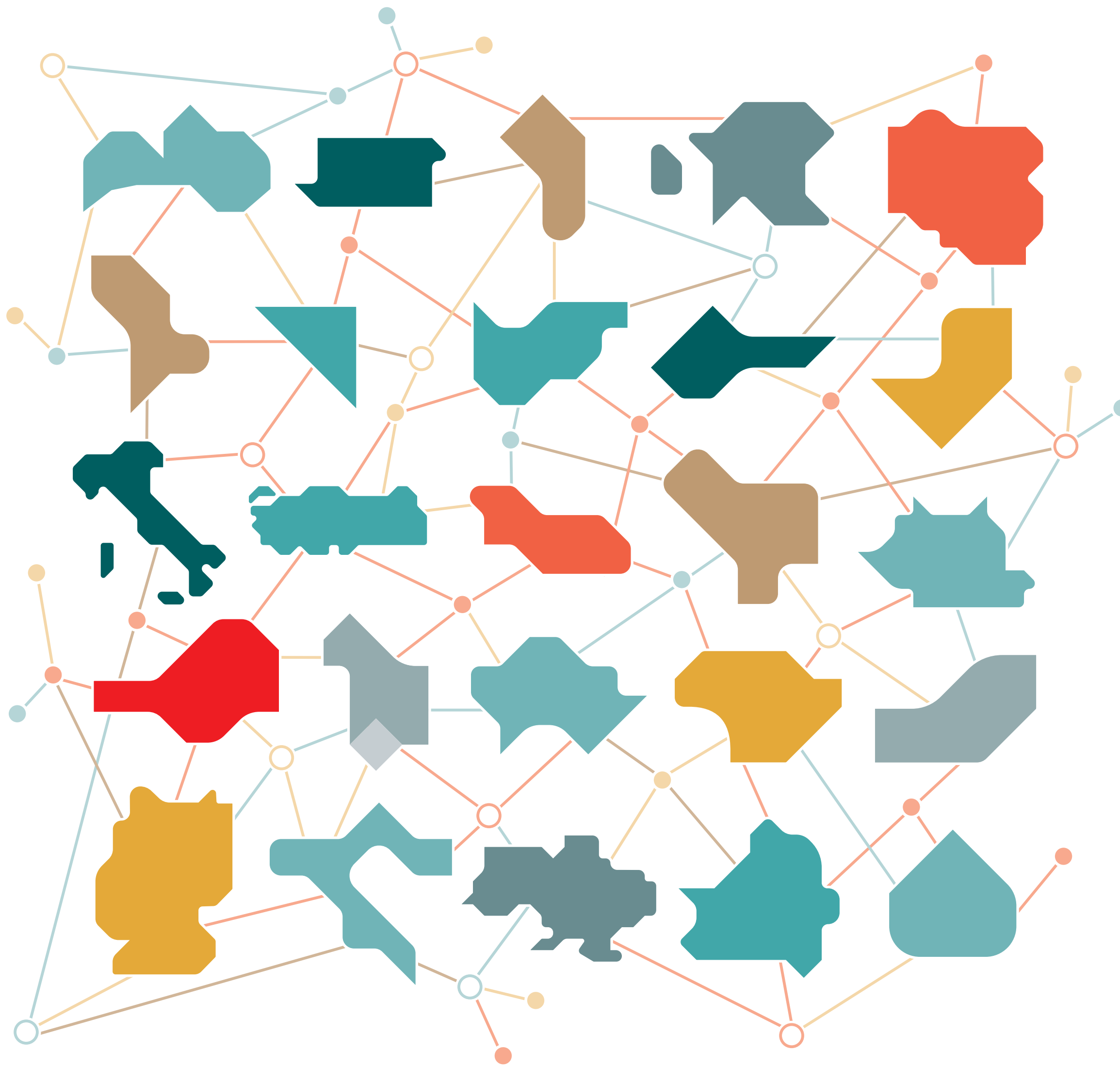
Group Annual Report 2017 Vienna Insurance Group

VIENNA INSURANCE GROUP



WE EMBRACE **DIVERSITY**

Protecting what matters.

Key figures …

		2017	2016	2015	2014
Income statement					
Premiums written	EUR millions	9,386.0	9,051.0	9,019.8	9,145.7
Net earned premiums – retention	EUR millions	8,509.6	8,191.3	8,180.5	8,353.7
Financial result	EUR millions	924.3	958.8	1,040.2	1,076.5
Expenses for claims and insurance benefits	EUR millions	-6,872.6	-6,753.4	-6,748.9	-6,919.9
Acquisition and administrative expenses	EUR millions	-2,040.3	-1,907.8	-1,847.6	-1,874.8
Result before taxes	EUR millions	442.5	406.7	47.1	478.0
Net result for the period after taxes and non-controlling interest	EUR millions	297.6	287.8	-20.6	330.4
Combined Ratio	%	96.7	97.3	97.3	96.7
Claims ratio	%	66.3	66.9	66.7	65.8
Cost ratio	%	30.4	30.4	30.6	30.9
Balance sheet					
Investments[1]	EUR millions	44,994.0	43,195.8	38,286.1	38,002.2
Shareholders' equity (including non-controlling interests)	EUR millions	6,043.9	5,711.3	4,414.5	4,796.3
Underwriting provisions	EUR millions	38,780.9	37,350.0	35,921.7	35,282.4
Total assets	EUR millions	51,714.0	50,008.1	44,489.7	43,923.1
Return on Equity (RoE)[2]	%	8.3	8.9	1.1	11.1
Share					
Number of shares	Piece	128,000,000	128,000,000	128,000,000	128,000,000
Market capitalisation	EUR millions	3,297.9	2,726.4	3,237.1	4,746.2
Average number of shares traded by day	Piece	~ 104,000	~ 161,000	~ 147,000	~ 65,000
Average daily stock exchange trading volume (single counting)	EUR millions	3.0	3.9	6.8	3.1
Year-end price	EUR	25.765	21.300	25.290	37.080
High	EUR	26.520	24.790	42.620	40.070
Low	EUR	21.590	16.095	24.910	33.800
Share performance for the year (excluding dividends)	%	20.96	-15.80	-31.80	2.36
Dividend per share	EUR	0.90[3]	0.80	0.60	1.40
Dividend yield	%	3.49	3.76	2.37	3.78
Earnings per share	EUR	2.23	2.16	-0.27	2.46
Price-earnings ratio as of 31 December		11.55	9.86	-93.67	15.07
Employees					
Number of employees (average for the year)		25,059	24,601	22,995	23,360

Rounding differences may occur when rounded amounts or percentages are added.

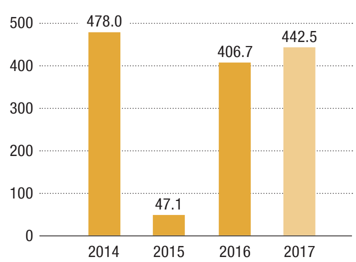
[1] Incl. unit-linked and index-linked life insurance investments and excl. cash and cash equivalents

[2] RoE is the ratio of the Group result before taxes to VIG total average shareholders' equity.

[3] Proposed dividend

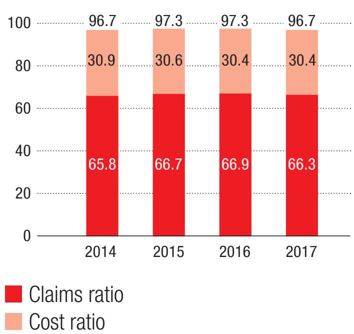
CHANGE IN PROFIT

in EUR million



CHANGE IN THE COMBINED RATIO

in per cent



… at a glance

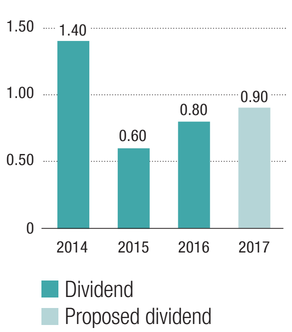
VIG BY SEGMENTS IN THE YEAR 2017

Country	Premium volume	Result before taxes	Combined Ratio	Employees
	in EUR '000	in EUR '000	in %	Number
Austria	3,848,496	175,349	95.5	5,141
Czech Republic	1,603,246	149,345	97.5	4,895
Slovakia	810,049	55,708	95.4	1,752
Poland	886,646	35,502	93.9	1,576
Romania	506,544	6,178	98.6	1,954
Baltic states	327,607	1,394	99.0	1,285
Hungary	246,741	2,112	98.9	468
Bulgaria	150,106	6,916	97.1	867
Turkey/Georgia	207,784	9,352	96.1	1,081
Remaining CEE[1]	351,997	-5,954	100.1	4,741
Other Markets[2]	292,611	23,690	81.3	130

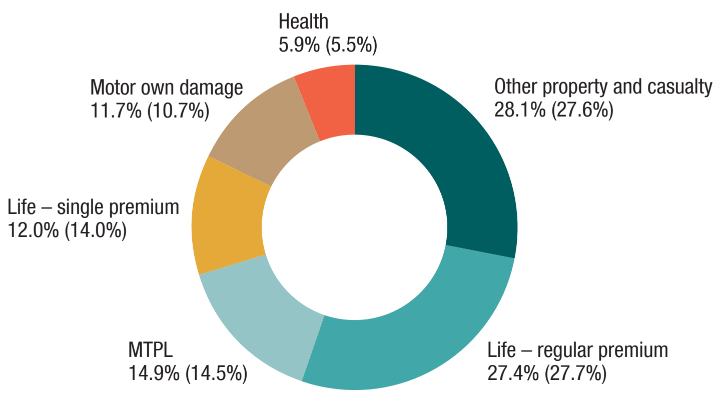
[1] Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine
[2] Other Markets: Germany, Liechtenstein

DIVIDEND PER SHARE

in EUR



PREMIUMS BY LINES OF BUSINESS



Values for 2016 in parentheses

We embrace diversity

Standard solutions and procedures may have worked in the past. But in our increasingly complex world, individual responses are needed. Diversity is Vienna Insurance Group's (VIG) key to success. This is how we remain flexible and open to new ideas and approaches.

VIG embraces diversity in its brands, products and distribution channels. It relies on a decentralised structure, local entrepreneurship and a high level of autonomy of local insurance companies. At the same time, each company is part of the greater whole.

To us, diversity is more than just an objective fact. For us, it is a conscious decision and a value. Custom-design instead of streamlining: VIG is following its successful path in the 21st Century.

CREATIVE **DIVERSITY**, SHARED GOALS

Dear Shareholders,
Ladies and Gentlemen,

Around 50 companies, 25 countries, more than 25,000 employees: We embrace diversity in order to be close to our customers and to be a reliable partner in a rapidly changing world.

In the 2017 reporting year, VIG once again showed it is just such a partner. Premium volume and profit rose, and the combined ratio remains significantly below 100%. With the initiatives in our strategic work programme, we have been preparing for the future at the same time.

In this Group Annual Report we present key figures for our business but also want to provide insight into the principles underlying our success and the main feature that makes us stand out from our competitors: the diversity that forms part of our DNA. Others talk about it, but we actually embrace it, and we do so out of conviction. The rapid speed of change in our markets requires quick decision-making: Our decentralised management approach and the high level of autonomy that Group companies enjoy allow us to quickly respond to changes in the business environment. In addition, our local employees are the ones who know the market best and ensure good customer relations. They therefore have the freedom to develop bespoke solutions for their customers and find innovative answers to the challenges our industry faces. After all, creativity cannot be decreed from the top, employees must be encouraged. And last but not least, the Group benefits from spreading risks across numerous markets, lines of business and distribution channels.

Diversity, however, does not mean uncontrolled growth. The wide-ranging independence of local companies goes hand-in-hand with shared goals and Group guidelines. Initiatives such as the strategic work programme Agenda 2020 are designed for the entire Group. Exchanging knowledge, ideas and experience plays a key role in our work together. Our success is based on a balance between the individual identities of the local companies and a Group-wide feeling of shared identity. What unites us, is our commitment to protect what matters.

Elisabeth Stadler
VIG General Manager

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"Our success is based on a balance between the **individual identities of the local companies** and a **Group-wide feeling of shared identity."**

THE CONTENT

Group Annual Report 2017 Vienna Insurance Group

COMPANY

+10.7%

premium growth in 2017 for Vig Re 25

“Digitalisation is more than just an **app.”**

Klaus Mühleder,
Head of Group Development and Strategy 28

New to the Managing Board: Liane Hirner replaces Martin Simhandl.

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© Klaus Ranger

Head of Investor Relations, Nina Higatzberger-Schwarz explains the VIG equity story.

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Managing Board interview: VIG is focusing on sustainable growth.

Around 50 Group companies in 25 countries are working together on a successful, fair future.

"We create added value"
is the title of VIG's first Sustainability Report. It discusses the added value that VIG creates for customers, employees, investors, society and the environment. The report is also available online at
www.vig.com/corporate-responsibility

Our goal is to make the Annual Report as easy and clear to read as possible. For this reason, words like him/her, etc. have been avoided. It should be understood that the text always refers to women and men equally without discrimination.

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

SERVICE INFORMATION

VIG AT A **GLANCE**

Its roots extend all the way back to 1824. Today, Vienna Insurance Group, headquartered in Vienna, is the leading insurance group in Austria and Central and Eastern Europe. It relies on a decentralised structure, local entrepreneurship and a multi-brand policy with regionally established insurance companies. The diversity of countries, cultures and entrepreneurial approaches within the Group promotes creativity and customer proximity.

VIG VALUES

Diversity

VIG's presence in 25 markets, primarily in Central and Eastern Europe, gives it a detailed understanding of local circumstances. Sharing knowledge, ideas and experience within the Group is part of the day-to-day business. Diversity is a success factor and core value of VIG. It is, so to speak, part of the DNA of the Company.

Customer proximity

VIG has strong roots, both internationally and locally. Thanks to its local employees, it is very familiar with the typical needs of customers in its markets. This allows our Group companies to offer tailored solutions everywhere and achieve maximum customer satisfaction.

Responsibility

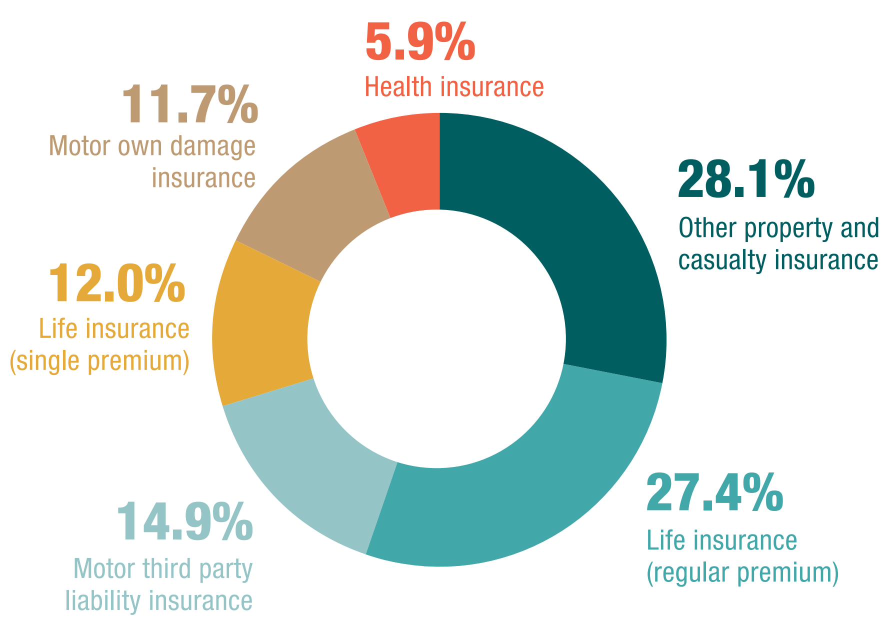
VIG can draw on close to 200 years of experience to ensure that customers receive the best possible future protection. VIG always acts in full awareness of its responsibility to customers, business partners, shareholders and society as a whole.

