

# Group management report 2016

## ECONOMIC ENVIRONMENT

From a macroeconomic point of view, 2016 was characterised by moderate growth worldwide and continuation of the low interest rate environment. In spite of a low price of oil averaging USD 45 per barrel, real economic growth fell to +1.5% in the USA (2015: +2.6%), +1.6% in the Eurozone (2015: +2.0%) and +6.7% in China (2015: +6.9%). The International Monetary Fund (IMF) forecast in October 2016 that the global economy would grow by 3.1% in 2016 (2015: +3.2%).

In terms of the major emerging markets, China, India and South Africa showed similar development, with growth rates generally slightly below those in the previous year. On the other hand, growth was higher than the previous year in Brazil and Russia, although both countries are still in recession. Growth in the EU slowed year-on-year by 0.4 percentage points to +1.9% in 2016.

Standard & Poor's continues to award Austria a credit rating of AA+ with a stable outlook. According to the Austrian Institute of Economic Research (WIFO), Austria's gross domestic product (GDP) grew 1.5%, representing an increase of 0.5 percentage points over the previous year. This moderate increase, however, is likely to already represent the highpoint for economic growth in the medium term. The insurance industry recorded a 2.1% decrease in premiums in the year under review, or an increase of +1.0% when single-premium life products are excluded. Motor vehicle demand was the main driver for the Austrian insurance market in the year just ended. Vehicle investments in the country as a whole rose by close to 20% year-on-year.

When adjusted for purchasing power, average per capita GDP grew 3.4% in Central and Eastern Europe (CEE) in 2016, representing a significant year-on-year increase of 0.7 percentage points. According to the Vienna Institute for International Economic Studies (WIIW), Slovakia, Poland and Romania were the major engines of growth in the larger markets, with growth rates of between +3.2% and +4.7%. Bulgaria and Turkey also grew by more than 3%. Growth in the Czech Republic, on the other hand, was 2.3 percentage points below the level of the previous year at +2.2% in 2016.

Croatia continued to recover with a growth rate of +2.5%, as did Serbia where growth increased by 1.4 percentage points. Due to the end of EU structural support programmes, the growth rate fell in Hungary from +3.1% in 2015 to +2.0% in 2016. However, this trend is expected to reverse again in 2017. The economic growth rate increased in almost all of the remaining smaller markets in 2016 compared to 2015. Ukraine found its way out of depression in 2016, recording economic growth of 0.8%. Gross domestic product fell 2.8% in Belarus in 2016.

The global economy as a whole was influenced by the US Federal Reserve's turnaround in interest rate policy, even though it is proceeding very slowly, the lowest level of oil prices in several decades, and a number of elections whose precise effects will not be known until future years. The UK population voted for Brexit, and the 45<sup>th</sup> president was elected in the USA. Significant national elections also took place in 14 of VIG's 26 countries.

## LEGAL ENVIRONMENT

### SOLVENCY II

The changes to the European insurance supervisory system, referred to as Solvency II, that are to be implemented by all member states of the EU presented great challenges for insurance companies. Temporary uncertainty about the final details of Solvency II made it important for companies to provide a high deal of flexibility in their implementation plans.

After years of preparation, Solvency II came into force fully at the beginning of 2016. At the same time, the new Austrian Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG) also came into effect.

VIG was well prepared to fulfil the extensive requirements placed on the Company by Solvency II starting in 2016 and the VAG amendment since the middle of 2014. The Group-wide "Solvency II" project was successfully completed after almost seven years.

During the course of this project, which was managed centrally from Austria, legal developments were followed closely

and necessary measures taken promptly so that all of the individual companies and the Group were adequately prepared for the introduction of Solvency II.

Standardised guidelines, calculation and reporting solutions and advanced risk management processes were developed and implemented with the assistance of experts from the Group companies.

The intensive work on the development and implementation of a partial internal model continued at both the Group and individual company levels as part of the Solvency II project. The calculation procedures have been established in the individual companies and the required expertise is available there to allow consistent management parameters to be determined both at the Group and individual company levels. The parameters calculated by the model are used in corporate management.

At the end of 2015, the supervisory authority responsible for the Group, the Austrian Financial Markets Supervisory Authority (Finanzmarktaufsicht – FMA) approved the partial internal model for use both at Group level and at individual company level in the most important markets.

With respect to qualitative risk management requirements, Vienna Insurance Group has established a uniform governance system appropriate for Solvency II that includes all necessary key functions and clearly defines responsibilities and processes. Uniform Group-wide standards and methods for risk inventories and ORSA were also developed and successfully implemented decentralised and at Group level, thereby ensuring timely ORSA reporting to the supervisory authority at the end of 2016. A Group-wide unified internal control system helps to ensure compliance with the guidelines and requirements resulting from the risk management.

The focus in 2016 was on the first official solvency calculation under Solvency II, regulatory reporting and gradual automation of these processes. Ensuring adequate data quality and speeding up the reporting process were of key importance.

Other focal areas included further development of the Vienna Insurance Group internal model, and technical and organisational preparations for reporting in 2017,

when a great deal of additional quantitative and qualitative information must be reported for the first time under Solvency II.

Vienna Insurance Group is monitoring and analysing developments in connection with Solvency II, in particular potential changes to the extrapolation of the riskless yield curve, which affects the size of underwriting provisions and, in turn, Vienna Insurance Group's capital.

## BUSINESS DEVELOPMENT OF THE GROUP IN 2016

### GENERAL INFORMATION

The around 50 insurance companies of Vienna Insurance Group operate in the following reporting segments: Austria (incl. the Wiener Städtische branches in Slovenia, and the Wiener Städtische and Donau Versicherung branches in Italy), Czech Republic, Slovakia, Poland (incl. the insurance business of the Compensa Non-Life branches in Lithuania and Latvia until transfer of the insurance portfolio on 31 December 2015), Romania, the Baltic states (incl. the insurance portfolio transferred from Compensa Non-Life (Poland) to Compensa Non-Life (Lithuania) starting as of 1 January 2016), Hungary, Bulgaria, Turkey/Georgia, Remaining CEE, Other Markets and Central Functions. These 12 segments are discussed in the Group report, which is broken down by lines of business.

The Remaining CEE segment includes the countries of Albania incl. Kosovo (a branch of an Albanian company is located in Kosovo), Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia and Ukraine.

The Montenegro and Belarus markets were not included in the Vienna Insurance Group consolidated financial statements in 2016 due to immateriality. More information on the scope of consolidation and consolidation methods is provided on page 128 of the notes to the consolidated financial statements. The notes to the consolidated financial statements provide detailed information on changes in the scope of consolidation starting on page 129.

Vienna Insurance Group operates with more than one company and brand in most of its markets. The distinct market

presence of each company in a country may also be aimed at different target groups, and their product portfolios will differ accordingly. Use of this multi-brand strategy does not mean, however, that potential synergies are not exploited. Structural efficiency and the cost-effective use of resources are examined regularly. Back offices that perform administrative tasks for more than one company are already being used successfully in many countries. Specific country responsibilities also exist at the Managing Board level to ensure uniform management of each country. Mergers of Group companies are considered if the additional synergies that can be achieved outweigh the benefits of multiple market presences.

To improve readability, company names have been shortened throughout the entire report. A list of full company names is provided on pages 259 and 260.

In order to avoid duplicate information, reference will be made below to appropriate information in the notes. Changes in significant balance sheet and income statement items are presented in both the segment report and the notes to the financial statements. Additional disclosures in the management report below are intended to explain these data in more detail.

## NEW SEGMENT REPORTING

Group management and the associated regular reporting to the Group Managing Board as the top decision-making body has taken place exclusively at the country level since the beginning of 2016 (except for the Baltic states and Albania incl. Kosovo). Certain countries were combined based on size according to regional or product-specific factors (Turkey/Georgia, Remaining CEE and Other Markets). The countries of Estonia, Latvia and Lithuania are combined in the Baltic states business segment, and Albania and Kosovo combined in the Albania incl. Kosovo business segment, which is allocated to the Remaining CEE reporting segment in reports to the Managing Board.

The regular reports will no longer include separate reporting by balance sheet unit (property and casualty, life and health insurance). This change took place in connection with the change in the composition of the Group Managing Board

on 1 January 2016. Regular monitoring of goodwill impairment takes place solely at the country level starting as of the 1<sup>st</sup> quarter of 2016.

Detailed information on Vienna Insurance Group's segment reporting is provided in the consolidated financial statements starting on page 136.

## RETROSPECTIVE ADJUSTMENTS

### Adjustment for non-profit societies

The adjustment is based on a notice of 2 August 2016 from the Austrian Financial Market Authority (FMA) in accordance with § 3(1) no. 3 of the Austrian Financial Reporting Enforcement Act (Rechnungslegungs-Kontrollgesetz – RL-KG), in which the FMA finds that the interests in the non-profit societies were not reported in accordance with the IFRS. The audit was based on the consolidated financial statements of 31 December 2014 and 31 December 2015 and the half-year reports for 30 June 2014 and 30 June 2015. According to this notice, statutory restrictions on distribution and realisation of assets that apply to non-profit societies, and indirectly to their holding company, were not taken into account when determining the fair value of these companies at the time of loss of control or recognising the Group share in their profits. The effects on the Vienna Insurance Group balance sheet and income statement are as follows:

- The non-controlling interests reported during the conversion from full consolidation to at-equity consolidation for WWG Beteiligungen GmbH (formerly Neue Heimat Holding) are fully eliminated. This caused the non-controlling interests in the shareholders' equity to fall by EUR 57,101,000 (as of 1 January 2015).
- Due to the change in consolidation on 1 January 2014, the at-equity book value of the non-profit societies decreased by EUR 501,730,000 as of 1 January 2015.
- After restatement as of 1 January 2015, only the amount of distributions received from the non-profit societies is reported as their current contribution to earnings, instead of the amount previously shown for the share in the profits of the companies.

### Tax effect of the risk reserve

During the IFRS/IAS changeover, deferred taxes were recognised for the reclassified untaxed risk reserve. The statement issued in 2016 by AFRAC now concludes that no deferred differences exist. Instead, if it is probable or foreseeable that the untaxed risk reserve will be released, and that this will lead to a tax charge, a provision for current tax (re-)payments should be formed. The AFRAC statement makes it necessary for VIG to change its accounting policies.

### Correction of impairment testing

During an audit by the AFREP in accordance with § 2(1) of the Austrian Financial Reporting Enforcement Act (RL-KG), it was found that the previous consolidated financial statements of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe were incorrect for the following reasons:

As discussed in the accounting and valuation principles, a discounted cash flow method has been used to value non-financial assets since 2013, with long-term debt that was economically similar to shareholders' equity being included in the carrying amounts. To calculate the discount rate, a modified capitalisation rate (WACC) was used, whose tier 2 components were derived from a VIG peer group. The relationship of shareholders' equity to Tier 2 capital was also taken from the relationship in the above-mentioned peer group.

The method used to calculate the interest rate was therefore based on the financing structure of a peer group that reflected the asset-specific risk of the VIG Group as a whole and not the risk of the individual CGUs being tested. At the same time, the net assets of the CGUs were treated as dependent on VIG's company-specific financing. As a result, neither the specific risk profile of the individual items being valued nor the independent capital structures of the companies were taken into account.

The correction was performed as a retrospective adjustment in accordance with IAS 8. To do so, Vienna Insurance Group changed over to a pure equity approach using a dividend discount model. At the same time, the modified capitalisation rate (WACC) was replaced by a cost of equity capital rate. Based on the values as of 31 December 2015,

this led to a reduction in goodwill of EUR 90.6 million (31 December 2014: EUR 0.0 million) and an equal reduction in shareholders' equity as of 31 December 2015 (31 December 2014: EUR 0.0 million). The profit before taxes for financial year 2015 also decreased by EUR 90.6 million.

## FINANCIAL PERFORMANCE INDICATORS

The key financial performance indicators that form the basis for assessing Vienna Insurance Group's business development are presented below.

### KEY FIGURES FROM THE CONSOLIDATED INCOME STATEMENT

	2016	2015 adjusted	Change in %
<i>in EUR million</i>			
Premiums written – gross	9,050.97	9,019.76	0.3%
Net earned premiums – retention	8,191.26	8,180.54	0.1%
Expenses for claims and insurance benefits	-6,753.45	-6,748.87	0.1%
Acquisition and administrative expenses	-1,907.81	-1,847.57	3.3%
Financial result excluding at equity consolidated companies	912.19	999.99	-8.8%
Result from shares in at equity consolidated companies	46.62	40.21	15.9%
Other income and expenses	-82.08	-577.24	-85.8%
<b>Result before taxes</b>	<b>406.73</b>	<b>47.06</b>	<b>764.3%</b>

### Premium volume

A brief presentation of premium development is included under Note 28 "Premiums written" of the notes to the consolidated financial statements.

Vienna Insurance Group wrote EUR 9,050.97 million in Group premiums in 2016, an increase of 0.3% compared to the same period in the previous year. Excluding single-premium life insurance business, the Group recorded a significant increase in premiums of 4.4%. Vienna Insurance Group retained EUR 8,240.35 million of the gross premiums written. EUR 810.62 million was ceded to reinsurance companies (2015: EUR 799.82 million).

