2020, real economies over the world have deteriorated significantly compared to pre-pandemic years. This also applies to countries where Austrian insurance groups do foreign business, which – apart from DE, LI and CH – are all located in the CESEE-region. Thus, very solid GDP growth rates in the CESEE-region in previous years were in the majority of these countries reversed by the GDP declines experienced in 2020. **The GDP decline in relevant countries in the CE-cluster was -3,7%, in EE -3,2% and -5,3% in SEE.**

The degree of national measures imposed against COVID-19 pandemic and the vulnerabilities of economic sectors, however, caused many variations in the adverse effects among countries. Economies in the CESEE that rely less on the service industry but on industrial production have managed to keep productivity ongoing to a certain degree also during the COVID-19 pandemic. Hardest hit were HR and ME, which were heavily affected by a decline in the tourism sector in 2020. Also MD and GE have suffered comparatively strong from the COVID-19 downturn in 2020. As the only country in the CESEE-region (and one of few countries in the world), Turkey has even achieved real GDP growth of 1,8% in 2020, however, at the cost of high inflation of 12,3% and with the Turkish Lira depreciating by 36% towards the EUR on a year-over-year basis. Considering that **CESEE countries on average suffered a decline by 4,3% of GDP**, there are still some countries that did relatively well. This applies in particular to LT, BY and RS where GDP declines in 2020 were less or equal one percent. In Austria, the drop in GDP was with -6,3% more severe compared to the CESEE average.

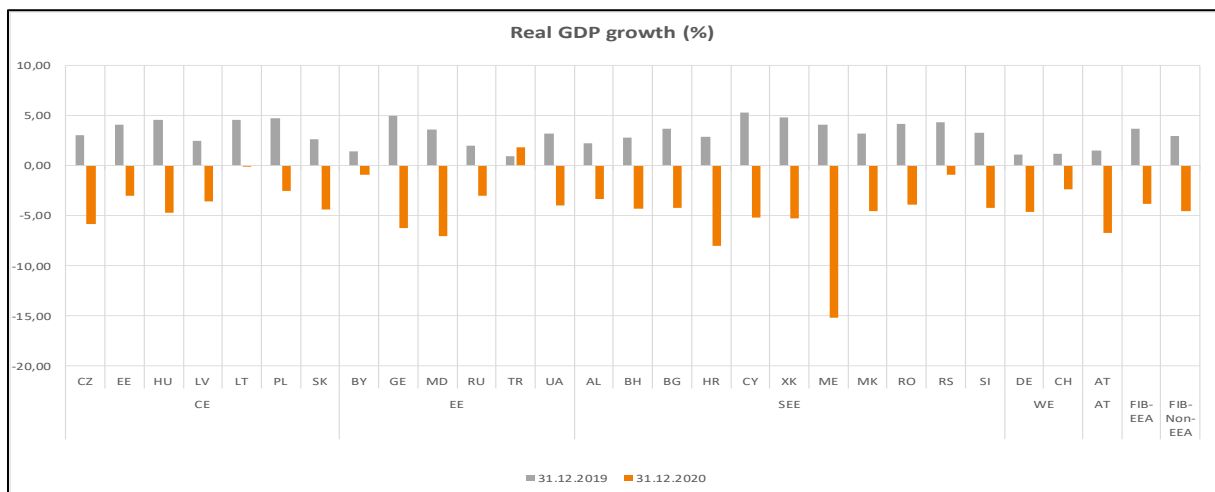


Table 2: Real GDP Growth Rates (Sources: FMA macro database (Eurostat, IMF, World Bank); No Data available for LI)

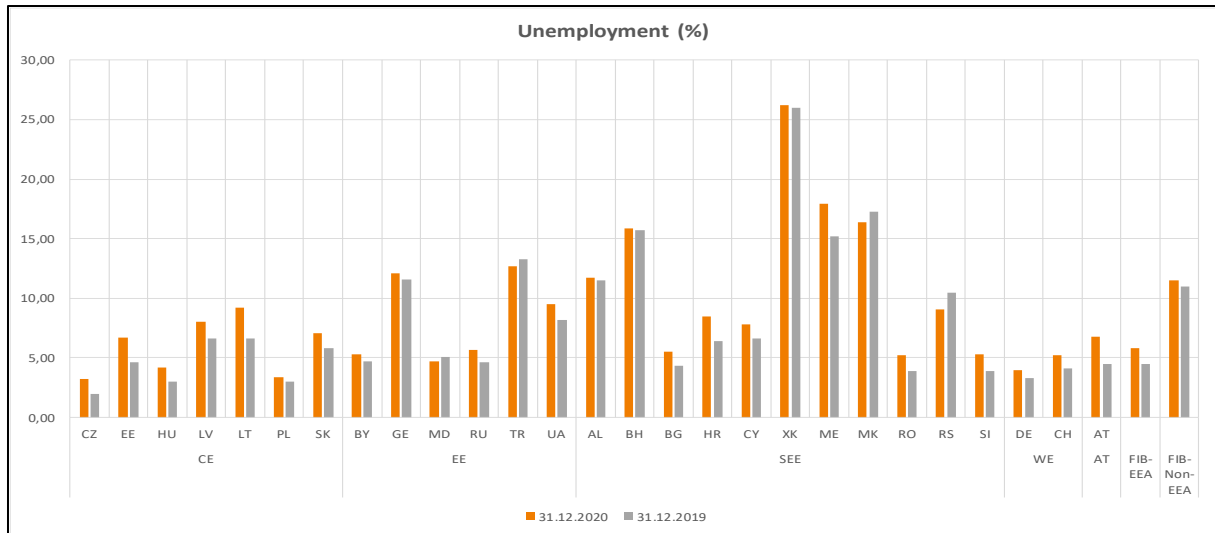


Table 3: Unemployment Rates (Sources: FMA macro database (Eurostat, IMF, World Bank); No data for LI)

Despite deteriorated economic conditions due to the COVID-19 crisis, **unemployment rates did not increase proportionally in the CESEE-region**. Starting from low unemployment rates, the CE-segment has on average seen the strongest increase by 1,5ppt in 2020. The EE-segment experienced only slight increases in unemployment rates by 0,7ppt – with exceptions MD and TR who both showed a decline in unemployment rates. In the SEE region, where unemployment is structurally higher, the average unemployment rate remained almost unchanged because RS and MK experienced a reduction of unemployment rates in 2020.

It is evident that the **stabilisation of the labour market has come at the expense of higher government debt**. Also within the CESEE region, local governments have provided compensation schemes for businesses and workers during the COVID-19 pandemic. Thus, all CESEE countries had GDP deficits in 2020, worsening overall debt-to-GDP ratios. Out of all FIB countries in the region, those with debt-to-GDP above the 60-percent-Maastricht criteria are CY (118%), ME (109%), HR (89%), SI (81%) and HU (80%).¹ However, also for AT the debt-to-GDP ratio has risen by 9% to 84% because of the comprehensive support measures taken in the COVID-19 crisis and the simultaneous drop in GDP. As long as interest rates remain low, thanks to central banks liquidity programmes and substantial growth returns in the years after the COVID-19 crisis, governments may not face financial problems. High government debt levels, however, pose inherent interest rate risks to some countries. On the other hand, if fiscal consolidation is initiated too early, sustainable economic recovery from the COVID-19 crisis may last longer.²

¹ Data: Eurostat.

² EIOPA (2021), *Financial Stability Report July 2021*; wiiw (2021), *Monthly Report 2021/07-08*.

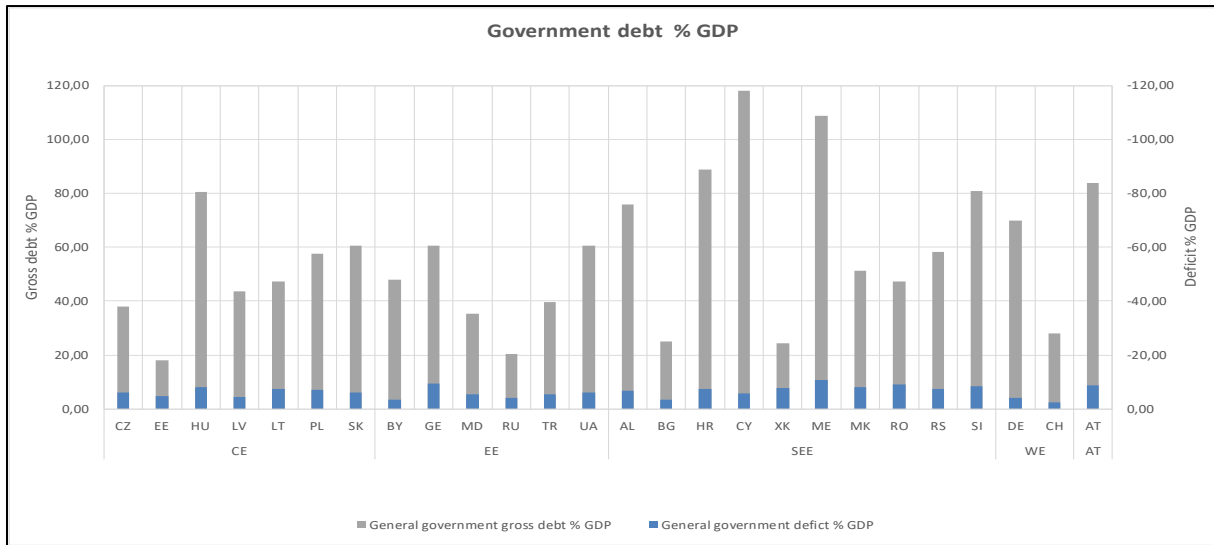


Table 4: Government Debt and Deficit in Percentage of GDP (Sources: FMA macro database (Eurostat, IMF, World Bank); No data for BH and LI)

In order to provide financial support to EU member countries to mitigate the adverse effects of the COVID-19 pandemic, the European Commission has adopted the NextGenerationEU programme in 2020. It entails 806,9 bn. EUR of recovery funds to be established over the next five years. The core of the programme is the **Recovery and Resilience Facility, which comprises 385,8 bn. EUR in loans and 338 bn. EUR in form of grants directed to EU member states**. In order to finance the NextGenerationEU funds, the Commission will issue bonds on international capital markets from 2021-2026 on behalf of all member states. Up to 30% of the NextGenerationEU funds will be classified as green bonds, making the European Commission the largest green bonds issuer in the world.³ The first issuances in 2021 have already seen great demand from institutional investors.⁴ In the CESEE-region, the most non-repayable grants are assigned to PL (23,9 bn. EUR), RO (14,2 bn. EUR), HU (7,2 bn. EUR) and CZ (7,1 bn. EUR). BG, HR and SK can all access 6,3 bn. EUR in grants. In addition to these grants, member states can request a loan worth up to 6,8% of their 2019 gross national product.⁵ Due to low interest already observed for these EU bonds, these loans may become especially promising if refinancing conditions for local treasuries change.

With regard to inflation, **in 2020 the COVID-19 crisis still put a slight dampener on consumer price increases** – except for some countries like PL, CZ and HU. This can be attributed to the restricted purchasing abilities during the COVID-19 lockdowns and less consumer demand. CESEE-countries like EE, CY, ME, SI even experienced deflation in 2020. But also in CH, prices were decreasing by -

³ European Commission (2021), https://ec.europa.eu/info/strategy/eu-budget/eu-borrower-investor-relations_en, accessed 20.09.2021.

⁴ Reuters (2021), *EU launches landmark new bond programme to near record demand –bankers*, 15.6.2021, <https://www.reuters.com/article/us-eu-recovery-bonds-idUSKCN2DR0SB>, accessed 20.09.2021.

⁵ European Commission (2021), https://ec.europa.eu/info/strategy/recovery-plan-europe_en#the-largest-stimulus-package-ever, accessed 20.09.2021.

0,8%. As a consequence, inflation for Non-EEA area went down to 1,3% while consumer prices in the non-EEA showed a slightly higher increase of 2,5%.

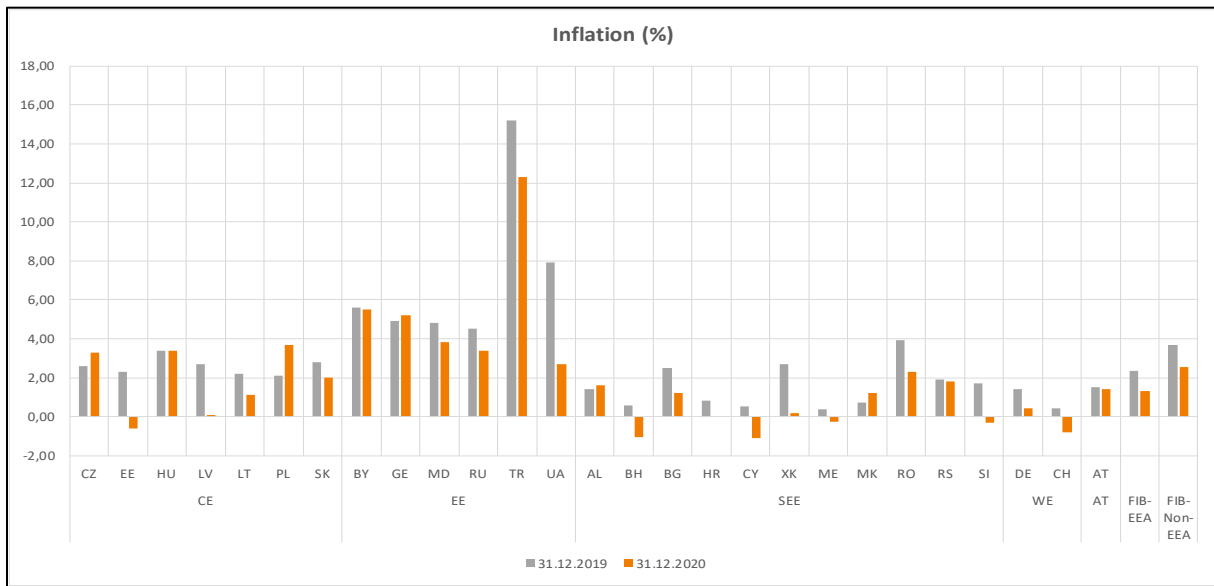


Table 5: Inflation Rates (Sources: FMA macro database (Eurostat, IMF, World Bank); No data for LI)

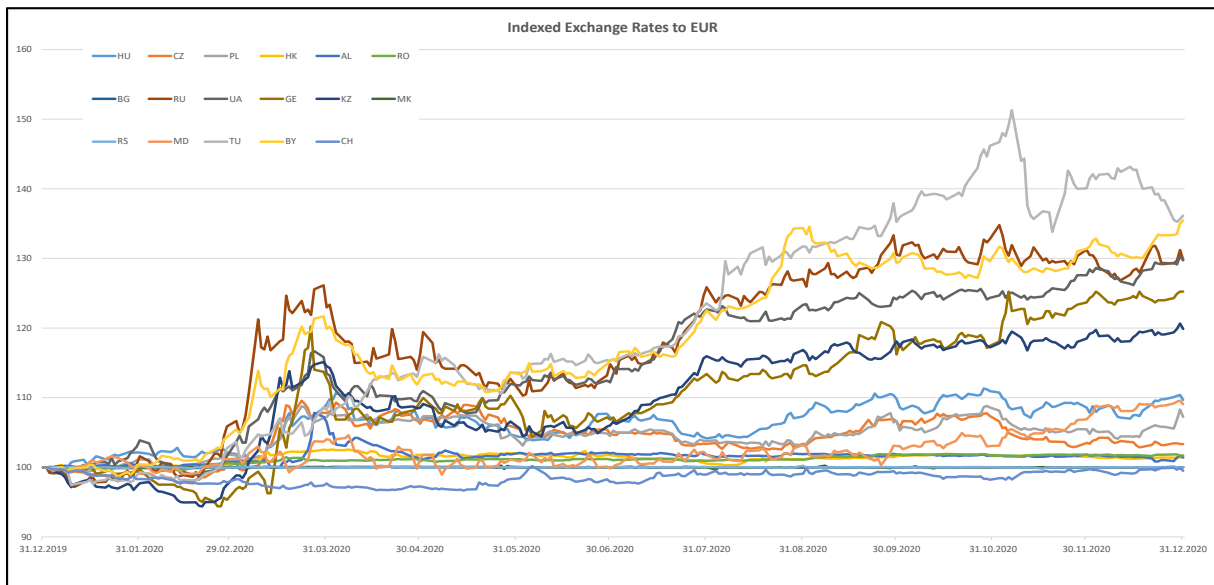


Table 6: Exchange Rates to Euro, Indexed (Source: Refinitiv)

In addition, strong central bank activity in the CESEE-region has caused **many currencies of non-Euro area countries to depreciate towards the Euro** from YE-2019 to YE-2020. The Turkish lira depreciated by 36% with respect to EUR, but also Belarus (35%), Russia (30%) and Ukraine (30%) showed strong declines in the value of their local currencies. In the CE-segment, the depreciation of the local currency was 10% for HU, 7% for PL and 3% for CZ on a year-over-year basis. The development of exchange rates to EUR for SEE-currencies was relatively small. The CHF representing the only foreign currency in the Western Europe cluster has even seen a slight increase in value in the last year by 1%.