VIG'S COMMITMENT

"We enable customers to live a safer and better life: **Protecting what matters.**"

VIG lines of business

(share of total premium volume in 2017)

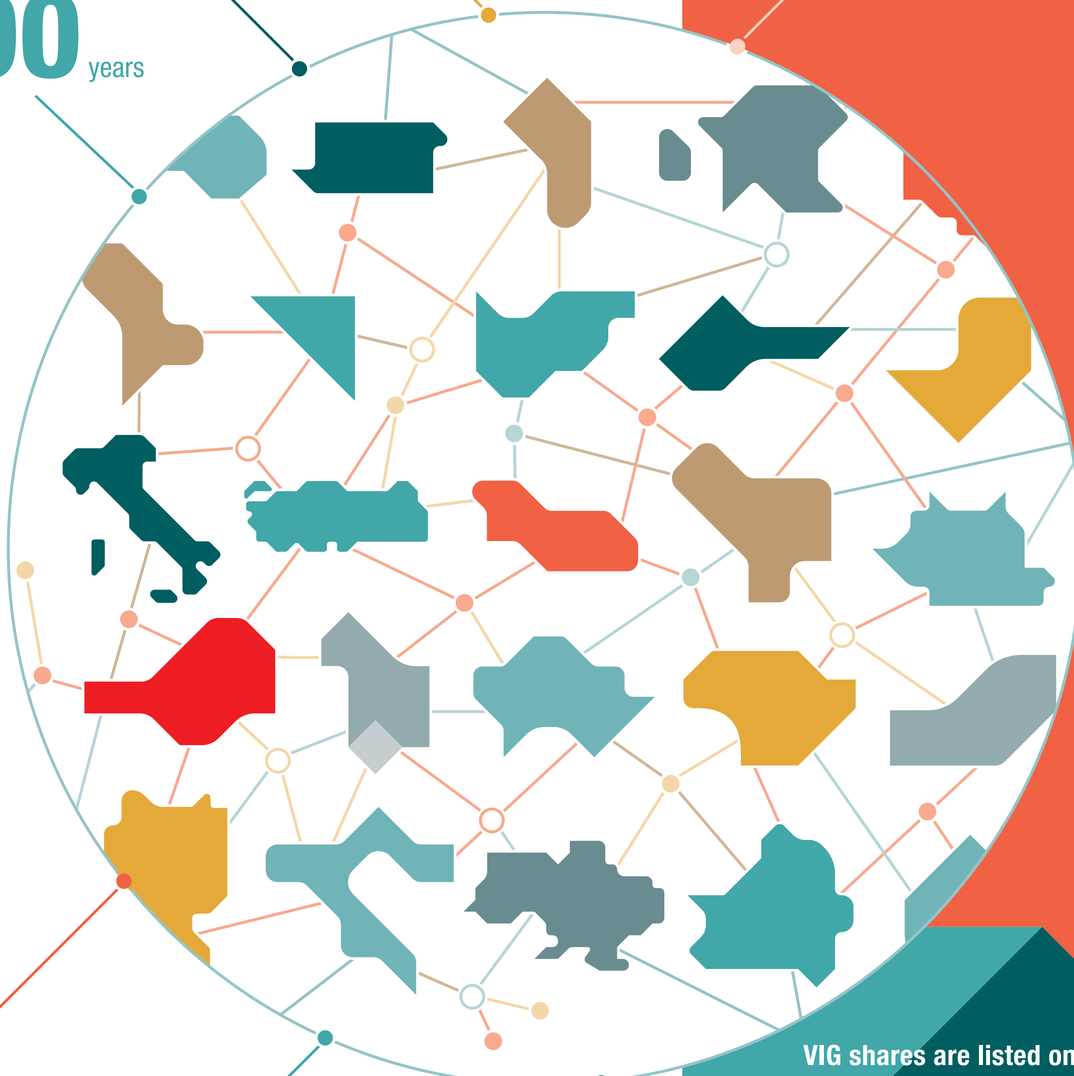


Operating in **25** countries

Around **50** Group companies

A+ rating with stable outlook by Standard & Poor's

Close to **200** years of experience



Number **1** in Austria and the CEE region

More than **20** million customers

More than **25,000** employees

VIG shares are listed on the Vienna and Prague Stock Exchanges:

Around **70%** of the shares are held by principal shareholder Wiener Städtische Versicherungsverein.

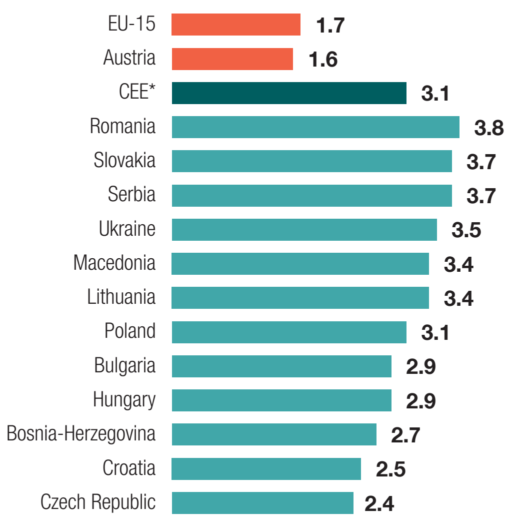
Around **30%** of the shares are in free float.

NUMBER 1 IN THE **CEE** REGION

In addition to Austria, VIG also focuses on Central and Eastern Europe, a region that offers enormous growth potential. Its operations in 25 countries also ensure broad diversification.

CEE: A dynamic economy...

Real GDP growth 2017–2020 in % p. a.



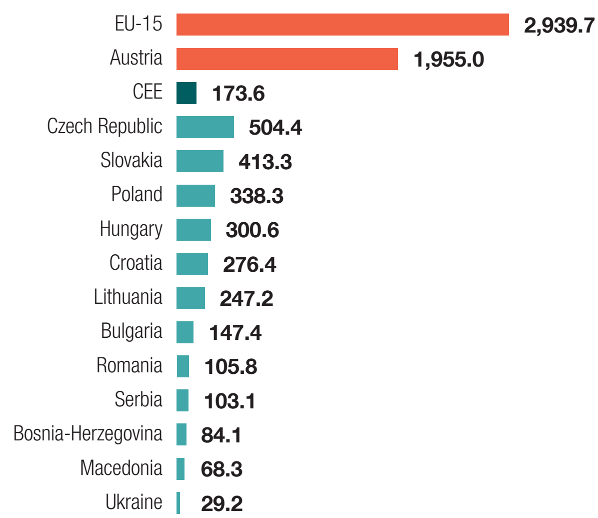
The average economic growth rate is significantly higher in Central and Eastern Europe than in the Eurozone.

* Constant exchange rate used for forecasting

Source: IMF World Economic Outlook database, October 2017;
Note: Individual countries based on national currencies; CEE region and EU-15 based on IMF exchange rate nom. GDP NC/nom. GDP USD

... and major catch-up potential

Insurance density in 2016 in EUR (per capita premiums)



The comparatively low insurance density in Central and Eastern Europe illustrates the significant growth opportunities.

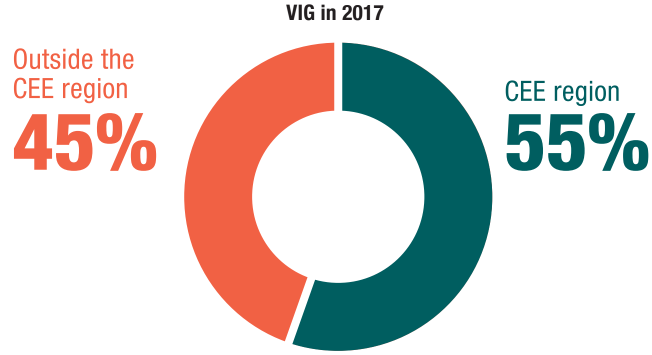
Source: IMF World Economic Outlook database, October 2017

180

million potential customers live in the CEE region.

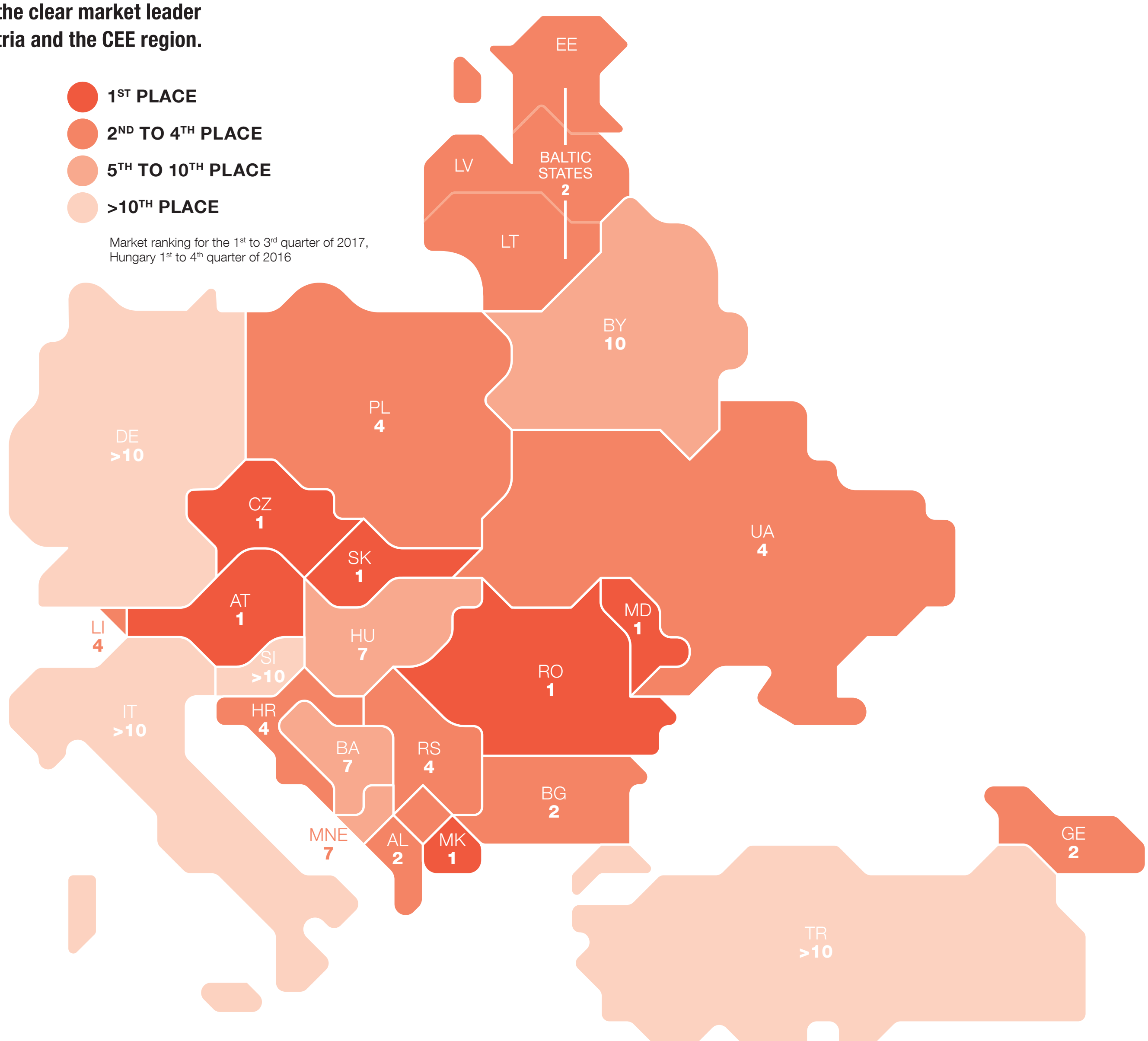
Share of total premium volume

VIG in 2017



Top position in its markets

VIG is the clear market leader in Austria and the CEE region.



1989		2017
Premium volume EUR 1 billion		Premium volume EUR 9.4 billion
5,600 employees		More than 25,000 employees
3 companies		Around 50 companies

VIG took the first step in its expansion by entering former country Czechoslovakia in

1990.

HIGHLIGHTS 2017

FACTS & FIGURES

Group premiums EUR 9.4 billion (+3.7%)
If adjusted for single premium life insurance, the year-on-year increase rises to 6.2%. More than half of the premium volume comes from the CEE region. **page 58**

Result before taxes EUR 442.5 million
Major 8.8% increase in profits. More than half of the profit was generated by CEE markets. **page 59**

Net combined ratio 96.7%
The combined ratio was once again significantly below the 100% mark in 2017, in spite of many adverse weather events and storm Herwart.
page 61

Planned dividend increase
A dividend of EUR 0.90 per share will be proposed at the Annual General Meeting on 25 May 2018 to maintain our established dividend policy of distributing at least 30% of Group net profits after minority interests to shareholders. **page 34**

VIG share price increases 21%
The clearly positive development recorded by VIG shares underscores the successful business development achieved by the Group. **page 36**

Best rating in the ATX index
The rating of A+ with a stable outlook was confirmed again by Standard & Poor's. VIG continues to have the best credit rating of all companies listed on the ATX leading index of the Vienna Stock Exchange. **page 36**

Solvency ratio 220%
VIG thereby continues to have an excellent solvency ratio at the level of the listed Group. The solvency ratio indicated in the Group report is information that is provided voluntarily by VIG.

EXPANSION & MERGERS

VIG Re opens an office in Frankfurt

The Group reinsurance company, VIG Re, which is headquartered in Prague, opened its first office in Frankfurt in September. This is an important step in the planned expansion of its business into Germany, Austria and Switzerland. The Frankfurt office is focusing on underwriting reinsurance business in the non-life segment. **page 25**

Baltic states: InterRisk merged with BTA Baltic

VIG further improved its competitive position in the Baltic states by merging InterRisk (formerly Baltikums) with BTA Baltic and using BTA Baltic as a common brand. VIG also operates in Latvia, Lithuania and Estonia via Group companies Compensa and Compensa Life.

Mergers strengthen bank distribution

VIG is combining the expertise of its companies to strengthen the bank insurance business. VIG is merging its local composite insurers with life insurance companies that specialise in bank distribution in Austria, the Czech Republic, Slovakia, Hungary and Croatia. The mergers will be concluded during the course of 2018, subject to approval by local authorities. **page 26**

Strengths combined in Serbia

In August 2017, VIG concluded the merger of Serbian Group company Wiener Städtische Osiguranje and the two AXA companies that were acquired in 2016. The merger strengthens the selling power of the companies and allows VIG to efficiently take advantage of synergies.

Well-planned transition: Liane Hirner has been a Member of the VIG Managing Board since February 2018. She follows Martin Simhandl, who will be leaving the Managing Board in the middle of 2018 after 13 years as CFO.

PERSONNEL CHANGES

Managing Board changes

On 30 June 2018, CFO **Martin Simhandl** will be leaving the position he has held on the VIG Managing Board for many years. In the interests of sustainable corporate governance, the Supervisory Board already arranged his successor in June 2017. **Liane Hirner**, an experienced auditor and management consultant, was appointed as a new Member of the Managing Board effective 1 February 2018. In addition, **Roland Gröll** left his position as Member of the VIG Managing Board on 1 July 2017 to join the Managing Boards of Wiener Städtische and Donau Versicherung. **Peter Thirring** will transition from Donau Versicherung to a position on the VIG Managing Board on 1 July 2018.

VIG makes an acquisition in the Baltic states

VIG has further expanded its market leadership in the Baltic states by acquiring 100% of the shares of Seesam Insurance. The acquisition is subject to approval by local authorities.

Expansion in Bosnia-Herzegovina

VIG has signed a purchase agreement for Merkur Osiguranje in Bosnia-Herzegovina. The acquisition was concluded at the beginning of 2018 and expands the product portfolio by adding the life insurance segment. VIG also doubled its market share, making it the third largest player on the market.

DIGITALISATION

New digital vision

VIG prepared a digital vision for the Group in 2017 to support Group companies during the digital transformation. **page 28**

Xelerate: a campaign for innovation

The Xelerate program will promote innovation in the Group starting in 2018. VIG will provide financial support for the best digital initiatives chosen from projects submitted by the Group companies. **page 30**

SUSTAINABILITY

Focus on sustainability

VIG developed a sustainability strategy in 2017 that is based on the business strategy and uses the motto "Take responsibility and help shape the future". **starting on page 8 in the Sustainability Report**

Diversity concept

VIG has defined three priorities at Group level as part of its new diversity concept: gender, generations and internationality. **page 51**

“THE FOCUS IS ON SUSTAINABLE **GROWTH**”

VIG has another year of success and hard work behind it. In 2017, the Group made further significant steps towards setting the course for the future. An interview with the Managing Board on the benefits of diversity, opportunities in the CEE region and first progress made through the Agenda 2020.

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The VIG Managing Board: Judit Havasi, Franz Fuchs, CEO Elisabeth Stadler, Peter Höfinger, Martin Simhandl and Liane Hirner (from l. to r.)

Ms Stadler, how satisfied are you with the 2017 reporting year?
ELISABETH STADLER: Premium and profit growth are the encouraging results we achieved through systematically following our business strategy. They prove once again that we are a stable, reliable partner. We took many steps in the year behind us to ensure that we are well-equipped for future challenges. We are promoting the digital transformation of the entire Group, working to expand the bank insurance business and dedicating ourselves with great energy and enthusiasm to other initiatives in our strategic work programme Agenda 2020.

Mr Simhandl, as the CFO how do you assess VIG's performance?
MARTIN SIMHANDL: We continued the upward trend that had started in the previous year and further improved our result compared to 2016. Group premiums written rose 3.7% to EUR 9.4 billion. After adjusting for the single premium life business, where we intentionally continue to follow a cautious underwriting policy, this rose by 6.2% even. Our result before taxes significantly rose by 8.8%. This was due to the full consolidation of the non-profit societies over the entire year and good development in the insurance business.

What do you think of the opportunities and risks in Central and Eastern Europe?
FRANZ FUCHS: We can sense the economic upswing that began in 2017. People are more confident about the future again. They benefit from economic growth which implied higher consumer spending in 2017. This confirms our belief that the CEE region offers great potential and we are perfectly positioned to take advantage of these opportunities. Of course, problems can arise in individual markets from time to time, due to regulatory changes for example. But being able to rely on local management allows us to easily handle challenges like these. And regional diversity, product diversity as well as distribution channels within the Group reduces our overall risk exposure.

How do you expect business to develop in CEE in the future?
STADLER: We still see great potential for future growth of the insurance business in CEE. We want our business to grow continuously, both organically and through acquisitions – with a focus on sustainable growth. A business is sustainable only if it is profitable. In other words: we do not aim for growth for the sake of growth. We prefer targeted growth in selected business areas. In life insurance, we are focusing more on covering biometric risks and unit-linked products. In property and casualty insurance, we are promoting the non-motor business. We see particular potential in expanding health insurance, and are also setting very specific priorities in some markets.

PETER HÖFINGER: The same applies to acquisitions. We are always looking for good opportunities in the market.
Not everything we see meets our requirements. We initiated acquisitions in the Baltic states and Bosnia-Herzegovina in 2017. The acquisition in the Baltic states is aimed to strengthen our leading position and to intentionally expand the non-life business in Estonia. As a result of the acquisition in Bosnia-Herzegovina, we are now represented in all parts of the country. Morover we strengthened the life insurance business and almost doubled our market share.

