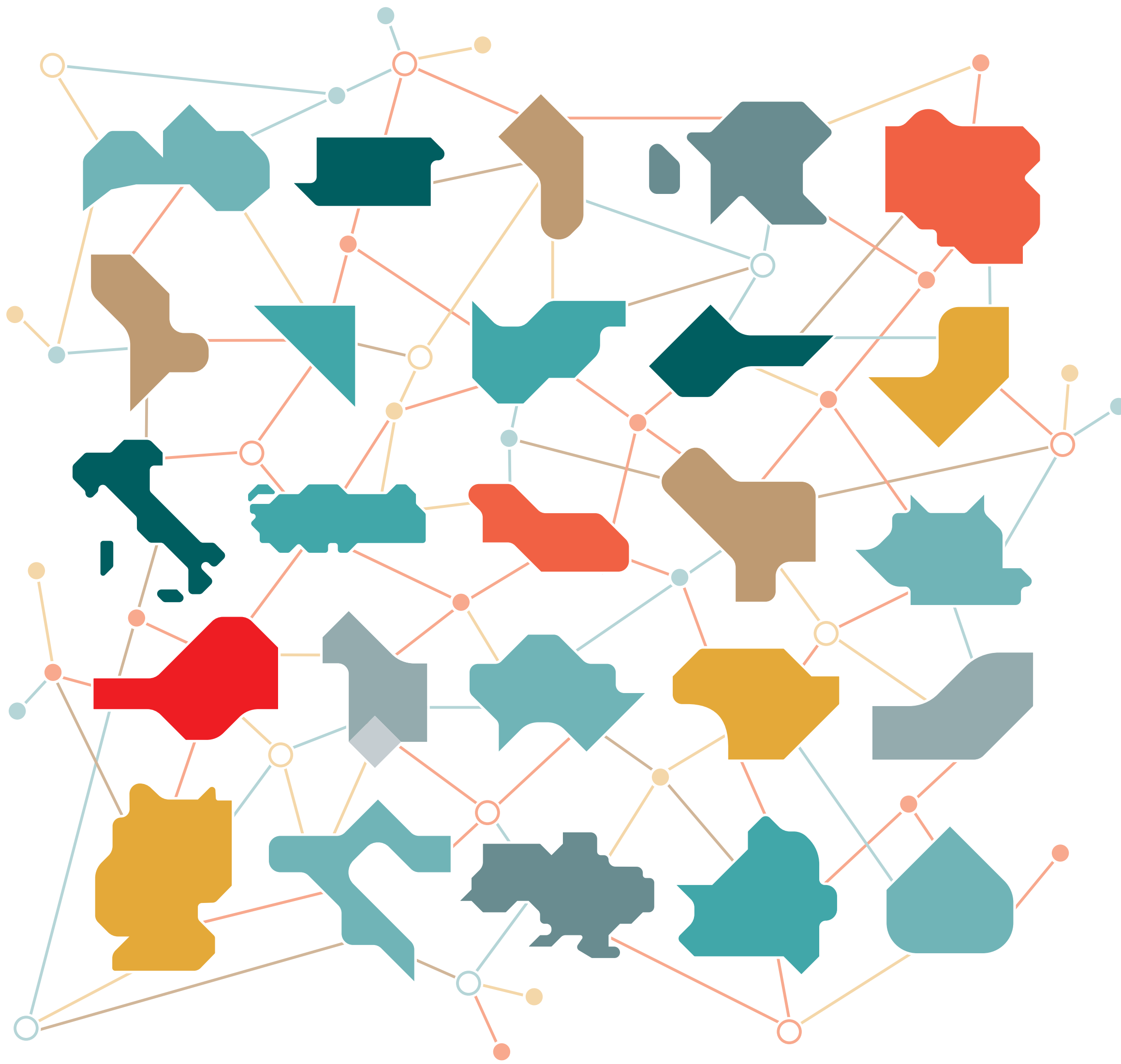
Group Annual Report 2017 Vienna Insurance Group

VIG
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.