1.2.1 COVID-19 AND ECONOMIC OUTLOOK

The economic downturn due to the COVID-19 pandemic strongly correlated with lockdowns imposed by governments, which were at the time the only way to contain the virus spread and prevent national health systems from collapsing. The *Stringency Index* developed by the University of Oxford measures the strictness of lockdown policies including public information campaigns.⁶ As shown in *Table 7* for each CESEE-cluster and Austria, these containment measures have been particularly strict during the first wave of infections in spring 2020. The repeated restrictions imposed in winter 2020, however, lasted longer and recent relaxations have on average only begun in May 2021. By September 2021, Austria on average still outscores CESEE-countries with regards to remaining COVID-19 related governmental limitations.

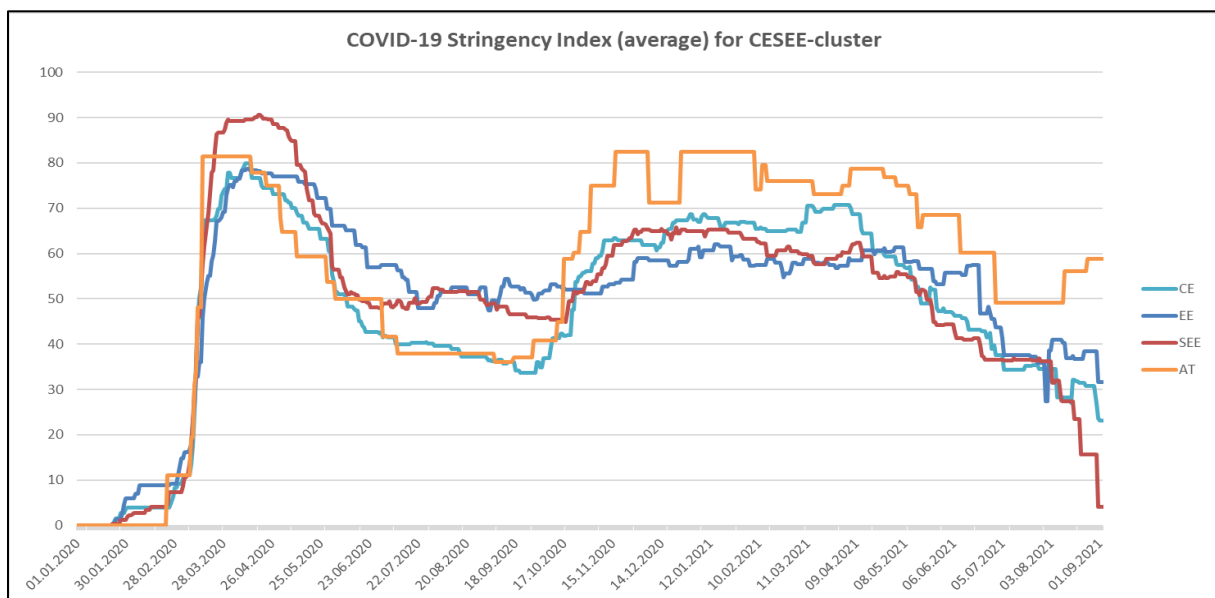


Table 7: Stringency Index (average) of COVID-19 government measures for CESEE-cluster and Austria (Cut-off date: 8 September 2021; Source: Blavatnik School of Government, University of Oxford)

Despite far-reaching government measures in most countries, the COVID-19 pandemic caused an unparalleled number of deaths in since the initial outbreak. In the CESEE cluster as defined in this report, the total number of deaths counted per September 2021 already surpassed half a million people. The most deaths related to COVID-19 were recorded in the EE cluster, foremost in the highly populated countries Russia, Turkey and Ukraine (together 303 thousand deaths). In CE countries, 157 thousand people lost their lives to the pandemic, while SEE recorded around 98 thousand of COVID-19 related deaths as of September 2021. Data gathered by the University of Oxford also shows that per one million population, **the death toll from COVID-19 was higher in CESEE** compared to the Austria, Germany or Switzerland. Out of all countries covered in this report, this share was

⁶ University of Oxford (2021), *Oxford COVID-19 Government Response Tracker*, Blavatnik School of Government, <https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>.

highest for Hungary and Bosnia and Herzegovina with over three thousand per million inhabitants dying from COVID-19. Conditional on the data quality, countries like Serbia, Estonia, Albania, Turkey and Cyprus (and Belarus) experienced less deaths to COVID-19 relative to their population sizes.

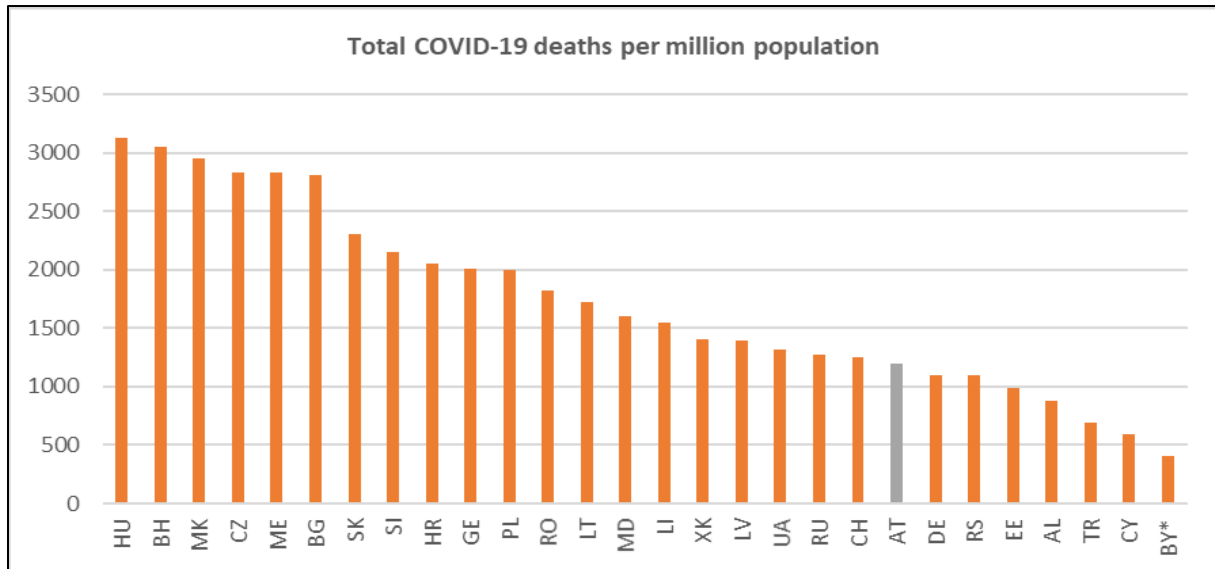


Table 8: Total COVID-19 deaths per million population in FIB countries (Cut-off date: 8 September 2021; Source: Blavatnik School of Government, University of Oxford; *conditional on data quality).

A game changer in 2021 with respect to the COVID-19 pandemic is that vaccinations are now widely available throughout Europe. Unfortunately however, **for now countries have been very unevenly successful in reaching a large proportion of their population to effectively prevent another surge in infections.** While Austria reached a vaccination rate of 60% of its population in September 2021, CESEE countries have fallen behind this progress. Vaccinations are proven to avoid severe diseases and death, but the proportion of the population to be vaccinated for achieving some momentum against COVID-19 is still unclear. Mutations of the initial COVID-19 virus moreover bring uncertainty with regard to how long individual immunity lasts. As there are indications that the COVID-19 virus may become endemic, reaching a maximum in vaccination rates appears to be the only effective way to restore economic and social activity.⁷

⁷ WHO (2021), Q&As on COVID-19 and related health topics, <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/question-and-answers-hub>, accessed on 20.9.2021; Nature (2021), Five reasons why COVID herd immunity is probably impossible, 591, 520-522 (2021).

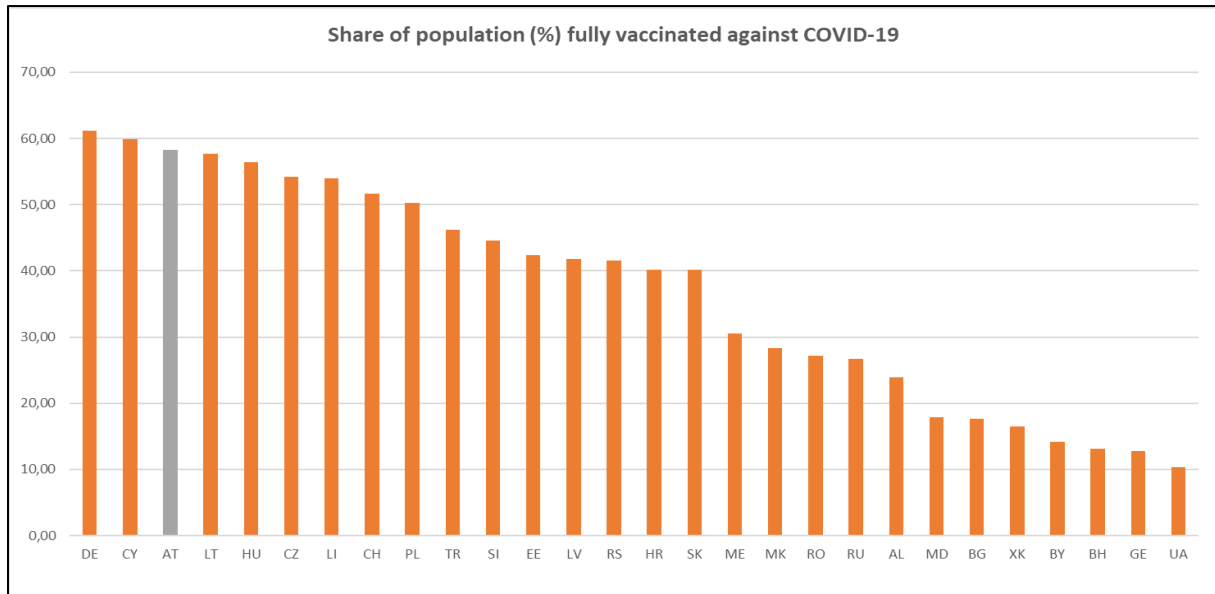


Table 9: Share of population (%) fully vaccinated against COVID-19 in FIB countries (Cut-off date: 8 September 2021; Source: Blavatnik School of Government, University of Oxford)

Currently, a bottom line of COVID-19 restrictions has been reached. The observed vaccination rates, however, are considered by experts as too low to avoid another wave of infections. Thus, renewed government response to limit the outbreak cannot be ruled out. To which extent they will apply to the whole population, for example with regards to vaccination status, will be a difficult political discussion in the upcoming months in many countries. Political tension may result from taking such unpopular decisions by political leaders. After more than a year of difficult crisis management, **political risks remain high**. This applies especially to the CESEE-region where democracies have already been under pressure in recent years.⁸

Even if government restrictions will continue to be necessary to control the spread of COVID-19, there are indications that economies as well as the society have learned to adapt to these new circumstances. This can be observed when comparing the effects of the repeated lockdowns on GDP to the initial measures taken in early 2020. The negative effects of government measures on the economy were less severe compared to the first wave of the COVID-19 pandemic in 2020.⁹

At the same time, there is a **possibility for new trends in fundamental economic variables**. One of the most discussed in this regard, is the rise in inflation observed in 2021. While inflation has for years been very low in many European countries, the average year-over-year inflation rate in August

⁸ Politico (2021), *Central Europe's deadly pandemic blunders*, 5.5.2021, <https://www.politico.eu/article/eastern-europe-visegrad-four-deadly-pandemic-blunders/>; Freedom House (2021), *Nations in Transit 2021*, <https://freedomhouse.org/report/nations-transit/2021/antidemocratic-turn>, accessed 22.9.2021.

⁹ wiiw (2021), *Monthly Report 2021/07-08*.

2021 was at 3,2% in the EU and 3,0% for the euro area. The rise in inflation is also observable in many CESEE-countries.

The combination of the reopening of the economy in many countries which has fuelled demand and supply chain shortages due to global value-chain disruptions due to COVID-19 are considered as the main drivers of price increases. In fact, the current shortage of semiconductors is already felt in production of cars and electronics, affecting economic forecasts for many CESEE countries linked to the automotive industry (e.g. Czechia, Hungary and Slovakia). Moreover, higher baseline commodity and energy prices have contributed to elevated price of the consumer basket.¹⁰

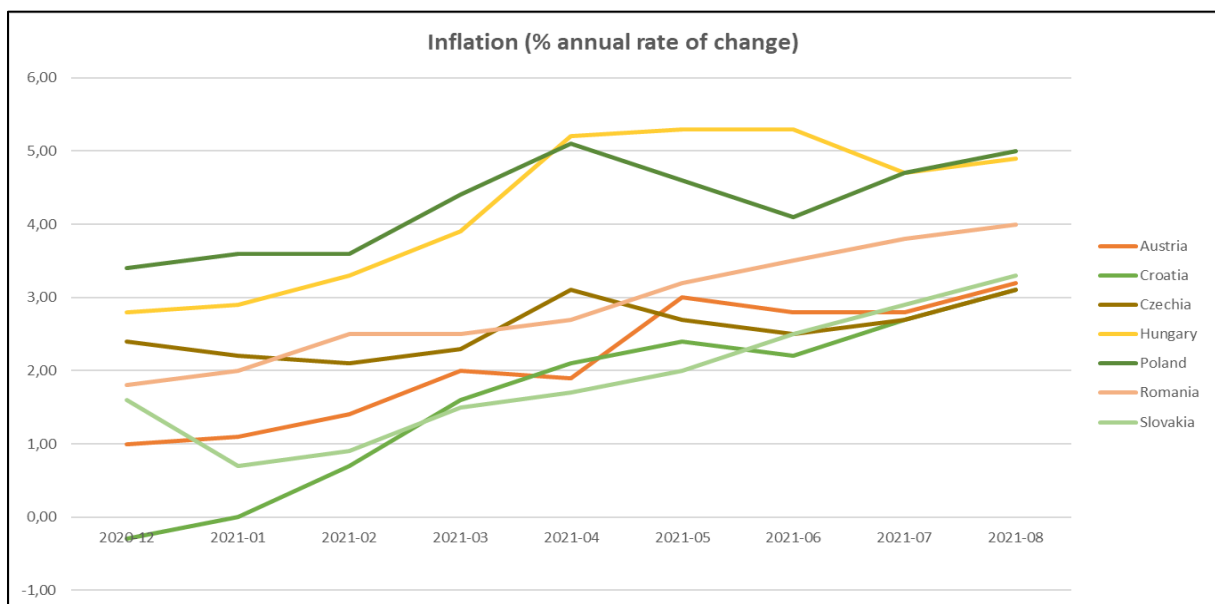


Table 10: Annual Rate of Change in Inflation for Key Market and Austria (Source: Eurostat)

While the ECB considers current inflation as transitory as the economy recovers from the COVID-19 restrictions, forecasts show elevated price levels to remain until 2022.¹¹ If inflation would manifest above its two percent target, ECB has not ruled out to moderate the pace of the pandemic emergency purchase programme (PEPP).¹² Chances for an increase in interest rates thus cannot be ignored in the near future, which may have far-reaching repercussions on financial markets.

Although the COVID-19 pandemic is not over yet, latest economic forecasts by the International Monetary Fund (IMF) from October 2021 show a significant rebound of GDP in 2021 and 2022. For the **CESEE area the average growth rate in 2021 is forecasted to be at 5,4% and will therefore even exceed the downturn in 2020.** For Austria, GDP growth is expected to be lower in 2021 at 3,9%. **For 2022, forecasts show strong GDP growth to continue, however, not as much as the rebound**

¹⁰ European Commission (2021), EC Forecast Summer 2021, July 2021.

¹¹ ECB (2021), Euro area and US inflation, Press Release 21.9.2021, https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202106_01~11705a988e.en.html.