You introduced Agenda 2020 as a strategic work programme. How is implementation moving forward?
STADLER: Our goal with Agenda 2020 was to optimise our business model

"Premium and profit growth are the encouraging results we achieved through **systematically following our business strategy.** They prove once again that we are a **stable, reliable partner."**

Elisabeth Stadler

and take advantage of new business opportunities. Neither of these can be accomplished overnight. We are therefore very pleased to see the first progress after such a short period of time. In 2017, we decided to merge our local composite insurers with our life insurance companies that specialise in bank distribution in Austria, the Czech Republic, Slovakia, Hungary and Croatia. This allows us to combine resources and expertise to better assist our bank insurance partner Erste Group in providing customer advice and selling insurance products. This is of particular benefit to our customers. We want to take full advantage of the growth potential offered by bank distribution, especially for health and property and casualty insurance. We also want to simplify our products, make them more easily understandable and further integrate them into bank online sales.

What progress has been achieved with the other Agenda 2020 projects?

FUCHS: The measures for claims management are in the initial implementation or early roll-out phases. The pilot project in Poland even exceeded our expectations in terms of potential savings that could be achieved with the closed file review by using VIG's specific method. The next step will be to add each country and line of business one after the other. These measures will help us further reduce our combined ratio towards 95%. The savings expected from the initiatives will also help achieve this goal. This applies, for example, to the synergy effects achieved by the mergers that Elisabeth Stadler previously mentioned, and the profit-optimising measures for motor insurance where we are initially focusing on optimising foreign claims. We managed to reduce the Group-wide combined ratio to 96.7% in the year just ended.

And this was in spite of natural events like storm Herwart at the end of October, which created net Group-wide losses of around EUR 28 million until yearend.

The 2017 Group Annual Report is based on the motto "We embrace diversity". Why is this message so important?

STADLER: Everyone is talking about diversity. But while the others are just talking, we have always lived by this principle. Dealing openly with diversity is an important success factor for »

"We continued the **upward trend** that began in the previous year and **further improved our result.**"

Martin Simhandl

"The CEE region offers **great potential,** and we are **perfectly positioned** to take advantage of these **opportunities.**"

Franz Fuchs

“We are a company that **respects local cultures** and does not try to standardise everything. **We are proud of that.”**

Peter Höfinger

VIG. The way we approach customers differs from country to country. We therefore intentionally rely on regionally established brands and the expertise of local management. Our presence in many different markets with various brands and distribution channels also allows us to remain successful, even in challenging times.

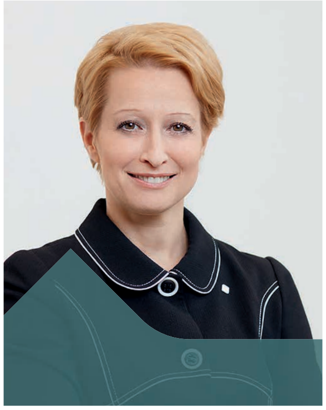
HÖFINGER: We are a company that respects local cultures and does not try to standardise everything. We are proud of that. Above all, we are also convinced that this approach makes us more successful.

How does the idea of diversity fit with digitalisation?

STADLER: We give our Group companies the freedom and independence to start with digitalisation projects and turn their ideas into reality. We developed a digital vision for our campaign in 2017 that is aimed at helping each insurance company with the transformation process from their own specific starting point. Speed, priorities and measures can differ from company to company. VIG Holding plays a supporting role for the Group companies in this regard.

How is VIG’s IT landscape changing, in particular with respect to digitalisation?

JUDIT HAVASI: Although our IT landscape is generally decentralised, we make sure that proper interfaces exist. This also creates a foundation for intelligent use of data, as defined in our digital vision. Austria provides an example that illustrates current developments: Our Group companies Wiener Städtische and Donau Versicherung established two programmes that go hand-in-hand. The organisational programme is aimed at reducing the structural complexity of products and harmonising processes and rules. The second programme



“Our **solvency ratio** puts us in a **good position for the future.“**

Judit Havasi

"IFRS 17 will bring a **new era of accounting** to VIG and the entire insurance industry starting **in 2021."**

Liane Hirner

focuses on modernising IT solutions for insurance policy management. What I want to illustrate with this example is that just modernising the IT landscape is not enough to move digital transformation forward. We also want to examine our processes and give priority to simple, clear solutions.

What about VIG's capital position, particularly with respect to Solvency II?
HAVASI: VIG has a solvency ratio of 220% calculated at the level of the listed Group, and 389% for VIG Holding as an individual company. Our solvency ratio therefore puts us in a good position for the future.

SIMHANDL: The 2017 bond issues by VIG and Wiener Städtische also illustrate our long-term planning. We took advantage of the favourable interest rate environment to further improve our cost of capital structure.

How does VIG deal with the upcoming regulatory changes?
STADLER: There will always be new regulatory challenges. Among others, we had to deal with the General Data Protection Regulation (GDPR), Insurance Distribution Directive (IDD) and PRIIPs Regulation on key information documents for insurance-based investment products during the last financial year. The insurance industry is already heavily regulated and is continuously challenged by ever-stricter rules. This presents a major challenge for the entire industry. But VIG is well-prepared. VIG Holding offers Group companies help in implementing regulatory requirements in the form of workshops and individual advice.

Ms Hirner, you joined the Managing Board in February 2018. IFRS 17 is certain to be one of the first major challenges in your new position.

LIANE HIRNER: Yes, that is true. I am looking forward to it, and the other challenges I will meet as a Member of the VIG Managing Board. IFRS 17 will bring a new era of accounting to VIG and the entire insurance industry starting in 2021. New accounting principles will be used for insurance policies. The underwriting liabilities in the balance sheet will be remeasured, and their presentation in the income statement will be fundamentally changed. In the future, new KPIs will be used to compare insurance groups, or previously used KPIs will be drawn upon a new meaning. VIG started a Group-wide project in 2017 that is centrally managed from Vienna to ensure that sound preparations are made for IFRS 17 within the entire Group.

What goals has VIG set for the future?
STADLER: Dealing with the effects of the low interest rate environment continues to be a major challenge. Our response is that we will further improve profitability and push forward with strategic measures in Agenda 2020. The results have been excellent so far. We now expect that the targets we initially announced for 2019 will be achieved a year earlier. We have therefore adjusted our targets for 2020, and are now aiming for a result before taxes of between EUR 500 and 520 million, a premium volume in excess of EUR 10 billion and a combined ratio of around 95%. These are ambitious targets, but realistic nevertheless. As a result of our activities under Agenda 2020, we have succeeded in strengthening the open exchange of information and collaboration within the Group. We aim to continue using this positive climate. Only those who show willingness to change can be successful, reliable partners in the long term.

AN OVERVIEW OF **VIG'S STRATEGY**

VIG focuses on Austria and Central and Eastern Europe, where it offers custom-tailored, needs-appropriate products and services to its customers. Its strategy aims to achieve sustainable profitability and continuous earnings growth in order to remain a reliable partner. It pursues two main objectives when implementing its strategy:

- **Consolidating its market leadership in Austria**
- **Taking advantage of the growth potential in CEE**

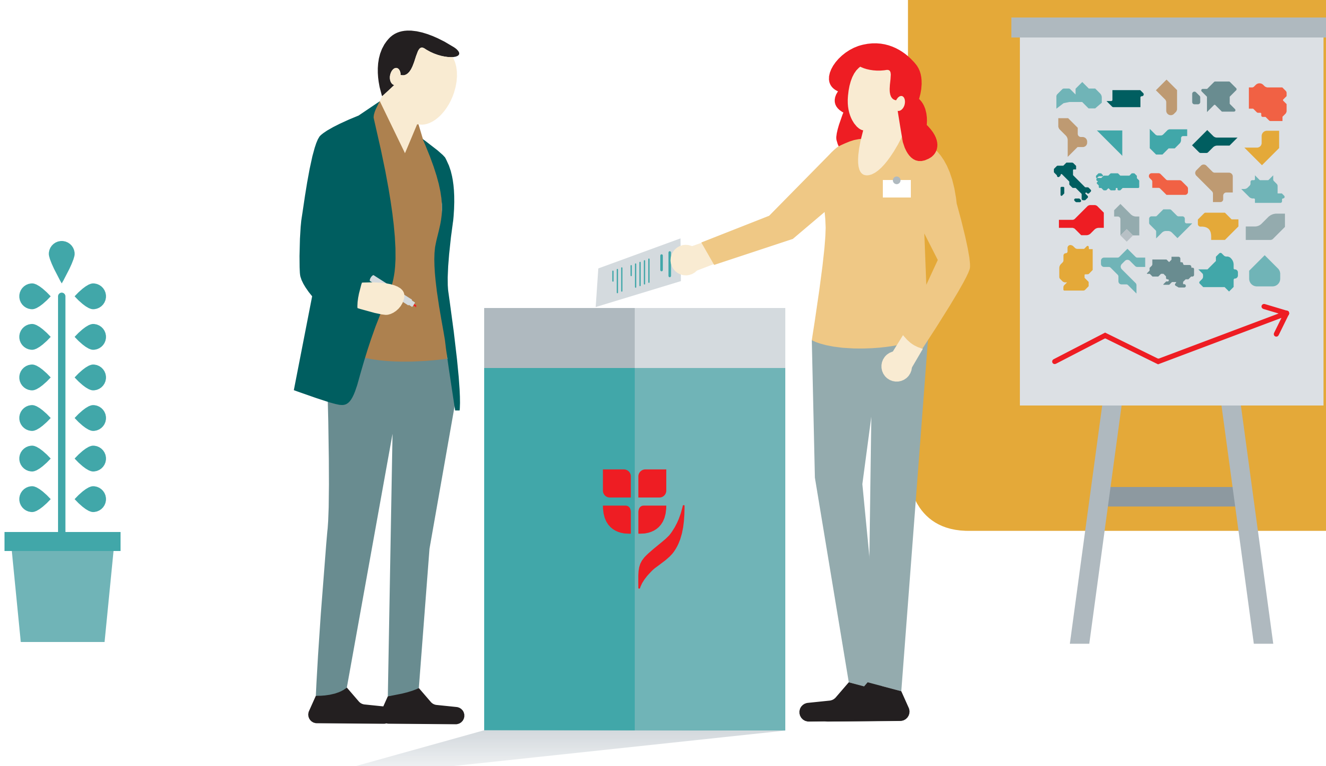
Key strategic elements

Core business: Insurance

VIG concentrates on its core business, namely providing insurance solutions and advisory services that best address the different security and future provision needs of the people in its markets.

Focus on Austria and CEE

VIG is committed to Austria and CEE as its home market and is convinced of the many growth opportunities offered by the CEE region. The difference in the economic and insurance-specific maturity of these markets ensures broad risk diversification across countries.



Management principles

Local entrepreneurship

VIG's decentralised organisational structure gives local management and employees great freedom in operating their business. This is because they know the needs of the local population and market structures best, and can design their distribution and products optimally to meet local circumstances. VIG Holding is responsible for Group management and works with the Group companies on a partnership basis. It is also responsible for cross-border reinsurance and international corporate business.

Multi-brand policy

VIG has intentionally retained its well-established local brands. It now uses around 50 brands in 25 countries. This allows different target groups to be better addressed, while strengthening regional identity. It also builds customer and employee loyalty to the Company. Group companies use their local brands as "given names", together with Vienna Insurance Group as a "family name" to express the international nature and long-term experience of the Group.

Multi-channel distribution

VIG uses its own field employees, brokers and agents, multi-level marketing, direct sales and digital media. Another very important channel is bank distribution. Since 2008, VIG has cooperated closely with Erste Group, which is well positioned in the CEE region.

Conservative investment and reinsurance policy

VIG is responsible for EUR 37,430.6 million in investments (including cash and cash equivalents). Security and sustainability are its priorities for these investments. Most of the assets being bonds and real estate, with only a small portion in equities. VIG also pursues its reinsurance policy with care, passing on part of the risks it assumes to the international reinsurance market. The pooling of risks at Group level ensures an optimal balancing of risks.

Strategic measures

VIG has three priorities incorporated in its strategic work programme Agenda 2020:

1. Business model optimisation
2. Ensuring future viability
3. Organisation and cooperation

Detailed information on the specific initiatives of the Agenda 2020 is available starting on **page 20.**

Non-financial objectives

CSR

VIG thinks in terms of generations. The Group therefore has economic goals as well as social and environmental goals. Detailed information on the sustainability strategy is available in the Sustainability Report starting on **page 8.**

Employer of choice

VIG is committed to being an attractive employer. The key requirements for this are a genuine appreciation for and conscious use of diversity throughout the Group. Further information is available in the Sustainability Report starting on **page 26.**

Targets for 2020

VIG pursues a sound, yield-oriented growth policy to achieve its goal of sustainable profitability. The following specific targets have been set for 2020:

Result before taxes

EUR 500 – 520 million

Premiums

> EUR 10 billion

Combined ratio

approx. 95%

1

Business model optimisation

To remain profitable over the long term, even in a challenging environment, VIG continues to improve its operating performance. The measures for prioritising "business model optimisation" are aimed at increasing cost efficiency and help reduce the combined ratio.

SHARED SERVICES AND MERGERS
Combining back offices in a country or region creates cost benefits. Group companies can also be merged if the long-term synergy effects outweigh the advantages of a diversified market presence.

ANTI-FRAUD-MANAGEMENT
Establishing a Group-wide best practice approach for anti-fraud-management in the retail lines of business, first manually and then computer-based.

CLOSED FILE REVIEW
Eliminate weak points in the claims handling process to avoid unjustified overpayments.

OPTIMISING THE PROFITABILITY OF MOTOR INSURANCE
Develop targeted measures focused on underwriting and risk selection as well as use new pricing methods.

AGENDA 2020

Strategic work programme

The three priorities of Agenda 2020 involve a variety of specific measures. Here is an overview.

2 Ensuring future viability

Demographic change, new lifestyles, technological innovation. For VIG's business model to remain viable in the future, it has to change with the times. The measures for ensuring the future viability of VIG focus on the ability of the Group to use future opportunities. One of these measures is a partnership formed with Insurance Innovation Lab in Leipzig to examine the opportunities and risks of future trends and the possibility of working together with insurtechs.

EXPANDING LINES OF BUSINESS

VIG is making use of growth potential by expanding business activities in the following areas:

- Focus on health insurance
- Expanding the bank insurance business
- Expanding the reinsurance business
- Strengthening SME business

INSURANCE OF THE FUTURE

Technological developments change how insurance is used and the forms it takes. Artificial intelligence and autonomous vehicles, for example, are making it necessary to re-think the traditional model used for motor insurance. VIG is also working on redesigning life insurance as an instrument for future provisions. In both cases, the aim is to provide added value in addition to the main goal of risk protection.

DIGITALISATION

Based on its new digital vision, VIG is developing measures to modify its business model to appropriately accommodate the digital transformation. In addition to process automation, the focus is also on improving the customer experience (“anywhere, anytime, any way”) and developing new products and services. Enhanced forms of data analysis, sales promotion measures and a culture of innovation are further priorities.

ASSISTANCE

Internal Group assistance services are being expanded. This creates competitive advantages, rounds off the insurance business model and creates a foundation for additional services in a digital future.

3 Organisation and cooperation

The key factor for the success of all measures is good collaboration on a partnership basis between VIG Holding and the Group companies. Clear rules and tools have been created for this purpose, together with an infrastructure to exchange best practices and experience within the Group.

The strategic work programme Agenda 2020 is VIG's answer to the current challenges the insurance industry faces. The initiatives for the three priorities are being implemented in close cooperation with the local companies and will ensure that VIG remains a strong, successful player in the Central and Eastern European insurance market in the future.

AGENDA 2020

Business model optimisation

The potential savings in foreign motor claims is around EUR

10 million

per year

Around

29 IT tools

are being used to support claims handling

A closed file review was already performed in

4 companies

in Poland and Lithuania in 2017

Systematic use of synergies

Shared back offices for multiple Group companies and company mergers when this makes sense: VIG shows close cost awareness.

Creating cost benefits is essential for sustainable profitability. To this end, VIG is combining back offices to create shared services that can be accessed by more than one Group company. Group companies are also being merged if the potential synergies clearly outweigh the benefits of a diversified market presence. In 2017, for example, VIG merged Wiener Städtische Osiguranje in Serbia with the two AXA companies that had been acquired the year before. In the Baltic states, InterRisk (formerly Baltikums) was merged with BTA Baltic. VIG is also merging local Group companies in Austria, the Czech Republic, Slovakia, Hungary and Croatia with Group life insurance companies that specialise in bank distribution (subject to approval by the local authorities). Addditionally in Poland, Polisa Life and Compensa Life will be merged in 2018.

Optimisation of motor insurance

Central support is being provided for foreign motor claims handling in order to realise potential cost savings.

VIG continues to see further potential for reducing the combined ratio in the motor business. In particular, it aims to reduce expenses of foreign claims. This particularly concerns trucks, as they travel internationally more often than passenger cars and create higher expenses if a claim occurs. VIG established a central foreign claims team for this purpose in 2017. Previously, claims of this type were mainly handled by local partners. “Providing central support moves us closer to the claims and allows us to realise potential cost savings”, stated Jürgen Palmberger, Head of Performance management motor vehicle insurance at VIG. Among other things, contracts with external loss adjustors are being harmonised and their terms and conditions improved. The truck portfolio was also reduced by around 10% in the Czech Republic, Slovakia, Poland, Romania and the Baltic states in 2017. The reason is that if a truck is insured in a country with a low price level, then the premium is also correspondingly low. When a loss then occurs in a country with a high price level, expenses for the repairs are inordinately high.

High standards in claims management

VIG is systematically optimising claims handling. Methods such as closed file review are being rolled out in phases for countries and lines of business.