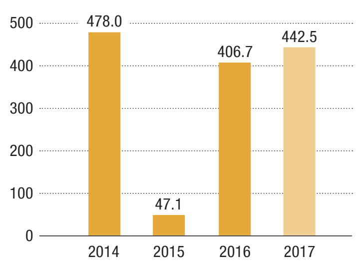
[1] Incl. unit-linked and index-linked life insurance investments and excl. cash and cash equivalents

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

[3] Proposed dividend

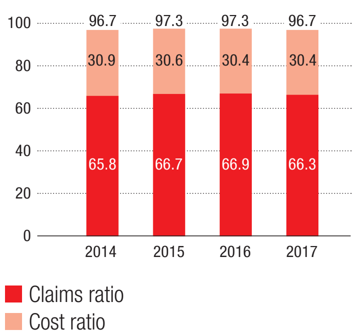
CHANGE IN PROFIT

in EUR million



CHANGE IN THE COMBINED RATIO

in per cent



… at a glance

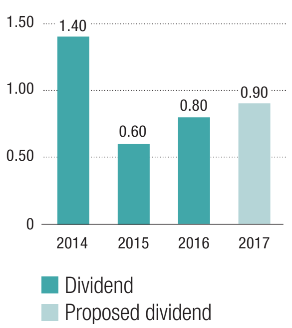
VIG BY SEGMENTS IN THE YEAR 2017

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

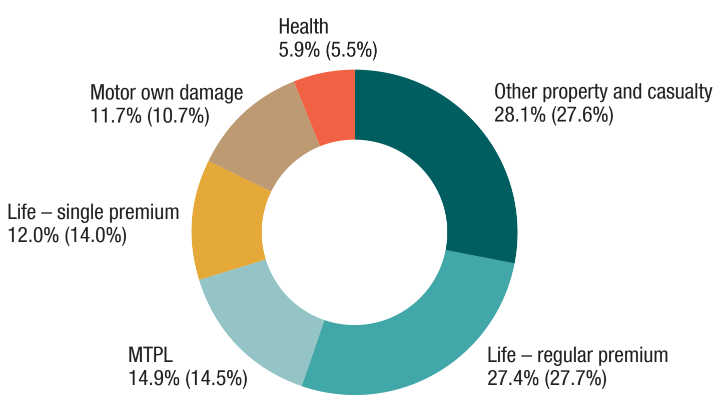
[1] Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine
[2] Other Markets: Germany, Liechtenstein