¹² ECB (2021), Monetary Decision, Press Release 9.9.2021, <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp210909~2c94b35639.en.html>.

effect in 2021. AT and DE along with CESEE-countries CZ, SK, LV and MD are, however, projected to grow more in 2022 than the rebound of this year.¹³

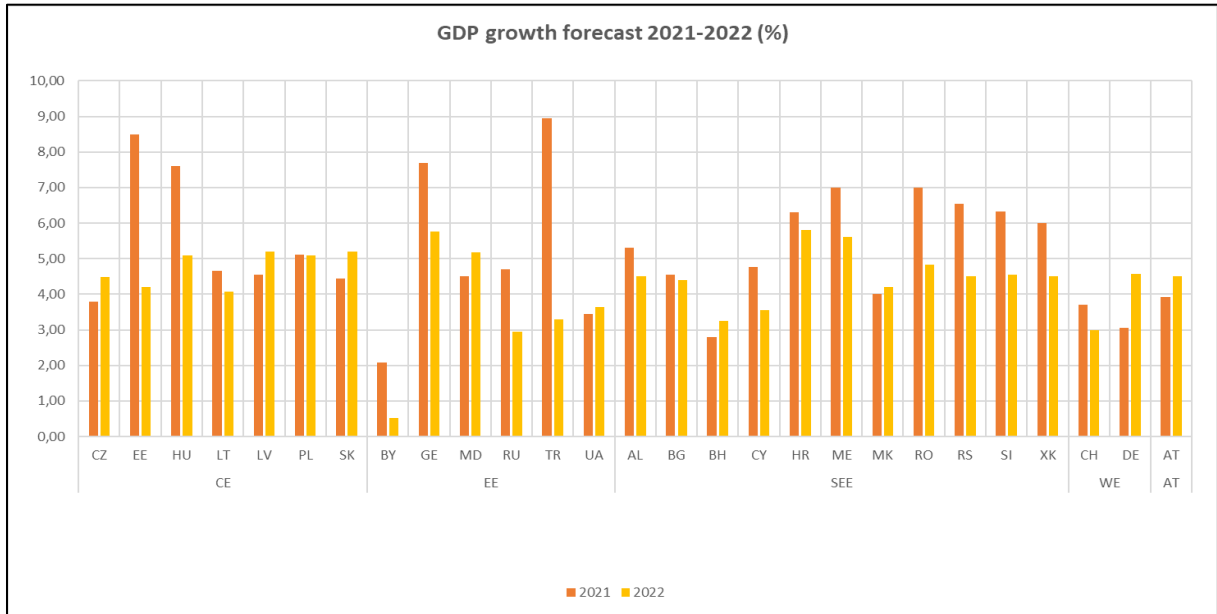


Table 11: GDP Growth Forecast for 2021 and 2022 (Source: IMF World Economic Outlook: October 2021; No data for LI)

¹³ IMF (2021), World Economic Outlook, October 2021.

1.3 INSURANCE MARKETS

1.3.1 MARKET STRUCTURE AND CHARACTERISTICS

Insurance markets relevant for Austrian insurance groups differ significantly regarding size and level of maturity.

The indicators used to assess the level of maturity are insurance penetration (i.e. premiums in % of GDP) and insurance density (i.e. premiums per capita).

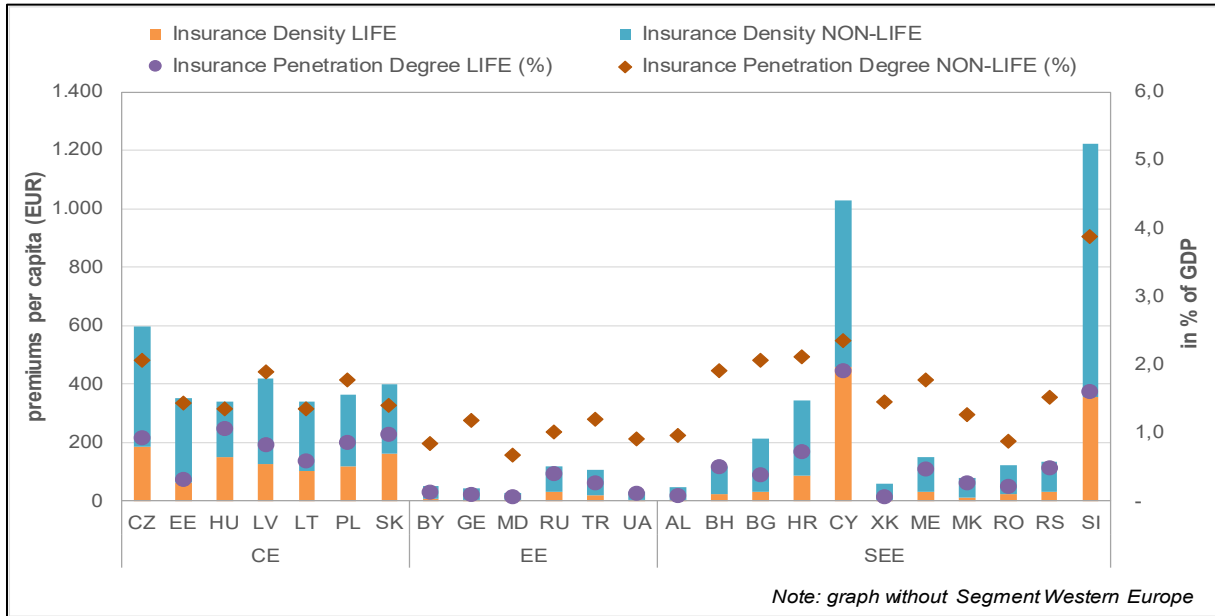


Table 12: Insurance Density and Insurance Penetration (life & non-life) per regional segment (Own calculation on basis of sources: Xprimm; Swiss Re; FMA macro database (Eurostat, IMF, World Bank))

Generally, insurance markets in the CE-region are more mature than the markets in EE and SEE. In the SEE-segment, SI and CY are outliers, because they show significantly higher insurance density and insurance penetration figures than all other markets in this region. BG and HR are catching up to the average insurance market indicators in CE.

Austria and WE are not included in Table 12, as insurance market indicators are significantly higher than for the CESEE region. For 2020, Austria reported an insurance density of 2.144 EUR and an insurance penetration of nearly 5,1%.

In order to illustrate the CESEE insurance landscape regarding market size and maturity level, the size of the insurance markets measured by gross written premium volume is linked to the indicators insurance density and insurance penetration. The colors of the bubbles reflect the allocation to the geographical segments.

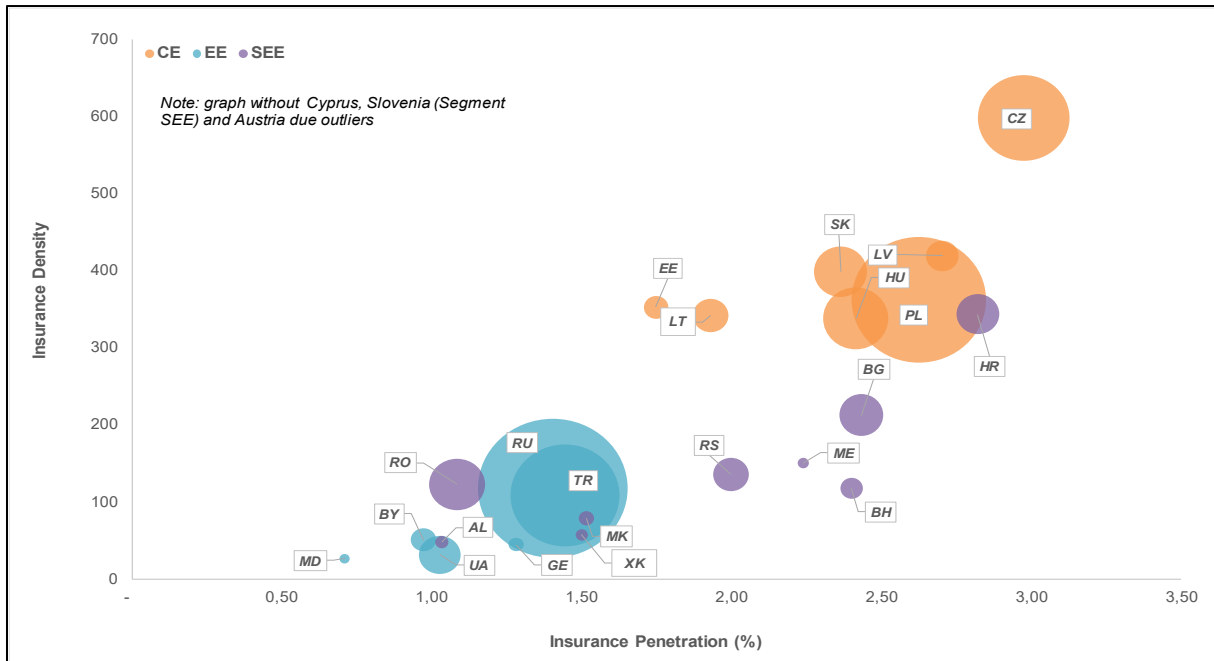


Table 13: Insurance Density, Insurance Penetration and GWP per Country (Segment CE, EE, SEE) (Sources: Xprimm; Swiss Re; FMA macro database (Eurostat, IMF, World Bank))

Referring to market size (illustrated by the size of the bubbles in Table 13), PL is the flagship market of the CE-region, followed by CZ and HU. In the SEE-segment, RO, BG and HR are the biggest markets as measured by GWP volume. The EE-segment is dominated by the huge insurance markets RU and TR.

1.3.2 MARKET DEVELOPMENT

Information on insurance markets used in this chapter are mainly taken out of market reports published by X-Primm which is a media brand, incorporating several companies specialized in providing media products to the global re/insurance industry with the main focus on the CESEE and CIS regions.

1.3.2.1 Insurance markets in 2020

The following table provides information on **insurance market premiums** of the relevant insurance markets, aggregated according to geographical segments:

Total Insurance Market (in m. EUR)	Gross Written Premiums		
	2020	2019	Δ in %
AUSTRIA	19.114	18.839	1,46%
FOREIGN MARKETS	297.892	297.535	0,12%
WE	231.573	222.994	3,85%
CE	27.838	29.580	-5,89%
SEE	10.528	10.429	0,95%
EE	27.953	34.533	-19,05%
TOTAL	317.005	316.375	0,20%

Table 14: GWP Development 2019-2020 per Segment (Sources: FMA Reporting Local GAAP per 31.12.2020 for Austrian business; X Primm and Swiss Re sigma for foreign business)

The segment Western Europe (WE) includes the markets in DE, CH and FL and is the biggest geographical segment referring to market size as measured by gross written premiums. Insurance market premiums grew by 3,9% compared to 2019.

Aggregated markets premiums in the EE-segment, that are mainly determined by the big insurance markets in RU and TK, declined by 19,1% compared to 2019. However, when analysing the premium development in EUR as illustrated in the Table 14, the change in exchange rates for non-EEA countries in the respective period needs to be considered. Especially the EE-segment experienced a significant depreciation of their local currencies from YE-2019 to YE-2020. The Turkish lira depreciated by 36% with respect to EUR, but also BY (-35%), RU (-30%) and UA (-30%) showed strong decreases in the value of their local currencies.

The CE-segment which is the most important one from Austrian perspective, shows a decrease of 5,9% in aggregated market premiums compared to the previous year. Here too, the change in exchange rates has to be taken into consideration: the depreciation of the local currency was 10% for HU, 7% for PL and 3% for CZ.

In the SEE segment, aggregated market premium volume remained at the same level as in 2019. The changes in the exchange rates to EUR for SEE-countries were relatively minor.

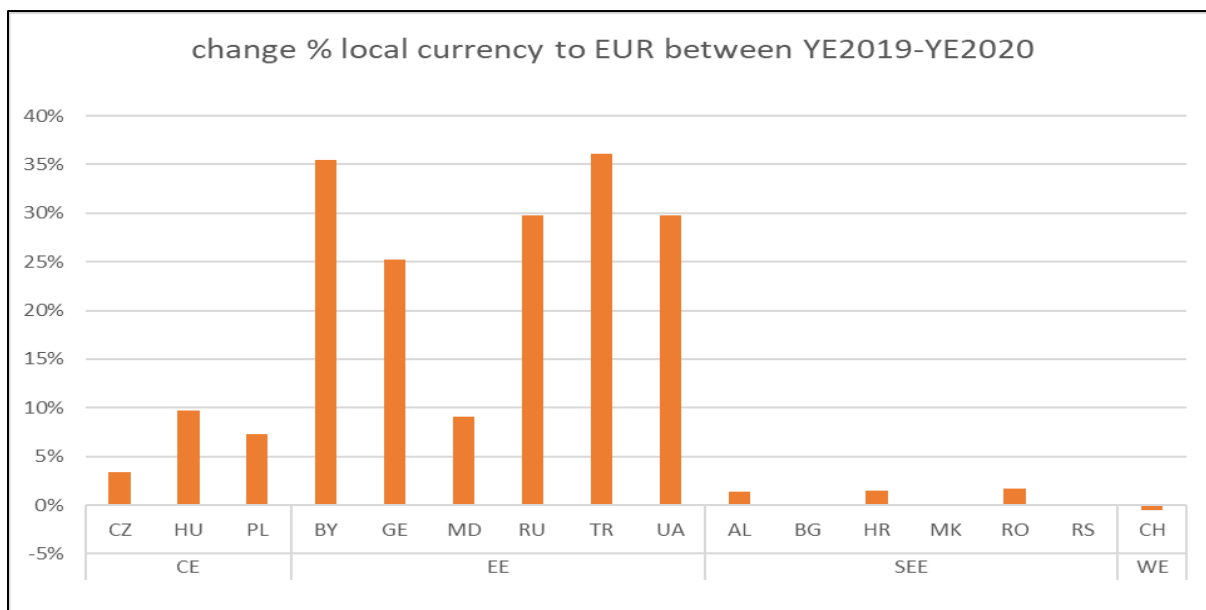


Table 15: Exchange Rate Changes for non-EEA FIB-countries (Source: Refinitiv)

The TOP 5 markets in the CE-SEE-region in 2020 were PL, CZ, HU, RO and SI, accounting together for about 74% of aggregated gross written premium volume of these two segments.

In order to analyze market trends in more detail, the following table shows the development of gross written premiums split into life insurance, non-life insurance and total market, including annual change.

Total Insurance Market (in m. EUR)	2020 Gross Written Premium			2019 Gross Written Premium			CHANGE GWP 2020/2019		
	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total
AUSTRIA	5.337	13.776	19.114	5.418	13.421	18.839	-1,49%	2,65%	1,46%
FOREIGN MARKETS	114.009	183.883	297.892	113.714	183.788	297.535	0,26%	0,05%	0,12%
WE	95.473	136.100	231.573	92.966	129.995	222.994	2,70%	4,70%	3,85%
CE	9.430	18.409	27.838	10.248	19.331	29.580	-7,99%	-4,77%	-5,89%
SEE	2.558	7.969	10.528	2.633	7.796	10.429	-2,82%	2,23%	0,95%
EE	6.548	21.405	27.953	7.867	26.666	34.533	-16,77%	-19,73%	-19,05%
TOTAL	119.346	197.659	317.005	119.132	197.209	316.375	0,18%	0,23%	0,20%

Table 16: GWP Development 2019-2020 per Segment for life, non-life and total (Sources: FMA Reporting Local GAAP per 31.12.2019 for Austrian business; X Primm and Swiss Re sigma for foreign business)

The premium development in 2020 was to a large extent affected by the COVID-19 pandemic but also by the on-going low yield environment, especially in life insurance. Except for five markets in the CE-SEE region (RO, RS, SI, LT and XK), all markets recorded a negative trend. The largest drop in GWP with -8,3% of GWP was recorded for PL which is the biggest market in the region.

Among the markets showing a positive dynamic, RS (+2,3%) owed it to the increasing property and motor insurance business, SI (+2,1%) mostly thanks to the increased popularity of health insurance,

LT (+0,95%) to the Index- and Unit-Linked insurance class, while in RO (2,7%) the growth driver was clearly the motor insurance segment, especially the MTPL insurance line¹⁴.

As can be seen in the table below, most of CE-SEE-markets are still characterized by a high proportion of non-life business, especially motor business.