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Justyna Śledziewska,
Head of Competence Team
Fraud Management

VIG began to systematically review old claims in 2017. The so-called closed file review aims at finding potential weaknesses in claims handling and ensuring that errors are not repeated. Processes are optimised and training provided based on the findings to ensure that a standardised procedure is used in claims handling. VIG first used its specific methode for closed file reviews in Poland and Lithuania for motor and household insurance in 2017. Initial results already show significant potential savings of claims expenses. The closed file review also supports anti-fraud-management since better quality claims handling, such as detailed documentation with precise descriptions of the event, photographs and official documents, helps improve processes and make them more consistent.

Systematic claims analysis

Efficient claims handling needs to be based on correct information about the event in question. Just as customers have to rely on VIG if a loss occurs, VIG has to rely on the accuracy of the information provided. The new anti-fraud-management programme introduced in 2016 was therefore rolled out in more countries during the reporting year. “We are now operating in Poland, Romania, Bulgaria and Croatia”, says Justyna Śledziewska, Head of Competence Team Fraud Management. The results were already clearly visible in 2017 in the countries and lines of business where the new process was being used. The share of claims identified as possibly fraudulent increased almost four-fold. In the end, the VIG companies were able to significantly improve the correspondence between claims and the specified scope of coverage compared to the situation before the programme was introduced. “Improvements in claims management will increase this even more”, explains Śledziewska. The total amount of claims that were not paid out due to these efforts was doubled.

Focus on motor insurance

The systematic anti-fraud-management will be introduced in more countries in 2018, first in Serbia, Slovakia and the Baltic states. It will also be rolled out in phases in other lines of business. The focus is currently on motor insurance. Initial roll-out has also taken place in the property and casualty line of business.

QUESTIONS FOR JUSTYNA ŚLEDZIEWSKA

How do you help Group companies optimise their claims management?

We form a team with the local employees. The anti-fraud-management initiative would not be possible without a collaboration like this. We bring best-practice examples, experience from other countries and the Group methodology with special design elements as well as a specific process. One of the key elements in our method is a list of indicators for possible fraud. The list, however, must be modified for each market. Initial results can already be seen two to three months after the kick-off meeting with the local employees.

Do you use computer-assisted analysis methods?

We feel that we first have to master the process manually. In the next step starting in 2018, we will also use IT tools to assist with automatically identifying cases of possible fraud using advanced analytics applications.

What are your goals for 2018?

In addition to rolling out anti-fraud-management in other countries and lines of business, we want to create a Group-wide community of experts and promote the exchange of knowledge and experience. It is a dynamic process that requires constant learning and improvement.

AGENDA
2020

Ensuring future viability

VIG handled more than
200,000
assistance cases
for its customers in 2017

VIG Re records
10.7%
premium growth in 2017

A health insurance premium increase of
43.1%
in the CEE region

Healthy growth rates in health insurance

VIG aims to double its health insurance premium volume in five key countries by 2020.

The demand for individual health insurance is increasing in Austria and the countries of Central and Eastern Europe. Due to demographic change, tight funding for government healthcare systems and rising prosperity in CEE, this trend is likely to continue. Group-wide premiums increased 9.3% to EUR 563.9 million in the health insurance line of business in 2017. In CEE, the growth rate was even 43.1%.

VIG sees great potential in five focus countries. The aim is to double premium volumes in Bulgaria, Poland, Romania, Turkey and Hungary by 2020. To take advantage of the growth opportunities, VIG worked together with the companies in the five key markets using a structured process to develop measures, some of which have already been implemented – from the development of new products, to targeted marketing, all the way to optimisation of claims and provider management processes. VIG Holding has a supporting role to ensure an exchange of knowledge between the Group companies.

Expansion of internal Group assistance services

In previous years, VIG has increasingly moved towards providing assistance services itself rather than outsourcing to third party providers. Internal Group assistance services are already being offered in the Czech Republic, Slovakia, Bulgaria and Poland. The Bulgarian company also started handling the Macedonian market in 2017, and a Group assistance company was formed in Romania. The goal of these activities is to take advantage of synergies and reduce claims expenses, while increasing customer value at the same time.

SME initiative is a success

VIG had already decided to focus on microenterprises as well as small and medium-sized enterprises (SMEs) in 2012. As a result of the initiative, the premium volume generated in 2017 rose above the EUR 320 million mark. This corresponds to an increase of around 36% compared to 2012, which was partly due to the use of custom-tailored products designed for the target group and a choice of suitable distribution channels.

VIG expands reinsurance business

VIG Re has established itself in CEE as a result of its specific know-how and particular customer proximity. The new office in Frankfurt marks the beginning of an expansion into new markets.

For VIG Re 2017 was a year of controlled growth into Western Europe. VIG also plans to expand reinsurance under the Agenda 2020 programme. In addition to a gradual expansion of business in Germany, further international expansion is planned for France, Belgium, Luxembourg and Switzerland. This is aimed at steadily increasing VIG Re's premium volume, which exceeded EUR 400 million in the reporting year just ended, and increasing the premiums generated outside the Group. "The new office in Frankfurt is an important step in the planned expansion of our German business", said Johannes Martin Hartmann, Chairman of the Managing Board of VIG Re. Since the end of September 2017, customers have been served in Germany as well as Austria and Switzerland.

Business with external customers is becoming more important

VIG Re was originally founded as an internal Group reinsurance company. The business with customers outside the Group, however, is becoming increasingly important. VIG Re has established itself as an important reinsurer in CEE over the past years. "The market sees us as a new, modern dynamic player, while at the same time our Group has centuries of tradition and experience behind it and enjoys high recognition and acceptance", explained Hartmann. "Our advantages come from flat hierarchies and rapid decision-making, which our customers appreciate." VIG Re also has a competitive cost ratio, partly due to sharing a back office with other Group companies in the Czech Republic. VIG Re also benefits from the expertise of its employees in Central and Eastern Europe and the market know-how of the Group as a whole.

"Pay close attention to profitability"

The aim now is to replicate the success that has been achieved in the CEE region in Western European markets. "We are not focusing on the volume of business", stated Hartmann. "We are instead paying close attention to achieving a risk-appropriate return. We only underwrite risks that we clearly understand." VIG Re is now gradually expanding its market expertise in Western European countries. Hartmann: "We also see ourselves as a niche provider here and would like to make our know-how available to special customers and market segments."

© VIG Re

Johannes Martin Hartmann is chairman of the managing board of VIG Re.

QUESTIONS FOR JOHANNES MARTIN HARTMANN

What niche will VIG Re focus on during the announced expansion?

We will mainly be aiming at companies with regional portfolios and mutual insurance associations or "Mutuelles" in France. A "cultural fit" exists with these companies and we can score points with our partner-like service and cross-border expertise.

Why is VIG Re the right partner for these customers?

Because we as well as our customers have a long-term orientation. Moreover, our streamlined costs can also help us succeed in a heterogeneous market. Other reinsurers only look for high-volume business and have difficulty with smaller companies. Looking for business in this area gives us an attractive niche market.

What is VIG Re's best success since its formation in 2008?

Definitely the fact that we were able to establish VIG Re as a top reinsurer in the region and now have around 50 employees. Our solid standing is also underscored by our A+ rating with a stable outlook by S&P.

VIG and Erste Group expand their cooperation

The partnership between VIG and Erste Group is based on a shared "emotional understanding", according to Peter Bosek, member of the Erste Group managing board, who feels that bank sales of health and property and casualty insurance offer great growth potential.

VIG and Erste Group have been working together closely in a strategic partnership since 2008. Why does it make sense for a bank to offer insurance products to its customers?
Peter Bosek: We feel it is our responsibility to support customers with asset accumulation. We should therefore also assist them when they want to protect these assets. If we help customers finance their property, then they will presumably also want to insure them against loss or damage by fire. And when customers lease cars, they also need third party liability insurance. Our customers receive a full range of products and services from one single source. That in turn strengthens our customer relationships and is therefore also an advantage for us.

In 2017 VIG and Erste Group brought a project group to life to further expand the cooperation. What was the specific objective?
Bosek: We want to further expand the range of insurance products and services offered. We particularly see a great deal of potential in sales of health and property and casualty insurance – both in CEE and Austria. In 2017 we worked intensively with VIG to reduce the number of product variants and simplify their design so that customers could see their value more clearly. The shared project group also developed measures, some of which have already been implemented, to accelerate processes in the background. These are important requirements for successful bank distribution.

What are your expectations for VIG's planned mergers of composite insurers and life insurance companies that specialise in bank distribution?
Bosek: The mergers combine the know-how of each insurance company. As a result of the mergers, there will only be a single contact party defined for each of the countries where a cooperation exists between Erste Group and VIG. This allows VIG to even better support us when providing customer advice and selling insurance products.

What future does bank distribution of insurance products have, given the declining number of bank branches?
Bosek: Banking and insurance both continue to have a personal dimension.

"We worked intensively with VIG in 2017 to **reduce** the number of **product variants** and simplify their design so that **customers could see their value more clearly."**
Peter Bosek

Peter Bosek is the member of the managing board of Erste Group Bank AG who is responsible for retail banking. What does he value as a customer when buying insurance? "I appreciate it when someone handles the tedious details for me, so I don't have to spend time on them myself." The process should go quickly in the event of a claim and "I would prefer not to have to fill out too many forms".

© Erste Group

But I am "agnostic" when it comes to distribution channels. Customers are the ones who choose preferred points of contact. We have to make all of the options available. Whether they visit us at a branch or digitally, the customer is always welcome. At the same time, I believe that digital sales of insurance will also increase. We nevertheless have to be very careful to offer products online that the customer actually wants to buy online, ideally accompanied by supplementary digital services.

Start-ups are bringing a breath of fresh air into both the banking world and the insurance industry. What do you think about this trend?
Bosek: Although we enjoy working with start-ups, we also have a highly innovative corporate culture. George, for example, was the first pan-European banking platform launched. Interestingly enough, what we can learn from these young companies above all, is how to communicate better. The financial industry was never world champion in speaking clearly. This is an area that we need to improve.

What do you think is the secret to the success of the partnership between VIG and Erste Group?
Bosek: Sometimes cooperations like this simply make financial sense, or follow capital market trends. In our case it is different. VIG and Erste Group have a shared emotional understanding. Both companies were founded in the 19th century based on a similar idea: to be a financial service provider for everyone. Our recent past also unites us. We share similar beliefs on how we should act in our markets in Central and Eastern Europe. We adjust to local circumstances and try to support the economy as well as customers the best we can. All of these are reasons why our partnership works so well.

VIG PROMOTES BANK SALES

© Fischer

Harald Londer is Head of the VIG Bancassurance department.

VIG created a new Bancassurance area at the beginning of 2018 to manage development and implementation of Group-wide strategic initiatives. Harald Londer became head of the area on 1 March 2018. The 54-year-old lawyer is a profound expert in the banking insurance scene in Austria and the CEE region. He was previously member of the top management at the Czech subsidiary of an international insurance group.

VIG already began the process of merging composite insurers with life insurance companies specialising in bank distribution in Austria, the Czech Republic, Slovakia, Hungary and Croatia in 2017.

In Austria, Wiener Städtische and Erste Bank carried out a two-month distribution pilot in 2017. New, simplified solutions for health and property and casualty insurance were offered in 13 "Erste Bank und Sparkassen" branches. Due to great customer interest, the model was extended to all of Austria in March 2018. Comparisons with European markets show that up to 10% of non-life business is already sold through banks. Wiener Städtische is also moving towards this mark with "Erste Bank und Sparkassen".

AGENDA 2020

Klaus Mühleder is Head of the VIG Group Development and Strategy department.

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Digital transformation: The future begins now

A new vision, a central hub for digital know-how, cooperations with start-ups: 2017 brought major changes for the digital transformation at VIG.

Amazon, Netflix and similar companies: These companies now set the standard for people's expectations regarding customer experience and service quality – in all sectors. VIG is also in the process of offering its customers service "anywhere, anytime, any way". The Group took important steps to achieve this goal in 2017. They are all aimed at using the wide range of innovative digitalisation projects within the local Group companies (see pages 30 and 31 for examples) to create an overall Group-wide concept. Two fundamental innovations at Group level now point the way to VIG's digital future:

- A digital vision (see pages 30 and 31 for examples) that creates a uniform and, above all, comprehensive understanding of what digitalisation actually means – since, as Klaus Mühleder, Head of the Group Development and Strategy department at VIG stresses, "Digitalisation is more than just an app".
- A digital information hub was created at VIG Holding level to drive the digital transformation forward and manage the exchange of knowledge between the individual companies.

Guided collaboration

The digital vision also allows a precise inventory to be made of where the Group stands in terms of digitalisation. "We are in the process of determining how advanced the individual companies are with respect to the six topic areas", explains Mühleder. "We will then work with them, based on this information, to determine the areas they want to develop further." This will lead to a digital transformation plan with specific targets for the entire Group. The digital hub will coordinate work between the local companies and keep the "big picture" in view. It will ensure that VIG can take full advantage of the benefits provided by its decentralised organisational structure. Mühleder illustrates this with an example: "If a certain solution is needed in several companies or countries, it will be developed where the necessary expertise is already available. After successful implementation, the solution can then be transferred to the other companies with little additional effort."

Cooperation with start-ups

Another major responsibility of the hub is to collect knowledge and make it available to everyone in the Group – lessons learned from implemented projects, a start-up database and other central information resources. Cooperations like those with Insurance Innovation Lab in Leipzig and the Connected Insurance Observatory are also facilitated through the hub. VIG uses these partnerships to network

QUESTIONS FOR KLAUS MÜHLEDER

Are insurance companies facing disruptive changes?

I think the term disruption is a bit overused when talking about the insurance industry. Not even Uber's business model is disruptive. It is not fundamentally different from a standard taxi company. It just uses technology to offer more intelligent service than others.

Does that mean the big revolution is not coming?

We have to make a distinction between the two waves of digitalisation. The first wave is intelligent use of technology to improve existing business models – like Uber. The really exciting changes will happen in the second wave, when we use digital technology to develop new business models – new products and new ways to offer products. In this wave, as an insurance company we will no longer mainly receive premiums in exchange for payments when a loss occurs. Instead, customers might pay us, for example, to protect them before the occurrence of a loss.

Can you give a concrete example of this?

One example would be the use of sensor technology in water pipes to prevent water damage. Customers would greatly prefer this over receiving a certain amount of money after a loss has occurred.

VIG'S DIGITAL VISION

COOPERATION WITH START-UPS

A turbocharger for innovation

At the end of 2017, VIG started a half-year programme for insurtechs from all over the world in collaboration with the two digitalisation centres in Leipzig, Insurance Innovation Lab and SpinLab. Selected start-ups in the insurance area, among others, receive a modern co-work office, intensive coaching and benefit from contact with investors and established companies. VIG in turn uses the cooperation as a direct line to technical innovations.

with insurtechs (i.e. start-ups in the insurance industry) and work together with them to gain practical knowledge about technical innovations and how they can be applied in our day-to-day work. In the reporting year just ended, for example, work on basic topics like peer-to-peer insurance, blockchain, artificial intelligence and the Internet of things has been conducted.

Added value through digitalisation

All of VIG's digitalisation projects are aimed at achieving at least one of the three top objectives:

- Expanding customer relationships: In addition to communicating with customers when a loss occurs, digital communication channels also allow insurance companies to offer other attractive services to customers.
- More efficient processes: Digital tools allow companies to use existing resources more productively. For example, if information is automatically provided on the status of a claim, significantly more customer enquiries can be handled without additional resources (and waiting time).
- New spirit: The corporate culture shall continue to develop even further into a culture of openness that uses the intelligence and creativity of as many of the parties involved as possible, and in which many things are tried and an occasional error is accepted. Only a culture like this can make digital transformation possible.

AGENDA 2020

Digital vision: projects within the Group

A pitch for VIG

Openness to new ways and ideas has always been part of VIG's corporate culture. Digitalisation makes this attitude even more important.

In 2017, VIG Holding brought **VIG Xelerate** to life, a programme aimed at promoting digital transformation within the Group. Group companies can now submit innovative ideas for presentation to the Managing Board on "Pitch Night". The most exciting digital initiatives will then receive financial support.

A cooperation with **Insurance Innovation Lab** in Leipzig (also see page 28) allows VIG to network with start-ups and deepen its knowledge of future technologies. It also creates a framework for using new methods and solutions, such as "design thinking", in product innovations.

Serbian Group company Wiener Städtische Osiguranje conducted its **Winners 4 Wiener** programme twice in 2017, which allows employees to submit innovative ideas within a certain time frame to win prizes. This fuelled the flames of entrepreneurial spirit in the company, and six of the ideas are now being pursued.

A back office in your pocket

Innovative tools allow the sales department to provide even better customer service.

The **Mobli** app helps partners of Polish Group company Compensa to sell motor insurance. When a broker scans the QR code on a vehicle registration, the vehicle data is automatically uploaded to the "CPortal" broker portal. This allows policies to be issued more quickly. Sales terms can also be modified from a mobile device and customer-specific premiums calculated at the push of a button.

The **Online Brokers** interactive web interface of Hungarian Group company Union Biztosító helps brokerage company employees prepare offers before meeting with a customer. These can be modified in real time during the meeting. The calculations can be saved and viewed again at a later time. The application is linked to Union Biztosító's central IT system. This allows access to all customer data and related documents at any time.

Fast and custom-tailored

That would not have been possible in the past. Digitalisation makes it possible to create innovative insurance products that benefit the customer.