Total premium growth was particularly strong in Romania (+24.4%) and in the Remaining CEE segment (+7.9%). In the Remaining CEE countries, Serbia (+18.5%) and Croatia (9.4%) in particular recorded large premium increases in

2016. Overall, the Group generated 56.0% of its premiums outside Austria in 2016.

Net earned premiums rose 0.1%, from EUR 8,180.54 million in 2015 to EUR 8,191.26 million in 2016. Net reinsurance cessions were EUR 786.97 million (2015: EUR 801.00 million).

#### **Expenses for claims and insurance benefits**

A brief presentation of expenses for claims and insurance benefits is included under Note 32 "Expenses for claims and insurance benefits" of the notes to the consolidated financial statements.

Group expenses for claims and insurance benefits less reinsurers' share were around the level of the previous year at EUR 6,753.45 million in 2016 (2015: EUR 6,748.87 million).

#### **Acquisition and administrative expenses**

A brief presentation of acquisition and administrative expenses is included under Note 33 "Acquisition and administrative expenses" of the notes to the consolidated financial statements.

Acquisition and administrative expenses for all VIG consolidated companies increased to EUR 1,907.81 million in 2016. (2015: EUR 1,847.57 million). This corresponds to a year-on-year increase of 3.3%, which was primarily due to higher commissions resulting from an increase in regular premium life insurance and an increase in motor third party liability and own damage premiums.

#### **Financial result**

A brief presentation of the financial result (excluding at equity consolidated companies) is included in Note 29 "Finan-

cial result" of the notes to the consolidated financial statements.

VIG generated a financial result (incl. the result from at-equity consolidated companies) of EUR 958.81 million in 2016. This was a 7.8% year-on-year decrease that was mainly due to lower realised gains on the disposal of investments in bonds, loans and equities.

#### **Result before taxes**

Group profit before taxes rose to EUR 406.73 million in 2016 (2015: EUR 47.06 million). This more than achieved the target of at least doubling the profit of the previous year, in spite of the negative effects of the low interest rate environment. The financial result includes a one-time positive effect due to the agreement reached between the Carinthian Compensation Payment Fund and HETA creditors, which included VIG. Accepting the settlement before the 7 October 2016 deadline meant that the bonds that had been previously written off could be written up in value by around EUR 40 million.

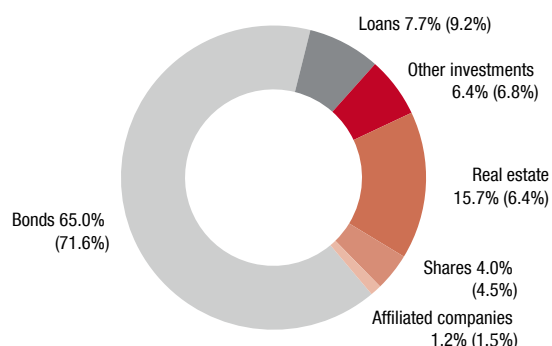
Romania, Hungary and Bulgaria recorded particularly large increases in profits.

#### **Investments**

A brief presentation of the investments is included on page 151 of the notes to the consolidated financial statements.

Total VIG investments (including cash and cash equivalents) were EUR 36,236.20 million as of 31 December 2016. Compared with the previous year, this represents an increase of EUR 4,993.02 million, or 16.0%. The main reason for the increase was the change in consolidation method used for the non-profit societies, which resulted in all of their assets and liabilities being included in the consolidated financial statements.

## BREAKDOWN OF INVESTMENTS 2016



2015 values in parentheses

The investments include all Vienna Insurance Group land and buildings, all shares in at equity consolidated companies and all financial instruments, using the look-through approach for consolidated institutional funds, as well as other fund investments allocated to the asset classes. Investments for unit-linked and index-linked life insurance are not included. These rose 5.0% from EUR 8,144.14 million in 2015 to EUR 8,549.58 million in 2016, mainly due to price gains for fund-linked and index-linked products.

**Shareholders' equity**

Vienna Insurance Group's capital base increased by 29.4% to EUR 5,711.26 million in 2016 (2015: EUR 4,414.46 million). This change was primarily due to the change in consolidation method used for the non-profit societies, which raised shareholders' equity by EUR 1,006.17 million, and to the result for the period of EUR 320.99 million.

**Underwriting provisions**

Underwriting provisions (excluding underwriting provisions for unit-linked and index-linked life insurance) were EUR 29,220.07 million as of 31 December 2016, representing an increase of 3.8% over the previous year (2015: EUR 28,145.12 million).

**COMPOSITION OF MATHEMATICAL RESERVE**

	31.12.2016	31.12.2015
in EUR '000		
Guaranteed policy benefits	19,791,408	19,304,414
Allocated and committed profit shares	808,622	932,810
Deferred mathematical reserve	928,866	831,161
<b>Total</b>	<b>21,528,896</b>	<b>21,068,385</b>

**CHANGE IN MATHEMATICAL RESERVE**

	31.12.2016	31.12.2015
in EUR '000		
Book value as of 31.12. of the previous year	21,068,385	20,854,835
Exchange rate changes	-283	47,969
<b>Book value as of 1.1.</b>	<b>21,068,102</b>	<b>20,902,804</b>
Additions	1,821,155	1,755,960
Amount used/released	-1,402,363	-1,645,491
Transfer from provisions for premium refunds	42,198	55,112
Changes in scope of consolidation	-196	0
<b>Book value as of 31.12.</b>	<b>21,528,896</b>	<b>21,068,385</b>

**MATURITY STRUCTURE OF MATHEMATICAL RESERVE**

	31.12.2016	31.12.2015
in EUR '000		
up to one year	1,621,431	1,880,715
more than one year up to five years	5,909,867	5,628,947
more than five years up to ten years	4,491,253	4,427,303
more than ten years	9,506,345	9,131,420
<b>Total</b>	<b>21,528,896</b>	<b>21,068,385</b>

#### CHANGE IN PROVISION FOR OUTSTANDING CLAIMS

	31.12.2016	31.12.2015
in EUR '000		
Book value as of 31.12. of the previous year	4,603,648	4,493,370
Exchange rate changes	-23,908	3,596
Book value as of 1.1.	4,579,740	4,496,966
Changes in scope of consolidation	60,989	7,401
Allocation of provisions for outstanding claims	3,196,819	3,354,228
for claims occurred in the reporting period	2,528,806	2,894,726
for claims occurred in previous periods	668,013	459,502
Usage/release of provision	-3,022,485	-3,254,947
for claims occurred in the reporting period	-1,457,007	-1,590,660
for claims occurred in previous periods	-1,565,478	-1,664,287
Book value as of 31.12.	4,815,063	4,603,648

#### MATURITY STRUCTURE OF PROVISION FOR OUTSTANDING CLAIMS

	31.12.2016	31.12.2015
in EUR '000		
up to one year	2,318,508	2,093,215
more than one year up to five years	1,527,780	1,499,433
more than five years up to ten years	435,623	495,659
more than ten years	533,152	515,341
Total	4,815,063	4,603,648

#### Cash flow

The cash flow from operating activities rose from EUR 1,118.61 million in 2015 to EUR 1,132.66 million in 2016. The cash flow from investing activities increased to EUR -693.01 million in 2016 (2015: EUR -887.67 million), primarily due to the decrease in the single-premium life insurance portfolio. Vienna Insurance Group's financing activities in 2016 generated a cash flow of EUR -110.07 million (2015: EUR 91.73 million). The year-on-year decrease was mainly the result of the subordinated liability of EUR 400 million issued in 2015. At the end of 2016, the Group had cash and cash equivalents equal to EUR 1,589.94 million (2015: EUR 1,101.21 million). Vienna Insurance Group received a total of EUR 908.43 million in interest and dividends in 2016 (2015: EUR 950.65 million).

#### KEY FIGURES FOR VIENNA INSURANCE GROUP

	2016	2015 adjusted	2014 adjusted
in %			
Earnings per share (in EUR)	2.16	-0.27	2.46
Return on Equity	8.9	1.1	11.1
Combined Ratio	97.3	97.3	96.7
Claims ratio	66.9	66.7	65.8
Cost ratio	30.4	30.6	30.9

#### Earnings per share

Earnings per share is a key figure equal to annual profit for the Group (less non-controlling interests and interest on hybrid capital) divided by the average number of shares outstanding. Earnings per share rose to EUR 2.16 in 2016 (2015: EUR -0.27). The increase was due to the growth in profits in 2016.

#### RoE (Return on Equity)

RoE is the ratio of Group profit before taxes to total average shareholders' equity of Vienna Insurance Group. The formula for calculating return on equity has been changed since the 2015 half-year financial statements. The average overall capital in accordance with the new calculation will be adjusted to take into account the revaluation reserve. In order to make results more comparable, the previous years' values have been adjusted to the current calculation method.

Based on this, the Group achieved return on equity (RoE) before taxes of 8.9% (2015: 1.1%).

#### Combined ratio significantly below 100%

The Group's combined ratio (after reinsurance, not including investment income) of 97.3% in 2016 was at the level of the previous year. Therewith Vienna Insurance Group was able to continue to keep the combined ratio below the 100% mark as a result of its solid technical result.

The combined ratio is calculated as the sum of all underwriting expenses and income, and net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums in the area of property and casualty.



## DEVELOPMENT BY SEGMENT

Developments in the segments Austria, Czech Republic, Slovakia, Poland, Romania, Baltic states, Hungary, Bulgaria, Turkey/Georgia, Remaining CEE, Other Markets and Central Function are discussed below. The discussion focuses on presenting business development in these segments and outlines areas of change in the various insurance markets.

## PREMIUMS WRITTEN BY SEGMENT

	2016	2015	2014
<b>in EUR million</b>			
Austria	3,941.32	4,055.53	4,076.99
Czech Republic	1,529.09	1,554.82	1,683.41
Slovakia	732.34	716.50	726.99
Poland	819.18	838.86	1,034.05
Romania	533.40	428.64	339.67
Baltic states	140.19	59.31	51.56
Hungary	224.23	204.26	179.98
Bulgaria	136.68	131.08	114.37
Turkey/Georgia	208.70	182.34	170.41
Remaining CEE <sup>1</sup>	331.39	307.19	293.60
Other Markets <sup>2</sup>	352.96	410.04	345.78
Central Functions <sup>3</sup>	1,324.84	1,248.91	1,289.84
Consolidation	-1,223.33	-1,117.70	-1,160.93
<b>Total</b>	<b>9,050.97</b>	<b>9,019.76</b>	<b>9,145.72</b>

<sup>1</sup> Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine

<sup>2</sup> Other markets: Germany, Liechtenstein

<sup>3</sup> Central Functions include VIG Holding, VIG Re, VIG Fund, the non-profit societies, corporate IT service providers and intermediate holding companies.

## RESULT BEFORE TAXES BY SEGMENT

	2016	2015 adjusted	2014 adjusted
<b>in EUR million</b>			
Austria	196.09	212.96	169.72
Czech Republic	152.77	162.99	177.87
Slovakia	48.88	51.87	59.45
Poland	1.88	20.83	53.40
Romania	3.51	-87.58	6.08
Baltic states	-11.23	-2.65	-0.70
Hungary	3.81	-22.13	2.98
Bulgaria	5.38	-2.35	2.08
Turkey/Georgia	9.00	3.21	5.70
Remaining CEE <sup>1</sup>	7.43	-25.44	11.31
Other Markets <sup>2</sup>	22.15	20.22	18.89
Central Functions <sup>3</sup>	-33.32	-284.56	-29.43
Consolidation	0.38	-0.31	0.67
<b>Total</b>	<b>406.73</b>	<b>47.06</b>	<b>478.02</b>

<sup>1</sup> Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine

<sup>2</sup> Other markets: Germany, Liechtenstein

<sup>3</sup> Central Functions include VIG Holding, VIG Re, VIG Fund, the non-profit societies, corporate IT service providers and intermediate holding companies.



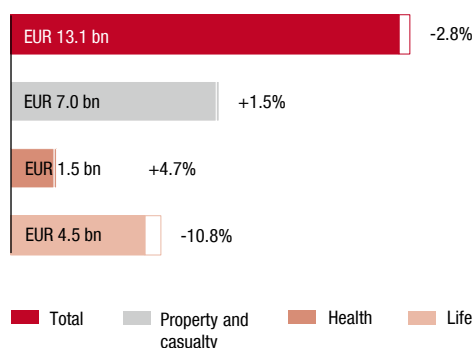
## AUSTRIA

### AUSTRIAN INSURANCE MARKET

Non-life insurance represented around 65% of total premium volume in Austria during the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016, which was relatively high compared to other Western European insurance markets. As in previous years, the share of life insurance decreased once again and is now around 35%. There is therefore still significant potential for growth in life insurance.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 preliminary figures



Source: Austrian Insurance Association

The Austrian insurance companies generated EUR 13.1 billion in premium volume in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. This represented a year-on-year decline of 2.8% that was primarily due to a decrease in life insurance (-10.8%).

Property and casualty premiums recorded a moderate increase of 1.5%. The increase was mainly the result of good growth in casualty insurance (+3.4%).