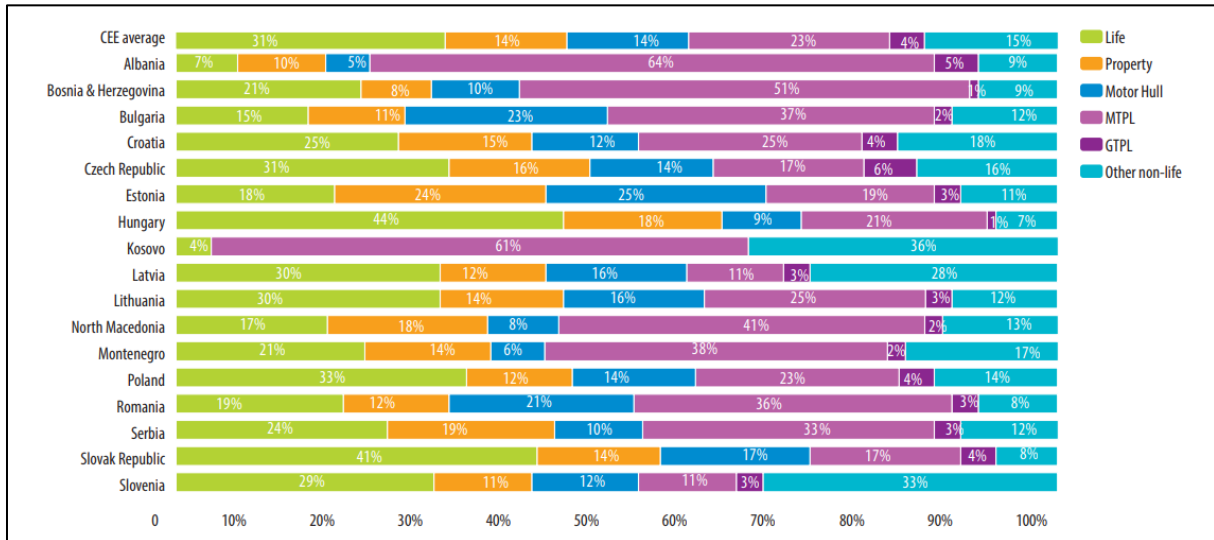


Table 17: GWP Portfolio per countries YE 2020 (Source X-Primm Insurance Report FY 2020 No. 24)

Foreign gross written premiums in life insurance amounted to 114 bn. EUR in 2020, overall this figure remained at last year’s level. However, except for WE-countries all geographical segments saw a decline in life insurance premiums. Focusing on CE-markets, especially PL, SK, BG and EE reported a two-digit-decline in life insurance premiums. In PL it was the unit-linked line which provided for a large decrease in GWP, in SK (and also in CZ) the products with an investment component (regardless the way the investment risk is shared between insurers and insured) mainly generated the premiums volume diminution. In the SEE segment, BG, HR and ME reported a significant decrease in life insurance premiums.

The volatile economic environment and the subsequent loss of income or at least the high uncertainty related to it didn’t cause higher surrenders of life insurance policies until now. Yet, they have affected the public’s appetite for buying life insurance products, especially when it comes about products with an investment component. The low interest rates environment is already affecting the financial returns provided by these products, affecting their attractiveness both for customers – especially when it comes about sharing the investment risk -, and insurers – especially when it comes about products with a guarantee included¹⁵.

¹⁴ See X-Primm Insurance Report FY 2020

¹⁵ See “Coping with the pandemics challenges” (X-Primm Insurance Report FY 2020, page 16)

In non-life insurance foreign gross premium volume amounted to 183,9 bn. EUR which overall means no significant change compared to last year's figure. The CE-segment faced a decline of gross written premiums of 4,8% compared to the previous year, whereat the two big markets PL and HU contributed most to this decline. A significant decrease in non-life premiums has also been reported for the EE segment, however, in this context the effect of the changes in the exchange rates has to be taken into consideration providing for a distorted picture of premium development.

For the key insurance markets of Austrian insurance groups, Table 18 shows the premium development expressed in local currency. A detailed analysis of the key markets is found in chapter 3.

Key Insurance Market	Change GWP 2020/2019 in local currency		
	Life	Non-Life	Total
CZ	-2,95%	3,22%	1,23%
PL	-2,45%	0,26%	-0,64%
SK	-12,37%	1,36%	-4,74%
RO	-1,62%	6,26%	4,64%
HU	4,01%	5,19%	4,67%
HR	-13,68%	4,67%	-0,66%

Table 18: GWP Development 2019-2020 in local currency (Source: Xprimm)

On the claims side, a decline in paid claims could be observed for 2020. Putting CE and SEE markets together, paid claims amounted to EUR 21,7 bn. EUR in 2020, which means a decrease of 8,2%.

About half of this reduction in claims paid came from the life insurance lines, mostly from the Unit-Linked insurance class. In total, claims paid in life insurance decreased by 11,4% y-o-y to 8.650 m. EUR in 2020, mainly driven by a significant reduction in the indemnities and redemption sums paid in PL. However, in the CE-segment, nearly all big markets reported a significant reduction in claims paid: CZ (-16,0%), HU (-15,3%), PL (-13,4%) and SK (-19,4%).

Also the non-life insurance sector saw a decline in claims paid by 5,9% y-o-y to 13,1 bn. EUR in 2020. Considering the large weight of motor insurance in the CESEE-countries, it is not surprising that the travel restrictions caused by the COVID-19 pandemic contributed to the claims expenses reduction because of the smaller number of road accidents¹⁶. In property insurance, overall, paid claims slightly increased by 1,5%, however, the development was different in the various countries, also depending on the occurrence of natural hazards events.

¹⁶ See "Coping with the pandemics challenges" (X-Primm Insurance Report FY 2020, page 16)

1.3.2.2 Insurance market developments in 1 HY 2021

Premium development in the first half year 2021 was positive compared to the previous year, when the COVID-19 pandemic dramatically affected global economic development.

Total Insurance Market (in m. EUR)	Gross Written Premiums		
	HY 2021	HY 2020	Δ in %
AUSTRIA	10.635	10.438	1,88%
FOREIGN MARKETS	36.890	34.855	5,84%
WE	n.a.	n.a.	
CE	15.352	14.186	8,22%
SEE	5.393	4.927	9,46%
EE	16.144	15.742	2,56%
TOTAL	47.525	45.293	4,93%

Table 19: GWP Development 1 HY 2020 and 1 HY 2021 per Segment (Sources: FMA Reporting Local GAAP for Austrian business; X Primm for foreign business)

For WE and CY (SEE-segment) half year data have not been available. For all other geographical segments, all insurance markets reported an increase in market premiums except for TK. In the CE-segment, two-digit-growth rates have been reported for CZ (10,7%) and HU (13%), in the SEE-segment, there are even six countries with two-digit-premium growth: AL (19,1%), BG (12,9%), HR (14,2%), MK (14,6%), RO (11,7%) and XK (19,2%).

As can be seen in the table below, premium growth happened in both sectors, life insurance and non-life insurance.

Total Insurance Market (in m. EUR)	HY 2021 Gross Written Premium			HY 2020 Gross Written Premium			CHANGE GWP HY 2021/HY 2020		
	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total
AUSTRIA	2.733	7.902	10.635	2.776	7.662	10.438	-1,56%	3,13%	1,88%
FOREIGN MARKETS	9.953	26.937	36.890	9.175	25.679	34.855	8,48%	4,90%	5,84%
WE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
CE	5.139	10.213	15.352	4.752	9.433	14.186	8,14%	8,27%	8,22%
SEE	1.211	4.182	5.393	1.072	3.855	4.927	13,03%	8,47%	9,46%
EE	3.603	12.542	16.144	3.351	12.391	15.742	7,51%	1,22%	2,56%
TOTAL	12.686	34.839	47.525	11.952	33.342	45.293	6,15%	4,49%	4,93%

Table 20: GWP Development 1 HY 2020 and 1 HY 2021 per Segment for life, non-life and total (Sources: FMA Reporting Local GAAP for Austrian business; X Primm for foreign business)

For the biggest markets in the region, also the development of claims payments in the first HY 2021 has been reflected. CZ and HU faced an increase in claims paid of more than 10% (CZ: 15,3%, HU: 11,7%). However, it has to be noted that, life insurance and non-life insurance contributed to the increase in claims paid in rather equal terms in these two countries. The same is true for RO, where total claims paid saw an increase of 7,7% y-o-y in the first half 2021. A divergent development is

observed for HR: claims payments in non-life insurance rose by 19,4%, in contrast, claims paid in life insurance decreased by 1,8%.

1.3.2.3 Special topic: natural catastrophes

In the first half year and during the summer months 2021, several severe weather events have occurred. The series of devastating natural disasters started in June after a heat wave just ended: thunderstorms, hailstones in the size of tennis balls and a tornado of over 200 kilometres per hour hit a region in Czechia. According to first estimates by end of June, the damage caused by the tornado amount to app. 140,5 m. EUR.

It was mid-July that extreme thunderstorms hit parts of Germany with the most devastating impacts in Rheinland-Pfalz and Nordrhein-Westfalen. As a result of the heavy rain, flash floods and massive flooding occurred in the affected regions causing deaths and enormous damage. According to provisional damage estimates made by GDV, insured losses may amount to 4,5 bn. EUR to 5,5 bn. EUR. This number also includes damages in other affected German federal states such as Bavaria and Saxony. The insurance losses would thus already be significantly higher than those of the 2013 flood (2.34 bn. euros) and on a par with the 2002 flood disaster (4.65 bn. euros).

Further heavy natural disasters in 2021 were the forest fires occurring during the summer months in South Europe and Turkey. Generally, climate change has increased forest fire risk across Europe. In recent years, forest fires have affected regions in central and northern Europe not typically prone to fires, and, in 2018, more countries suffered large fires than ever before, coinciding with record droughts and heatwaves. An expansion of fire-prone areas and longer fire seasons are projected in most European regions, so additional adaptation measures are needed.¹⁷

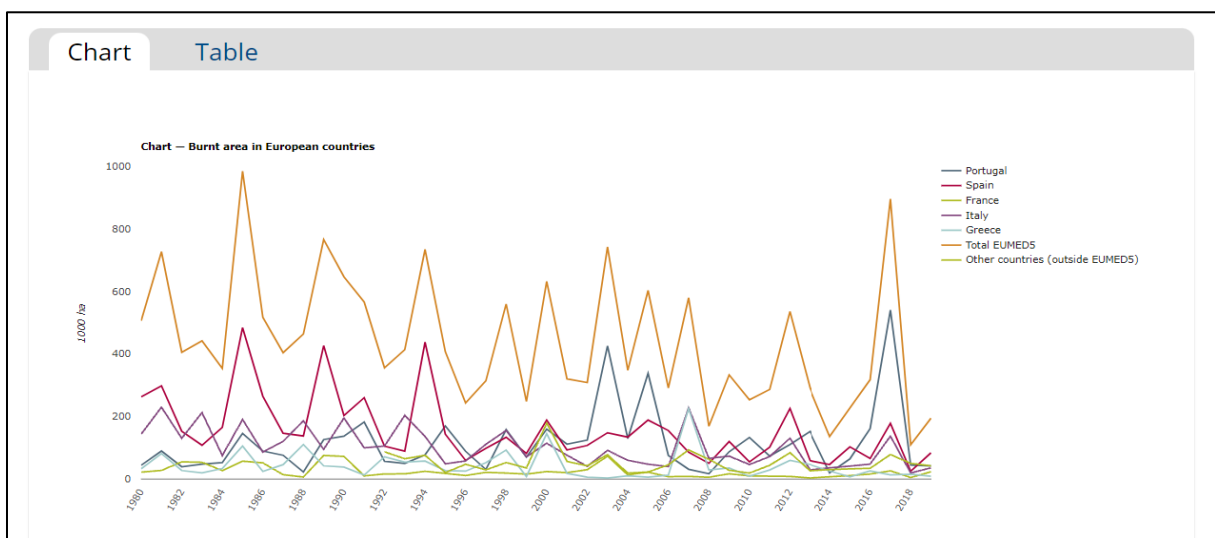


Table 21: Burnt area in European countries 1980-2018 (Sources: www.eea.europa.eu)

¹⁷ See <https://www.eea.europa.eu/data-and-maps/indicators/forest-fire-danger-4/assessment>

In September 2021, the World Meteorological Organization (WMO) published an “Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970-2019)”, which provides data on global natural disasters and information on deaths and economic losses caused by them.

In Europe, 1.672 recorded disasters cumulated 159.438 deaths and 476.5 bn. US\$ in economic damages from 1970–2019. Although floods (38%) and storms (32%) were the most prevalent cause in the recorded disasters, extreme temperatures accounted for the highest number of deaths (93%), with 148.109 lives lost over the 50 years.

The two extreme heatwaves of 2003 and 2010 accounted for the highest number of deaths (80%), with 127.946 lives lost in the two events. These two events skew the statistics on the number of deaths in Europe. The 2003 heatwave was responsible for half of the deaths in Europe (45%) with a total of 72.210 deaths within the 15 affected countries.

Floods and storms inflicted the largest economic losses in the past 50 years in Europe, at a cost of 377.5 bn. US\$. The 2002 flood in Germany caused 16.48 bn. US\$ in losses and was the costliest event in Europe between 1970 and 2019.

In the table below the distribution of economic losses by hazard type is illustrated and the significant increase in economic losses caused by natural disasters beginning from the 1990s stands out.

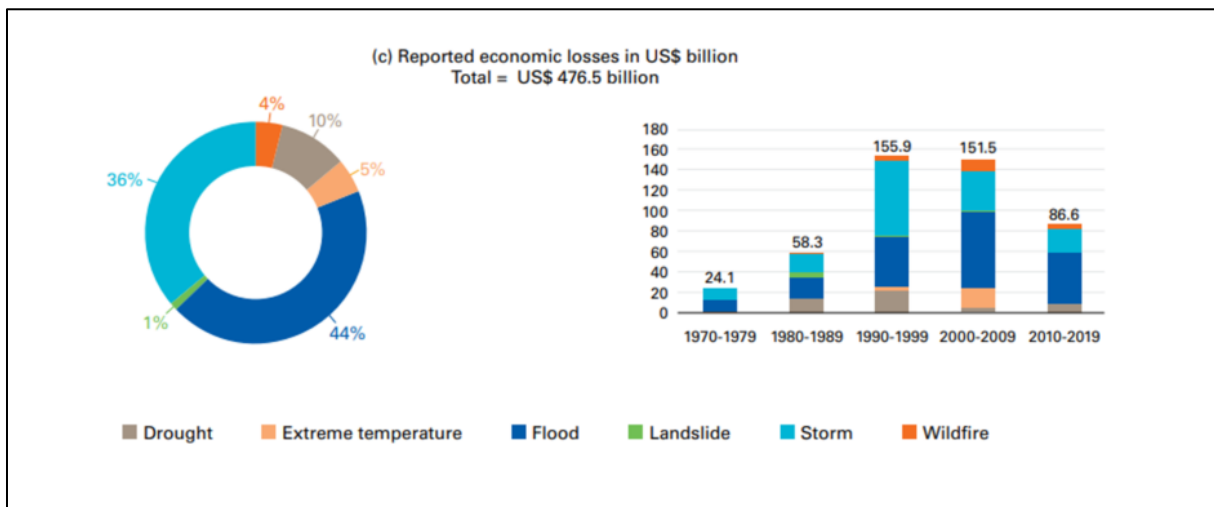


Table 22: Distribution of economic losses (1970-2019) by hazard type and by decade in Europe (Sources: WMO Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes)

The decline in economic losses because of floods in the decade 2010-2019 results from risk mitigating actions such as investments in flood protection. However, it’s not only the experiences of summer 2021 but also experts’ forecasts that allow for expectations on a further increase in number and impacts of natural disasters causing higher economic losses.

Related to this, also insurance coverage of NatCat events is becoming an urgent matter. Across the CESEE-region, the NatCat insurance coverage degree of residential buildings is quite uneven: while markets as Poland, Czechia, Hungary, Slovakia or Slovenia show values of over 50% for this

indicator, in Romania only 20% of homes are insured and the percentage goes down much more in the Western Balkans. Generally, climate-related risks are expected to result in a significant increase in global property premiums over the next 20 years as weather-related catastrophes will likely become both more intense and frequent.

The earthquakes in 2020 in Croatia showed once more the large insurance gap that exists with regard to NatCat risks. According to data of the Croatian Insurance Bureau (HUO), insured losses amounted to only about 1% of the total losses caused by the earthquakes hitting Croatia in 2020. Even though, the take-up for earthquake insurance grew by about 30% following the 2020 seismic events, the annual spending for housing insurance is still low: Croatian homeowners are not spending more than 51 EUR per year to get protection against the risks to their property. In comparison, the EU average annual spending for housing insurance is 174 EUR¹⁸.

Although the other countries in the region were not challenged last year by natural hazards events of catastrophic dimensions, the same discrepancy would have been observed in most of them, should any NatCat event have occurred. In this context, in many of the smaller CEE markets – in particular in the Adriatic area, where there is a major lack of NatCat insurance coverage –, some legislative initiatives are in course, aiming to implement solutions for reducing the protection gap (e.g. BH, AL)¹⁹.