Quickly use your smartphone to purchase accident insurance early in the morning before heading into the mountains – this is now possible with **s Alpin-Unfall-Schutz**, an alpine accident product offered by the Austrian company s Versicherung. The costs of recreational accidents, whether during hiking, mountain biking, skiing or snowboarding, are covered for EUR 4.90 per day. Coverage can be purchased with a few clicks and takes effect after 60 minutes. Insurance coverage can be purchased for one to seven days, depending on the need. The **s Running-Unfall-Schutz** product provides coverage for running accidents for a premium of EUR 1.90 per day. Coverage also takes effect after 60 minutes and is a good choice for those participating in running events. Consequential expenses due to broken bones or torn ligaments that occur during relaxed training runs are also covered. In addition, for all policyholders resident in Austria, immediate pay-out with no waiting period is guaranteed for the 47 most frequent types of injury. Both products were introduced to the market in September 2017.

Automation

Work that handles itself

Intelligent use of technology makes background processes simpler and faster.

VIG's most comprehensive digitalisation project is taking place in Poland. Among other things, Group company Compensa is working on the use of robotic process automation, or robot technology, in its **Genesis** project. Extensive testing was performed in 2017, and four routine processes have been handled automatically since the beginning of 2018 – without human intervention. These include, for example, processing insurance claims submitted online and changing personal data. Other processes will follow during the course of the year. Compensa is also testing robot technology for customer communications. Computer programs, so-called bots, can independently answer questions over all channels – telephone hotline, email and messenger service. Travel insurance can also be purchased via chat.

Czech company Kooperativa is also relying on digital processes. It has processed all payments as non-cash payments since the beginning of 2017. This is made possible by the mobile card reading device **mPOS**, which, for example, allows contactless payment using NFC (near field communication) and Bluetooth – both at a business office and where the customer is located. This reduces paper consumption, while also increasing security and the speed at which payments are processed.

Intelligent use of data

Know more, earn more

Data contains hidden treasures that can be discovered using advanced analysis tools.

Experts at the Lithuanian company Compensa developed a new risk and pricing model for motor third party liability insurance in its **Dynamic Pricing** advanced analytics project and integrated it into the company's internal calculation programmes that are used at the point of sale. The resulting price optimisation is helping to increase the company's profitability. The project team has already begun developing local variants of the Lithuanian model for the two other Baltic markets.

Czech company Kooperativa used machine learning to develop a **customer lifetime value model** that estimates the future profitability of individual customers. This allows targeted offers to be made during the policy renewal process. Kooperativa is therefore able to respond precisely to customer needs and reduce its lapse rate.

Customer experience

Digital helpers

Digital channels of communication offer greater service, thus strengthening customer relationships.

"Hello! I am the Wiener Städtische ServiceBot." You receive a pleasant greeting on the VIG Group company website. Wiener Städtische's **ServiceBot** opens up a new digital channel of communication. A chatbot (abbreviation of chat robot) provides help in a separate dialogue window. It can, for example, assist to set appointments for advisory meetings and help website visitors to find appropriate products. Although providing personal advice is still very important to Wiener Städtische, most potential customers first look for information online. Chatbots make it easier to search for information and are available around the clock.

Georgian Group company GPI created **mygpi.ge**, the first online insurance platform in the country, in 2016. Online sales are already generating around 10% of premiums. 30% of customers use the platform to handle their claims, and the amounts are often transferred within one working day. The platform also handles the needs of business customers, who can now manage their policies with a click – from overseeing group participants to handling health insurance claims.

AN ABUNDANCE OF **PRIZES AND INNOVATIONS**

Local successes: VIG companies achieved a great deal in 2017. Here is a selection of highlights from the markets.

COMPENSA IS THE BEST DIGITAL INSURER IN POLAND

Polish Group company Compensa received the award for “Best digital insurer” – for implementing modern technology in the work process – at the “Grand Gala of Banking and Insurance Leaders”. “Genesis”, the most comprehensive digitalisation project of the Group, helped the company win this award. Compensa is developing and testing forward-looking solutions in this project, such as process automation using artificial intelligence, or claims settlement and direct policy sales using an app. In the next step, the knowledge gained from the project will be made available as best practice examples for use by the entire Group.

KOOPERATIVA NAMED TOP FINANCIAL COMPANY IN THE CZECH REPUBLIC

Group company Kooperativa was recently chosen as the second-best company in the Czech Republic. The “Czech Top 100” competition also rated it the most successful financial company in the Czech Republic for the third time in a row.

DONAU VERSICHERUNG CELEBRATES ITS 150^{TH} ANNIVERSARY

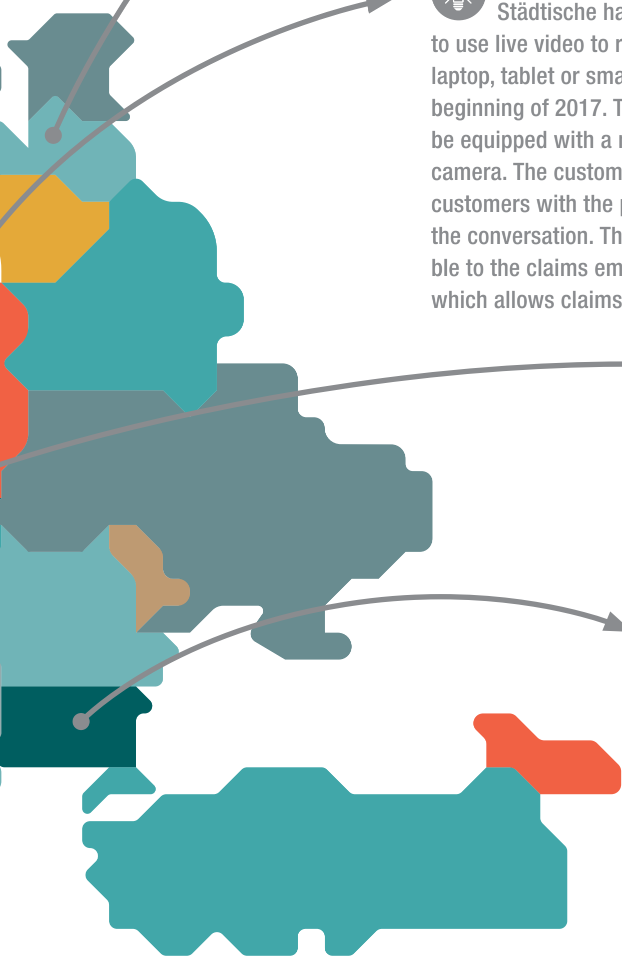
The Austrian Group company celebrated its 150^{th} anniversary in 2017, making it the VIG brand with the longest tradition. Donau Versicherung has been part of the current Group since 1971 and is one of the largest companies of the Group. It attributes its success to its regional ties, market presence in Austria and customer orientation.

UNION BIZTOSÍTÓ OFFERS RISK COVERAGE THAT IS ALWAYS STATE-OF-THE-ART

Hungarian company Union Biztosító has offered customers something new in the area of household insurance since the summer of 2017. Its “Joker supplementary insurance” allows customers to obtain coverage against risks that are not covered by their previous policies. What is special about the product? It works dynamically and is based on market conditions. The “Joker supplementary insurance” product provides coverage up to a specified maximum value for each new risk added to the terms and conditions.

WIENER OSIGURANJE RAISES AWARENESS OF “HEALTHCARE INSURANCE”

“Vrag nikad ne spava” – “The Devil never sleeps” is the title of the successful marketing campaign used by Croatian insurance company Wiener Osiguranje to enter the health insurance market. Young people are the main target group, and “illness” is a topic that is often outside the awareness and comfort zone of the Group. The campaign attracted a lot of attention, received an award from marketing experts and contributed greatly to a very successful market launch.



WIENER STÄDTISCHE ALLOWS VIDEO TO BE USED TO REPORT CLAIMS

Austrian company Wiener Städtische has allowed customers to use live video to report claims via PC, laptop, tablet or smartphone since the beginning of 2017. The device just has to be equipped with a microphone and camera. The customer adviser assists customers with the proper settings during the conversation. The pictures are available to the claims employee immediately, which allows claims to be handled faster.

BTA CHANGES OVER TO A PAPERLESS OFFICE

Latvian Group company BTA has extensively digitalised its work processes and practically abandoned the use of paper entirely. There are now only four printers for around 300 employees. The development of an internal e-signature and new archiving systems were important steps on the way to a paperless office. Every document is now just a click away. The absence of paper makes BTA faster and more productive – while conserving resources at the same time.

KOMUNÁLNA INTRODUCES ASSISTANCE SERVICE TO ITS HOUSEHOLD INSURANCE

Slovakian Group company Komunálna is offering a new assistance service to customers of its ProDomo household insurance. This free supplementary coverage is popular because of the immediate organisational assistance it provides in the event of a loss. This ranges from coordinating plumbers, electricians and other tradesmen, to arranging alternative accommodation if necessary, all the way to organising waste disposal.

“B-ASSIST” APP OF THE BULGARIAN COMPANY BULSTRAD LIFE RECEIVES A FLOOD OF AWARDS

The B-Assist app of Bulgarian company Bulstrad Life received three awards in 2017: best “mobile innovation” at the b2b Media Awards, IT project of the year from “Computerworld” magazine and the “Innovationspreis der deutschen Wirtschaft” (German business innovation award). In addition to showing the company’s health insurance customers all the details of their policy and available medical facilities in the area at the push of a button, the mobile app also assists scheduling appointments with the medical practitioner of their choice, reminds them of doctor’s appointments and supports confidential data exchange.

Award
Anniversary
Product
Innovation

“CLEAR COMMITMENT TO **GROWTH** AND EFFICIENCY”

VIG is the right choice for investors who believe in CEE. As the market leader in Central and Eastern Europe, VIG is relying on its proven management principles and Agenda 2020 programme to take advantage of the growth potential in the region.

VIG has acquired a unique position in Austria and Central and Eastern Europe. No other insurance company in CEE is positioned so well or is market leader in so many markets (see pages 8/9). This means VIG is the right choice for investors who believe in the growth potential of the CEE region – which is fully supported by the macroeconomic indicators. This was already the case 10 or 15 years ago and still applies today. Things have changed, however, since the financial and economic crisis of 2008, and although size is a clear competitive advantage, it is not everything. VIG has always relied on profitable growth, is aware of the changes and has set three important priorities for further successful growth of the Group on its Agenda 2020 (see page 20 et seq). We remain committed to our management principles. We continue to promote and make use of the local know-how and entrepreneurial spirit of our around 50 companies to offer optimal insurance solutions and the best possible service to our customers in 25 countries in collaboration with a wide variety of distribution partners. And yet, the key strategic priorities of ensuring future viability and business model optimisation in Agenda 2020 have had a major impact. In addition to systematically expanding promising business areas and profitable lines of business, work is also being done at VIG Holding on improving claims handling measures. The announced mergers of the insurance companies from the former s Versicherung group that were acquired ten years ago are another indicator of our clear commitment to growth, greater efficiency and readiness to change the organisational structure for a promising future. In addition to the life insurance products already being offered through banks, we want to expand the range of attractive products offered to bank customers in the non-life and health insurance areas. The synergy effects expected from the mergers in Austria, the Czech Republic,

“We are not only **prepared to allow for differences,** but we are also able to use **diversity positively.**”

Nina Higatzberger-Schwarz

THE VIG EQUITY STORY

1. **Number 1 in Austria and CEE**
   VIG is the clear market leader: This puts VIG in an optimal position to benefit from the growth potential in the region.

2. **Diversity as a basic principle**
   Common strategy and local management: This is how VIG management reduces risk, promotes innovation and makes use of synergies.

3. **Strong capital position**
   The solvency ratio was 220% calculated at the level of the listed Group. This allows VIG to take advantage of growth opportunities while still maintaining high performance over the long term.

4. **Reliable dividend policy**
   Dividend payouts each year since 1994: In this way, VIG maintains a balance between earnings and long-term potential.

Nina Higatzberger-Schwarz
Head of Investor Relations
Phone: +43 (0) 50 390-21920
Email: nina.higatzberger@vig.com

QUESTIONS FOR NINA HIGATZBERGER-SCHWARZ

VIG has a very high equity ratio. Has anything to be done about shareholder returns?

If the solvency ratio of the listed entity were to stay above 230% for a long period of time, we would not exclude considering measures in this area. However, VIG is a growing company and we therefore want to use our strong capital position mainly for growth in the current favourable environment. Moreover, stability is of central importance to us and we therefore take a long-term view. We are, after all, not just responsible toward our shareholders, but first and foremost toward our policyholders. We have to find the proper balance between the interests of all our stakeholder groups in order to achieve good sustainable performance that benefits everyone.

What is VIG's strategy for acquisitions?

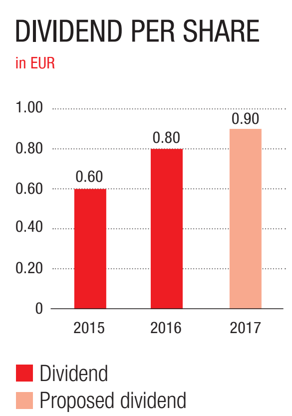
VIG is focusing on acquisitions in markets where our Group companies are not among the top 3 players. This includes, in particular, Poland, Hungary and Croatia. However, due to market consolidation in CEE, VIG is exploring opportunities for bolt-on acquisitions in the entire region. The company being acquired must, however, be a good fit, and the price also has to be right. We are, after all, in a very comfortable position. VIG can make an acquisition, but does not have to.

Slovakia, Hungary and Croatia will also have a positive effect on the Group's combined ratio over the long term. This will allow us to reach our targets for both premiums and profits.

Commitment to diversity
The mergers that have been announced or were already completed as well as other possible mergers should not be seen as a rejection of our fundamental multi-brand policy. We still want to maintain as broad a market presence as possible and remain as close to our customers as we can, but with a modern efficient organisation in the background. All digitalisation activities pursued by VIG to allow the technological transformation to take place in the Group's decentralised organisational structure and drive it forward should be interpreted in this light (see page 28 et seq). Diversity has been and continues to be a characteristic of VIG. We are not only prepared to allow for differences, but we are also able to use diversity positively – for the benefit of all our stakeholders.

This is all taking place from a position of strength, including a strong capital position, as shown by our solvency ratio of 220%, which is within the range of 170 to 230% set by the Managing Board in 2017, and the A+ rating with a stable outlook that S&P has once again confirmed in 2017. We will build on this foundation to achieve further growth, both organic and through acquisitions, in our existing markets.

VIG shows consistency in its dividend payments. VIG has paid out a dividend each year since 1994. Against the backdrop of the Group's existing dividend policy, VIG distributes at least 30% of Group net profits to its shareholders.



VIG shares with encourging gains in 2017

After a two-year dry spell, Vienna Insurance Group shares recorded a strong 21% gain in 2017, and significantly outperformed the major insurance indices.

2017 was a good year for both international stock markets and the Austrian ATX index. High corporate earnings, a favourable economy and the ongoing low level of interest rates sent share prices soaring. VIG shares also recorded a good start to the year, at times even outperforming the ATX index in the first quarter. Starting from a low for the year of EUR 21.590 on 2 January, the share price closed significantly above EUR 23 a number of times in March. VIG presented its Agenda 2020 programme to the capital markets for the first time when publishing its preliminary 2016 results at the end of March. It also reported on the planned development and expansion of its cooperation with Erste Group which had started in 2008.

Price rally in the 2nd quarter

An unprecedented price rally took place after publication of the final results on 19 April, which also included the solvency ratio of 195% at that time. VIG's share price climbed to an interim high of EUR 25.560 at the beginning of May and then moved sideways in a narrow range between around EUR 24 and EUR 25 until the end of the 2nd quarter. It was not until the beginning of July that VIG shares once again temporarily outperformed the ATX and exceeded the threshold of EUR 26 for the first time on 6 July. The share price lost ground again in the 3rd quarter, drifting lower to EUR 24.330 in the middle of September. VIG shares returned to the price range above EUR 25 at the beginning of the 4th quarter of 2017.

Mergers and acquisitions

After a calm period in October and November, when the mergers of Group companies in Slovakia and Austria were announced, prices started to show more fluctuation again in December. The merger of two companies in the Czech Republic and purchase of Seesam Insurance in the Baltic states were announced during this period. VIG shares reached their high for the year of EUR 26.520 on 22 December, and finally closed 2017 at a price of EUR 25.765. After two years of double-digit price losses, the price increase of 21.0% underscores the return of investor confidence. Although the spread between VIG shares and the ATX index, which reached 30.6% in 2017, still existed, Vienna Insurance Group clearly outperformed the two insurance indices, Euro Stoxx 600 Insurance (+6.9%) and MSCI Europe Insurance Index (+6.4%).

SHORT REPORTS

Bond issues strengthen capital buffer

VIG took advantage of the favourable interest rate environment in 2017 to further improve its capital position with a private placement of a EUR 200 million subordinated bond by Vienna Insurance Group and a EUR 250 million subordinated bond by Austrian Group company Wiener Städtische. Both bonds have a fixed term of ten years, are in line with Solvency II Tier 2 requirements and are traded on the Third Market of the Vienna Stock Exchange. The Group therefore now has adequate financial leeway for future projects. The required regulatory solvency ratio has been significantly exceeded. At the end of 2017, VIG had a solvency ratio of 389% as an individual company and 220% calculated at the level of the listed Group.