DIVIDEND PER SHARE

in EUR



PREMIUMS BY LINES OF BUSINESS



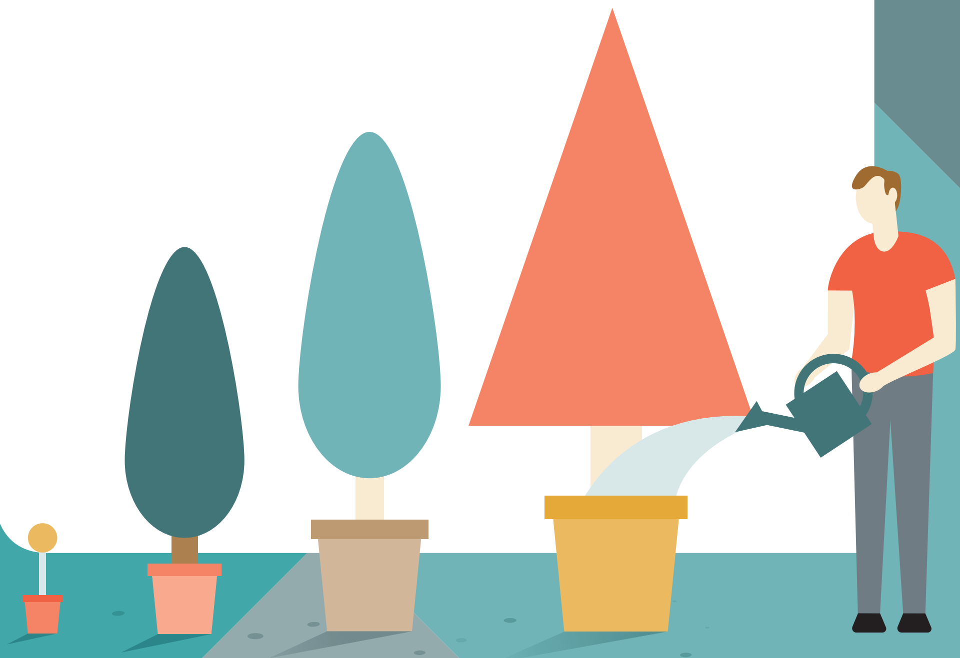
Values for 2016 in parentheses

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.”**

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Group Annual Report 2017 Vienna Insurance Group

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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

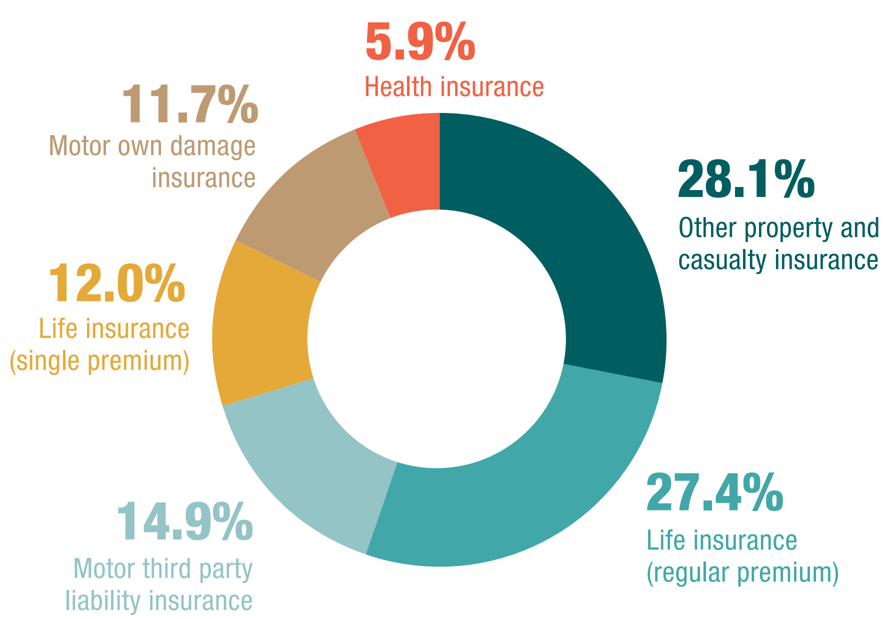
VIG can draw on close to 200 years of experience to ensure that customers receive the best possible future protection. VIG always acts in full awareness of its responsibility to customers, business partners, shareholders and society as a whole.

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)