1.3.3 MARKET POSITION

Market shares of Austrian insurance groups on local insurance markets are part of the annual reporting packages (Information Exchange Templates) submitted by the national competent authorities to the group supervisor in the frame of the regular exchange of information in supervisory colleges. Due to the fact that membership in the supervisory college is limited to EEA countries and Non-EEA countries that have at least professional secrecy rules equivalent to Union law, detailed information on market shares for some relevant insurance markets, especially in Eastern Europe is not available. For these countries, X-Primm statistics serve as a basis for a rough assessment of the market position of Austrian insurance groups.

Austrian insurance groups show high aggregated market shares in some countries, mainly in the CE and SEE segment.

Referring to total aggregated market share, Austrian insurance groups hold very strong market positions (above 35%) in AL, CZ, ME, MK and SK. Moreover, there is a group of 7 countries (BiH, HR, GE, MD, RO, RS, XK) with aggregated market shares of Austrian groups between 20% and 30%.

¹⁸ See “Coping with the pandemics challenges” (X-Primm Insurance Report FY 2020, page 17)

¹⁹ See “Coping with the pandemics challenges” (X-Primm Insurance Report FY 2020, page 17)

It is worth looking not only at total market shares, but also separately at life and non-life markets.

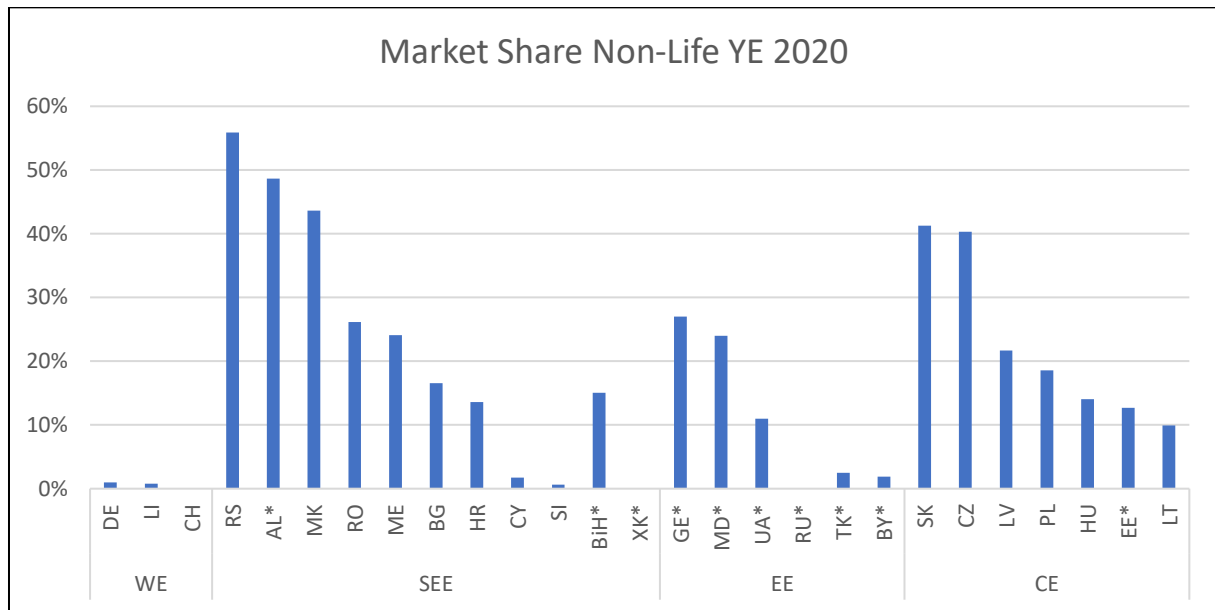


Table 23: Aggregated market shares Non-Life of Austrian Insurance Groups in 2020 (Sources: Information Exchange Templates 2020 – reporting within the supervisory college and X-Primm Statistics)

From a non-life perspective, very strong market positions with market shares > 40% of Austrian insurance groups can be seen in SK and CZ (CE-segment) and RS, AL and MK (SEE-segment). In CZ and SK, the market position is mainly determined by the big composite insurance companies of Vienna Insurance Group. In RS, it's Vienna Insurance Group, UNIQA Group and GRAWE Group that operate via composite insurance companies on the market. The market position in AL is determined by the non-life undertakings of Vienna Insurance Group and UNIQA Group. The biggest premium volume in MK is provided by the non-life subsidiaries of UNIQA Group and GRAWE Group.

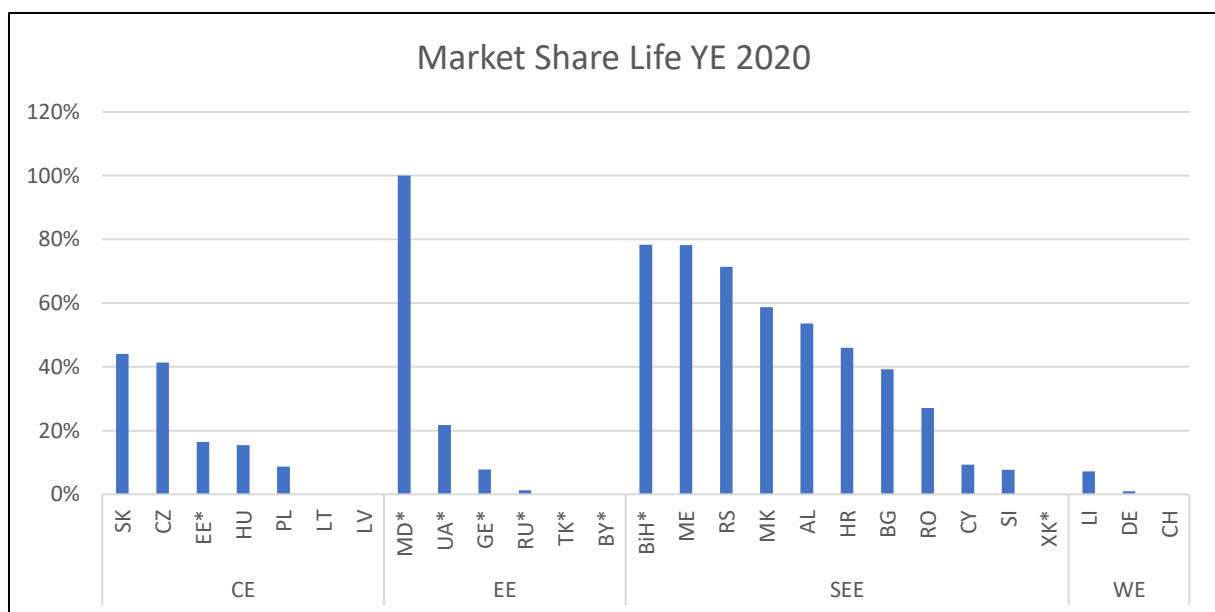


Table 24: Aggregated market shares Life of Austrian Insurance Groups in 2020 (Sources: Information Exchange Templates 2020 – reporting within the supervisory college and X-Primm Statistics)

The picture of life insurance market shares is even more impressive with MD as an absolute outlier, because the life insurance market there only consists of GRAWE Carat Asigurari, a subsidiary of GRAWE Group. In the SEE segment, Austrian insurance groups hold very strong market positions in most life insurance markets, especially in BH, ME, MK and RS.

2 FOREIGN INSURANCE BUSINESS

The analyses in this section include figures on premiums and performance of all domestic and foreign insurance undertakings being part of one of the five Austrian insurance groups. The aggregated data are taken out of the quantitative reporting templates (Template S.32.01.04.01). All insurance undertakings except pure reinsurance undertakings included in the scope of group supervision are included in the data.

Premiums reported are written premiums (direct and indirect business) net of reinsurance ceded. All data refer to local financial statements using local GAAP or IFRS accounting.

2.1 PREMIUM DEVELOPMENT

2.1.1 FOREIGN PREMIUM SHARE

In 2020, Austrian insurance groups achieved an aggregated written premium volume (domestic and foreign business) of 15.061 m. EUR (2019: 14.961 m. EUR). Foreign business via subsidiaries accounts for a share of 42,1% and remained at the level of 2019. This development is reasoned by an increase in domestic premium volume and a slight decline of foreign premiums.

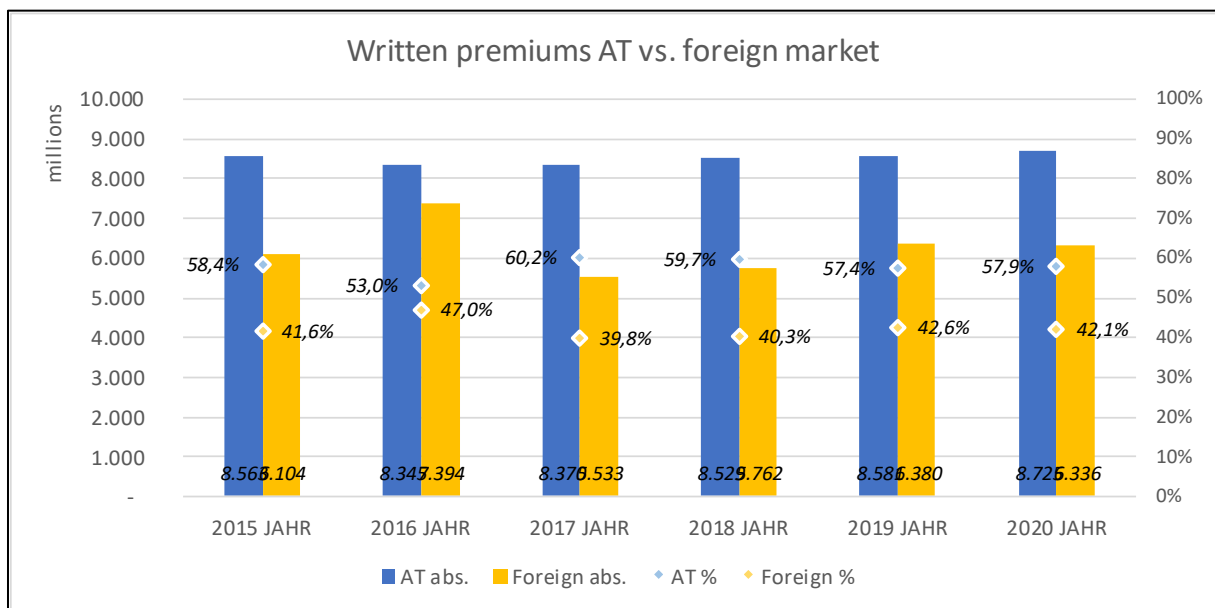


Table 25: Foreign Premium Share (Source: FMA Reporting per 31.12.2020)

2.1.2 ALLOCATION OF PREMIUMS

2.1.2.1 Premium allocation to geographical segments

As already presented in Chapter 1.1. of this report, Austrian insurance groups are active in various countries with a strong focus on the CESEE region. This is also reflected by an allocation of the aggregated premium volume according to geographical segments.

In Mio. EUR	2020		2019		Change in %
	Net Written Premiums	Premium Share	Net Written Premiums	Premium Share	
AUSTRIA	8.724,62	57,93%	8.581,17	57,36%	1,67%
FOREIGN MARKETS	6.336,31	42,07%	6.379,66	42,64%	-0,68%
WE	232,58	1,54%	334,89	2,24%	-30,55%
CE	4.287,97	28,47%	4.214,18	28,17%	1,75%
SEE	1.429,51	9,49%	1.408,50	9,41%	1,49%
EE	386,24	2,56%	422,09	2,82%	-8,49%
Total	15.060,94	100,00%	14.960,83	100,00%	0,67%

Table 26: Written premiums (net of reinsurance ceded) in m. EUR and premium share according to geographical segments (Source: FMA Reporting per 31.12.2020)

From Austrian perspective, CE is by far the most important geographical segment for Austrian insurance groups contributing more than 28% of total written premium volume. The SEE region ranks second with a contribution of about 9,5% of total written premiums.

Austrian insurance groups differ significantly regarding the geographical focus of their business. Vienna Insurance Group and UNIQA Group generate business in all geographical segments, but Central Europe is their dominant geographical segment regarding written premiums. GRAWE Group and Merkur Group are focusing on South Eastern Europe. The foreign business of Wüstenrot Group mainly relies on its subsidiary in Slovakia.

2.1.2.2 Premium allocation to countries

Going one step further, written premiums not only are allocated to geographical segments but to countries. It can be seen that over 70% of total foreign premium volume is generated in 6 countries: CZ, PL, SK, RO, HU and HR. These countries are classified as key markets for Austrian insurance groups.

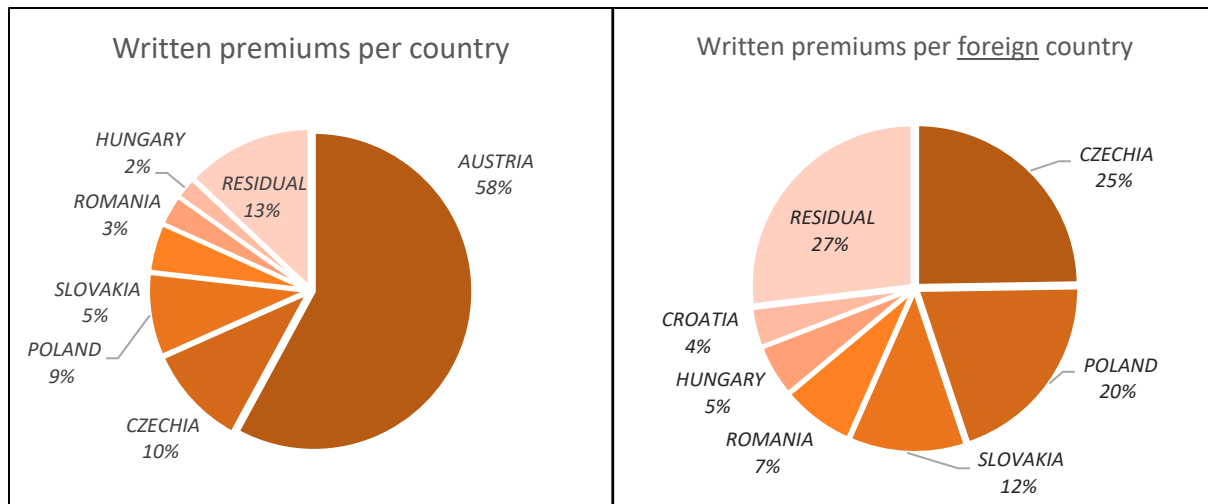


Table 27: Premium Share in % per foreign country (left graph with Austria; right graph: without Austria); (Source: FMA Reporting per 31.12.2020)

In addition to these six countries, the development of premiums in the Baltic region is monitored due to an increasing dynamic in the last years. Aggregated written premiums generated in EE, LT and LV amounted to nearly 371 m. EUR (2019: 414,6 m. EUR), which means a premium share of 5,9% of total foreign premium volume.

2.2 GROUP SOLVENCY

For YE 2020, all insurance groups recorded sufficient group solvency ratios, however, at a considerably lower level as in the previous year. This is attributed to the impact of the COVID-19 crisis and the ongoing low-yield environment. Until Q2 2021 a recovery of the group solvency ratios can be observed for all Austrian insurance Groups.

2.3 CROSS-BORDER BUSINESS VIA BRANCHES AND FREE PROVISION OF SERVICES

Austrian insurance groups not only operate abroad via subsidiaries but also use the system of free provision of services and/or branches to generate business. The data used in this section refers to quantitative reporting templates at due date 31.12.2020. Regarding branches, data available include gross written premiums (direct and indirect business per line of business) claims incurred and commissions.

Business generated via branches or free provision of services is included in the financial statements of the domestic insurance undertaking.

For the five Austrian insurance groups, premium volume of nearly 950 m. EUR (2019: 918 m. EUR) results from operations via branches and/or free provision of services²⁰. With a share of 93%, the major part of premiums accounts for free provision of services.

Gross written premiums of 62,2 m. EUR (2019: 65,6 m. EUR) are generated by branches, this means a share of 6,6% of total GWP of branches and free provision of services.

Written premiums generated by free provision of services (direct and indirect business) amounted to 887,3 m. EUR in 2020 (2019: 852,8 m. EUR).

The major part of this premium volume is attributed to reinsurance business of one insurance group. Therefore, the following graph on the distribution of FPS premiums according to countries only considers direct business.