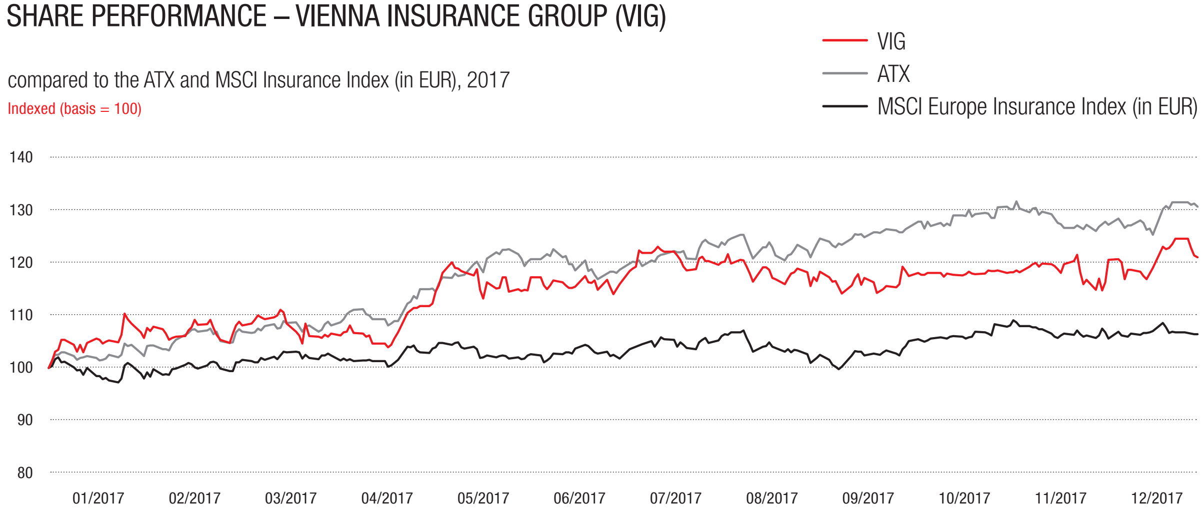
Best rating in the ATX index

In August 2017, Standard & Poor's rating agency has once again confirmed its A+ rating with a stable outlook for Vienna Insurance Group. Its excellent capital position continues to receive a rating of AAA. According to Standard & Poor's, other VIG strengths are its leading market position in Austria and Central and Eastern Europe, extensive geographical and product-specific diversification and an outstanding distribution network, including the preferred cooperation that has been in place with Erste Group since 2008. This means that Vienna Insurance Group continues to enjoy the highest rating of all companies in the ATX Index.

SHARE PERFORMANCE – VIENNA INSURANCE GROUP (VIG)

compared to the ATX and MSCI Insurance Index (in EUR), 2017

Indexed (basis = 100)



KEY FIGURES – VIENNA INSURANCE GROUP (VIG)

Key share information		2017	2016	2015	2014
Market capitalisation	EUR million	3,297.92	2,726.40	3,237.12	4,746.24
Average number of shares traded per day	Piece	~ 104,000	~ 161,000	~ 147,000	~ 65,000
Average daily stock exchange trading volume (single counting)	EUR million	3.0	3.9	6.8	3.1
Year-end price	EUR	25.765	21.300	25.290	37.080
High	EUR	26.520	24.790	42.620	40.070
Low	EUR	21.590	16.095	24.910	33.800
Share performance for the year (excluding dividends)	%	20.96	-15.80	-31,80	2.36
Dividend per share	EUR	0.90[1]	0.80	0.60	1.40
Dividend yield	%	3.49	3.76	2.37	3.78
Earnings per share[2]	EUR	2.23	2.16	-0.27	2.46
Price-earnings ratio as of 31 December		11.55	9.86	-93.67	15.07

[1] Proposed dividend

[2] The calculation of this financial ratio includes accrued interest expenses for hybrid capital

SERVICE TIP

Detailed, up-to-date online information

This and previous Group Annual Reports are also available online on the VIG web-site, including a version adapted for mobile devices. Individual sections may be down-loaded in PDF form. The most important tables are available as Excel files.

The VIG online annual report is available at www.vig.com/AR2017

FINANCIAL CALENDAR[1]

Record date AGM	15 May 2018
Annual General Meeting	25 May 2018
Ex-dividend day	28 May 2018
Record date	29 May 2018
Results for the 1st quarter of 2018	29 May 2018
Dividend payment day	30 May 2018
Results for the 1st half of 2018	28 August 2018
Results for the 1st to 3rd quarter of 2018	28 November 2018

[1] Preliminary schedule

Corporate governance report

Transparency and stakeholder trust are important to us. Observance of and compliance with the provisions of the Austrian Code of Corporate Governance therefore play an important role of Vienna Insurance Group.

The Austrian Code of Corporate Governance was introduced in 2002 and is amended regularly updated according to legislation and current trends. It is the standard for proper corporate governance and control in Austria. Provisions of the Code contribute to strengthening the trust in the Austrian capital market. The report that companies are required to publish on compliance with these provisions requires a high level of transparency.

Vienna Insurance Group is committed to the application of and compliance with the January 2018 version of the Austrian Code of Corporate Governance. § 267b UGB (Consolidated Corporate Governance Report) was also applied when preparing this report.

The Austrian Code of Corporate Governance is available to the public both on the VIG website at www.vig.com/ir and the website of the Austrian Working Group for Corporate Governance at www.corporate-governance.at.

Vienna Insurance Group sees corporate governance as a continuously changing process that responds to new conditions and current trends for the benefit of the Group as well as for its stakeholders. The goal of all corporate governance measures is to ensure responsible corporate management aimed at long-term growth while maintaining effective corporate control at the same time.

VIG's Managing Board, Supervisory Board and employees consider observance of and compliance with the rules of the Austrian Code of Corporate Governance to be highly important for the practical implementation of corporate governance.

Vienna Insurance Group's declaration of adherence to the Code and information on the members, procedures and remuneration of the Managing Board and Supervisory Board are clearly organised and presented below.

The rules of the Austrian Code of Corporate Governance are divided into the following three categories:

- Rules based on mandatory legal requirements ("Legal Requirement")
- Rules based on standard international requirements. Non-compliance with these rules must be declared and explained in order to comply with the Code ("Comply or Explain")
- Non-compliance with rules which are merely recommendations do not need to be disclosed or explained ("Recommendation")

Vienna Insurance Group complies with all of the rules of the Austrian Code of Corporate Governance.

Vienna Insurance Group's scope of consolidation also includes capital market-oriented subsidiaries that are required by the legal systems applicable to them to prepare and publish corporate governance reports. These include: Ray Sigorta (Turkey), Bulstrad Non-Life (Bulgaria) and Makedonija (Macedonia). The corporate governance reports are included in the annual reports of these companies and can be accessed through their respective websites: www.raysigorta.com.tr (About > Investor Relations), www.bulstrad.bg/en/ (About Bulstrad > Financial Results), www.insumak.mk (website link: http://insumak.mk/finansiski-izvestai.php). Any areas of deviation - and the explanation(s) - are indicated in the corporate governance reports of these companies. Bulstrad Non-Life has not been listed on the Bulgarian Stock Exchange since 22 December 2017.

VIG's shareholder structure is available at www.vig.com/ir

MEMBERS OF THE MANAGING BOARD AND THEIR RESPONSIBILITIES

The Vienna Insurance Group Managing Board consists of the following five members as of 31 December 2017:

Elisabeth Stadler
General Manager,
Chairwoman of the Managing Board
Year of birth: 1961
First appointed on: 1 January 2016
End of current term of office:
30 June 2023

Elisabeth Stadler studied actuarial mathematics at the Vienna Technical University and built a career in the Austrian insurance industry as Board member and chairwoman. In May 2014, she was awarded the professional title of professor by Federal Minister Gabriele Heinisch-Hosek for her merits for the insurance industry. She held the position of General Manager at Donau Versicherung from September 2014 to March 2016, and has been CEO of Vienna Insurance Group since 2016.

Areas of responsibility: Management of the VIG Group, Strategic Questions, European Affairs, Group Communication & Marketing, Group Sponsoring, Human Resources, Group Development and Strategy

Country responsibilities: Austria, Czech Republic

Supervisory board positions or comparable positions held in other Austrian and foreign companies outside the Group: Österreichische Post AG (until 19 April 2018), Die Österreichische Hagelversicherung (until 7 March 2018), Institute of Science and Technology Austria, Austrian Red Cross

Elisabeth Stadler is also active in the Supervisory Boards of significant[1] Vienna Insurance Group companies: Wiener Städtische (Austria), Donau Versicherung (Austria), s Versicherung (Austria), Kooperativa (Czech Republic), ČPP (Czech Republic), PČS (Czech Republic), Compensa Non-Life (Poland), InterRisk (Poland).

Franz Fuchs
Year of birth: 1953
First appointed on: 1 October 2009
End of current term of office:
30 June 2020

Franz Fuchs began his career in the insurance industry as an actuary. He held leading management positions in other international companies as a specialist in the life insurance area and pension funds before joining VIG. From 2003 until early 2014, Franz Fuchs was Chairman of the Managing Board of Compensa Non-Life and Compensa Life in Poland. He has been Chairman of the Managing Board of VIG Polska since 2003. He was first appointed to the Vienna Insurance Group Managing Board on 1 October 2009.

Areas of responsibility: Performance management personal and motor vehicle insurance, Asset-Risk Management

Country responsibilities: Baltic states, Moldova, Poland, Ukraine

Supervisory board positions or comparable positions held in other Austrian and foreign companies outside the Group: C-QUADRAT Investment AG

Franz Fuchs is also active in the Supervisory Boards of significant[1] Vienna Insurance Group companies: Kooperativa (Czech Republic), ČPP (Czech Republic), PČS (Czech Republic), Compensa Non-Life (Poland), InterRisk (Poland), Omniasig (Romania).

[1] Vienna Insurance Group considers all companies that contribute at least 2% of written premiums and at least 2% in profit before taxes to be "significant".

Judit Havasi
Year of birth: 1975
First appointed on: 1 January 2016
End of current term of office:
30 June 2023

Judit Havasi has been working for the Group since 2000. She began her career in the internal audit department of UNION Biztosító, and became the head of this department in 2003. Before her appointment to the Managing Board of Wiener Städtische in 2009, Judit Havasi was a substitute member of the Managing Board of Wiener Städtische and a Member of the Managing Board of UNION Biztosító in Hungary. Judit Havasi was Deputy General Manager of Wiener Städtische from July 2013 until the end of 2015. She was also a substitute Member of the Vienna Insurance Group Managing Board as of 2011, and is a member of the Vienna Insurance Group Managing Board since January 2016.

Areas of responsibility: Planning & Controlling, Legal department, Group IT, Data Management & Processes

Country responsibilities: Romania, Slovakia

Supervisory board positions held or comparable positions in other Austrian and foreign companies outside the Group: Erste&Steiermärkische Bank d.d., Die Zweite Wiener Vereins-Sparcasse, "Volkstheater" Gesellschaft m.b.H., "Volkstheater" - Privatstiftung

Judit Havasi is also active in the Supervisory Boards of significant[1] Vienna Insurance Group companies: Wiener Städtische (Austria), Donau Versicherung (Austria), Kooperativa (Slovakia), Komunálna (Slovakia), Omniasig (Romania).

Peter Höfinger
Year of birth: 1971
First appointed on: 1 January 2009
End of current term of office:
30 June 2023

Peter Höfinger studied law at the University of Vienna and the University of Louvain-la-Neuve (Belgium). Peter Höfinger has been a member of the Vienna Insurance Group Managing Board since 1 January 2009. Prior to that, he was a director of the Managing Board at Donau Versicherung, responsible for sales and marketing. He joined this company in 2003. Previously, he held positions as managing board chairman and managing board member outside the Group in Hungary, the Czech Republic and Poland.

Areas of responsibility: Corporate and large customer business, Vienna International Underwriters (VIU), Reinsurance

Country responsibilities: Albania and Kosovo, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Serbia, Hungary, Belarus

[1] Vienna Insurance Group considers all companies that contribute at least 2% of written premiums and at least 2% in profit before taxes to be "significant".

Martin Simhandl, CFO
Year of birth: 1961
First appointed on: 1 November 2004
End of current term of office:
30 June 2018

Martin Simhandl began his career with the Group in 1985 at the legal department of Wiener Städtische. In 1995, he became head of the subsidiaries department, and in 2003 he took over coordination of the Group's investment activities. In 2002 and 2003, Martin Simhandl was also a Member of the Managing Boards of InterRisk Non-life and InterRisk Life in Germany, with responsibility for the areas of property insurance, reinsurance and planning/controlling. On 1 November 2004, Martin Simhandl was appointed to the Managing Board of the Company.

Areas of responsibility: Asset Management, Affiliated companies department, Finance and accounting (until 31 January 2018), Treasury/Capital Market

Country responsibilities: Germany, Georgia, Liechtenstein, Turkey

Supervisory board positions or comparable positions held in other Austrian and foreign companies outside the Group: CEESEG Aktiengesellschaft, Erste Asset Management GmbH, Wiener Hafen Management GmbH, Wiener Börse AG, Wien 3420 Aspern Development AG

The Managing Board as a whole is responsible for Enterprise Risk Management (Solvency II), General Secretariat, Actuarial department, Group Compliance, Internal Audit, Investor Relations.

The following substitute members were also appointed to the Managing Board and may become full members when, during the term of office, a current member of the Board can no longer perform his or her duties:
Martin Diviš (year of birth: 1973, substitute member of the Managing Board until 31 December 2017)
Gábor Lehel (year of birth: 1977)

Changes during and after the end of the reporting year
Roland Gröll (year of birth: 1965) was Member of the Vienna Insurance Group Managing Board in the 2017 reporting year from 1 January 2017 until 30 June 2017. He became member of the Managing Boards of Wiener Städtische and Donau Versicherung on 1 July 2017.

Liane Hirner became a Member of the Vienna Insurance Group Managing Board on 1 February 2018 and is responsible for Finance and accounting. She succeeds Martin Simhandl, who will be leaving the Managing Board at the end of his term of office on 30 June 2018.

Liane Hirner
Year of birth: 1968
First appointed on: 1 February 2018
End of current term of office:
31 January 2023

Liane Hirner studied business administration in Graz. Before joining Vienna Insurance Group, she worked at PwC Austria's audit department where she started in 1993, and when she left, Liane was partner of the insurance sector. In addition to her work as an auditor, Liane Hirner has also been involved in many professional associations, such as the IFRS Working Group of the Austrian Insurance Association and the Insurance Working Party of Accountancy Europe in Brussels.

Areas of responsibility: Finance and accounting (since 1 February 2018)

Peter Thirring (year of birth: 1957) was appointed to the Vienna Insurance Group Managing Board on 1 July 2018 (his term of office ends 30 June 2023).

MEMBERS OF THE SUPERVISORY BOARD

The Supervisory Board had the following ten members as of 31 December 2017:

Günter Geyer
Chairman
Year of birth: 1943
First appointed on: 2014
End of current term of office: 2019

Günter Geyer joined Wiener Städtische in 1974 and was appointed to the Managing Board in 1988. In 2001, he became General Manager and Chairman of the Managing Board. Working in a variety of positions in Austria and the CEE region, he played a major role in VIG's evolution into a successful international insurance group. Günter Geyer resigned from his position as Chairman of the Managing Board of VIG on 31 May 2012 and has held the position of Chairman of the Supervisory Board since 2014. He is the Chairman of the Managing Board of Wiener Städtische Wechselseitigen Versicherungsverein, the principal shareholder of VIG.

Rudolf Ertl
1st Deputy Chairman
Year of birth: 1946
First appointed on: 2014
End of current term of office: 2019

Rudolf Ertl is Doctor of Laws and has been with the Group since 1972. Rudolf Ertl was Member of the Managing Board of Wiener Städtische until the end of 2008 and a Member of the Managing Board at Donau Versicherung until June 2009. He is a Member of the Managing Board of Wiener Städtische Wechselseitiger Versicherungsverein, the principal shareholder of Vienna Insurance Group.

Maria Kubitschek
2nd Deputy Chairwoman
Year of birth: 1962
First appointed on: 2014
End of current term of office: 2019

After completing her studies in social sciences and economics at the University of Vienna, Maria Kubitschek began working for the Vienna Chamber of Labour in 1988. After holding a variety of management positions, she was Head of the Economic Division at the Vienna Chamber of Labour since 2001, with a short interruption from 2011 until 2013 (management position in the cabinet of the Austrian Federal Ministry for Transport, Innovation and Technology), and has been Deputy Director of the Vienna Chamber of Labour since in 2016. She is also a Member of the Managing Board of the Austrian Institute of Economic Research (WIFO).

Bernhard Backovsky
Year of birth: 1943
First appointed on: 2002
End of current term of office: 2019

Provost Bernhard Backovsky was ordained a priest in 1967 and elected the 66th provost of the Klosterneuburg Monastery in December 1995 - a position he still holds today. From 2002 until 2017, he was also Abbot General of the Austrian Congregation of the Canons Regular of St. Augustine, and from 2010 to 2016 he was Abbot Primate of the same congregation. In addition to numerous other honours, at the end of 2010 he received the Grand Silver Medal of Honour for Services to the Republic of Austria for supporting the Foundation for Street Children in Romania. Vienna Insurance Group and the Klosterneuburg Monastery have been in a partnership for many years. The former provost of the monastery, Gaudenz Dunkler, was one of the founding fathers of "Wechselseitige k.k. priv. Brandschaden-Versicherungs-Anstalt" in 1824, which later developed into Wiener Städtische Versicherungsverein and then into Wiener Städtische and Vienna Insurance Group.

Martina Dobringer
Year of birth: 1947
First appointed on: 2011
End of current term of office: 2019

Martina Dobringer has held management positions at the Coface Group since 1989 and was General Manager and Chairwoman of the Managing Board of Coface Austria Holding AG from 2001 to 2011. In 2011, she was awarded the Grand Silver Medal of Honour for Services to the Republic of Austria, and in 2006 she became the first Austrian businesswoman to receive the highest French honour ("Chevalier dans l'ordre de la Légion").