The continued low level of interest rates led to a further sharp decline in single-premium business (-37.8%) in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. Regular premium life insurance also recorded a year-on-year decrease of 1.6%. Growth rates increased, on the other hand, for occupational disability (+9.3%) and nursing care insurance (+6.1%). Due to the difficult interest rate environment, the Austrian Financial Market Authority (FMA) further reduced the guaranteed interest

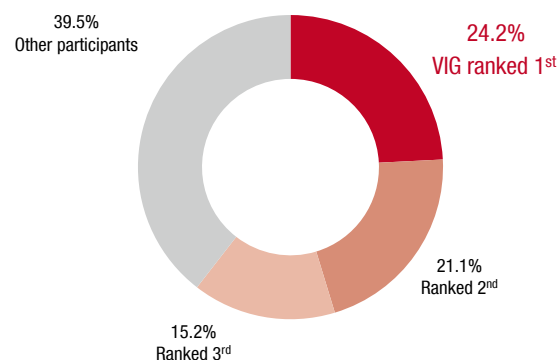
rate (the maximum rate that can be promised to policy holders) for new life insurance policies from 1.0% to 0.5% at the beginning of 2017.

Health insurance recorded strong growth of 4.7% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

Austria had an insurance density (per capita insurance premiums) of EUR 2,034 in 2015. EUR 1,245 of this amount was for non-life insurance and EUR 789 for life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Austrian Insurance Association; as of 9M 2016

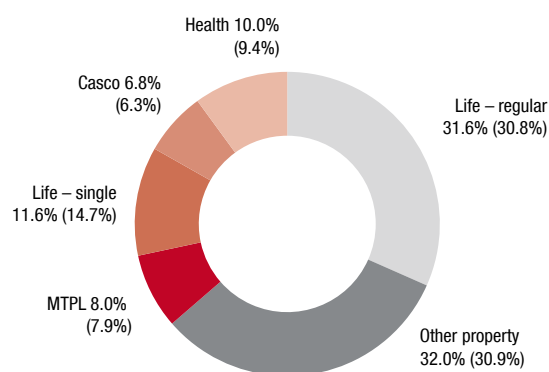
### VIG COMPANIES IN AUSTRIA

Vienna Insurance Group is represented by three insurance companies in the Austrian market, Wiener Städtische, Donau Versicherung and s Versicherung. Although VIG Holding operates out of Austria as an international reinsurer and an insurer in the cross-border corporate customer business, it is assigned to the "Central Functions". Wiener Städtische also operates branches in Italy and Slovenia. Donau Versicherung is also represented by a branch in Italy.

VIG's market share of 24.2% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016 makes it the leading insurance group in Austria. VIG also holds first place in property and casualty insurance with a market share of 22.2%, and in life insurance with a market share of 29.0%. In health insurance, VIG holds second place with a market share of 19.5%.

## BUSINESS DEVELOPMENT IN AUSTRIA IN 2016

### PREMIUM SHARE BY LINE OF BUSINESS IN 2016



Values for 2015 in parentheses

### Premium development

The Vienna Insurance Group companies in Austria wrote EUR 3,941.32 million in gross written premiums in 2016 (2015: EUR 4,055.53 million). This corresponds to a year-on-year decrease of 2.8% that is due to the reduction in single-premium life business. When adjusted for this, the Austrian Group companies recorded an increase of 0.7%. Net earned premiums were EUR 3,247.94 million in 2016. This corresponds to a decrease of 3.6%.

### Expenses for claims and insurance benefits

The Austrian Group companies had expenses for claims and insurance benefits (less reinsurance) of EUR 3,190.93 million in 2016, or EUR 171.02 million less than in 2015. This corresponds to a reduction of 5.1% due to a smaller allocation to the mathematical reserve as a result of the decrease in single-premium business.

### Acquisition and administrative expenses

Acquisition and administrative expenses rose to EUR 619.01 million in 2016. The year-on-year increase of 3.3% largely corresponds to the growth in regular premium business.

### Result before taxes

Profit before taxes decreased 7.9% in Austria to EUR 196.09 million in 2016 due to lower realised gains on the disposal of investments (2015: EUR 212.96 million).

### Combined ratio

The combined ratio of 97.6% in Austria (after reinsurance, not including investment income) in 2016 remained close to the level of the previous year (2015: 97.5%).

### VIENNA INSURANCE GROUP IN AUSTRIA

	2016	2015 adjusted	2014 adjusted
<b>in EUR million</b>			
Premiums written	3,941.32	4,055.53	4,076.99
Motor own damage insurance	266.49	256.57	258.05
Motor third party liability insurance	316.02	320.94	351.53
Other property and casualty insurance	1,261.10	1,252.93	1,228.51
Life insurance – regular premium	1,246.45	1,248.37	1,247.92
Life insurance – single-premium	456.37	595.54	622.82
Health insurance	394.89	381.19	368.16
Result before taxes	196.09	212.96	169.72

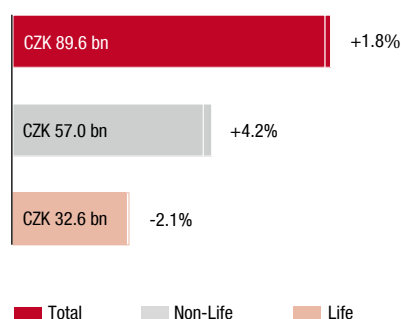
## CZECH REPUBLIC

### Czech insurance market

The insurance market in the Czech Republic is dominated by two insurance groups, which together hold a share of over 60% of total premium volume.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 figures



Source: Czech Insurance Association

Premiums written in the Czech insurance market rose 1.8% in local currency terms during the first nine months of 2016.

The increase was primarily due to good growth in non-life insurance, which recorded a 4.2% increase in local currency terms in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. Premiums rose 5.7% in the motor area, mainly due to a 9.4% increase in own damage insurance. Motor third party liability insurance recorded a gain of 2.9%. However, since average premiums remain unchanged or have even decreased slightly, this line of business continues to generate losses.

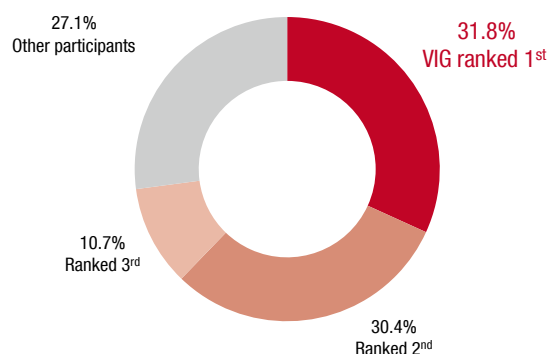
In local currency terms, life insurance premium volume decreased 2.1% year-on-year in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

This included a decrease of 30.5% in single-premium business. Regular premium life insurance also decreased slightly, recording a drop of 0.8% in the first nine months of 2016.

The average per capita expenditure for insurance was EUR 516 in the Czech Republic in 2015. Of this, EUR 291 was spent on non-life insurance and EUR 225 on life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Czech Insurance Association; as of 9M 2016

### VIG COMPANIES IN THE CZECH REPUBLIC

Vienna Insurance Group is represented by three insurance companies in the Czech Republic: Kooperativa, ČPP and PČS. The Group's own reinsurance company, VIG Re, has also been operating in Prague since 2008 – this company is, however, assigned to the “Central Functions”.

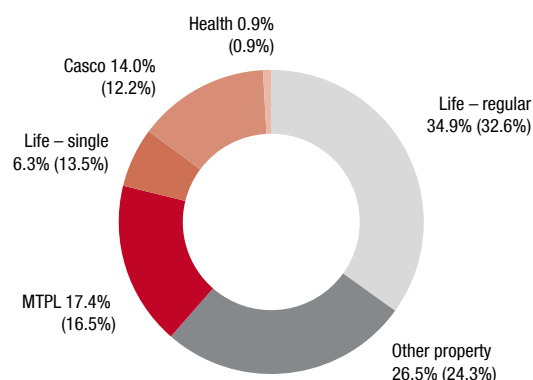
VIG's market share of 31.8% makes it the leading insurance group in the Czech market. VIG has a market share of 33.5% in the life insurance area, which also makes it the leader there. In non-life insurance, the Group is in second place with a market share of 30.9%.

## BUSINESS DEVELOPMENT IN THE CZECH REPUBLIC IN 2016

### Premium development

The Czech insurance companies generated premium volume of EUR 1,529.09 million in 2016 (2015: EUR 1,554.82 million), a decrease of 1.7% compared to the level in the previous year. This decrease was solely due to the decrease in single-premium life insurance business. When adjusted for this, strong premium growth of 6.4% was achieved. Net earned premiums were EUR 1,151.47 million in 2016 (2015: EUR 1,204.78 million).

### PREMIUM SHARE BY LINE OF BUSINESS IN 2016



Values for 2015 in parentheses

### Expenses for claims and insurance benefits

Expenses for claims and insurance benefits less reinsurance were EUR 738.42 million in 2016. The year-on-year decrease of 9.6% was due to the significant reduction in single-premium life business, with the loss ratio remaining essentially constant for property and casualty insurance.

### Acquisition and administrative expenses

Acquisition and administrative expenses for the Czech Group companies increased 10.9% to EUR 350.78 million in 2016. Acquisition and administrative expenses were EUR 316.28 mil-

lion in 2015. The main reason for the increase was higher commission expenses due to the increase in motor insurance premiums and the increase in new business for regular premium life insurance.

### Result before taxes

Due to the drop in the financial result, the profit before taxes generated by the Czech Group companies declined 6.3% year-on-year to EUR 152.77 million in 2016.

### Combined ratio

The combined ratio improved to an excellent 90.5% in 2016, in spite of the increase in commission rates (2015: 90.7%).

### VIENNA INSURANCE GROUP IN THE CZECH REPUBLIC

	2016	2015	2014
in EUR million			
Premiums written	1,529.09	1,554.82	1,683.41
Motor own damage insurance	213.40	190.33	177.74
Motor third party liability insurance	266.13	256.83	256.07
Other property and casualty insurance	405.22	377.40	379.10
Life insurance – regular premium	533.99	507.56	487.24
Life insurance – single-premium	96.97	209.11	369.51
Health insurance	13.37	13.59	13.75
Result before taxes	152.77	162.99	177.87

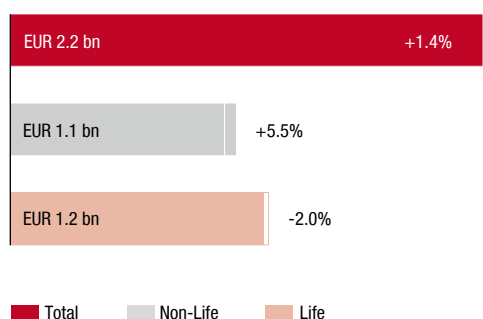
## SLOVAKIA

### SLOVAKIAN INSURANCE MARKET

More than half of the Slovakian insurance market was covered by the two largest insurance companies in 2016. The top 5 insurance groups generated around 80% of market premiums.

#### MARKET GROWTH IN 2016 COMPARED TO THE PREVIOUS YEAR

2016 figures



Source: Slovak Insurance Association

Premium volume rose 1.4% year-on-year in Slovakia in 2016. The increase was due to good premium growth in the non-life business, which increased 5.5% in 2016. Life insurance premiums, on the other hand, fell 2.0% compared to the previous year.

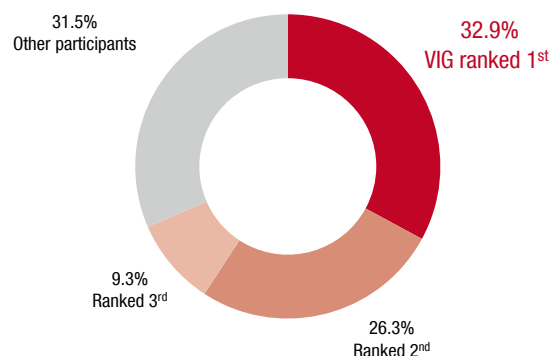
The Slovakian parliament approved a change in the law in November 2016 that will have a major effect on the non-life insurance market. The 8% tax that currently only applies to motor third party liability insurance will be extended to all

non-life products in the future, which could have a direct effect on the profitability of insurers. The new legislation applies to policies from 1 January 2017.

Slovakia had an average insurance density of EUR 408 in 2015. EUR 185 of this amount was from non-life insurance and EUR 223 from life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Slovak Insurance Association; as of 2016

### VIG COMPANIES IN SLOVAKIA

Vienna Insurance Group is represented by three insurance companies in Slovakia: Kooperativa, Komunálna and PSLSP.

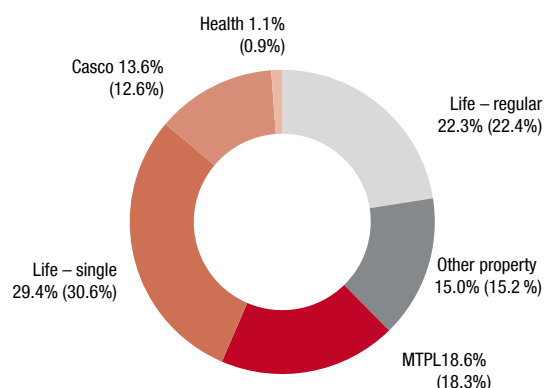
Vienna Insurance Group's market share of 32.9% in 2016 makes it the leading insurance group in the country. The Group holds second place in the non-life insurance market and first place in life insurance.

## BUSINESS DEVELOPMENT IN SLOVAKIA IN 2016

### Premium development

VIG wrote EUR 732.34 million in premiums written in Slovakia in 2016 (2015: EUR 716.50 million). This corresponds to a year-on-year increase of 2.2% that is primarily due to good growth in the motor lines of business. Net earned premium volumes were EUR 597.91 million, representing an increase of 3.7%.