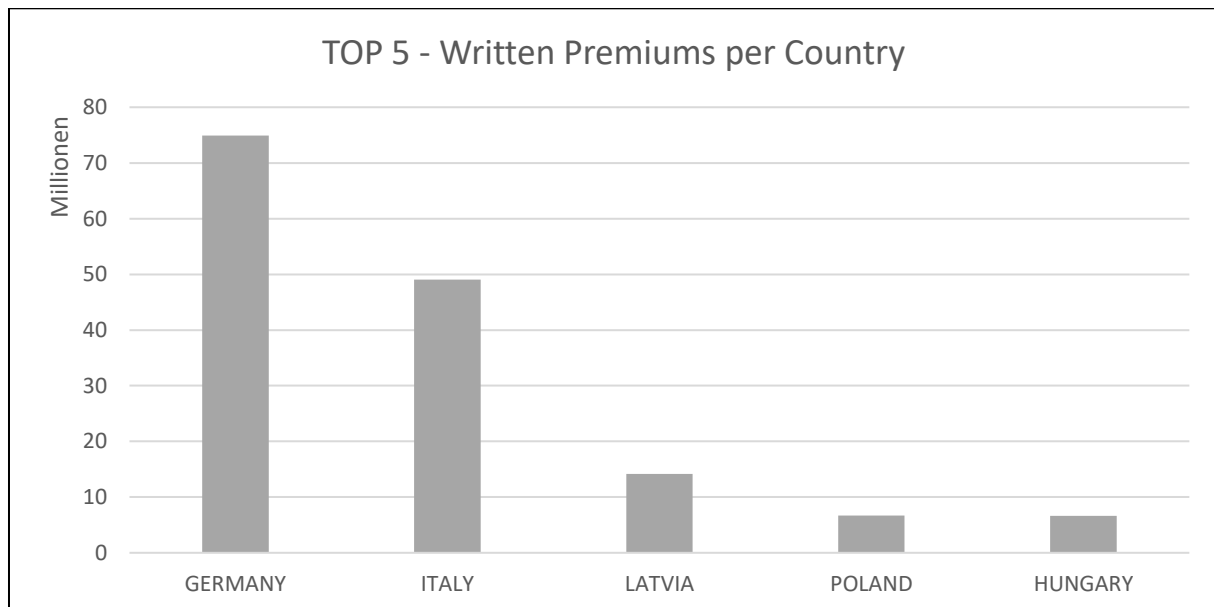


Table 28: TOP 5 countries - written premiums by free provision of services (Source: QRT Reporting 31.12.2020)

These TOP 5 countries account for nearly 81% of total FPS premiums (only direct business).

²⁰ In 2020, all Austrian insurance undertakings (whole market) generated written premiums of about 1.176 m. EUR (2019: 1.135 m. EUR) through branches or free provision of services, whereby 17% is allotted to branches and 83% to free provision of services.

3 ANALYSIS OF KEY MARKETS

All insurance markets relevant for Austrian insurance groups are ranked according to their premium share, i.e. the relation of written premiums generated in a country to the total foreign written premium volume of Austrian groups. Markets with a premium share above 4% are defined as so-called key markets.

Due to the acquisitions of UNIQA Group in CZ and PL (former AXA companies), the premium share of these two countries considerably increased and HR shows a premium share of only 3,9%. However, due to various reasons (e.g. all Austrian insurance groups have subsidiaries in HR, premium contribution is still significant), HR is further included in the list of key markets, that therefore comprises the following countries: CZ, PL, SK, RO, HU and HR.

Due to their importance for Austrian insurance groups, each key market is subject to a more in-depth analysis that considers the macroeconomic environment and outlook as well as the structure and recent developments of the individual insurance markets including legal and regulatory changes. Moreover, important political developments and the stability of the system, and the interaction with the EU are taken into account.

In the following sections, the results of the key markets analyses are presented in order of the premium share.

3.1 CZECHIA

Country	31.12.2020	FIB Market Indicators	
CZ	Macro	Population in million	10,70
		Real GDP Growth (%)	-5,80
		Unemployment Rate (%)	3,20
		Consumer Prices Growth (%)	3,30
		General government deficit % GDP	-6,20
	Insurance Market	GWP TOTAL (m. EUR)	6 400,33
		GWP LIFE (m. EUR)	1.975,14
		GWP NON-LIFE (m. EUR)	4.425,19
		Premium development (%)	-1,99
		Insurance Density TOTAL	598,28
	Insurance Penetration Degree TOTAL (%)	2,97	

Table 29: Key Market Indicators (Sources: Xprimm; FMA macro database (Eurostat, IMF, World Bank), own calculation)

In 2020, the Czech economy experienced one of the strongest declines in real GDP (-5,8%) in the CESEE area. The country's unemployment rate, however, remained with 3,2% on a very low level which stabilizes consumer demand after the COVID-19 crisis. Consumer prices already increased in 2020 by 3,3% and are forecasted to stay elevated in the medium term as the economy recovers. Although government debt has increased by 6% due to the expansionary fiscal policy, the debt-to-GDP ratio is with 38% significantly lower than for most European countries. At YE-2020, the Czech Koruna (CZK) depreciated by 3% year-over-year.

Responding to the rebound of the economy and inflationary tendencies observed in 2021, the Czech National Bank (CNB) decided to raise interest rates and therefore tighten money supply. As of October 2021, the (repo) interest rate is at 1,5% which is still lower than 2,0% in pre-crisis year 2019.²¹

Amid difficult public health management, CZ recorded a high COVID-19 death toll compared to other CESEE countries. Elections outcomes in October 2021 point at a change in government, but it will take some time to build stable coalitions. The EU Recovery and Resilience Facility plans to allocate up to 7,1 bn. EUR (3% of GDP 2020) in grants to CZ.

After harsh conditions during the COVID-19 pandemic in CZ, the economy is expected to rebound only by 3,8% in GDP in 2021. Economic growth is forecasted to be stronger at 4,5% of GDP in 2022.

²¹ CNB (2021), CNB board decisions, 30.9.2021; <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1633013280000/>.

3.1.1 INSURANCE MARKET OVERVIEW

3.1.1.1 Development and results 2020

At the end of 2020, gross written premiums amounted to 6.400 m. EUR which is in EUR terms a decrease by 1,9% compared to the previous year. Expressed in local currency, a slight growth rate of 1,2% of GWP was recorded.

About 31% of gross written premiums stem from life insurance lines. Total life insurance premiums saw a decline of -6% compared to 2019. While conventional life insurance declined by -15%, there has been a slightly lower decrease of -11% in index and unit-linked products. Health insurance premiums increased the most of all business lines by 13,9%. Non-Life premiums remained with 4.425 m. EUR almost stable. Motor insurance lines still showed a growth rate of 3,8%. Overall, motor lines (MTPL and motor hull) significantly contribute to total gross written premiums with a share of 31%. Property insurance grew by 1,3% in EUR terms. Other and specialized insurance lines in non-life experienced declining premiums. After a strong increase in 2019, the largest relative decline in 2020 was registered in financial loss insurance (-32,4%). Also health expense insurance in the non-life department experienced a relatively strong decline in premiums by 26,9%.

In 2020, insurance undertakings in CZ registered around 83 thousand property claims caused by floods, storms or hail in the total amount of around 112,8 m. EUR (2,96 bn. CZK per YE-2020) according to *Xprimm*. The number of damages exceeded the average by 117% and by 82% in terms of claims. The main event was “Storm Sabine” in Q1-2020 which affected CZ apart from considerable flood damages recorded throughout the year.²²

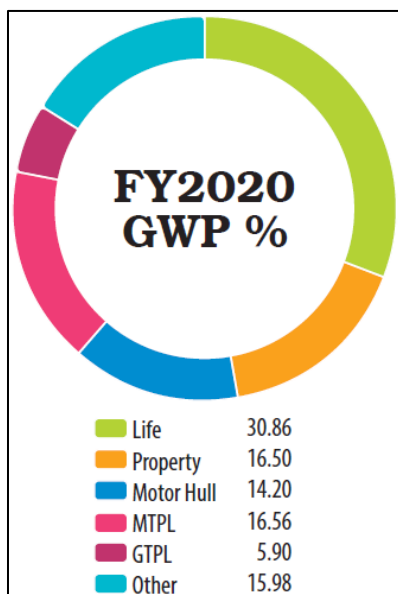


Table 30: Insurance Lines in Czechia 2020 (Source: X Primm Insurance Report FY 2020)

²² See X-Primm Insurance Report FY 2020 (p. 34-35)

3.1.1.2 Update half year 2021

Conversely to YE-2020, at 30 June 2021 the CZK appreciated by 4,7% year-over-year. The significant increase in total gross written premiums on a half-year basis with 9,2% in EUR terms was therefore half driven by the change in the exchange rate. Life insurance grew by 8,1% whereas non-life business grew by 9,7% y-o-y in EUR in Q2-2021.

Paid claims increased by 15,3% in EUR units with both life and non-life claims increasing proportionally. While in life business especially the index and unit-linked product showed more claims by 40% per HY 2021, in non-life property insurance claims in particular rebounded by 57%.²³ Most probably, the increase in property claims results from the tornado that hit some districts in South Moravia in June and caused damages of app. 140,5 m. EUR (according to first estimations).

3.1.1.3 Market structure

Generali Ceska Pojistovna continues to be the biggest company on the Czech insurance market and ranks in the first place in non-life business. On the life insurance market, Kooperativa Pojistovna (subsidiary of VIg) has the leading position.

<i>Insurance Undertaking</i>	<i>Market Share FY 2020 in %</i>
TOP 3 - Life insurance	
Kooperativa Pojistovna	30,6%
Generali Ceska Pojistovna	22,3%
NN Zivotni Pojistovna N.V.	10,5%
TOP 3 - Non Life insurance	
Generali Ceska Pojistovna	28,9%
Kooperativa Pojistovna	19,7%
Allianz Pojistovna	12,8%

Table 31: TOP 3 market shares in Czechia (Source: X Primm Insurance Report FY 2020)

3.1.2 AUSTRIAN INSURANCE GROUPS

At the end of 2020, UNIQA Group and VIg have several insurance subsidiaries operating on the Czech insurance market. In 2020, UNIQA Group acquired the former AXA insurance companies AXA pojist'ovna a.s. and AXA zivotni pojist'ovna a.s.

The insurance subsidiaries of the two Austrian insurance groups generated aggregated net written premiums (NWP) of about 1,6 bn. EUR in 2020, further increasing the premium share from 23,6% to 24,7% and reinforcing Czechia as the most important foreign insurance market from Austrian perspective.

²³ Xprimm HY 2021 Market Portfolio Data

The aggregated market shares of Austrian insurance groups in Czechia increased from 36% in 2019 to 40% in 2020, mainly caused by the acquisition of the two AXA companies. Aggregated market shares are about 40%, on the life insurance market as well as on the non-life insurance market.

3.2 POLAND

Country	31.12.2020	FIB Market Indicators	
PL	Macro	Population in million	37,90
		Real GDP Growth (%)	-2,50
		Unemployment Rate (%)	3,40
		Consumer Prices Growth (%)	3,70
		General government deficit % GDP	-7,00
	Insurance Market	GWP TOTAL (m. EUR)	13.743,06
		GWP LIFE (m. EUR)	4.495,44
		GWP NON-LIFE (m. EUR)	9.247,62
		Premium development (%)	-8,31
		Insurance Density TOTAL	362,62
		Insurance Penetration Degree TOTAL (%)	2,62

Table 32: Key Market Indicators (Sources: Xprimm; FMA macro database (Eurostat, IMF, World Bank), own calculation)

With a decline in real GDP by 2,7% in 2020, Poland performed better than CESEE-average. Also the unemployment rate remained with 3,4% on a low level. Consumer prices, however, saw a significant increase by 3,7% already per YE-2020. The Polish zloty (PLN) depreciated by 7% towards the Euro on a year-over-year basis. The government debt increased significantly due to counter-cyclical fiscal policy but remained with 57,5% of GDP still below the Euro-convergence criteria. The (reference) interest rate set by the Polish National Bank remains with 0,5% on the lower bound²⁴. With EU grants in the amount of around 23,9 bn. EUR assigned by the Recovery and Resiliency Facility, Poland will be able to access most funds out of all CESEE countries for mitigating the effects of the COVID-19 crisis.

GDP in PL is forecasted to regain by 5,1% in 2021 and a solid 5%-growth rate is also realistic in the next year. Ongoing political conflicts by the Polish government concerning EU laws adds uncertainty amidst otherwise welcome economic recovery.

3.2.1 INSURANCE MARKET OVERVIEW

3.2.1.1 Development and results 2020

In 2020, gross written premiums reduced by 0,6% in PL in local currency units. Due to the depreciation of the exchange rate of about 7%, the decline was with -8,3% to 13.743 m. EUR more severe expressed in EUR. With life insurance contributing 33% to total gross written premiums in the

²⁴ Reference rate (minimum money market intervention rate), yield on 7-day NBP money market bills (effect from 7 October 2021)

market, non-life business remains dominant in PL. In particular, overall motor insurance premiums (MTPL and motor hull) contribute 37% to total premiums.

Considering the depreciation of the local currency, in life business the index and unit-linked products have still seen a disproportionately sharp decline by 20,7% while other life insurance lines have only seen a relative decrease in premiums in EUR terms. In non-life business, property insurance premiums decreased only by 3% in EUR. The decline in total motor insurance premiums was with 8,4% in EUR somewhat stronger than the depreciation of the PLN. Strong reductions in premiums were displayed in more specialized business lines such as financial loss (-21,6%) and sickness (non-life) by 29,3%.²⁵

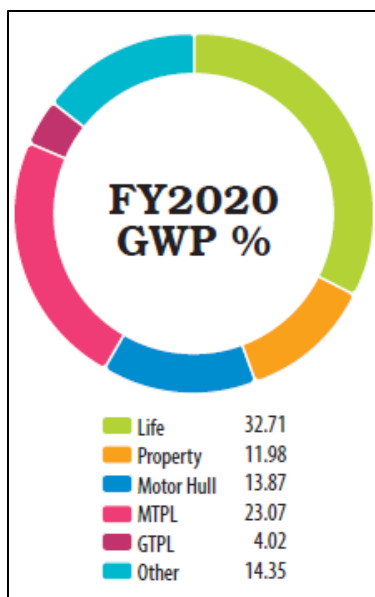


Table 33: Insurance Lines in Poland 2020 (Source: X Primm Insurance Report FY 2020)

3.2.1.2 Update half year 2021

Compared to YE-2020, the exchange rate EUR/PLN was in the first half-year of 2021 with +1% almost stable. The increase of GWP in PL was 8% in EUR, with both life and non-life departments growing rather equally. Overall claims, however, remained unchanged at Q2-2021. While conventional life insurances registered a rise in claims by 32,5% there were in turn less claims paid for index and unit-linked products. In non-life, motor insurance claims in total increased only by 1,6% on a half-year-basis. Property and similar insurances have seen a significant drop by 10,9% compared to Q2-2020

²⁶.

With respect to unit-linked life insurance, a product intervention was published by KNF on 15 July 2021 (see Decision DNM-DNMZWP.6065.79.2021). This product intervention provides for a

²⁵ See X-Primm Insurance Report FY 2020 (p. 50-51)

²⁶ Xprimm HY 2021 Market Portfolio Data

prohibition on the marketing, distribution and sale of insurance-based investment products – unit-linked life insurance contracts for which the average return is less than 50% of the interest rate for period N (For insurance contracts concluded for a period of less than 10 years, N equals the period for which the contract was concluded. Otherwise, N = 10 and N = the recommended holding period if the period is longer than 10 years) according to the appropriate risk-free interest rate term structure. Moreover, a prohibition is imposed on the marketing, distribution and sale of insurance-based investment products – unit-linked life insurance contracts for which the investment rules and restrictions defined in the rules of the fund fail to ensure that the assets of the unit-linked fund will not be invested in contingent convertibles. The prohibitions provided for in the decision apply to unit-linked life insurance contracts concluded on or after 1 January 2022²⁷.

3.2.1.3 Market structure

The domestic insurance company PZU continues to dominate the Polish insurance market both in life and non-life business.

<i>Insurance Undertaking</i>	<i>Market Share FY 2020 in %</i>
TOP 3 - Life insurance	
PZU Zycie	42,2%
AVIVA	9,5%
Nationale Nederlanden	7,9%
TOP 3 - Non Life insurance	
PZU	29,4%
ERGO Hestia	15,3%
WARTA	14,6%

Table 34: TOP 3 market shares in Poland (Source: X Primm Insurance Report FY 2020)

Since 2020, the market composition in PL continues to be subject to mergers and acquisitions. In September 2020, the Polish NCAs approved the acquisition of former AXA companies (non-life, life and pension entities) by UNIQA Group. In November 2020, VIG agreed to acquire AEGON's non-life and life insurance undertakings (including pension funds, asset management and service companies) in PL. However, this acquisition still awaits approval by the NCA.