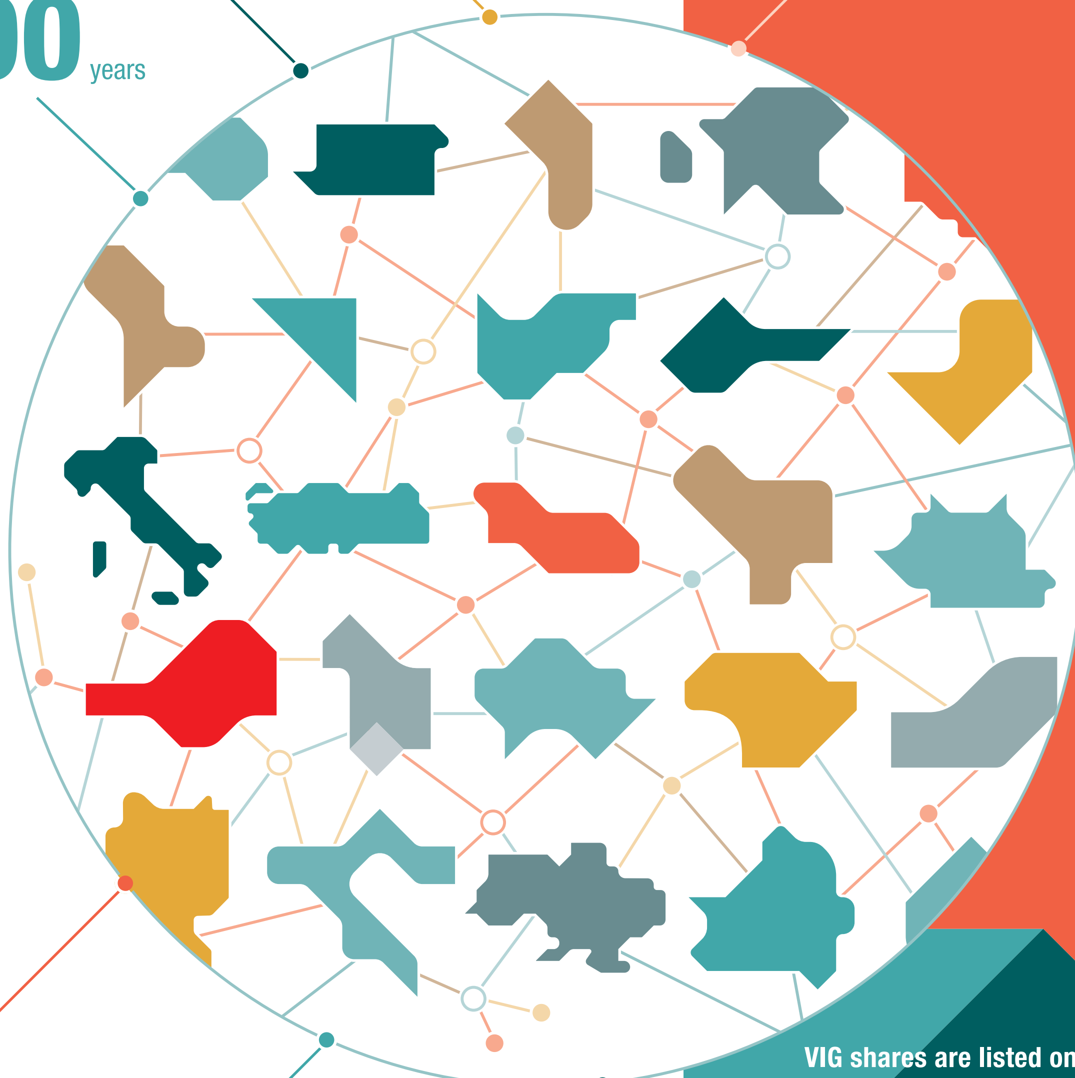


Operating in **25** countries

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.

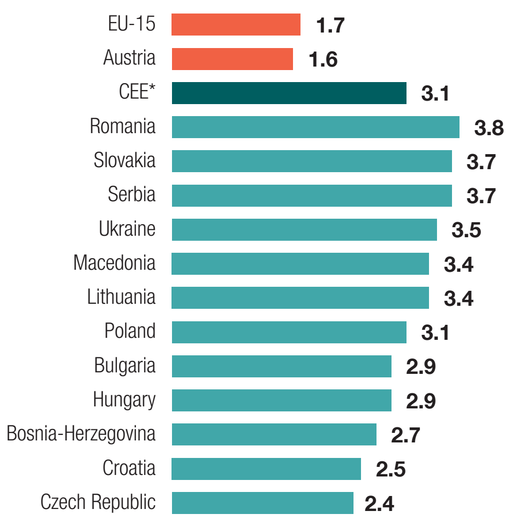
Around **30%** of the shares are in free float.

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.