### PREMIUM SHARE BY LINE OF BUSINESS IN 2016



Values for 2015 in parentheses

### Expenses for claims and insurance benefits

Expenses for claims and insurance benefits (less reinsurance) were EUR 491.82 million in 2016. This represents a year-on-year increase of 4.6%, which was mainly due to large losses in motor third party liability and fire insurance.

### Acquisition and administrative expenses

VIG recorded EUR 100.41 million in acquisition and administrative expenses in Slovakia in 2016 (2015: EUR 98.65 million). The increase of 1.8% essentially corresponds to the increase in premiums.

### Result before taxes

The Slovakian companies earned a profit before taxes of EUR 48.88 million, corresponding to a year-on-year decrease of 5.8%. Although there was an improvement in the current technical result, this was not enough to compensate for a positive one-time effect of around EUR 4 million in 2015 due to settlement of prior claims.

### Combined ratio

The Vienna Insurance Group combined ratio improved to 94.9% in 2016 (2015: 96.2%).

### VIENNA INSURANCE GROUP IN SLOVAKIA

	2016	2015	2014
in EUR million			
Premiums written	732.34	716.50	726.99
Motor own damage insurance	99.48	90.10	88.02
Motor third party liability insurance	136.47	131.11	132.08
Other property and casualty insurance	109.79	109.09	104.86
Life insurance – regular premium	163.18	160.16	157.20
Life insurance – single-premium	214.97	219.38	238.69
Health insurance	8.45	6.65	6.14
Result before taxes	48.88	51.87	59.45

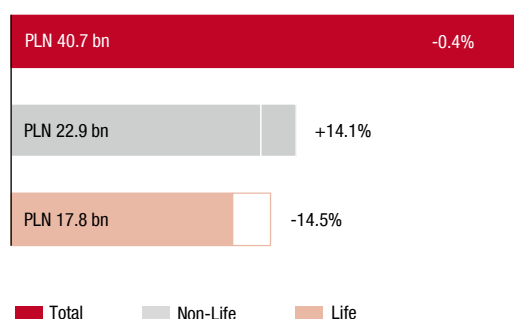
## POLAND

### POLISH INSURANCE MARKET

The Polish insurance market is one of the largest in Central and Eastern Europe. The top 5 insurance groups generated around 70% of the total premium volume.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 figures



Source: Financial Market Authority Poland

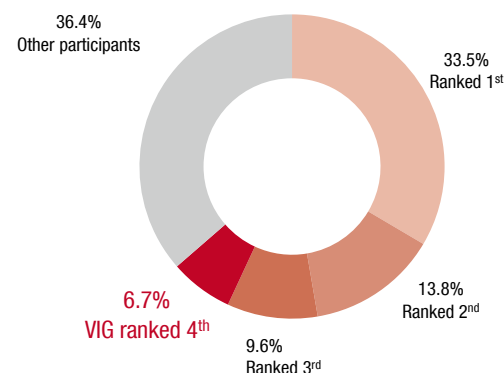
The Polish insurance market recorded a slight drop of 0.4% in local currency terms during the first three quarters of 2016. Even though premium volume rose 14.1% in the non-life area, this was not enough to offset the change in life insurance, which fell 14.5%, mainly due to a decrease in single-premium business (-34.1%). Premiums from regular premium products, which, at close to 70%, represent the largest share of the life segment, also recorded a decrease of 1.0% in local currency terms. The negative trend in life insurance is the result of regulatory changes that increase the information requirements for investment products. These information requirements, however, also had the effect of reducing early policy cancellations.

The motor lines of business made particularly large contributions to the strong growth in non-life insurance. Motor third party liability increased 32.4% in local currency terms and motor own damage insurance rose 18.5%. Premiums in the non-motor lines of business rose moderately by 1.5% in the first nine months of 2016.

Poland had an insurance density of EUR 345 in 2015. EUR 172 of this amount was for non-life insurance and EUR 173 for life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Financial Market Authority Poland; as of 9M 2016

### VIG COMPANIES IN POLAND

VIG is represented by five Group companies in Poland: Compensa Life and Non-Life, InterRisk, and the two life insurance companies Polisa and Vienna Life. The name of the last of these companies was changed from Skandia to Vienna Life in October of the current year during integration into the Group.

VIG's market share of 6.7% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016 puts it in fourth place in the Polish insurance market. The Group is in fifth place in the non-life area, and the Polish VIG companies hold fourth place in the life insurance market.

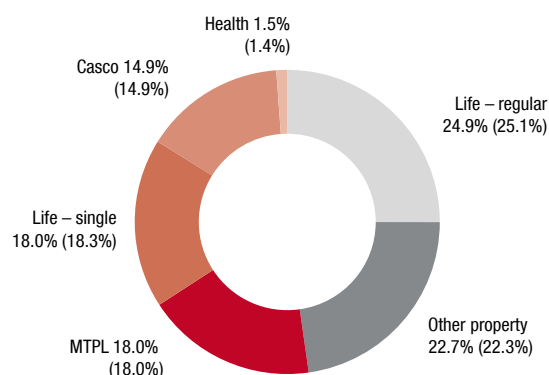


## BUSINESS DEVELOPMENT IN POLAND IN 2016

### Premium development

Vienna Insurance Group generated total premiums written of EUR 819.18 million in Poland in 2016 (2015: EUR 838.86 million), representing a decrease of 2.3% compared to the previous year. When adjusted for transfer of the Baltic non-life business and negative exchange rate effects, on the other hand, significant growth of 5.1% was achieved. Net earned premiums were EUR 669.70 million in 2016, 6.5% lower than in 2015.

### PREMIUMS WRITTEN BY LINE OF BUSINESS



Values for 2015 in parentheses

### Expenses for claims and insurance benefits

The Polish Vienna Insurance Group companies had expenses for claims and insurance benefits (less reinsurance) of EUR 542.65 million in 2016 (2015: EUR 501.34 million). This was an increase of EUR 41.31 million or 8.2% in expenses for claims and insurance benefits (less reinsurance). This change was primarily due to changes in the cancellation terms when certain life insurance products are surrendered.

### Acquisition and administrative expenses

The Polish VIG companies reduced acquisition and administrative expenses by 27.6% to EUR 158.45 million in 2016 (2015: EUR 218.95 million). This was primarily the result of a reduction in commission expenses due to a significant drop in premiums in the high commission area of term life insurance.

### Profit before taxes

The Polish companies earned profit before taxes of EUR 1.88 million in 2016 (2015: EUR 20.83 million). The decrease primarily resulted from a reduction in the financial result due to difficult market conditions, intense price competition, especially in the motor area, the newly introduced investment tax and the change in cancellation terms mentioned above.

### Combined ratio

In spite of difficult market conditions, the combined ratio remained at the level of the previous year in 2016 at 99.4% (2015: 99.3%).

### VIENNA INSURANCE GROUP IN POLAND

	2016	2015	2014
in EUR million			
Premiums written	819.18	838.86	1,034.05
Motor own damage insurance	122.30	125.30	140.85
Motor third party liability insurance	147.57	150.82	177.89
Other property and casualty insurance	185.48	186.81	221.26
Life insurance – regular premium	204.17	210.91	157.62
Life insurance – single-premium	147.05	153.46	322.57
Health insurance	12.60	11.57	13.86
Result before taxes	1.88	20.83	53.40

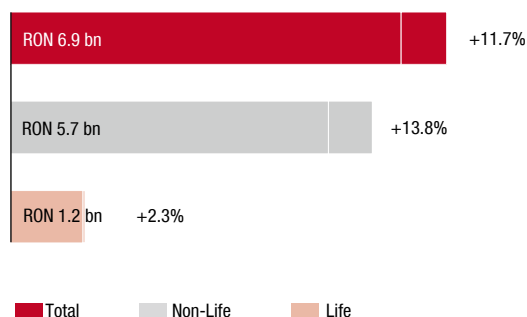
## ROMANIA

### ROMANIAN INSURANCE MARKET

Market concentration is lower in Romania compared to other insurance markets in Central and Eastern Europe. The top 3 insurance groups generated close to 50% of total premiums in 2016.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 figures



Source: Financial supervisory authority ASF

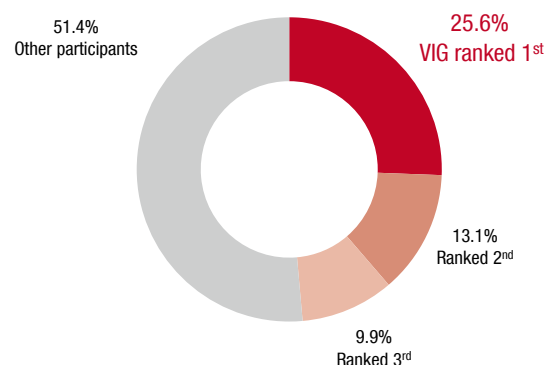
Premiums written in Romania rose 11.7% year-on-year in local currency terms in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016 – one of the fastest growth rates recorded in recent years. Non-life insurance, which grew 13.8% year-on-year, was mainly responsible for this increase. Premium growth of 33.7% for motor third party liability insurance easily compensated for the slight 9.0% decrease recorded in the non-motor lines of business. The increase in non-life insurance was primarily the result of higher average premiums in motor third party liability insurance, particularly for corporate customers.

Life insurance premiums grew 2.3% year-on-year in local currency terms. This increase was due to an increase in unit-linked and index-linked life insurance.

The average per capita expenditure for insurance was EUR 99 in Romania in 2015. EUR 78 of this amount was for non-life insurance and EUR 21 for life insurance. A comparison with other countries in the Central and Eastern European region, such as the Czech Republic, which had an average insurance density of EUR 516 in 2015, shows the enormous potential of the Romanian insurance market.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Financial supervisory authority ASF; as of 9M 2016

### VIG COMPANIES IN ROMANIA

Vienna Insurance Group is represented by three insurance companies in the Romanian market: Omniasig, Asirom and BCR Life. A purchase agreement was also signed in August 2016 to acquire the life insurance company AXA Life. The buyers are the two Romanian VIG companies BCR Life and Omniasig. The acquisition is subject to approval by the local authorities.

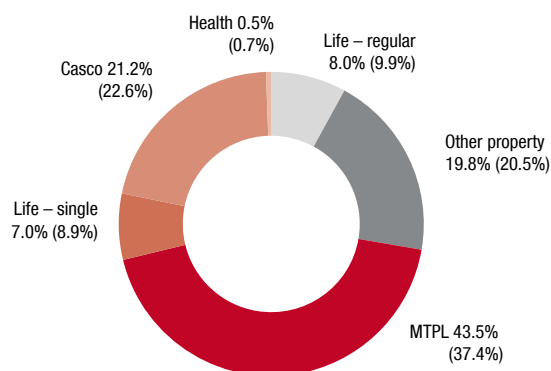
With a market share of 25.6% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016, Vienna Insurance Group is the leading insurance group in Romania. The Group is also the leader in non-life insurance and holds second place in the Romanian market for life insurance.

## BUSINESS DEVELOPMENT IN ROMANIA IN 2016

### Premium development

The Romanian Group companies wrote EUR 533.40 million in premiums written in 2016, representing a significant increase of 24.4% (2015: EUR 428.64 million). This increase was mainly due to an increase in new business and higher average premiums in motor third party liability insurance. Net earned premiums were EUR 351.13 million in 2016, 32.5% higher than the previous year.

### PREMIUMS WRITTEN BY LINE OF BUSINESS



Values for 2015 in parentheses

### Expenses for claims and insurance benefits

The Romanian companies had EUR 246.40 million in expenses for claims and insurance benefits (less reinsurance) in 2016 (2015: EUR 176.24 million). The year-on-year increase of 39.8% was primarily due to the allocation of loss reserves for motor third party liability insurance.

### Acquisition and administrative expenses

Vienna Insurance Group had acquisition and administrative expenses of EUR 90.59 million in Romania in 2016 (2015: EUR 85.69 million). This year-on-year increase of 5.7% is due to a large increase in commissions caused by the significant increase in motor third party liability business.

### Result before taxes

The Romanian Group companies increased their profit before taxes to EUR 3.51 million in 2016 (2015: EUR -87.58 million). It must be noted, however, that the result in the previous year was negatively affected by EUR 93.2 million in goodwill impairment losses.

### Combined ratio

The combined ratio improved once again compared to the previous year, although at a level of 100.1%, it was still slightly above the 100% mark (2015: 102.4%).

### VIENNA INSURANCE GROUP IN ROMANIA

	2016	2015	2014
in EUR million			
Premiums written	533.40	428.64	339.67
Motor own damage insurance	113.20	96.93	83.80
Motor third party liability insurance	231.88	160.33	116.42
Other property and casualty insurance	105.36	87.89	84.95
Life insurance - regular premium	42.48	42.31	35.63
Life insurance - single premium	37.52	38.30	18.73
Health insurance	2.95	2.88	0.14
Result before taxes	3.51	-87.58	6.08

## BALTIC STATES

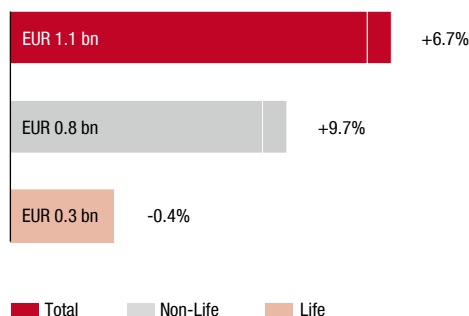
The Baltic states consist of the countries of Estonia, Latvia and Lithuania.