Moreover, Allianz group acquired Aviva's entire shareholding in PL comprising among other associated entities life insurance business in PL and LT and a Polish non-life insurance undertaking.²⁸

3.2.2 AUSTRIAN INSURANCE GROUPS

Poland is the second largest foreign insurance market for Austrian groups, contributing a net written premium volume of about 1,3 bn. EUR. Vienna Insurance Group and UNIQA Group are active via

²⁷ See https://www.knf.gov.pl/en/news?articleId=75362&p_id=19

²⁸ See X-Primm Insurance Report FY 2020 (page 50-51)

various subsidiaries on the Polish Insurance Market. With the acquisition of the former AXA insurance companies (AXA Zycie TU and AXA TU), UNIQA Group enlarged the Polish premium volume by more than 120 m. EUR.

In 2021, UNIQA Group will merge the two former AXA subsidiaries into its Polish subsidiaries UNIQA TU na Zycie S.A. and UNIQA TU S.A.

In 2020, Austrian insurance groups achieved a total aggregated market share of 17% (after 12% in 2019). The position on the non-life market is even stronger with an aggregated market share of 19%, instead, on the life insurance market the aggregated market share is about 9%.

3.3 SLOVAKIA

Country	31.12.2020	FIB Market Indicators	
SK	Macro	Population in million	5,46
		Real GDP Growth (%)	-4,40
		Unemployment Rate (%)	7,10
		Consumer Prices Growth (%)	2,00
		General government deficit % GDP	-6,20
SK	Insurance Market	GWP TOTAL (m. EUR)	2.175,80
		GWP LIFE (m. EUR)	889,35
		GWP NON-LIFE (m. EUR)	1.286,45
		Premium development (%)	-4,74
		Insurance Density TOTAL	398,58
		Insurance Penetration Degree TOTAL (%)	2,36

Table 35: Key Market Indicators (Sources: Xprimm; FMA macro database (Eurostat, IMF, World Bank), own calculation)

Real GDP of Slovakia declined by 4,8% in 2020, which was still significant better than forecasts referred to in the last FIB report. Unlike other key markets in the CE region, SK has seen a considerable increase in the unemployment ratio to 7,1% in 2020. Inflation measured by the consumer price index slightly declined to 2% on a year-over-year basis. The government deficit increased by 6,2% to around 60% of GDP. EU grants reserved under the NextGenerationEU package for SK amount to 6,3 bn. EUR (7% of GDP 2020).

With a projected GDP growth of 4,4%, SK will almost offset the contraction in GDP of 2020. Real economic recovery is expected to follow only in 2022 by 5,2%.

3.3.1 INSURANCE MARKET OVERVIEW

3.3.1.1 Development and results 2020

In 2020, gross written premiums amounted to 2.176 m. EUR which is a decline by 4,7% compared to 2019. While total life insurance premiums declined by -12,4% to 889,3 m. EUR, non-life premium volume showed a slight increase by 1,4% to 1.286 m. EUR. In life insurance, the reduction was recorded both for conventional life business and for index and unit-linked products. In non-life, all business lines could achieve a solid growth apart from more specialized products such as medical expense insurance (-39%), assistance (-43%) or credit and suretyship insurance (-48%). As the only exception of more niche products, financial loss insurances could gain by 33,6% to 8,6 m. EUR. Out of all non-life business lines, total motor insurance premiums recorded the strongest increase in GWP by 4,5%. This is especially high considering that in the same period total motor claims reduced by 12,4% driven by COVID-19 lockdown measures restricting overall mobility. The strongest increase

in claims was registered in fire and other property insurance lines by 32,6% showing that climate risks continued also in times of the pandemic.²⁹

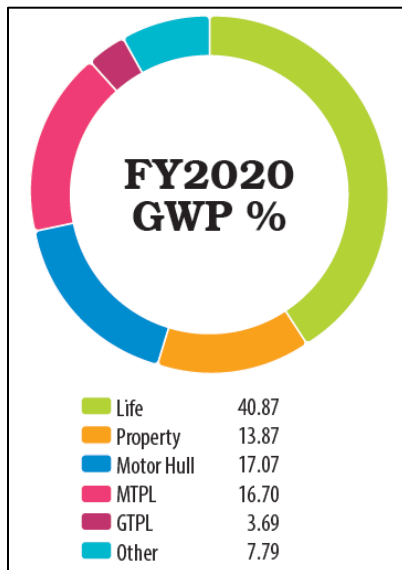


Table 36: Insurance Lines in Slovakia 2020 (Source: X Primm Insurance Report FY 2020)

3.3.1.2 Update half year 2021

As of 30 June 2021, gross written premiums in the Slovakian market remained almost unchanged (+0,3%) compared to the same period of the previous year. While life insurance premiums have seen a decline by 2,5%, premiums in non-life increased 2,2%. Total claims in the market declined by 3,9% year-over-year. The reduction was more pronounced in non-life, where fire and other property insurance paid 17,4% less claims.³⁰

3.3.1.3 Market structure

In the past years, no statistics on markets shares have been published by NBS. However, in 2021, a market ranking has been published based on a statistic of SLASP (Slovak Insurance Association).

Insurance Undertaking	Market Share HY 2021 in %
TOP 3 - Life insurance	
Kooperativa poisťovňa VIG	28,9%
Allianz Slovenska poisťovňa	18,8%
Generali poisťovňa	11,3%
TOP 3 - Non Life insurance	
Allianz Slovenska poisťovňa	32,7%
Kooperativa poisťovňa VIG	22,5%
Generali poisťovňa	12,6%

Table 37: TOP 3 market shares in Slovakia (Source: www.xprimm.com)

²⁹ See X-Primm Insurance Report FY 2020 (page 62-63)

³⁰ Xprimm HY 2021 Market Portfolio Data

The Slovak market is more or less dominated by three insurance companies, namely Kooperativa poisťovňa (subsidiary of Vienna Insurance Group), Allianz Slovenska poisťovňa and Generali poisťovňa.

3.3.2 AUSTRIAN INSURANCE GROUPS

Three Austrian insurance groups carry out business via subsidiaries on the Slovakian insurance market. Those entities generated net written premiums of about 741 m. EUR making Slovakia ranked third of foreign business markets.

It is important to mention, that UNIQA Group merged UNIQA poisťovňa a.s. into its Czech subsidiary UNIQA poisťovňa a.s. in 2021. Since this merger, UNIQA Group only operates via the branch of UNIQA poisťovňa a.s. on the Slovak market. As a consequence, the Slovak National Bank (NBS) lost its status as college member of the supervisory college of UNIQA Group. However, taking into consideration the materiality of the Slovak business (app. market share of 11% according to information of NBS), NBS will further take part in the supervisory college as supervisory college participant.

On the basis of Austrian insurance groups' reporting, the subsidiaries of Austrian groups achieved an aggregated market share of 43% in 2020 (2019: 42%). Particularly, due to the size of Kooperativa poisťovňa VIĽ, aggregated market shares are above 40% on the non-life as well as on the life insurance market.

3.4 ROMANIA

Country	31.12.2020	FIB Market Indicators	
RO	Macro	Population in million	19,26
		Real GDP Growth (%)	-3,90
		Unemployment Rate (%)	5,20
		Consumer Prices Growth (%)	2,30
		General government deficit % GDP	-9,20
	Insurance Market	GWP TOTAL (m. EUR)	2.361,79
		GWP LIFE (m. EUR)	455,80
		GWP NON-LIFE (m. EUR)	1.905,98
		Premium development (%)	2,79
		Insurance Density TOTAL	122,64
	Insurance Penetration Degree TOTAL (%)	1,08	

Table 38: Key Market Indicators (Sources: Xprimm; FMA macro database (Eurostat, IMF, World Bank), own calculation)

In 2020, the Romanian economy declined by 3,9% which is slightly less than the CESEE average. The unemployment rate of 5,2% increased to a moderate level concerning the overall economic situation. After considerable inflation in the pre-crisis year, consumer prices growth in 2020 significantly slowed down to 2,3% year-over-year. Running a significant deficit of 9,2% in the crisis year, government debt reached 47% of GDP in 2020. Under the EU Recovery and Resilience Facility, RO will be eligible to access around 14 bn. EUR in grants (6,5% of GDP 2020) which should boost economic recovery after the COVID-19 crisis in the medium term.

RO will have a strong comeback in 2021 with a projected growth of GDP by 7%. For 2022, GDP is also expected to rise further by 4,8%. A renewed government crisis together with a low vaccination rate (about 30%) against COVID-19 in October 2021, however, adds political risks to economic forecasts.³¹

3.4.1 INSURANCE MARKET OVERVIEW

3.4.1.1 Development and results 2020

Gross written premiums in RO increased by 2,7% to 2.362 m. EUR. While life insurance lines only generate 20,5% of premiums in the Romanian insurance business, non-life contributes 79,5% to overall GWP. Especially the motor insurance (MTPL and motor hull) is with 1.356 m. EUR premiums (57% of overall GWP) the most important sector in RO. In 2020, motor lines increased in premiums by 2,8%, property insurances by 4,3%. The highest relative increase of business lines in non-life was

³¹ Politico (2021), Romanian government falls after losing no-confidence vote, 5 October 2021, <https://www.politico.eu/article/romanian-government-falls-in-no-confidence-vote/>.

recorded for health (+21%) and warranties insurances (+65%). Travel insurance premiums, however, declined by 54%. With respect to overall claims, the market has seen a rather stable development despite COVID-19. MTPL claims declined only by around 2%, whereas motor hull claims increased by around 5%. Fire insurances have seen a significant reduction in claims by 8%.

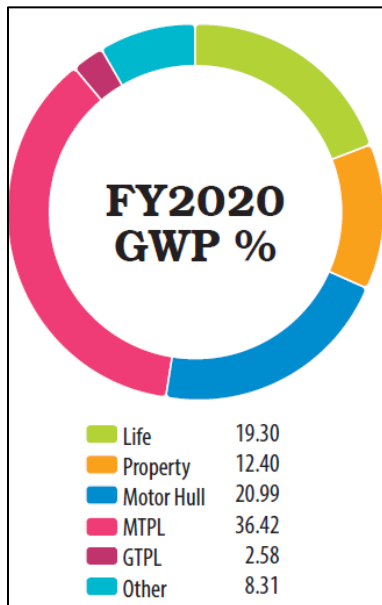


Table 39: Insurance Lines in Romania 2020 (Source: X Primm Insurance Report FY 2020)

3.4.1.2 Update half year 2021

Looking at Q2-2021, the currency of RO has also depreciated by around 1,7% year-over-year. GWP expressed in EUR grew strongly by 11,7%. While the dominant non-life sector in RO increased by 9,2% at Q2-2021, premiums grew even stronger in life business lines by 22,2% year-over-year. Measured in EUR, total claims in RO increased by 7,7% which was both reflected in life and non-life business. In the overall motor insurance market (motor hull and MTPL) paid claims grew by around 9,2% at Q2-2021.³²

3.4.1.3 Market structure

Two VIG entities in life and non-life in RO have moved to the second place in terms of market shares in 2020. NN Asigurari de Viata, however, continued to be the clear market leader in life insurance per YE-2020. In non-life, CITY insurance was the market leader in 2020 with 24,9% of GWP volume.

Regarding the market composition, RO shows a high concentration of market players. This holds true especially for the MTPL business, where City Insurance and EUROINS in 2020 held a cumulative market share of 75% of gross written premiums. This matter has become pressing since the market leader in MTPL is currently facing bankruptcy. After severe frauds revealed and the solvency position

³² Xprimm HY 2021 Market Portfolio Data

was unsustainable, the Romanian NCA has finally withdrawn the operating licence of City Insurance on 17 September 2021. According to national bankruptcy regulations, the insurance guarantee scheme implemented in RO (funded by the insurance market) is obliged to cover claims connected to the undertaking. The effect on the market composition caused by this event in RO is, however, still unclear.³³

<i>Insurance Undertaking</i>	<i>Market Share FY 2020 in %</i>
TOP 3 - Life insurance	
NN Asigurari de Viata	38,5%
BCR Asigurari de Viata VIG	16,8%
BRD Asigurari de Viata	11,0%
TOP 3 - Non Life insurance	
CITY Insurance	24,9%
OMNIASIG VIG	14,9%
EUROINS Romania	14,1%

Table 40: TOP 3 market shares in Romania (Source: X Primm Insurance Report FY 2020)

3.4.2 AUSTRIAN INSURANCE GROUPS

In 2020, the Romanian subsidiaries of Austrian insurance groups generated net written premiums of nearly 465 m. EUR.

In 2020, the Romanian insurance subsidiaries of Austrian insurance groups achieved an aggregated market share of 26% (2019: 26%), the same level is achieved on the life and non-life insurance market.

³³ BNE (2021), Romania's leading insurer City Insurance heads towards bankruptcy after losing license, <https://www.intellinews.com/romania-s-leading-insurer-city-insurance-heads-towards-bankruptcy-after-losing-license-221201/>.

3.5 HUNGARY

Country	31.12.2020	FIB Market Indicators	
HU	Macro	Population in million	9,75
		Real GDP Growth (%)	-4,70
		Unemployment Rate (%)	4,20
		Consumer Prices Growth (%)	3,40
		General government deficit % GDP	-8,10
	Insurance Market	GWP TOTAL (m. EUR)	3.297,80
		GWP LIFE (m. EUR)	1.452,55
		GWP NON-LIFE (m. EUR)	1.845,25
		Premium development (%)	-5,26
		Insurance Density TOTAL	338,23
		Insurance Penetration Degree TOTAL (%)	2,41

Table 41: Key Market Indicators (Sources: Xprimm; FMA macro database (Eurostat, IMF, World Bank), own calculation)

After experiencing high growth rates in the pre-crisis years, real GDP in 2020 declined by 5%. Considering the COVID-19 situation, the unemployment rate was at 4,1% per YE-2020 at a low level. Inflation remained unchanged high around 3,4% year-over-year basis. The Hungarian Forint, moreover, depreciated amidst the COVID-19 in 2020 by 10% towards the EUR at year-over-year. The government deficit was -8,1% of GDP contributing to an further elevated debt-to-GDP ratio of 80%. Additional EU grants under the NextGenerationEU package reserved for Hungary amount to 7,2 bn. EUR (5% of GDP 2020).

Real GDP growth in HU will be around 7,6% which significantly exceeds the economic effects of COVID-19 in 2020. In 2022, the growth path is forecasted to be continued with 5,1% of GDP. Reasonable fiscal policy may only return after national elections take place in the beginning of 2022. Current rhetoric with EU institutions, moreover, poses risks to the recovery funds assigned by EU – with potential negative repercussions to the whole CESEE region.³⁴

3.5.1 INSURANCE MARKET OVERVIEW

3.5.1.1 Development and results 2020

In 2020, gross written premiums in HU declined by 5,2% to 3.298 m. EUR. Due to the strong depreciation of the Hungarian Forint (around 10%), the GWP volume expressed in local currency actually increased by 4,7% year-over-year. The market segmentation shows that life insurance

³⁴ *Emerging Europe (2021), Why some CEE countries are yet to receive their Next Generation EU funding, 6 September 2021, <https://emerging-europe.com/news/why-some-cee-countries-are-yet-to-receive-their-next-generation-eu-funding/>.*

accounts for about 44% while non-life business contributes 56% to total GWP. Next to motor insurance business (overall 29,6% of GWP), property insurance is with 18,2% of GWP the second most important line of business in non-life in HU. Compared to the previous year and considering the development of the exchange rate, almost all business lines only declined in EUR terms but not in HUF. In fact, overall motor insurance has only seen a decline by -2,8% while property insurance decreased by 2,3% in EUR terms. The strongest declines were recorded in other (not index or unit-linked) life insurance lines by -7,9% and other more niche non-life products by -17,9% in EUR.

With respect to paid claims, there was a slight increase by around 2% in HUF recorded over all business lines. While overall motor insurance claims remained almost stable despite COVID-19 restriction in the first HY 2020, the increase in claims was especially significant with around 10% (in HUF) in property. The main event in this regard was the earthquake originated in HR in December 2020 which caused around 2,3 m. EUR of payments (incl. reserves). However, also in the general liability insurance paid claims increased by around 12% in HUF.