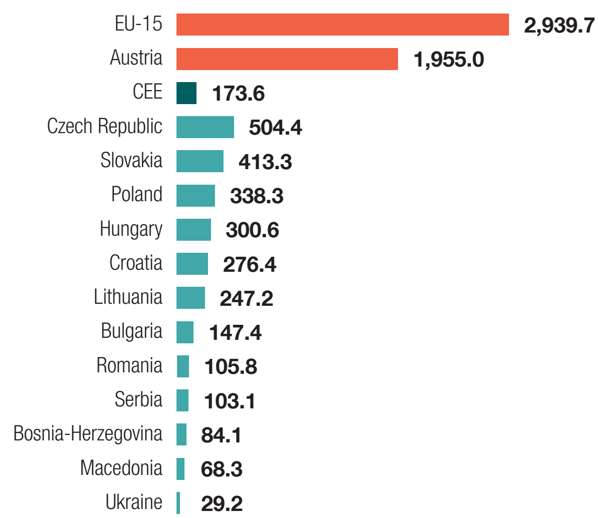
The average economic growth rate is significantly higher in Central and Eastern Europe than in the Eurozone.

* 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

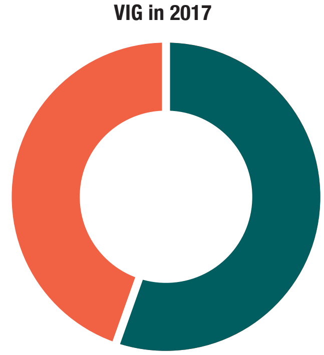
180

million potential customers live in the CEE region.