### THE BALTIC INSURANCE MARKET

In the insurance market in the Baltic states, many companies that have their registered office in one of the three Baltic states are also represented by branches in the other two markets. As a result, there is an above-average number of participants in the market. For example, more than 20 active companies or branches are operating in Lithuania. The top five insurance groups generated slightly more than 70% of total premium volume in the Baltic states in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 figures



Source: The Estonian National Statistics Board, Latvian Insurers Association, Central Bank of the Republic of Lithuania

The positive growth trend recorded in the Baltics in recent years continued in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. All three Baltic states displayed significant year-on-year increases in premiums. Estonia recorded an increase of 6.7%, Latvia 5.1% and premium volume rose 7.4% in Lithuania.

Non-life insurance recorded particularly large growth rates in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. In Estonia, premiums rose

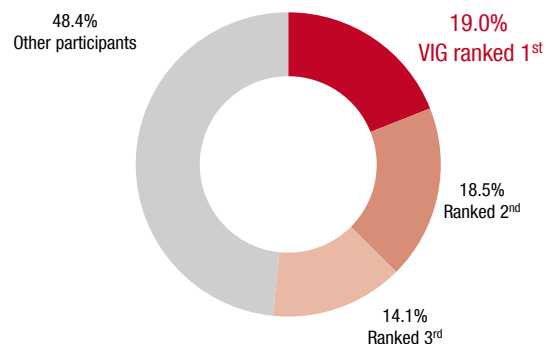
8.7% in the non-life area, in Latvia 5.4% and in Lithuania even as high as 12.6%.

Growth rates were mixed for life insurance in the three Baltic states, with premiums increasing 4.2% in Latvia and falling 2.6% in Lithuania. Life insurance premiums also recorded a slight decrease of 0.4% in Estonia in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

The three Baltic states also differ amongst each other in terms of insurance density. While average per capita expenditure on insurance was EUR 373 in Estonia in 2015 – EUR 301 for non-life and EUR 72 for life insurance – the comparable value for Latvia was EUR 267. Latvians spent EUR 209 of this amount on non-life insurance and EUR 58 on life insurance. Lithuania had an insurance density of EUR 222 in 2015. Of this, EUR 141 was spent on non-life insurance and EUR 81 on life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: The Estonian National Statistics Board, Latvian Insurers Association, Central Bank of the Republic of Lithuania; as of 9M 2016

### VIG COMPANIES IN THE BALTIC STATES

Vienna Insurance Group operates in Estonia through the Group company Compensa Life, which is also represented by branches in Latvia and Lithuania. In Latvia, in addition to BTA Baltic, VIG is also represented by the property and casualty insurer Baltikums, which also has branches in Lithuania and distributes its products via bro-

kers in Estonia. Compensa Non-Life was established in Lithuania in 2015 and took over the business previously managed from Poland. It also maintains branches in Latvia and Estonia.

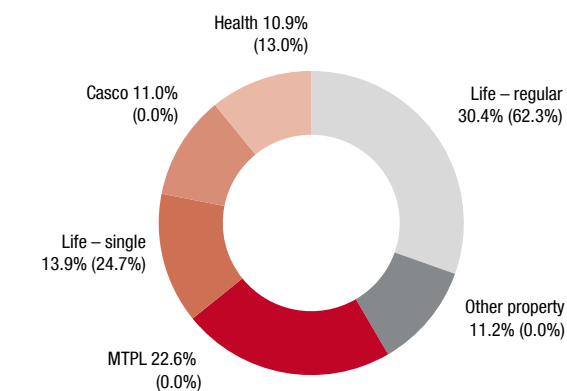
Following official approval of the BTA Baltic acquisition on 24 August 2016, Vienna Insurance Group became the leading insurance group in the Baltic insurance market in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. The Group holds second place in the non-life insurance market and third place in life insurance.

## BUSINESS DEVELOPMENT IN THE BALTIC STATES IN 2016

### Premium development

Premiums written in the Baltic states rose to EUR 140.19 million in 2016 (2015: EUR 59.31 million). The sharp year-on-year increase in premiums was primarily due to the newly founded insurance company Compensa Non-Life that was established in 2015 and to the property and casualty company Baltikums that was acquired in the previous year. Net earned premiums were EUR 108.10 million in 2016, 87.2% higher than the previous year.

### PREMIUMS WRITTEN BY LINE OF BUSINESS



Values for 2015 in parentheses

### Expenses for claims and insurance benefits

Expenses for claims and insurance benefits less reinsurance were EUR 85.16 million in 2016 (2015: EUR 48.76 mil-

lion). The year-on-year increase of 74.7% was also primarily due to the newly founded insurance company Compensa Non-Life that was established in 2015 and to the property and casualty company Baltikums that was acquired in the previous year.

### Acquisition and administrative expenses

VIG recorded EUR 35.16 million in acquisition and administrative expenses in the Baltic states in 2016 (2015: EUR 15.32 million). The main reason for this increase was the new insurance company established in 2015 and the property and casualty insurer Baltikums that was acquired in the previous year.

### Result before taxes

The loss of EUR 11.23 million reported in 2016 was primarily due to start-up losses for Compensa Non-Life resulting from transfer of the Baltic non-life business from a Polish Group company (2015: EUR -2.65 million).

### Combined ratio

The start-up losses of Compensa Non-Life following transfer of the Baltic non-life insurance business from a Polish Group company also had an effect on the combined ratio, which was 135.4% in 2016.

### VIENNA INSURANCE GROUP IN THE BALTIC STATES

	2016	2015	2014
in EUR million			
Premiums written	140.19	59.31	51.56
Motor own damage insurance	15.50	0.00	0.00
Motor third party liability insurance	31.67	0.00	0.00
Other property and casualty insurance	15.66	0.00	0.00
Life insurance – regular premium	42.66	36.95	39.17
Life insurance – single-premium	19.49	14.66	12.39
Health insurance	15.22	7.69	0.00
Result before taxes	-11.23	-2.65	-0.70

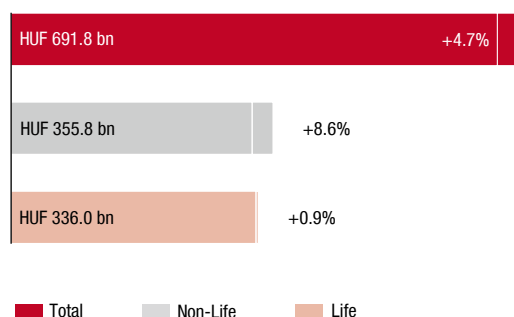
## HUNGARY

### HUNGARIAN INSURANCE MARKET

In Hungary, the two largest insurance companies represented close to 30% of the market in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. The top 5 insurance groups represented around 60% of the market.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 figures



Source: Hungarian Insurers Association (MABISZ)

Hungary continued the positive growth trend recorded in previous years in 2016. Premium volume in the Hungarian insurance market grew 4.7% year-on-year in local currency terms in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. A major part of this growth was contributed by the non-life line of business, which recorded an increase of 8.6%. Motor third party liability, in particular, achieved double-digit growth rates in the first three quarters (+22.5%).

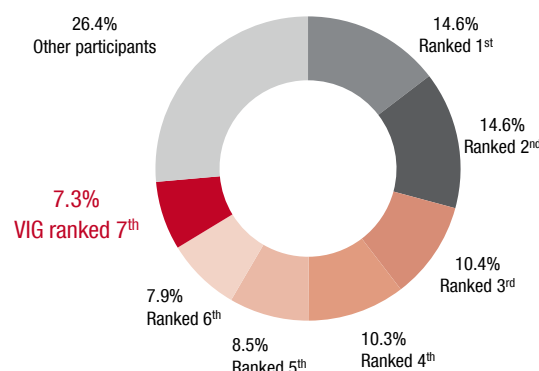
Life insurance premiums also recorded moderate growth of 0.9% in local currency terms. Premiums in the life insurance

line of business were primarily affected by the change in unit-linked insurance, which fell close to 9.0% in the first nine months of 2016. This decrease, however, was more than compensated by double-digit growth rates for tax-privileged pension insurance.

Average per capita premiums were EUR 285 in Hungary in 2015. EUR 140 of this amount was for non-life insurance and EUR 145 for life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Hungarian Insurers Association (MABISZ); as of 9M 2016 figures

### VIG COMPANIES IN HUNGARY

Vienna Insurance Group is represented by three companies in the Hungarian insurance market: the life and non-life insurer Union Biztosító and the two life insurance companies Erste Biztosító and Vienna Life Biztosító.

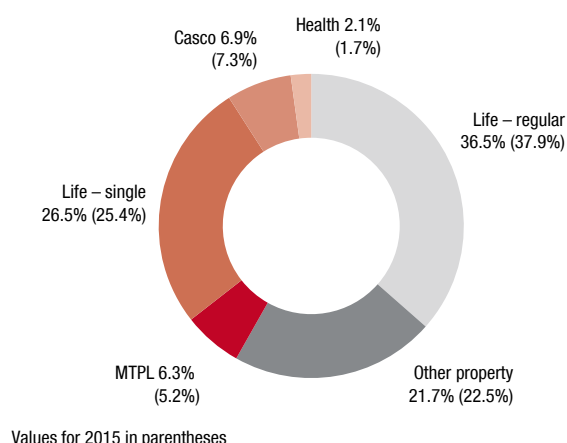
VIG's market share of 7.3% put it in seventh place in the Hungarian insurance market in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. VIG holds sixth place in both the life and non-life insurance markets.

## BUSINESS DEVELOPMENT IN HUNGARY IN 2016

### Premium development

The Hungarian Group companies wrote EUR 224.23 million in premiums written in 2016 (2015: EUR 204.26 million). This corresponds to a year-on-year increase of 9.8%, which was primarily due to strong premium growth for single-premium life insurance products. Net earned premiums were EUR 174.57 million in 2016, 9.3% higher than the previous year.

### PREMIUMS WRITTEN BY LINE OF BUSINESS



### Expenses for claims and insurance benefits

Vienna Insurance Group had expenses for claims and insurance benefits (less reinsurance) of EUR 132.35 million in Hungary in 2016 (2015: EUR 118.98 million). The increase of 11.2% compared to the previous year was due to the significant increase in premiums from single-premium business and higher claims expenses in the motor lines of business.

### Acquisition and administrative expenses

Vienna Insurance Group acquisition and administrative expenses increased slightly by 0.6% in Hungary to EUR 38.27 million in 2016 (2015: EUR 38.06 million).

### Result before taxes

Profit before taxes increased to EUR 3.81 million in Hungary in 2016 (2015: EUR -22.13 million), although it must be noted that the result in the previous year was negatively affected by EUR 24.9 million in goodwill impairment losses. In addition, a Vienna Life provision of EUR 1.0 million for litigation expenses was released in 2016.

### Combined ratio

Although the combined ratio improved considerably compared with the previous year, due to the tax burden caused by insurance and trade tax it remained above the 100% mark at 103.6% in 2016 (2015: 105.3%).

### VIENNA INSURANCE GROUP IN HUNGARY

	2016	2015	2014
in EUR million			
Premiums written	224.23	204.26	179.98
Motor own damage insurance	15.47	14.87	13.28
Motor third party liability insurance	14.03	10.70	10.55
Other property and casualty insurance	48.62	45.98	43.99
Life insurance – regular premium	81.84	77.36	58.63
Life insurance – single-premium	59.43	51.80	52.11
Health insurance	4.83	3.56	1.42
Result before taxes	3.81	-22.13	2.98



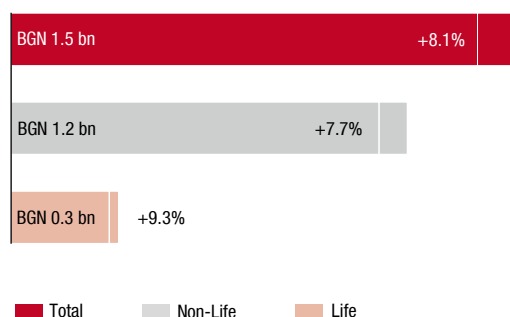
## BULGARIA

### BULGARIAN INSURANCE MARKET

The five largest insurance groups in the Bulgarian market generated close to 60% of the premium volume in the first three quarters of 2016.

#### MARKET GROWTH IN THE 1<sup>ST</sup> TO 3<sup>RD</sup> QUARTERS OF 2016 COMPARED TO THE PREVIOUS YEAR

9M 2016 figures



Source: Bulgarian Financial Supervision Commission (FSC)

The Bulgarian insurance market recorded year-on-year premium growth of 8.1% in local currency terms in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

Premium volume in the non-life area rose 7.7%, due to contributions from motor third party liability insurance (+7.6%), motor own damage insurance (+7.1%) and the non-motor lines of business (+8.5%).

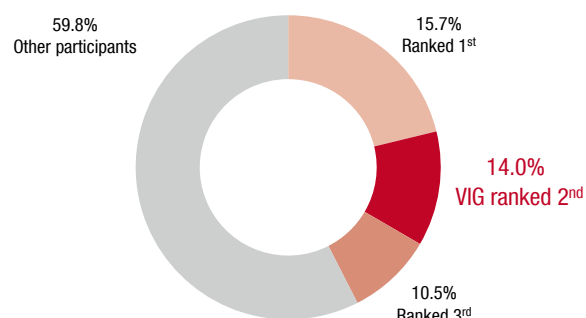
Life insurance premiums increased 9.3% in local currency terms in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. This increase was mainly due to growth in traditional and tax-privileged sav-

ings products and health insurance, as well as unit-linked life insurance.