Gerhard Fabisch
Year of birth: 1960
First appointed on: 2017
End of current term of office: 2019

Gerhard Fabisch studied business administration at the University of Graz and economics at the University of Vienna. In 1985, he joined Steiermärkische Bank und Sparkassen AG. His path took him through a wide variety of areas in the company. In 2001, he was appointed Director of the Managing Board, and in 2004 as Chairman of the Managing Board. He has also been President of the Austrian Sparkassenverband since 2014.

Heinz Öhler
Year of birth: 1945
First appointed on: 2002
End of current term of office: 2019

Heinz Öhler joined the Tiroler Gebietskrankenkasse in 1970, where he initially held a position as Manager of the Finance Department and later held an executive position until 2011. In March 2007, he was awarded the Grand Silver Medal of Honour for Services to the Republic of Austria for his work related to Austrian social security. Handball has been one of his passions since he was a child and he has held many positions in the sports world, including being appointed as a Member of the Tyrolean State Sports Council in November 2016.

Georg Riedl
Year of birth: 1959
First appointed on: 2014
End of current term of office: 2019

After completing his legal studies at the University of Vienna, Georg Riedl worked as an independent lawyer since 1991. His areas of expertise include company law, mergers and acquisitions, private foundation law and tax law.

Gabriele Semmelrock-Werzer
Year of birth: 1958
First appointed on: 2017
End of current term of office: 2019

After holding positions at the Austrian branches of Chase Manhattan Bank AG and Crèdit Lyonnais AG, Gabriele Semmelrock-Werzer worked for Erste Group Bank AG since 1995 in Investor Relations, and later on in the areas of commercial clients, international financial institutions and the retail client business. She has been Director of the Managing Board of Kärntner Sparkasse AG since 2011.

Gertrude Tumpel-Gugerell
Year of birth: 1952
First appointed on: 2012
End of current term of office: 2019

Gertrude Tumpel-Gugerell was Vice Governor of the National Bank of Austria (OeNB) from 1998 to 2003 and Member of its Board of Directors from 1997 to 2003. During this period, she was also the Austrian Vice Governor to the International Monetary Fund and a Member of the Economic and Financial Committee - the most important economic policy advisory committee of the European Union. Gertrude Tumpel-Gugerell was responsible for the Economics and Financial Markets divisions at the National Bank of Austria. From 2003 to 2011, she was a Member of the Executive Board of the European Central Bank.

Changes during the reporting year
Reinhard Ortner deceased on 21 January 2017.

Karl Skyba resigned from his position as 1st Deputy Chairman of the Supervisory Board as of 30 April 2017. During a meeting on 6 April 2017, the Supervisory Board appointed Rudolf Ertl to take his place as 1st Deputy Chairman of the Supervisory Board as of 1 May 2017. Karl Skyba was formally discharged from the Supervisory Board by the VIG General Meeting held on 12 May 2017.

Gerhard Fabisch and Gabriele Semmelrock-Werzer were elected to join the Vienna Insurance Group Supervisory Board during the General Meeting held on 12 May 2017.

SUPERVISORY BOARD INDEPENDENCE

In accordance with Rule 53 of the Austrian Code of Corporate Governance, the Supervisory Board of Vienna Insurance Group has established the following criteria defining independence:

- The Supervisory Board Member has not been a Member of the Managing Board or a senior manager of the Company or subsidiary of the Company in the last five years.
- The Supervisory Board Member does not have a business relationship with the Company or a subsidiary of the Company that is of such significance for the Supervisory Board Member that it affects his or her activities on the Supervisory Board to the detriment of the Company. This also applies to business relationships with companies, in which the Supervisory Board Member has a considerable economic interest.

The approval of individual transactions by the Supervisory Board in accordance with § 95 (5)(12) of the Austrian Stock Corporation Act (AktG) or § 15 (2)(l) of the Articles of Association does not automatically lead to a classification of non-independence. For the purpose of clarification, it is expressly noted that purchase or existence of insurance policies with the Company has no adverse effect on independence.

- The Supervisory Board Member has not been an auditor of the Company's financial statements, or held an ownership interest in or been an employee of the auditing company executing such audits in the last three years.
- The Supervisory Board Member is not a member of the Managing Board of another company that has a member of the Company's Managing Board on its Supervisory Board.
- The Supervisory Board Member is not a close family member (direct descendant, spouse, partner, parent, uncle, aunt, brother, sister, niece, nephew) of a Member of the Managing Board or individuals holding one of the positions described above.

The Supervisory Board as a whole is considered to be independent if at least 50% of the members elected by the Annual General Meeting satisfy the criteria above for the independence of a Supervisory Board Member.

Each Member of the Supervisory Board has declared whether they can be considered independent based on the criteria specified by the Supervisory Board. All Supervisory Board Members were independent on 31 December 2017 based on the criteria indicated.

No Supervisory Board Member holds more than 10% of the Company's shares.

The following Supervisory Board Members exercised supervisory mandates or comparable positions in Austrian or foreign listed companies as of 31 December 2017:

Martina Dobringer
Praktiker AG

Georg Riedl
AT&S Austria Technologie und Systemtechnik AG

Gertrude Tumpel-Gugerell
Commerzbank AG
OMV AG

PROCEDURES FOLLOWED BY THE MANAGING BOARD AND THE SUPERVISORY BOARD

Managing Board

The Managing Board manages the business of the Company under the leadership of its Chairperson and within the constraints of the law, articles of association, procedural rules of for the Managing Board those of the Supervisory Board.

The Managing Board meets when needed (generally each week or every two weeks) to discuss current business developments and makes the necessary decisions and resolutions during these meetings. The Managing Board Members continuously exchange information with each other and the heads of various departments.

Supervisory Board

The Supervisory Board performs all activities defined under the law, articles of association and the procedural rules of the Supervisory Board. In order to ensure effectiveness and efficiency of its activities and procedures, the Supervisory Board examines its procedures regularly in the form of a self-evaluation at least once a year. The Supervisory Board's evaluation of its activities in 2017 found that its organisational structure and procedures were satisfactory in terms of efficiency and in compliance with the law. It found no need for change or desire for change in the practices followed to date.

The Supervisory Board and its committees, Chairpersons and Deputy Chairpersons continuously monitor and regularly examine Company Management as well as the activities of the Managing Board in terms of managing and monitoring the Group. Detailed presentations and discussions during meetings of the Supervisory Board and its committees are used for this purpose, as are thorough and, in some cases, in-depth discussions with the members of the Managing Board who provide detailed explanations and supporting documentation relating to the management and financial position of the Company and the Group. Strategy, business development (overall and in individual regions), risk management, the internal control system, internal audit activities and reinsurance - at the VIG Holding level as well as at Group level - are also discussed during these meetings.

The Supervisory Board and the Audit Committee also hold directly engage with the financial statements auditor and the consolidated financial statements auditor in order to familiarise themselves with the accounting process and audit progress, and to inquire whether the audit has produced any important findings. Provision was made for exchanges between the members of the Audit Committee and the (consolidated) financial statement auditor in such meetings without the presence of the Managing Board, but no member of the Audit Committee took advantage of this opportunity during the reporting year. During the meetings about annual and consolidated financial statements, the audit reports are discussed and debated with the audit managers in detail both with the Audit Committee and with the entire Supervisory Board. The Audit Committee examined the Company's Solvency and Financial Condition Report (SFCR) and reported its findings to the Supervisory Board. The latter found no grounds for objection.

The Supervisory Board also receives quarterly reports from the internal audit department and asks the head of internal audit to provide detailed explanations of individual issues and audit focal points if necessary. The annual audit plan is submitted to the Supervisory Board. The Managing Board explains the organisation and operation of the risk management system and internal control system to the Supervisory Board at least once a year, and provides the Supervisory Board with a written report on this subject so that it can confirm efficiency of the systems. The Audit Committee also examines the report and assessment of the functioning of the risk management system prepared by the (consolidated) financial statements auditor and reports its findings to the Supervisory Board.

At least once a year, the Managing Board presents the Supervisory with the measures to be taken by the Group in order to prevent corruption, and the Supervisory Board discusses those.

When preparing nominations to the Annual General Meeting regarding the election of new Supervisory Board Members, the latter takes the prerequisites set by law and the Austrian Corporate Governance Code into account which a Supervisory Board Member must satisfy and observe.

The Audit Committee and Supervisory Board also strictly ensure that all of the requirements and conditions provided under the law and the Austrian Corporate Governance Code are fully satisfied when preparing the general meeting proposal on selection of the (consolidated) financial statements auditor. In addition, after the audit of the consolidated financial statements has been completed, the Supervisory Board is provided with a list showing the total audit expenses of all Group companies. This list provides a separate breakdown of expenses relating to the consolidated financial statements auditor, the members of the network to which the consolidated financial statements auditor pertains. The same goes for other financial statement auditors who work for the Group.

The Supervisory Board has formed five separate committees among its members: a Committee for Urgent Matters (Working Committee), an Audit Committee (Accounts Committee), a Committee for Managing Board Matters (Compensation Committee), a Strategy Committee and a Nomination Committee.

SUPERVISORY BOARD COMMITTEES

The following qualified Supervisory Board committees were established to increase its efficiency and to address complex matters:

COMMITTEE FOR URGENT MATTERS (WORKING COMMITTEE)

The Committee for Urgent Matters (Working Committee) decides on matters that require approval of the Supervisory Board, but cannot be deferred to the next ordinary Supervisory Board meeting because of particular urgency.

Günter Geyer (Chairman)
Substitute: Gertrude Tumpel-Gugerell

Rudolf Ertl
Substitute: Martina Dobringer

Georg Riedl
Substitute: Maria Kubitschek

AUDIT COMMITTEE (ACCOUNTS COMMITTEE)

The Audit Committee (Accounts Committee) is responsible for the duties assigned by § 92 (4a) no. 4 of the Austrian Stock Corporation Act (AktG), § 123 (9) of the Austrian Insurance Supervision Act (VAG) and Regulation (EU) No. 537/2014, namely:

1. To monitor the accounting process and provide recommendations or suggestions to ensure its reliability;

2. To monitor the effectiveness of the Company's internal control system and, if applicable, the internal audit function and risk management system;

3. To monitor the audit of the financial statements and the consolidated financial statements, taking into account the findings and conclusions in reports published by the Supervisory Authority for financial statement auditors in accordance with § 4 (2) no. 12 of the Austrian Auditor Supervision Act (APAG);

4. To check and monitor the independence of the financial statement auditor (consolidated financial statement auditor), in particular with respect to the additional services provided for the audited company; Art. 5 of Regulation (EU) No. 537/2014 and § 271a (6) UGB apply;

5. To report the results of the financial statement audit to the Supervisory Board and explain how the financial statement audit has contributed to the reliability of the financial reports and the role of the Audit Committee in this;

6. To audit the annual financial statements and prepare their approval, examine the proposal for appropriation of profits, the management report, the solvency and financial condition report and, if applicable, corporate governance report, and present a report on the audit findings to the Supervisory Board or to the Board of Directors;

7. If necessary, audit the consolidated financial statements and Group management report, the solvency and financial condition report at Group level and the corporate governance report at consolidated level, and report the results of the audit to the Supervisory Board or to the Board of Directors;

8. To perform the procedure to elect the financial statement auditor (consolidated financial statement auditor) taking into account the appropriateness of the fees in accordance with Art. 4 of Regulation (EU) No. 537/2014 and the rotation periods in Art. 17 of Regulation (EU) No. 537/2014, and recommend appointment of a financial statement auditor (consolidated financial statement auditor) to the Supervisory Board in accordance with Art. 16 of Regulation (EU) No. 537/2014.

In addition, the Audit Committee (Accounts Committee) will determine in a further meeting (another meeting, in addition to the meeting required by law) how communication between the (consolidated) financial statements auditor and the Audit Committee will take place, leaving the option open for the Audit Committee (Accounts Committee) and the (consolidated) financial statements auditor to meet without an Managing Board Member being present.

All members of the Audit Committee are experienced financial experts with knowledge and practical experience in finance, accounting and reporting that satisfy the requirements of the Company.

Gertrude Tumpel-Gugerell (Chairwoman)
1st substitute: Gabriele Semmelrock-Werzer
2nd substitute: Heinz Öhler

Georg Riedl (Deputy Chairman)
1st substitute: Gabriele Semmelrock-Werzer
2nd substitute: Heinz Öhler

Martina Dobringer
Substitute: Heinz Öhler

Rudolf Ertl
1st substitute: Gabriele Semmelrock-Werzer
2nd substitute: Heinz Öhler

Günter Geyer
1st substitute: Gabriele Semmelrock-Werzer
2nd substitute: Heinz Öhler

Maria Kubitschek
Substitute: Heinz Öhler

COMMITTEE FOR MANAGING BOARD MATTERS (COMPENSATION COMMITTEE)

The Committee for Managing Board Matters (Compensation Committee) deals with personnel matters of the Managing Board. The Committee for Managing Board Matters therefore decides on employment contract terms with members of the Managing Board and their compensation and examines remuneration policies at regular intervals.

Günter Geyer (Chairman)
Rudolf Ertl
Georg Riedl

STRATEGY COMMITTEE

The Strategy Committee cooperates with the Managing Board and, when appropriate, with experts that it consults in order to prepare fundamental decisions that will subsequently be decided upon by the entire Supervisory Board.

Günter Geyer (Chairman)
Substitute: Gertrude Tumpel-Gugerell

Rudolf Ertl
Substitute: Martina Dobringer

Georg Riedl
Substitute: Gabriele Semmelrock-Werzer

NOMINATION COMMITTEE

The Supervisory Board adopted a resolution to establish a Nomination Committee during its meeting on 30 May 2017. The Nomination Committee submits proposals to the Supervisory Board to fill positions that become available on the Managing Board and handles issues regarding successor planning.

Günter Geyer
Rudolf Ertl
Georg Riedl
Martina Dobringer

In 2014, the Supervisory Board gave its consent to VIG Holding and other companies of the Group that allowed them to use the legal services of Georg Riedl, Supervisory Board Member, and engage him or his law firm to act as a representative and provide advisory services on a project-related basis under normal market terms. Georg Riedl is a lawyer who has performed consultancy services for the Group, for which he received fees totalling (nett) EUR 117,610.82 plus cash expenses and 20% VAT (of which EUR 73,174.99 plus cash expenses and 20% VAT were for VIG Holding) in the 2017 reporting year. Supervisory Board Members Gerhard Fabisch and Gabriele Semmelrock-Werzer are members of the managing boards of companies with which distribution agreements were concluded under normal market and industry terms and conditions. The Company did not enter into any other agreements with Supervisory Board Members in 2017 that would have required the approval of the Supervisory Board.

NUMBER OF MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES IN THE 2017 REPORTING YEAR

One Annual General Meeting and seven Supervisory Board meetings distributed over the reporting year were held in 2017. Five meetings of the Audit Committee were also held. The financial statement and consolidated financial statement auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG), attended four Audit Committee meetings and the Supervisory Board meetings in 2017 that also addressed auditing of the 2016 annual financial statements and the 2016 consolidated financial statements and formal approval of the 2016 annual financial statements, and also attended the Annual General Meeting. The Committee for Urgent Matters held two meetings in 2017. The Committee for Managing Board Matters held four meetings and the Nomination Committee held two. The Strategy Committee held one meeting in 2017; strategic matters were also handled by the entire Supervisory Board.

No member of the Supervisory Board attended less than half of the Supervisory Board meetings.

MANAGING BOARD AND SUPERVISORY BOARD COMPENSATION

The Company compensation guidelines are based on the provisions of Solvency II and have been in effect since 1 January 2016, with minor amendments in 2017. The guidelines include standards intended to prevent the compensation rules from resulting in incentives to assume excessive risk and avoid conflicts of interest to the extent possible. The Company guidelines include further provisions for key positions – in particular variable compensation for these positions – that are generally aimed at promoting sustainability and careful dealing with risks. The Company guidelines apply to both insurance and reinsurance companies within the Group and therefore apply to all significant subsidiaries included in the consolidation scope.

Compensation plan for Managing Board Members of the Company

Managing Board compensation takes into account the importance of the Group and the responsibility that goes with it, the economic situation of the Company, and the appropriateness of the remuneration in the market environment.

The variable portion of the compensation emphasises the need for sustainability and achieving it fully depends critically on an analysis of the sustainable performance of the Company that extends beyond a single reporting year.

The performance-related compensation is limited. The maximum performance-related compensation that the Managing Board Member can receive by overachieving the traditional targets in the 2017 reporting year is around 60% of their fixed salary. Bonus compensation can also be earned for appropriate target achievement. In total, the Managing Board Members can earn variable compensation equal to a maximum of around 80% to around 112% of their fixed compensation in this way.

Large parts of performance-related compensation is only paid after a delay. The delay for the 2017 reporting year extends to 2021. The deferred portions are awarded based on the sustainable performance of the Group. The evaluation of target achievement also includes non-financial factors – in 2017, this was the promotion of corporate governance aspects that express social responsibility in practice, in particular the "Social Active Day".

The Managing Board is not entitled to performance-related compensation if performance fails to meet certain thresholds. Even if the targets are fully met in a given reporting year, because of the focus on sustainability, the full variable compensation is only awarded if the Group also achieves sustainable performance in the three following years.

The main performance criteria for variable compensation in 2017 were the combined ratio, premium growth, result before taxes and the promotion of social responsibility in practice, and for bonus compensation those were country-specific targets and requirements related to cooperations.

Managing Board compensation does not include stock options or similar instruments.