Share of total premium volume

VIG in 2017

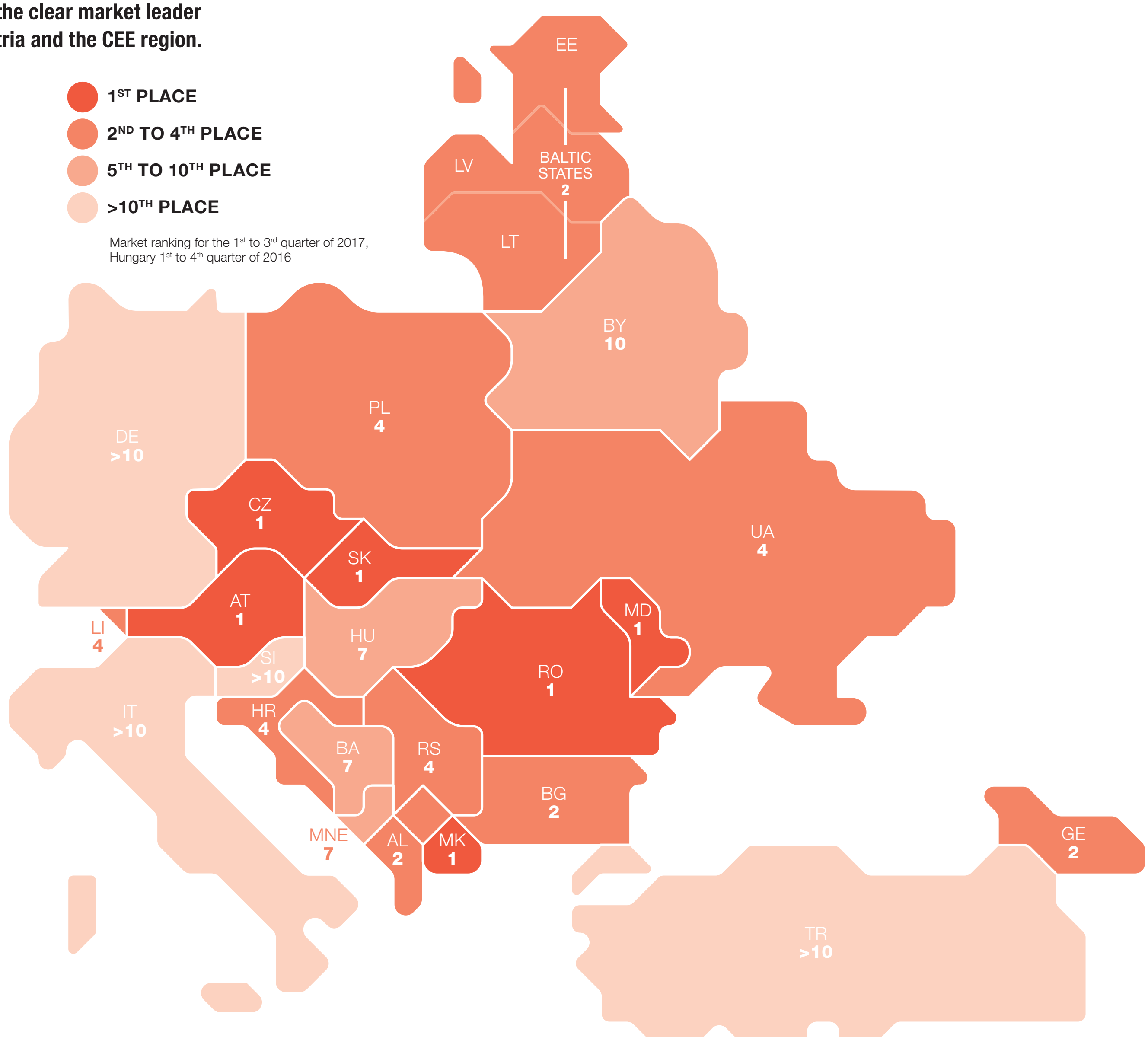
Outside the CEE region **45%**



CEE region **55%**

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.

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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.”

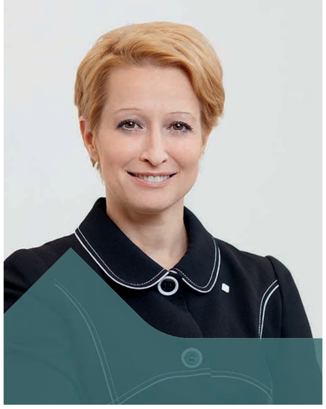
Peter Höfinger

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

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"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**