The per capita expenditure for insurance was around EUR 140 in Bulgaria in 2015. Of this, EUR 112 was spent on non-life insurance and EUR 28 on life insurance.

#### MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Bulgarian Financial Supervision Commission (FSC); as of 9M 2016

### VIG COMPANIES IN BULGARIA

Vienna Insurance Group is represented by three Group companies in Bulgaria: Bulstrad Life, Bulstrad Non-Life and Nova, which was formerly UBB-AIG. Bulstrad Non-Life acquired UBB-AIG in 2015 and changed its name to Nova in 2016 during integration with the Group. Vienna Insurance Group also holds an interest in the largest Bulgarian pension fund, Doverie.

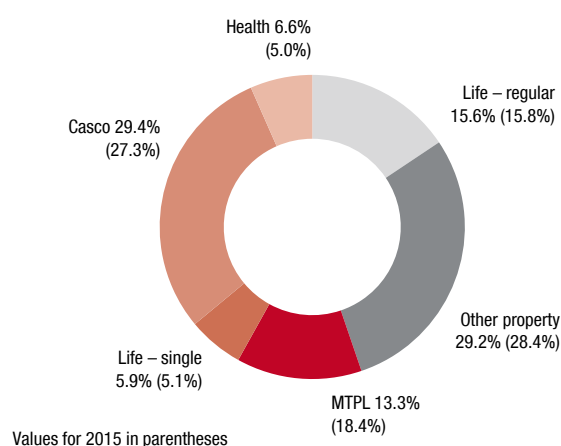
The Group's market share of 14.0% gives it an outstanding second place in the Bulgarian insurance market. VIG also holds second place in the life and non-life insurance markets in Bulgaria.

## BUSINESS DEVELOPMENT IN BULGARIA IN 2016

### Premium development

Premiums written in Bulgaria increased by 4.3% to EUR 136.68 million in 2016 (2015: EUR 131.08 million). The large growth rates recorded for health (+36.3%), motor own damage (+12.7%) and other property and casualty insurance (+7.0%) more than compensated for the decrease in motor third party liability premiums resulting from strong price competition in the market. Net earned premiums were EUR 96.51 million in 2016, 8.4% higher than the previous year.

### PREMIUMS WRITTEN BY LINE OF BUSINESS



### Expenses for claims and insurance benefits

The Bulgarian VIG companies had EUR 59.27 million in expenses for claims and insurance benefits (less reinsurance) in 2016 (2015: EUR 57.89 million). Primarily due to growth in the marine business and motor own damage insurance, the 2.4% increase in insurance payments was considerably less than the increase in premiums.

### Acquisition and administrative expenses

Acquisition and administrative expenses were EUR 32.03 million in 2016 (2015: EUR 29.56 million). This corresponded to an increase of 8.4% compared to the previous year, which was caused by an increase in commissions due to the growth in premiums and the first-time consolidation of Nova.

### Result before taxes

The Bulgarian VIG companies contributed EUR 5.38 million to the total Group profit in 2016 (2015: EUR -2.35 million). The main reasons for the increase were a lower allowance for receivables than in the previous year and an improved underwriting result for Bulstrad Non-Life, as well as the first-time consolidation of Nova.

### Combined ratio

The combined ratio improved significantly compared to the previous year to 98.2% in 2016 (2015: 102.3%).

### VIENNA INSURANCE GROUP IN BULGARIA

	2016	2015	2014
in EUR million			
Premiums written	136.68	131.08	114.37
Motor own damage insurance	40.24	35.69	30.21
Motor third party liability insurance	18.17	24.08	21.76
Other property and casualty insurance	39.86	37.24	34.59
Life insurance – regular premium	21.33	20.75	19.87
Life insurance – single-premium	8.08	6.71	7.94
Health insurance	9.01	6.61	0.00
Result before taxes	5.38	-2.35	2.08

## TURKEY/GEORGIA

### Turkey

The Turkish insurance market recorded another sharp increase of 32.1% in local currency terms in the first three quarters of 2016. The non-life sector dominates the Turkish insurance market with a share of 88.5% of total premium volume and an increase of 33.7% compared to the same period in the previous year. The increase was primarily due to dynamic growth in the motor lines of business (+58.0%). The non-motor lines of business also rose 13.2% in local currency terms. Life insurance grew 20.9% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

More than 60 insurance companies were operating in Turkey in the first three quarters of 2016. Vienna Insurance Group is represented by the non-life insurer Ray Sigorta in the Turkish insurance market. The Group's 1.5% share of total premium volume places it in 17<sup>th</sup> place in the market.

### Georgia

The Georgian insurance market recorded an 8.2% year-on-year increase in premium volume in local currency terms in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. Despite the dissolution of the national health insurance programme and a resulting decline in this class of insurance, the share of health insurance in the total premium volume totals around 46%. All lines of business recorded positive growth in local currency terms compared with the same period in the previous year. The non-life area grew by 8.0%, the life area by 11.7% and health insurance by 13.0%.

14 insurance companies operate in Georgia. VIG is represented by two companies: IRAO and GPIH. These Group companies held second place in the market with a combined market share of 30.4% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

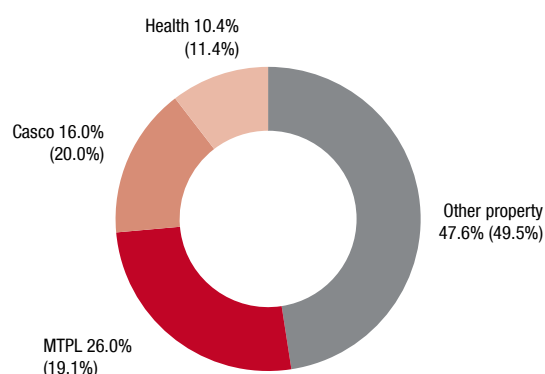
## BUSINESS DEVELOPMENT IN THE TURKEY/GEORGIA SEGMENT IN 2016

### Premium development

VIG wrote EUR 208.70 million in premiums written in the Turkey/Georgia segment in 2016 (2015: EUR 182.34 million), representing a significant increase of 14.5% compared to the previous year. This change was due to a sharp rise in

average premiums for motor third party liability insurance in Turkey and other property and casualty insurance. Net earned premiums were EUR 102.13 million in 2016 (2015: EUR 92.74 million), an increase of 10.1% compared to the previous year.

### PREMIUMS WRITTEN BY LINE OF BUSINESS



Values for 2015 in parentheses

### Expenses for claims and insurance benefits

Expenses for claims and insurance benefits less reinsurance were EUR 76.95 million in 2016 (2015: EUR 71.83 million). Compared to the previous year, this represented a 7.1% increase in expenses for claims and insurance benefits (less reinsurance), with claims rising significantly less than premiums due to the growth in motor third party liability insurance in Turkey.

### Acquisition and administrative expenses

Acquisition and administrative expenses in the Turkey/Georgia segment decreased from EUR 25.16 million in 2015 to EUR 22.60 million in 2016. This corresponds to a year-on-year decrease of 10.2%, which was primarily due to higher reinsurance commissions in the motor third party liability and other property and casualty lines of business in Turkey.

### Result before taxes

Profit before taxes rose to EUR 9.00 million in 2016 (2015: EUR 3.21 million). This significant increase was due to growth in motor third party liability insurance, primarily in Turkey.

### Combined ratio

The combined ratio improved significantly to 95.7% in 2016, primarily due to higher reinsurance commissions in the motor third party liability and other property and casualty lines of business in Turkey (2015: 102.5%).

### VIENNA INSURANCE GROUP IN THE TURKEY/GEORGIA SEGMENT

	2016	2015	2014
in EUR million			
Premiums written	208.70	182.34	170.41
Motor own damage insurance	33.15	36.46	33.71
Motor third party liability insurance	54.36	34.79	27.31
Other property and casualty insurance	99.39	90.31	87.53
Life insurance – regular premium	0.00	0.00	0.00
Life insurance – single-premium	0.00	0.00	0.00
Health insurance	21.80	20.78	21.86
Result before taxes	9.00	3.21	5.70

### REMAINING CEE

The Remaining CEE segment includes Albania, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia and Ukraine. The Remaining CEE markets generated 3.7% of Group premiums in 2016. The Group companies in the Montenegro and Belarus markets were not included in the VIG consolidated financial statements.

#### Albania including Kosovo

The Albanian insurance market grew 7.0% in local currency terms during the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. Liberalisation of motor rates, which led to an increase in prices for motor third party liability insurance, had a particularly positive effect. Premiums rose 8.9% for motor third party liability insurance and 26.3% for motor own damage insurance. Life insurance recorded a slight decrease of 3.0% compared to the previous year. Kosovo recorded premium growth of around 3% in the first three quarters of 2016.

VIG is represented by two non-life insurance companies, Sigma InterAlbanian and Intersig, in Albania. Sigma InterAl-

banian also operates a branch in Kosovo. Vienna Insurance Group holds second place in the Albanian market, with a market share of 24.6%.

#### Bosnia-Herzegovina

The insurance market in Bosnia-Herzegovina grew by 7.9% in local currency terms in the first three quarters of 2016. The non-life area recorded a significant 8.8% increase in premiums. This was primarily due to growth in motor third party liability insurance. Life insurance premiums also recorded positive growth of 4.4%.

VIG is represented by the Group company Wiener Osiguranje in Bosnia-Herzegovina. VIG's 5.2% share places it in seventh place in the market. It holds fifth place in non-life insurance and seventh place in life insurance.

#### Croatia

The Croatian insurance market grew 0.3% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. The non-life area recorded a 1.0% year-on-year increase, primarily due to good growth in the motor lines of business (+1.3%). Life insurance recorded a slight decrease of 1.2% in the first three quarters of 2016.

Vienna Insurance Group is represented by two companies in the Croatian market. Wiener Osiguranje is active both in life and non-life insurance while Erste Osiguranje specialises in life insurance business in cooperation with Erste Group. The Group has a market share of 8.5%, which puts it in fourth place in the Croatian insurance market. It holds sixth place in non-life insurance with a market share of 5.1% and third place in the life insurance market with 15.9%.

#### Macedonia

The Macedonian insurance market grew 4.9% year-on-year in local currency terms. The non-life segment, which generated 88% of total premiums and achieved an increase of 3.1% compared to the previous year, continued to be the most important driver for the insurance market. The life insurance area recorded an increase of 19.2%.

Vienna Insurance Group is represented by three Group companies in the Macedonian market – Winner Non-Life,

Winner Life and Makedonija Osiguruvanje – and is the market leader with a share of 23.3%. Vienna Insurance Group also holds first place for non-life insurance and third place for life insurance.

### Moldova

The Moldovan insurance market recorded significant growth of 11.6% in local currency terms during the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. Non-life premium volume increased 12.3%. Motor insurance made the largest contribution to this growth, increasing 16.3% compared to the same period in the previous year. Life insurance premiums rose 1.0% in the first three quarters of 2016.

Vienna Insurance Group is represented by the Group company Donaris in Moldova. Its acquisition in 2014 allowed VIG to open up the last country in the CEE region and extend its presence to 25 countries. VIG holds a market share of 14.4% in Moldova, putting it in second place in the market.

### Serbia

Premium volume in the Serbian insurance market grew 10.0% year-on-year in local currency terms in the first three quarters of 2016. This increase was mainly due to premium growth in the non-life area, which rose 7.6% compared to the previous year. Life insurance premiums increased significantly by 18.9% in the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016.

Vienna Insurance Group is represented in Serbia by Wiener Städtische Osiguranje, which operates in both the life and non-life areas. The purchase agreement for acquisition of the AXA Life and AXA Non-Life insurance companies was signed on 6 July 2016. These acquisitions increase VIG's market share to around 12%. Vienna Insurance Group holds fourth place in non-life insurance and second place in life insurance.

### Ukraine

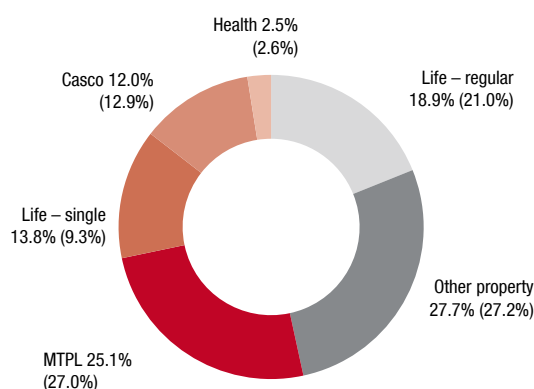
Premiums written in Ukraine rose 14.4% year-on-year in local currency terms during the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2016. Non-life premiums increased 13.1%, in spite of strong price competition and commission dumping in the market. It must be noted, however, that the increase was mainly due to depreciation of the country's currency and rate increases

for motor third party liability insurance. Year-on-year growth of 32.2% was recorded in the life insurance area.

VIG is represented by four insurance companies in Ukraine: the three non-life insurance companies UIG, Kniazha and Globus and the life insurance company Kniazha Life, whose name was changed from Jupiter to Kniazha Life in September 2016. With a market share of 4.4%, VIG is in the third place in the Ukrainian insurance market. VIG holds third place in non-life insurance, and seventh place in life insurance.