In 2017, active Managing Board Members received the following for their services to the Company and as managers of affiliated companies during the reporting period:

	2017						
	Stadler	Fuchs	Gröll*	Havasi	Höfinger	Simhandl	Total
in EUR '000							
VIG Holding remuneration	999	768	475	734	768	768	4,511
Fixed	714	517	258	517	517	517	3,040
Variable remuneration for 2016	285	217	217	217	217	217	1,371
Variable remuneration for previous years	0	33	0	0	33	33	100
Variable remuneration from affiliated companies for previous operating activities	64	0	0	52	0	0	115
Total	1,063	768	475	786	768	768	4,627

*Mr Gröll left the Managing Board on 30 June 2017.

	2016						
	Stadler	Fuchs	Gröll*	Havasi	Höfinger	Simhandl	Total
in EUR '000							
VIG Holding remuneration	706	738	511	511	738	738	3,942
Fixed	706	511	511	511	511	511	3,262
Variable remuneration for 2016	0	0	0	0	0	0	0
Variable remuneration for previous years	0	226	0	0	226	226	679
Variable remuneration from affiliated companies for previous operating activities	94	0	0	173	0	0	267
Total	800	738	511	684	738	738	4,209

A standard employment contract for a Managing Board Member of the Company includes a pension equal to a maximum of 40% of the measurement base if the member remains on the Managing Board until the age of 65 (the measurement base is equal to the standard fixed salary). This pension amount can be increased in individual cases if work continues past the maximum pension age, since a pension is not drawn during this period.

A pension is normally received only if a Managing Board Member's position is not extended and the member is not at fault for the lack of extension, or the Managing Board Member retires due to illness or age.

The contracts for Managing Board members who have been active in the Group for a long time are entitled to a severance payment structured in accordance with the provisions of the Austrian Employee Act (Angestelltengesetz), as amended in 2003, in combination with applicable industry-specific provisions. This allows Managing Board Members to receive a severance payment equal to two to twelve months' compensation, depending on the period of service, with a supplement of 50% if the member retires or leaves after a long-term illness.

A Managing Board Member who leaves by their own choice before retirement is possible, or leaves due to their own fault, is not entitled to severance payment. The provisions of the Austrian Employee and Employment Provisions Act apply to the remaining Managing Board Member's contracts.

Managing Board Members are provided with a company car for both business and personal use.

Compensation plan for the Supervisory Board Members

In accordance with the resolutions adopted by the 21st ordinary General Meeting on 4 May 2012, the Supervisory Board Members elected by the General Meeting are entitled to receive compensation in the form of a payment remitted monthly in advance. Supervisory Board Members who withdraw from their positions before the end of a month still receive full compensation for the month in question. In addition to this compensation, Supervisory Board Members are entitled to receive an attendance allowance for participating in Supervisory Board meetings and Supervisory Board committee meetings (remitted after participating in the meeting). The total compensation paid to Supervisory Board Members in 2017 was EUR 494,000.

Supervisory Board Members received the following amounts:

	2017
in EUR '000	
Günter Geyer	88
Rudolf Ertl	64
Maria Kubitschek	53
Provost Bernhard Backovsky	36
Martina Dobringer	46
Gerhard Fabisch[1]	22
Hofrat Dkfm. Heinz Öhler	36
Reinhard Ortner[2]	2
Georg Riedl	55
Gabriele Semmelrock-Werzer[1]	25
Karl Skyba[3]	24
Gertrude Tumpel-Gugerell	42
Total	**494**

1 Elected to the Supervisory Board in the General Meeting of 12 May 2017

2 Reinhard Ortner deceased on 21 January 2017.

3 Karl Skyba left the Supervisory Board on the effective date through formal discharge by the General Meeting on 12 May 2017.

Supervisory Board compensation does not include stock options or similar instruments.

DIVERSITY CONCEPT

With around 50 companies and more than 25,000 employees in Austria and Central and Eastern Europe, Vienna Insurance Group combines many countries, languages and cultural backgrounds. Diversity is a key strategic priority in its human resources strategy.

Vienna Insurance Group follows a bottom-up approach with respect to diversity management for the Company's boards. By applying diversity management to all personnel, the Group expects to generate the corresponding diversity in the candidate pool for internal successor planning in the long term.

For Vienna Insurance Group, diversity reflects both the similarities and the differences it encounters in the Group, its markets and its partners as well as customers. Diversity management is based on genuine appreciation and open acceptance of diversity, and makes conscious use of this diversity. The Group includes this understanding of diversity in the VIG Code of Business Ethics: "*We tolerate no discrimination. We are committed to equal opportunity in the hiring and promotion of employees, regardless of their beliefs, religion, gender, worldview, ethnic background, nationality, sexual orientation, age, skin colour, disability or marital status.*"

Group and VIG Holding level
Vienna Insurance Group developed a new diversity concept in 2017 based on this understanding that focuses on the criteria of gender, generations and internationality at Group level, and refined and developed measures for the following criteria:

- Gender: Ensure equal treatment for women and men in all areas (career and development options, benefits and income, etc.)
- Generations: Use mixed-age teams and take the various phases of life to develop full potential into account. Generation-appropriate offers and support in the various phases of life, learn from one another, healthy work, fair recruitment
- Internationality: Group-wide exchange of know-how (local expertise), learning, use of VIG's internal job market and ensuring an appropriate mix of people from different countries within VIG Holding

The criteria of gender, generations and internationality are also taken into account when new Supervisory Board Members are proposed for election at General Meetings.

Vienna Insurance Group has relied on the concept of local entrepreneurship for decades, thereby also promoting a very internationally diverse "community" of Group Managing Board Members and CEOs.

The topic of diversity is a key element in Group-wide management development training programmes, in terms of content as well as the participants and lecturers.

Group company level
Based on the principle of local entrepreneurship, the VIG insurance companies choose their own priorities against the background of priorities set for diversity at VIG Holding and at Group level. The Group sustainability report presents examples of successful implementation of the diversity concepts at Group company level on page 31.

The diversity concept at Group level was presented to the managing board chair members of the subsidiaries during a meeting in November 2017. The diversity concept was also a central topic at the Group conference for human resources managers in October 2017.

Diversity Officer
The VIG Managing Board appointed Angela Fleischlig-Tangl as Diversity Officer as of May 2017. In this newly created position, she advises both VIG Holding and local VIG companies on matters related to diversity management.

MEASURES TO PROMOTE WOMEN IN MANAGING BOARD, SUPERVISORY BOARD AND MANAGEMENT POSITIONS IN THE GROUP

Appreciation of diversity and, therefore, removing barriers in women's careers is one of the key elements of the human resource strategy at VIG.

Gender is one of the three priorities of the diversity concept at both Group and VIG Holding level.

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

Female supervisory board members
Women hold around 18.0% of the positions at Vienna Insurance Group supervisory boards across Europe (as at 31 December 2017) and 40.0% of the positions in VIG Holding.

Female managing board members
Women hold around 22.9% of the positions on the Managing Boards of VIG insurance companies and around 11.6% of the Managing Board chairs are women. In VIG Holding, 40.0% of the Managing Board Members were female as of 31 December 2017 (since 1 February 2018: 50.0%). Elisabeth Stadler has been the head of the Group since 2016.

Females in management positions
Including distribution, women hold around 42.5% of the management positions at the level directly below the managing board of VIG insurance companies across Europe (not including distribution: around 47.3%).

GENERATIONS AND INTERNATIONALITY

The average age of all managing board members is around 48 years (as of 31 December 2017), and the average age of supervisory board members is around 55 years. 22 different nationalities (based on citizenship) are represented in the managing boards of VIG insurance companies, and 21 different nationalities in the supervisory boards. Further information is provided in the sustainability report on page 31.

EXTERNAL EVALUATION

C-Rule 62 of the Austrian Code of Corporate Governance provides voluntary external evaluation of compliance with the C-Rules of the Code at least every three years. Vienna Insurance Group had this evaluation performed for the 2017 Corporate Governance Report. All evaluations came to the conclusion that Vienna Insurance Group has complied with all the requirements of the Code. The summarised information of these evaluations is available on the VIG website.

Vienna, 19 March 2018

The Managing Board:

Elisabeth Stadler
General Manager,
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

Supervisory Board report

The Supervisory Board repeatedly and regularly took the opportunity, as a whole, through its committees as well as through its Chairperson and Deputy Chairperson, to comprehensively monitor Company management as well as the activities of the Management Board and its committees for the purpose of Group monitoring. This purpose was served by detailed presentations and discussions during meetings of the Supervisory Board and its as well as by detailed discussions on individual topics with Management Board Members who provided comprehensive explanations and evidence relating to management, the financial position of the Company and that of the Group. Among other things, strategy, business development (overall and in individual regions), risk management, the internal control system, internal audit activities and reinsurance, both at VIG Holding and Group level and other important topics for the Company and the Group were discussed at these meetings.

In accordance with the Solvency II requirements, starting in 2016 non-financial aspects must be part of the performance expectations for variable remuneration of Managing Board Members. VIG is committed to social responsibility and the importance of having employees drive forward performance, innovation and expertise. Goal fulfilment for Managing Board Members also depended on both financial and non-financial criteria in the 2017 reporting year.

The Supervisory Board has formed five committees from its members. Information on the responsibilities and composition of these committees is available on the Company's website and in the 2017 consolidated corporate governance report.

One Annual General Meeting and seven Supervisory Board meetings distributed over the reporting year were held in 2017. Five meetings of the Audit Committee were also held. The financial statement and consolidated financial statement auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft company number FN 269873y (KPMG), attended four Audit Committee meetings and the Supervisory Board meeting in 2017 that also addressed the audit of the 2016 annual financial statements and the 2016 consolidated financial statements as well as the formal approval of the 2016 annual financial statements, and also attended the Annual General Meeting. The financial statement auditor and consolidated financial statement auditor also informed the Audit Committee about the planning and procedure used to audit the financial statements and consolidated financial statements. The Committee for Urgent Matters held two meetings in 2017. The Committee for Managing Board Matters held four meetings and the Nomination Committee held two meetings in 2017. The Strategy Committee also held a meeting in the 2017 reporting year. The Supervisory Board also dealt with strategic matters.

The 2017 consolidated corporate governance report presents detailed information on the principles underlying the remuneration system, and we refer to this information in the 2017 consolidated corporate governance report.

In the reporting year 2017, there were no agenda items discussed during Supervisory Board meetings without the participation of Managing Board Members.

No member of the Supervisory Board attended less than half of the Supervisory Board meetings. In order to ensure the effectiveness and efficiency of its activities and procedures, the Supervisory Board performed a self-evaluation of its procedures. The Supervisory Board's evaluation of its activities found that its organisational structure and procedures were satisfactory in terms of efficiency and in compliance with the law. It found no need for change or desire for change in the practices followed to date.

Acting upon the proposal and motion of the Supervisory Board, the General Meeting selected KPMG (FN 269873y) on 13 May 2016 to be the financial statements auditor and consolidated financial statements auditor for the 2017 reporting year, and KPMG consequently performed these duties in the 2017 reporting year. KPMG and WOLF THEISS Rechtsanwälte GmbH & Co KG (rules 77–83) were also engaged for the voluntary external evaluation of the 2017 consolidated corporate governance report. The evaluations all came to the conclusion that VIG has complied with all the requirements of the Code.

The Supervisory Board Audit Committee mainly dealt with the following topics in 2017: During one meeting of the Audit Committee, the members of the committee consulted with the (consolidated) financial statements auditor on specification of two-way communications.

By inspecting relevant documents, meeting with the Managing Board and discussions with the (consolidated) financial statements auditor, the Audit Committee was able to form a satisfactory view of the accounting process and the procedure used for auditing the financial statements and consolidated financial statements, and found no reasons for objection.

The Supervisory Board Audit Committee also monitored the independence of the auditor of the financial statements and consolidated financial statements, and after reviewing suitable documents and supporting records submitted to the Committee, particularly with respect to the appropriateness of the fee and the additional services provided to the Company, was satisfied with the auditor's independent status. The Audit Committee also dealt with permitted non-audit services.

The Audit Committee also reviewed the effectiveness of the internal control system, the internal auditing system and the risk management system by obtaining descriptions of the processes and organisation of these systems from the Managing Board, the (consolidated) financial statements auditor and the individuals directly responsible for these areas. The Audit Committee reported on these monitoring activities to the Supervisory Board and stated that no deficiencies had been identified. The Supervisory Board was also given the opportunity during Supervisory Board meetings to verify the functional adequacy of the existing control and auditing systems. In addition, the audit plan and the quarterly reports prepared by the internal audit department were debated by the Audit Committee and the Supervisory Board and discussed with the head of the internal audit department and the Group internal audit department. The Supervisory Board found no reasons for objection.

The Audit Committee examined the Company's Solvency and Financial Condition Report (SFCR) and reported its findings to the Supervisory Board. The Supervisory Board found no grounds for objection.

The Audit Committee carried out a selection procedure for the financial statement auditor for the 2018 reporting year and presented two proposals to select the (consolidated) financial statement audit for the 2018 reporting year to the Supervisory Board. The Supervisory Board proposed to the General Meeting that KPMG be selected as the financial statement and consolidated financial statement auditor for 2018. The General Meeting selected KPMG as auditor of the financial statements and consolidated financial statements for 2018. Together with its offer, KPMG sent a list of the audit and advisory services that it, as a financial statement auditor, and its network provided for Vienna Insurance Group, and confirmed that it was licensed to audit. Based on the documents provided, it was determined that there were no grounds for exclusion or circumstances that could give rise to concerns about impartiality, and that sufficient protective measures had been taken to ensure an independent and impartial audit. The Audit Committee also considered the appropriateness of the fee of the financial statements and consolidated financial statements auditor. It also verified that KPMG was included in a statutory quality assurance system and was registered in the register maintained by the supervisory authority for financial statement auditors.

The Audit Committee also received the 2017 annual financial statements, management report, 2017 consolidated corporate governance report and 2017 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined them. The Managing Board's proposal for appropriation of profits was also debated and discussed with respect to capital adequacy and its effects on the solvency and financial position of the Company during the course of this examination. The Supervisory Board Audit Committee also carefully examined the 2017 consolidated financial statements and Group management report. In addition, the auditor's reports prepared by (consolidated) financial statements auditor KPMG for the 2017 annual financial statements and management report and the 2017 consolidated financial statements and Group management report were reviewed by the Audit Committee and debated and discussed with KPMG. As a result of this examination and discussion, a unanimous resolution was adopted to recommend to the Supervisory Board that they be accepted without qualification. The Supervisory Board found no reasons for objection.

The (consolidated) financial statement auditor also provided the Audit Committee with an additional report in accordance with Art. 11 AP-VO (EU Audit Regulation) that includes the financial statement audit as well as the consolidated financial statement audit. This report also explains the specific requirements for auditing the financial statements of companies that are of public interest, as well as the results of the financial statement audit and presents and explains the effects that the non-audit services they and their network provided have on the audited financial statements (consolidated financial statements).

The audit results and all resolutions adopted by the Audit Committee were reported to the Supervisory Board in its next meeting, along with an explanation of how the financial statement audit had contributed to the reliability of the financial reporting and what role the Audit Committee had played. The 2017 annual financial statements together with the management report and 2017 consolidated corporate governance report, the 2017 consolidated financial statements together with the Group management report, and the Managing Board's proposal for appropriation of profits were subsequently taken up, thoroughly discussed and examined by the Supervisory Board. The appropriation of profits proposal was checked, in particular, to ensure that it was reasonable when capital requirements were taken into account.

The Supervisory Board also received the 2017 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined it. As a result of this discussion and examination, it found that the 2017 sustainability report (consolidated non-financial report) had been prepared properly and was appropriate.

In addition, the auditor's reports prepared by (consolidated) financial statements auditor KPMG for the 2017 annual financial statements and management report and the 2017 consolidated financial statements and Group management report were reviewed by the Supervisory Board and debated and discussed with KPMG. KPMG's audit of the 2017 annual financial statements and management report and the 2017 consolidated financial statements and Group management report did not lead to any reservations. KPMG determined that the annual financial statements comply with statutory requirements and give a true and fair view of the net assets and financial position of the Company as of 31 December 2017, and of the results of operations of the Company for the 2017 reporting year in accordance with Austrian generally accepted accounting principles. The management report is consistent with the annual financial statements. The disclosures pursuant to § 243a UGB (Austrian Commercial Code) are appropriate. KPMG further determined that the consolidated financial statements also comply with statutory requirements and give a true and fair view of the net assets and financial position of the Group as of 31 December 2017, and of the results of operations and cash flows of the Group for the 2017 reporting year in accordance with IFRS and § 138 VAG (Austrian Insurance Supervision Act) in combination with § 245a UGB. The Group management report is consistent with the consolidated financial statements. KPMG also determined in accordance with § 269 (3) UGB and § 273 UGB that the 2017 sustainability report (consolidated non-financial report) and 2017 consolidated corporate governance report had been prepared.

The final results of the review by the Supervisory Board did not provide any basis for reservation either. The Supervisory Board stated that it had nothing to add to the auditor's reports for the financial statements and consolidated financial statements.

After thorough examination, the Supervisory Board therefore adopted a unanimous resolution to approve the 2017 annual financial statements prepared by the Managing Board, not to raise any objections to the management report, the 2017 consolidated financial statements and Group management report, the 2017 consolidated corporate governance report and the 2017 sustainability report (consolidated non-financial report) and to agree with the Managing Board proposal for appropriation of profits.

The 2017 annual financial statements have therefore been approved in accordance with § 96 (4) AktG (Austrian Stock Corporation Act).

The Supervisory Board proposes to the General Meeting that it approves the Managing Board's proposal for appropriation of profits and formally approves the actions of the Managing Board and Supervisory Board.

Vienna, April 2018

The Supervisory Board:

Günter Geyer (Chairman)