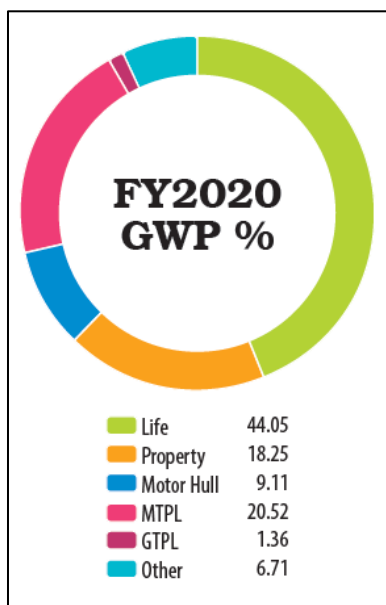


Table 42: Insurance Lines in Hungary 2020 (Source: X Primm Insurance Report FY 2020)

3.5.1.2 Update half year 2021

Unlike at YE-2020, on 30 June 2021 the HUF appreciated by 1% towards the EUR y-o-y. Premium growth relative to the same period in 2020 was 12,9% in EUR. Life insurance increased with 19,6% even stronger than non-life with +8%. Claims incurred in the Hungarian insurance market also increased by 11,6%. Significant more claims at Q2-2021 were registered in overall motor insurance by 16% and 9,6% in property insurance lines.³⁵

³⁵ Xprimm HY 2021 Market Portfolio Data

3.5.1.3 Market structure

In the last two years, no more data on market shares were published. On the basis of Austrian insurance groups' reporting, the subsidiaries of Austrian groups achieved an aggregated market share of about 15% of the total market (2019: 17%), the same level is achieved on the life insurance and non-life insurance market.

On 6 April 2021, VIG received a decree from the Hungarian Ministry of the Interior blocking the planned acquisition of the Aegon companies in Hungary by a foreign company. VIG, jointly with Aegon, took legal action against this decision and filed a complaint with the Budapest Metropolitan Court on 5 May 2021. VIG's appeal against Hungarian veto on Aegon acquisition was dismissed by Budapest Metropolitan Court. Further legal actions are taken, both by VIG and Aegon.³⁶

3.5.2 AUSTRIAN INSURANCE GROUPS

Three Austrian insurance groups operate via subsidiaries on the Hungarian insurance market. Those entities generated total net written premiums of 331 m. EUR in 2020.

³⁶ VIG (2021) Press Release 21.9.2021, <https://www.vig.com/en/press/press-releases/detail/vigs-appeal-against-hungarian-veto-on-aegon-acquisition-dismissed-by-budapest-metropolitan-court.html>

3.6 CROATIA

Country	31.12.2020	FIB Market Indicators	
HR	Macro	Population in million	4,05
		Real GDP Growth (%)	-8,00
		Unemployment Rate (%)	8,50
		Consumer Prices Growth (%)	0,00
		General government deficit % GDP	-7,40
	Insurance Market	GWP TOTAL (m. EUR)	1.389,84
		GWP LIFE (m. EUR)	351,27
		GWP NON-LIFE (m. EUR)	1.038,57
		Premium development (%)	-1,91
		Insurance Density TOTAL	343,40
	Insurance Penetration Degree TOTAL (%)	2,82	

Table 43: Key Market Indicators (Sources: Xprimm; FMA macro database (Eurostat, IMF, World Bank), own calculation)

As an economy highly linked to tourism, Croatia has seen one of the worst declines in GDP by 8% out of all CESEE (only surpassed by ME) due to the COVID-19 pandemic in 2020. The unemployment rate increased to 8% in 2020, but inflation was almost not existent in 2020 on a year-over-year basis. As candidate for the Euro introduction, the local currency only depreciated by 1% towards the Euro. The general government deficit was -7,4% of GDP, raising the debt-to-GDP ratio to 89%. Economic recovery will in the medium term be aided by additional EU funds out of the NextGenerationEU package which reserves 6,3 bn. EUR (13% of GDP 2020) in grants for Croatia.

Since international tourism has not yet reached pre-crisis levels, also GDP growth in HR will be with forecasted 6,3% in 2021 less than the contraction experienced last year. However, HR will enter a phase of sustained recovery with GDP growth projected at 5,8% in 2022.

3.6.1 INSURANCE MARKET OVERVIEW

3.6.1.1 Development and results 2020

Despite the significant economic downturn due to the COVID-19 crisis, total gross written premiums in the Croatian insurance market only declined slightly by 1,9% in 2020 to 1.390 m. EUR. The reduction was more pronounced in life insurance where premiums shrank by 14,8% generating a quarter of total GWP. In non-life, however, growth in GWP was with 3,4% rather solid. Overall motor insurance (MTPL and motor hull) registered a premium increase by 8,4% to 517,5 m. EUR (37,2% of total GWP). Property insurance lines which contribute around 15% of total GWP achieved 5,6% more premiums than in 2019. Significant declines in premium volumes were recorded for specialized

products such as credit insurance (-34,1%), financial loss (-14,6%) or travel insurance (-7,2%). Health insurance (non-life) premiums increased by 3,4% providing, however, only 6% to total GWP in 2020. Regarding the claims development, there was a significant increase in payments by 16% for life insurances. According to *Xprimm*, the surge in life insurance claims was related to less lending activity in the banking sector. Although non-life claims only increased by 1,3%, overall, there have been significant more payments out of property insurance lines. In fire and similar insurance products claims rose by 67,5% in connection with a series of earthquakes affecting Croatia in 2020. However, as *Xprimm* reports, out of a total damage estimate by the earthquakes of around 11,5 bn. EUR, insurance undertakings are estimated to pay only 53 m. EUR to policy holders that were protected against NatCat risks. Out of the COVID-19 related effects, insurances undertakings also paid 4,5% less claims for their motor insurance lines.³⁷

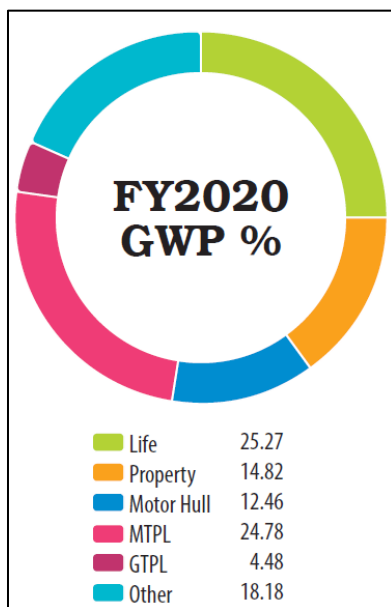


Table 44: Insurance Lines in Croatia 2020 (Source: X Primm Insurance Report FY 2020)

3.6.1.2 Update half year 2021

At Q2-2021, the appreciation of the Kuna by less than 1% was negligible to overall premium development measured in EUR. The total insurance market rebounded strongly by 14% in premiums compared to the previous year whereby this growth was displayed similarly in both life and non-life departments. Overall, claims also increased by 9,3%. While life insurers incurred 1,8% less claims, non-life insurance lines recorded 19,4% more payments. This rise is linked to property insurances which had a claims increase by 29,7% - an effect caused by a series of earthquakes happening in

³⁷ See *X Primm Insurance Report FY 2020* (pages 32-33); *Bloomberg* (2021), *Rush for Coverage Boosts Insurers in Earthquake-Struck Croatia*, 3 February 2021 <https://www.bloomberg.com/news/articles/2021-02-03/rush-for-coverage-boosts-insurers-in-earthquake-struck-croatia>.

Croatia since December 2020. However, also the overall motor insurance market in HR registered a rebound in payments by 13,1% at Q2-2021 after the COVID-19 restrictions of the previous year.³⁸

3.6.1.3 Market structure

Wiener Osiguranje which is a subsidiary of Vienna Insurance Group continues to be the market leader in life insurances, followed by Croatia Osiguranje and Allianz Hrvatska.

By the end of 2020, the Croatian market was subject to two larger acquisitions. GENERALI CEE Holding finally acquired local non-life insurer IZVOR osiguranje obtaining a market share of less than 1%. French insurance group GROUPAMA, moreover, announced having signed a sale and purchase agreement for OTP Osiguranje in an operation involving its Hungarian subsidiary and the Croatian subsidiary of OTP Bank.³⁹

<i>Insurance Undertaking</i>	<i>Market Share FY 2020 in %</i>
TOP 3 - Life insurance	
WIENER Osiguranje VIG	19,7%
CROATIA Osiguranje	17,1%
ALLIANZ Hrvatska	14,3%
TOP 3 - Non Life insurance	
CROATIA Osiguranje	28,8%
EUROHERC Osiguranje	17,1%
ADRIATIC Osiguranje	12,8%

Table 45: TOP 3 market shares in Croatia (Source: X Primm Insurance Report FY 2020)

3.6.2 AUSTRIAN INSURANCE GROUPS

Croatia is the only foreign market where all Austrian insurance groups have insurance subsidiaries. The accumulated net written premiums of these entities amount to nearly 250 m. EUR.

At YE 2020, all Croatian insurance subsidiaries hold an aggregated market share of about 22% which is the same as in 2019. On the non-life market, the aggregated market share is 14%, while the market position on the non-life market is much stronger with a market share of 46%.

³⁸ Xprimm HY 2021 Market Portfolio Data

³⁹ See X-Primm Insurance Report FY 2020 (page 33)

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ANNEX 1: RISK MAP INSURANCE AND MACROECONOMIC INDICATORS

FIB-Cluster	Country	Gross written premiums per country (in million Euro) ¹⁾				Insurance Density (in Euro) ²⁾			Insurance Penetration Degree ³⁾			Macroeconomic indicators ⁴⁾								
		GWP LIFE (m. EUR)	GWP NON-LIFE (m. EUR)	GWP TOTAL (m. EUR)	Premium development (%)	Insurance Density LIFE	Insurance Density NON-LIFE	Insurance Density TOTAL	Insurance Penetration Degree LIFE (%)	Insurance Penetration Degree NON-LIFE (%)	Insurance Penetration Degree TOTAL (%)	Unemployment Rate (%)	Unemployment Rate (%)	Real GDP Growth (%)	Real GDP Growth (%)	Consumer Prices Growth (%)	Consumer Prices Growth (%)	General government gross debt % GDP	General government deficit % GDP	Population in million
		31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2020	31.12.2020
CE	Czechia	1.975,14	4.425,19	6.400,33	-1,99	184,63	413,65	598,28	0,92	2,06	2,97	3,20	2,00	-5,80	3,00	3,30	2,60	38,10	-6,20	10,70
	Estonia	85,56	383,30	468,86	-5,06	64,36	288,31	352,66	0,32	1,43	1,75	6,70	4,60	-3,00	4,10	-0,60	2,30	18,20	-4,90	1,33
	Hungary	1.452,55	1.845,25	3.297,80	-5,26	148,98	189,25	338,23	1,06	1,35	2,41	4,20	3,00	-4,70	4,60	3,40	3,40	80,40	-8,10	9,75
	Latvia	240,74	556,73	797,47	-6,92	126,68	292,95	419,62	0,82	1,89	2,70	8,00	6,60	-3,60	2,50	0,10	2,70	43,50	-4,50	1,90
	Lithuania	290,74	664,13	954,87	1,02	104,02	237,62	341,65	0,59	1,34	1,93	9,20	6,60	-0,10	4,60	1,10	2,20	47,30	-7,40	2,79
	Poland	4.495,44	9.247,62	13.743,06	-8,31	118,62	244,01	362,62	0,86	1,77	2,62	3,40	3,00	-2,50	4,70	3,70	2,10	57,50	-7,00	37,90
	Slovakia	889,35	1.286,45	2.175,80	-4,74	162,92	235,66	398,58	0,97	1,40	2,36	7,10	5,80	-4,40	2,60	2,00	2,80	60,60	-6,20	5,46
EE	Belarus	62,82	413,89	476,70	-20,09	6,68	44,04	50,72	0,13	0,84	0,97	5,30	4,70	-0,90	1,40	5,50	5,60	48,00	-3,30	9,40
	Georgia	12,53	153,32	165,85	-14,83	3,37	41,28	44,66	0,10	1,18	1,28	12,10	11,60	-6,20	5,00	5,20	4,90	60,60	-9,30	3,71
	Moldova	4,78	63,99	68,77	-18,47	1,83	24,45	26,27	0,05	0,66	0,71	4,70	5,10	-7,00	3,60	3,80	4,80	35,30	-5,30	2,62
	Russian Federation	4.747,53	12.220,49	16.968,02	-20,57	32,95	84,80	117,75	0,39	1,01	1,40	5,70	4,60	-3,00	2,00	3,40	4,50	20,40	-4,10	144,10
	Turkey	1.580,21	7.461,37	9.041,58	-12,85	18,95	89,48	108,43	0,25	1,19	1,44	12,70	13,30	1,80	0,90	12,30	15,20	39,70	-5,40	83,38
	Ukraine	144,42	1.156,26	1.300,68	-35,16	3,47	27,81	31,28	0,11	0,91	1,03	9,50	8,20	-4,00	3,20	2,70	7,90	60,70	-6,20	41,58
SEE	Albania	9,42	124,76	134,26	-7,20	3,32	43,96	47,31	0,07	0,96	1,03	11,70	11,50	-3,30	2,20	1,60	1,40	76,00	-6,70	2,84
	Bosnia and Herzegovina	79,96	306,81	386,76	-0,80	24,37	93,52	117,89	0,50	1,90	2,40	15,87	15,69	-4,33	2,83	-1,05	0,56	-	-	3,28
	Bulgaria	228,41	1.246,75	1.475,17	-0,88	32,94	179,80	212,74	0,38	2,06	2,43	5,50	4,30	-4,20	3,70	1,20	2,50	25,00	-3,40	6,93
	Croatia	351,27	1.038,57	1.389,84	-1,91	86,79	256,61	343,40	0,71	2,11	2,82	8,50	6,40	-8,00	2,90	0,00	0,80	88,70	-7,40	4,05
	Cyprus	410,27	506,87	917,14	2,80	459,94	568,24	1028,18	1,90	2,35	4,26	7,80	6,60	-5,20	5,30	-1,10	0,50	118,20	-5,70	0,89
	Kosovo	3,60	97,92	101,52	0,02	2,03	55,16	57,18	0,05	1,45	1,50	26,20	26,00	-5,30	4,80	0,20	2,68	24,40	-7,70	1,78
	Montenegro	19,72	73,95	93,67	-1,15	31,74	119,02	150,77	0,47	1,77	2,24	17,90	15,20	-15,16	4,06	-0,26	0,36	108,80	-10,80	0,62
	North Macedonia	28,21	134,95	163,16	-5,21	13,61	65,11	78,72	0,26	1,25	1,52	16,40	17,30	-4,50	3,20	1,20	0,70	51,20	-8,10	2,07
	Romania	455,80	1.905,98	2.361,79	2,79	23,67	98,97	122,64	0,21	0,87	1,08	5,20	3,90	-3,90	4,20	2,30	3,90	47,30	-9,20	19,26
	Serbia	222,51	712,31	934,82	2,31	32,25	103,25	135,50	0,48	1,52	2,00	9,10	10,50	-0,90	4,30	1,80	1,90	58,40	-7,30	6,90
Slovenia	749,22	1.820,35	2.569,57	2,07	356,36	865,83	1222,20	1,60	3,88	5,48	5,30	3,90	-4,20	3,30	-0,30	1,70	80,80	-8,40	2,10	
WE	Germany	93.363,00	133.157,00	226.520,00	3,98	1122,68	1601,20	2723,88	2,77	3,95	6,73	4,00	3,30	-4,60	1,10	0,40	1,40	69,80	-4,20	83,16
	Liechtenstein	2.110,40	2.942,54	5.052,95	-1,71	54250,59	75641,88	129892,48	37,87	52,80	90,66	-	-	-	-	-	-	-	-	0,04
	Switzerland	27.613,89	26.788,31	54.402,20	0,22	3197,32	3101,73	6299,06	4,19	4,06	8,25	5,20	4,10	-2,40	1,20	-0,80	0,40	28,00	-2,60	8,64
FIB-EEA		106.746,64	159.988,16	266.734,80	-1,71	4396,65	6219,80	10616,44	3,87	5,93	9,80	5,80	4,47	-3,85	3,64	1,29	2,34	57,23	-6,27	182,22
FIB-Non-EEA		34.880,86	50.746,91	85.627,85	-9,69	247,05	296,44	543,50	0,55	1,49	2,04	11,49	11,01	-4,51	2,97	2,54	3,69	53,86	-6,48	314,97
Austria		5.337,38	13.776,35	19.113,72	1,46	598,57	1544,98	2143,55	1,41	3,63	5,04	6,80	4,50	-6,70	1,50	1,40	1,50	83,90	-8,90	8,92

1) Sources: Xprimm; Swiss Re

2) Source: Own calculation based on: Xprimm; Swiss Re; FMA macro database (Eurostat, IMF, World Bank)

3) Source: Own calculation based on: Xprimm; Swiss Re; FMA macro database (Eurostat, IMF, World Bank)

4) Source: FMA macro database (Eurostat, IMF, World Bank)