## BUSINESS DEVELOPMENT IN THE REMAINING CEE SEGMENT IN 2016

### PREMIUMS WRITTEN BY LINE OF BUSINESS



Values for 2015 in parentheses

### Premium development

The VIG companies in the Remaining CEE countries wrote EUR 331.39 million in premiums written in 2016 (2015: EUR 307.19 million). The year-on-year increase of 7.9% was mainly the result of good growth in Croatia and Serbia. Net earned premiums were EUR 232.91 million in 2016 (2015: EUR 211.37 million), an increase of 10.2% compared to the previous year.

### Expenses for claims and insurance benefits

Expenses for claims and insurance benefits less reinsurance were EUR 161.80 million in 2016 (2015: EUR 145.54 million). Compared to the previous year, this represented an

increase of 11.2% in expenses for claims and insurance benefits, which primarily resulted from the transfer to the mathematical reserve due to the increase in premiums from single-premium business in Croatia and Serbia.

#### Acquisition and administrative expenses

Acquisition and administrative expenses were EUR 83.29 million in the Remaining CEE segment in 2016 (2015: EUR 81.71 million). Due to the low commission rates in single-premium business, the 1.9% increase in acquisition and administrative expenses was significantly smaller than the increase in premiums.

#### Result before taxes

Profit before taxes increased to EUR 7.43 million due to continued positive development of the VIG companies in the Remaining CEE countries. (2015: EUR -25.44 million). It must be noted, however, that the result in the previous year was negatively affected by EUR 38.7 million in goodwill impairment losses.

#### Combined ratio

The combined ratio improved slightly compared to the previous year to 101.4% in 2016 (2015: 102.7%).

#### VIENNA INSURANCE GROUP IN THE REMAINING CEE SEGMENT

	2016	2015	2014
in EUR million			
Premiums written	331.39	307.19	293.60
Motor own damage insurance	39.61	39.64	42.73
Motor third party liability insurance	83.35	82.97	77.26
Other property and casualty insurance	91.85	83.41	77.22
Life insurance - regular premium	62.64	64.47	65.92
Life insurance - single premium	45.83	28.83	22.71
Health insurance	8.12	7.87	7.76
Result before taxes	7.43	-25.44	11.31

#### OTHER MARKETS

The Other Markets segment includes Germany and Liechtenstein. The Other Markets generated 3.9% of Group premiums in 2016.

#### Germany

Premium volume in the German insurance market remained unchanged compared to the previous year. Property and casualty insurance recorded premium growth of 3.0% in the first three quarters of 2016. Life insurance premiums decreased 3.0% in 2016 compared to the first three quarters of 2015, largely due to the continued effects of the ongoing low interest rate environment on single-premium business. While single-premium products recorded a drop of 9.7%, regular premium products remained practically unchanged (-0.1%).

Vienna Insurance Group is represented in Germany by InterRisk Non-Life and InterRisk Life. These two highly profitable niche providers operate exclusively through brokers. InterRisk Non-Life specialises in casualty and liability insurance and selected property insurance products. InterRisk Life focuses on retirement provision and occupational disability solutions, as well as protection for surviving dependants.

#### Liechtenstein

Liechtenstein offers insurance companies direct access to the markets in countries in the European economic area and Switzerland. As a result, the insurance companies located there offer international insurance solutions. At the end of 2016, 21 life insurance, 17 property and casualty insurance and three reinsurance companies had registered offices in Liechtenstein. The Liechtenstein insurance market remained at the level of the previous year in the first three quarters of 2016.

Vienna Insurance Group is represented by Vienna-Life in Liechtenstein. Vienna-Life operates exclusively in life insurance and concentrates predominantly on unit-linked and index-linked life insurance.

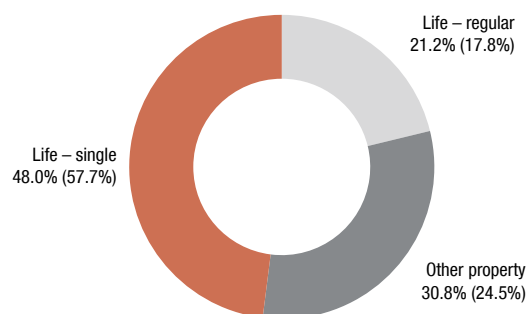
#### BUSINESS DEVELOPMENT IN THE OTHER MARKETS IN 2016

##### Premium development

Vienna Insurance Group generated total premiums written of EUR 352.96 million in the Other Markets in 2016 (2015: EUR 410.04 million), representing a decrease of 13.9% compared to the previous year. The decrease was due to a

reduction in single-premium business in Liechtenstein. Net earned premiums were EUR 311.57 million in 2016 (2015: EUR 371.16 million), representing a decrease of 16.1% compared to the previous year.

#### PREMIUMS WRITTEN BY LINE OF BUSINESS



Values for 2015 in parentheses

#### Expenses for claims and insurance benefits

The VIG companies in the Other Markets segment had EUR 255.04 million in expenses for claims and insurance benefits (less reinsurance) in 2016 (2015: EUR 254.28 million).

#### Acquisition and administrative expenses

Acquisition and administrative expenses decreased to EUR 25.22 million in the Other Markets in 2016 (2015: EUR 25.64 million). This corresponds to a drop of 1.6% compared to the previous year.

#### Result before taxes

Profit before taxes rose significantly by 9.5% to EUR 22.15 million in 2016 due to an improvement in the extraordinary financial result and to the underwriting result.

#### Combined ratio

Vienna Insurance Group had an excellent combined ratio of 81.8% in the Other Markets in 2016 (2015: 83.0%).

#### VIENNA INSURANCE GROUP IN THE OTHER MARKETS

	2016	2015	2014
in EUR million			
Premiums written	352.96	410.04	345.78
Motor own damage insurance	0.00	0.00	0.00
Motor third party liability insurance	0.00	0.00	0.00
Other property and casualty insurance	108.71	100.62	93.08
Life insurance – regular premium	74.79	72.88	72.56
Life insurance - single-premium	169.46	236.54	180.14
Health insurance	0.00	0.00	0.00
Result before taxes	22.15	20.22	18.89

#### CENTRAL FUNCTIONS

The Central Functions include VIG Holding, VIG Re, VIG Fund, the non-profit societies, corporate IT service providers and intermediate holding companies.

VIG Holding primarily focuses on managerial tasks for the Group. It also operates as an international reinsurer and in the international corporate business.

The Group's own reinsurance company, VIG Re, was formed in Prague in 2008 and is a successful reinsurance provider for both Vienna Insurance Group companies and external partners. VIG Re has established itself as an important company in the CEE region and follows a conservative underwriting and investment strategy. Standard & Poor's confirmed VIG Re's A+ rating with a stable outlook in the summer of 2016.

#### BUSINESS DEVELOPMENT IN THE CENTRAL FUNCTIONS IN 2016

Premiums written in the Central Functions segment rose 6.1% in 2016 to EUR 1,324.84 million. This was mainly due to an increase in premiums under internal Group reinsurance contracts. The loss of EUR 33.32 million reported in the Central Functions (2015: EUR -284.56 million) was due to interest expenses for the subordinated capital of the Group.



The result in the previous period was also negatively affected by EUR 195.0 million due to the impairment of IT systems.

## BUSINESS DEVELOPMENT BY BALANCE SHEET UNIT

Further information on business development by balance sheet unit is provided in the additional disclosures in accordance with the Austrian Insurance Supervision Act (VAG) in the notes to the consolidated financial statements starting on page 246.

## NON-FINANCIAL PERFORMANCE INDICATORS

The VIG success story has been guided at all times by long-term thinking and responsible action. VIG shares were included in both the Austrian VÖNIX sustainability index and the global FTSE4Good Index in 2016. Both require that the profit-making aspects of business activities be successfully combined with social and environmental objectives. VIG uses many measures and projects to provide a valuable contribution in many areas of society. The following provides some examples that represent the Group's wide range of commitments.

### SOCIAL INVOLVEMENT – EXAMPLE: SOCIAL ACTIVE DAY

VIG is aware of its social responsibility to the people in its 25 markets and uses a wide range of projects and measures to proactively meet this responsibility. The Social Active Day is a very special initiative in this area, when thousands of VIG employees send a powerful message for solidarity. Under this initiative, employees who want to become involved with a good cause or social organisation are generally allowed to spend one working day of their time on such activities. This initiative was brought to life in 2011 by VIG's principal shareholder, Wiener Städtische Versicherungsverein, and quickly became a success. Around 4,400 employees from Group companies in 20 countries participated in 2016. The Group supported a wide range of projects and social organisations that also differed greatly across regions. Homeless shelters and initiatives, nursing homes, children's aid programmes, environmental protection programmes, refugee facilities and

many more received active support. The associations and projects are happy to be given a helping hand, and employees gain new experiences while doing good.

### CULTURAL INVOLVEMENT – EXAMPLE: GUSTAV MAHLER YOUTH ORCHESTRA

The Group's involvement is aimed at giving artists more freedom to develop artistically, thereby making a contribution to cultural life in Austria and the CEE region. The support provided to the Gustav Mahler Youth Orchestra is an example in this area. It is a place of learning for talented European orchestral musicians and helps young Austrian musicians play music with their colleagues from all over Europe, traditionally including many from Central and Eastern Europe. The orchestra offers highly talented musicians up to the age of 26 the opportunity to work together with the great conductors and soloists of our time. This allows prospective professional musicians to gain experience that is critical for their musical development and future careers. VIG Holding feels that arts and culture make an important contribution to a society's quality of life and has therefore provided support to the Gustav Mahler Youth Orchestra for many years.

### ENVIRONMENTAL FACTORS – EXAMPLE: RISK RADAR

In addition to conserving resources and the environment during day-to-day office work, creating awareness of natural disasters is also highly important to VIG. Storms, hail and flooding generate losses in the millions practically every year. Good quality public weather and climate information plays an important role in prevention. Group company Wiener Städtische therefore presented its Risk Radar in 2016. The interactive map at [risikoradar.at](http://risikoradar.at) allows users to perform an independent analysis of their personal risk for the first time in Austria. Risks due to storm, hail, flooding and lightning are available for users to select when they begin. Because the long-term trend is important, two time periods (ten years and five years) are specified. The risks can be analysed separately or in combination to produce a detailed risk analysis. Wiener Städtische is helping to increase public awareness of risk in this way.

## EMPLOYEES

VIG positions itself as an employer of choice in a challenging international environment in order to search for and hire employees who can help promote its corporate culture and strategy with conviction. The human resources area offers a large number of initiatives, including international career opportunities, mobility programmes, training and advanced training.

VIG had a total of 24,601 employees in 2016, with 13,264 in the field sales force and 11,337 in administration. Overall, this is 1,606 more employees than in the previous year. The increase is due to the inclusion of the non-profit companies and the first-time consolidation of BTA Baltic. In 2016, the proportion of women across the Group was approximately 60%. Women hold around 23% of the positions on the Managing Boards of Vienna Insurance Group societies and around 13% of the Managing Board chairs are women. Including distribution, women hold around 42% of the management positions at the level directly below the managing board in VIG insurance companies across Europe (not including distribution: around 47%).

### EMPLOYEES BY SEGMENT

	2016	2015	2014
<b>Number</b>			
Austria	5,170	5,133	5,202
Czech Republic	4,762	4,758	4,802
Slovakia	1,678	1,580	1,579
Poland	1,586	1,723	1,825
Romania	1,991	2,106	2,351
Baltic states	1,281	372	142
Hungary	464	464	428
Bulgaria	834	799	812
Turkey/Georgia	888	837	781
Remaining CEE <sup>1</sup>	4,720	4,663	4,879
Other Markets <sup>2</sup>	126	123	126
Central Functions <sup>3</sup>	1,101	437	433
<b>Total</b>	<b>24,601</b>	<b>22,995</b>	<b>23,360</b>

<sup>1</sup> Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine

<sup>2</sup> Other markets: Germany, Liechtenstein

<sup>3</sup> Central Functions include VIG Holding, VIG Re, VIG Fund, the non-profit societies, corporate IT service providers and intermediate holding companies.

Appreciation of diversity and, therefore, removing barriers to women's careers, among other things, is one of the key elements of the personnel strategy at Vienna Insurance

Group. In addition to implementing this principle to, for example, the management development process, efforts are being made to give visibility to ambitious women at all levels, for example, by assigning more women to attend external conferences, platforms, etc. as representatives of the Company.

Nomination procedures for Group-wide training programmes for management, high potentials and experts are also required to include equal numbers of women as far as possible, with the local human resources department bearing ultimate responsibility.

In 2016, managing board performance-related compensation in the individual Group companies was made dependent on diversity and, therefore, gender criteria.

## CORPORATE GOVERNANCE

VIG is committed to the application of and compliance with the January 2015 version of the Austrian Code of Corporate Governance, which is available to the public both on the VIG website at [www.vig.com/en/ir](http://www.vig.com/en/ir) and on the website of the Austrian Working Group for Corporate Governance at [www.corporate-governance.at](http://www.corporate-governance.at).

## RESEARCH AND DEVELOPMENT

Vienna Insurance Group is contributing its expertise to the development of insurance-specific software models.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The VIG risk management system is firmly anchored in the management culture of the Company and is based on a clearly defined, conservative risk policy, extensive risk expertise, a highly developed set of risk management tools, and risk-based Managing Board decisions.

The detailed risk report for Vienna Insurance Group is provided in the notes to the consolidated financial statements on page 144.

For information on the financial instruments used, please see the notes to the consolidated financial statements (Summary of significant accounting policies) and the risk report (starting on page 144).

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ACCOUNTING PROCESS

Preparation of the consolidated financial statements includes all activities required for presentation and disclosure of the net assets, financial position and results of operations of the Group in accordance with the provisions of the law and the IFRS. The consolidated financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, segment report and all necessary disclosures in the notes. The financial statement process includes the aggregation of all data from accounting and upstream processes for the annual financial statements.

Risk management is implemented in the Vienna Insurance Group accounting process in accordance with the five elementary components of the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework model for internal risk management.

### Control environment

The organisational structure consists of the local accounting departments of the individual Group companies and the Group accounting department at the VIIG headquarters in Vienna. The accounting departments of the Group companies prepare both local GAAP and IFRS financial statements and then send the IFRS figures to the Group accounting department in Vienna. The IFRS financial statements are prepared in accordance with uniform Group accounting policies.

The Group companies mostly send their data using the local SAP system in which the data are entered. Some international companies and all Austrian insurance companies upload their balance sheets and income statements. The Group accounting department consolidates the data and prepares the consolidated financial statements.

### Risk assessment

The annual financial statement process has been documented in order to identify risks in the accounting process and eliminate them as far as possible.

The documentation covers the entire process all the way from data entry by the employees of Group companies and automatic and manual controls and analyses during the

consolidation process, to publication of the final annual report.

### Control measures

The IFRS financial statements are prepared in accordance with uniform Group accounting policies. The newest version of the IFRS manual and detailed information on Group-wide reporting requirements are sent to the responsible persons in the local accounting departments before each set of quarterly and annual financial statements are prepared in order to ensure uniform reporting across the Group. Both automatic (using SAP validations) and manual checks (performance analyses and plausibility checks by employees in the Group accounting department) are performed for the financial statement data that is received. Additional checks in the form of control calculations and reconciliation of, in particular, reinsurance and financing balances are performed to identify and eliminate potential errors.

In addition, an earnings reconciliation statement is prepared, the accuracy of individual parts of the consolidated financial statements is checked and a plausibility check is performed for the consolidated financial statements as a whole to ensure that the presentation is complete and correct.

The accounting employees also work together closely with the Controlling department (e.g. variance analyses) when the financial statements are prepared. The data are also regularly submitted to the Managing Board for review and checking.

In order to ensure that the annual report is completed correctly and on time by the publication deadline, strict deadlines are set for the quarterly and annual financial statements and the Group companies are already informed of these deadlines at the beginning of the 4<sup>th</sup> quarter for the coming financial year.

The employees of the Group accounting department ensure in advance that the Group companies can send their data on time.

### Information and communication

The intensive collaboration with other areas of the Company, in particular Controlling, generates a lively exchange of information and communications.

In addition to the annual report at the end of each financial year, interim reports are published each quarter in accordance with IAS 34 and statutory provisions.

The Investor Relations department is responsible for reporting to Vienna Insurance Group shareholders. This takes place both in personal meetings and via the Company website. This provides shareholders and other interested parties access to annual and quarterly reports, and to regularly updated information on key figures, share prices, the financial calendar, ad hoc news and other relevant topics.

### Monitoring

The Group accounting department is managed by the Vienna Insurance Group Chief Financial Officer and is responsible for preparing the Group Annual Report. Quarterly reports are provided to the Managing Board and Supervisory Board to ensure regular monitoring of the internal control system. Risks are continuously monitored by internal cross-departmental Group controls (e.g. Group accounting department, Controlling).

Group-wide guidelines exist in order to standardise the handling of significant risks throughout the Group, and also provide a tool for risk monitoring. Local management is responsible for implementing these guidelines in the individual Group companies.

The auditor takes the internal control system into account during the financial statement audit to the extent that it is relevant to preparation of the consolidated financial statements.

The financial statement auditor also assesses the effectiveness of the risk management system in accordance with Rule 83 of the Austrian Corporate Governance Code.

### DISCLOSURES IN ACCORDANCE WITH § 267(3A) IN COMBINATION WITH § 243A UGB

1. The Company has total share capital of EUR 132,887,468.20. It is divided into 128,000,000 no-par value bearer shares with voting rights, each share representing an equal portion of share capital.

2. The Managing Board is not aware of any restrictions on voting rights or the transfer of shares.

3. Wiener Städtische Versicherungsverein holds (directly or indirectly) approximately 70% of the share capital.

4. No shares have special rights of control. See point 6 for information on the rights of the shareholder Wiener Städtische Versicherungsverein.

5. Employees who hold shares exercise their voting rights without a proxy during general meetings.

6. The Managing Board must have at least three and no more than seven members. The Supervisory Board has between three and ten members (shareholder representatives). The shareholder Wiener Städtische Versicherungsverein has the right to appoint up to one third of the members of the Supervisory Board if, and so long as, it holds 50% or less of the Company's voting shares. General meeting resolutions are adopted by a simple majority, unless a different majority is required by law or the articles of association.

7. a) The Managing Board is authorised to increase the Company's share capital by a nominal amount of EUR 66,443,734.10 by issuing 64,000,000 no-par value bearer or registered shares in one or more tranches on or before 2 May 2018 against cash or in-kind contributions. The terms of the shares, the exclusion of shareholder pre-emption rights, and other terms and conditions of the share issue are decided by the Managing Board, subject to Supervisory Board approval. Preferred shares without voting rights may also be issued, with rights equivalent to those of existing preferred shares. The issue prices of common and preferred shares may differ.

b) The general meeting of 3 May 2013 authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer convertible bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 2 May 2018, with or without exclusion of shareholder pre-emptive rights, and to grant the holders of convertible bonds conversion rights for up to 30,000,000 no-par value bearer shares with voting rights in accordance with the convertible bond terms set by the Managing Board.

c) The share capital has consequently been raised in accordance with § 159(2) no. 1 of the Austrian Stock Corporation Act (AktG) by a contingent capital increase of up to EUR 31,145,500.36, through the issue of up to 30,000,000

no-par value bearer shares with voting rights. The contingent capital increase will only be implemented to the extent that holders of convertible bonds issued on the basis of the general meeting resolution of 3 May 2013 exercise the subscription or exchange rights they were granted. The Managing Board has not adopted any resolutions to date concerning the issuance of convertible bonds based on the authorisation granted on 3 May 2013.

d) The general meeting of 3 May 2013 further authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer income bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 2 May 2018, with or without exclusion of shareholder pre-emptive rights. The Managing Board has not adopted any resolutions to date regarding the issuance of income bonds based on this authorisation.

As of 31 December 2016, no authorisation of the Managing Board under § 65 of the AktG (acquisition of own shares) was in effect, and the Company held none of its own shares as of 31 December 2016.

8. As of 31 December 2016, the Company was not party to any material agreements that would come into effect, change or terminate if control of the Company were to change due to a takeover bid, in particular, no agreements that would affect participations held in insurance companies. Existing agreements that would come into effect if control of the Company were to change due to a takeover bid relate to participations held in other (non-insurance) companies.

9. No compensation agreements exist between the Company and its Managing Board members, Supervisory Board members or employees covering the case of a public takeover bid.

# Outlook 2017

## AUSTRIA

Although the rate of growth decreased in the EU in 2016, Austria recorded an increase of 0.5 percentage points over the same period (total growth of +1.5% in 2016). Since close to 70% of exports go to the EU, a slowdown in European growth will also have an adverse effect on the Austrian economy in the future. The Austrian Institute of Economic Research (WIFO) is predicting that growth will remain constant over the next two years at +1.5% (2017) and +1.4% (2018).

Strong growth in domestic demand is the most significant positive factor for 2017. This is offset, however, by a propensity to consume that is expected to decline due to rising inflation and high unemployment.

WIFO considers the government budget for 2017 as neutral for the economy, particularly since expansive tax measures are offset by a reduction in government expenditure. The effects of the tax reductions will continue to be felt in the first half of 2017, but new stimulus will be needed over the medium term. The increase in EU subsidies to Central and Eastern European countries could also have a positive effect on the Austrian economy, particularly since they support infrastructure projects with Austrian involvement and restrict the movement of workers. Since Austria's trade relations with the United Kingdom only represent around 3% of Austrian goods exports, Brexit will have a limited effect on Austria's economy. The potential indirect risk to Austria from a weakening of the German economy due to Brexit is significantly more important in the medium term.

Given a budget deficit of 1.5% in 2017 and 1.1% in 2018, the Austrian national debt will remain at a high level and only slowly recover. Debt ratios of 83.7% of GDP (2017) and 82.3% (2018) are high by international comparison, but the problem is significantly reduced at the moment by relatively favourable funding terms. However, if the ECB continues to systematically purchase government bonds as expected in 2018, interest rates throughout Europe would be affected and a general increase of around 0.5 percentage points could be expected.

Although the reform of the Austrian banking sector is likely to still be incomplete, a number of concrete steps that were taken in 2016, such as the HETA resolution, have reduced the uncertainty for coming years.

The Austrian Association of Insurance Companies (VVO) is predicting that Austrian premium volume will record another small increase of 0.3% to reach EUR 17.1 billion in 2017. An increase of 1.7% is forecast in the property and casualty area, while personal insurance is expected to decline by 0.9%. When single premium business is excluded, premiums are expected to increase by 1.4% in 2017.

## CEE REGION

The macroeconomic forecasts by the WIIW for the next two years assume that the CEE region will continue to grow based on the global recovery. In the majority of countries, real GDP will even grow considerably faster than in the recent past. The large economic engines, such as Poland (2017: +3.5%) and the Czech Republic (2017: +2.4%), show rising rates of growth. Although recently limited by stagnation of the large Western European economies, their growth is now picking up and having a positive effect on the entire region of Central and Eastern Europe.

The only three countries where economic growth will be slower in 2017 than the previous year are Romania (2017: +3.5%), Turkey (2017: +3.0%) and Slovakia (2017: +3.1%), where gross domestic product was already at a high level in 2016, namely +4.7%, +3.3% and +3.2%, respectively.

In the smaller countries, there is a tendency for countries such as Bosnia-Herzegovina (2017: +3.3%), Bulgaria (+3.0%), Croatia (+2.7%) and the Baltic states (average around +2.5%) to grow at a slower, but constant rate. After two somewhat challenging years, Hungary's economy (2017: +2.6%) is also likely to see a turnaround, with growth 0.6 percentage points higher than in the recent past. This is partly due to the fact that the start-up phase for the new structural and regional fund development programmes is over, and Hungary traditionally receives more benefit from these programmes than the European average.



A number of potential trans-regional influencing factors are predicted for 2017 that could permanently affect the CEE region. This includes the ongoing wave of migration, which could continue to have a negative effect on the labour market over the medium term, in spite of economic stimulation from government investments.

## VIENNA INSURANCE GROUP – OUTLOOK

With more than 24,000 employees, VIG is the clear market leader in its Austrian and CEE markets. It is therefore excellently positioned to take advantage of the long-term growth opportunities in a region with 180 million potential customers. In order to further exploit this potential, VIG will rely on its proven business strategy and four management principles. It will continue to follow its Group-wide principles of maintaining a diversified, decentralised market presence in Austria and Central and Eastern Europe, and focusing on the insurance business as its core competence.

The Group aims to further increase its market share using its proven multi-brand strategy and multiple distribution channels developed to best suit the region. These gains will be achieved through organic growth by expanding existing business and through acquisitions that are economically attractive for VIG or can strategically supplement its existing portfolio. Vienna Insurance Group wants to increase its market share to a minimum of 10% in Poland, Hungary, Croatia and Serbia over the medium term. VIG already achieved this goal of a 10% market share in Serbia in 2016 due to its acquisition of the AXA insurance companies. Market share was also further increased in Croatia and Hungary. Cost-efficiency will remain a priority in spite of this goal. Consolidation and pooling of processes and services is being examined to determine whether the potential synergies would outweigh the benefits of a diversified market presence in the long-term.

VIG has set itself a goal of continuously optimising profitability. The Group aims to generate healthy, properly considered growth and, based on this principle, will continue in the future to follow a growth policy focusing on earnings. We plan to steadily increase our Group premium volume to

EUR 9.5 billion by 2019 and expect our profit before taxes to also grow steadily to between EUR 450 million and EUR 470 million.

The Group will focus more strongly on its underwriting result in future years and endeavour to make improvements in both the claims and expenses areas that will improve the combined ratio in the direction of 95% over the medium term. Life insurance with biometric components and regular premiums will also be further promoted. These measures are aimed at compensating for the decrease in the ordinary financial result due to the current low interest rate environment.

Vienna Insurance Group will also continue to pursue its strategic initiatives for optimising its business model, ensuring future viability and organisation and cooperation. For example, Vienna Insurance Group will focus on exploiting insurance potential in the health insurance segment and optimising the profitability of motor insurance. A new focus will also be placed on digitisation of products and services.

Vienna Insurance Group would also like to further expand its bank insurance business in the future, as bank distribution has become more important in many markets in the last few years. Vienna Insurance Group recognised this trend early on and now benefits from a partnership with Erste Group, a leading banking group in Austria and the CEE region. Personal insurance typically dominates the range of insurance products sold through banks. VIG also sees a great deal of potential in sales of health and property and casualty insurance. A project group was formed with our bank insurance partner Erste Group for this purpose. The aim of the project is to optimise products, distribution and profits for the banks and insurance companies in all countries where Erste Group and Vienna Insurance Group co-operate. The focus is on customer needs and requirements, easily understandable products and integration into the bank's digitisation initiative. This also includes organisational and structural considerations on the insurance side that will improve communications and service for customers and banking partners.