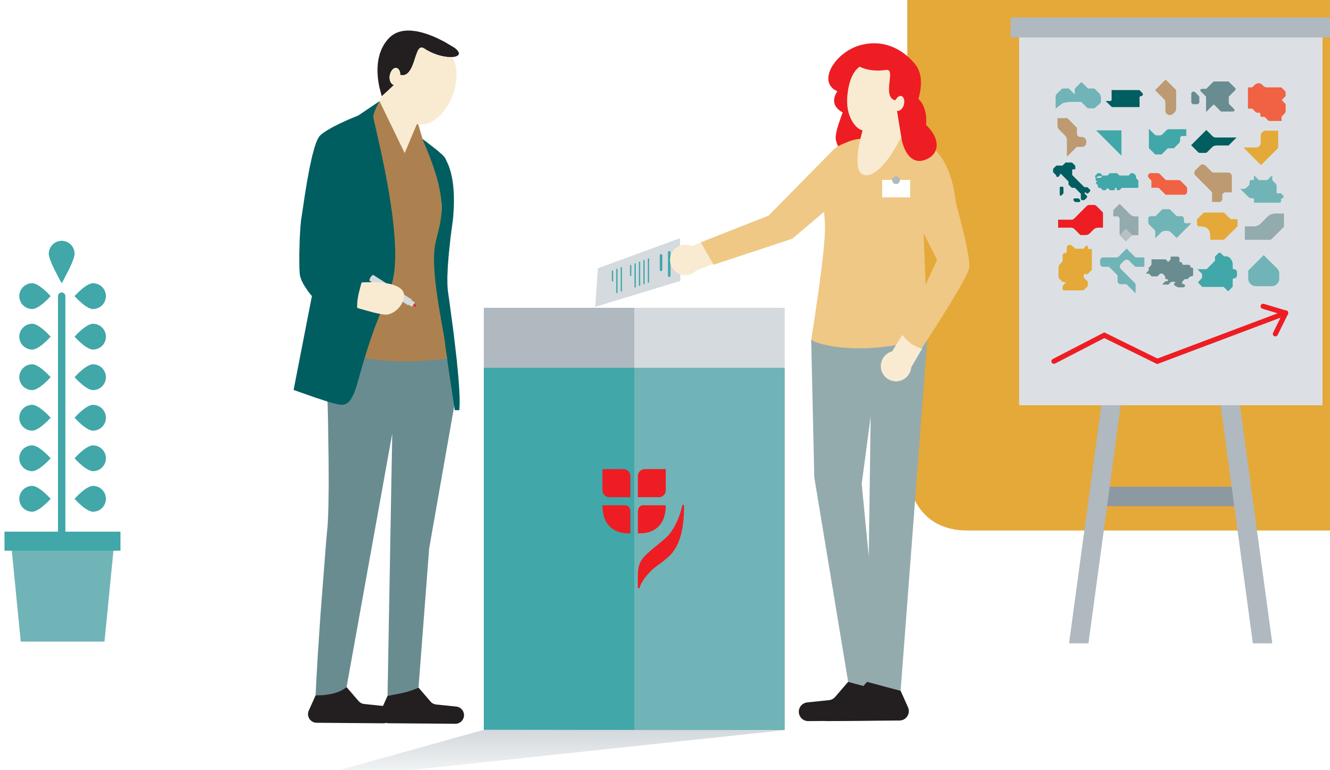
Key strategic elements

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

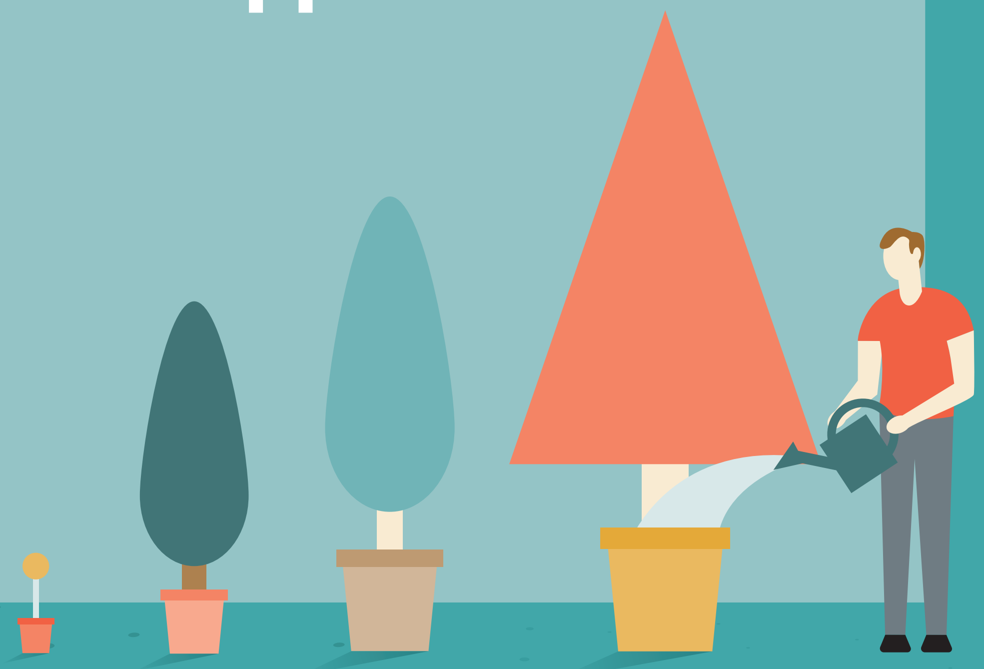
EUR 500 – 520 million

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

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".

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.

© Sebastian Philipp

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

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 150TH ANNIVERSARY

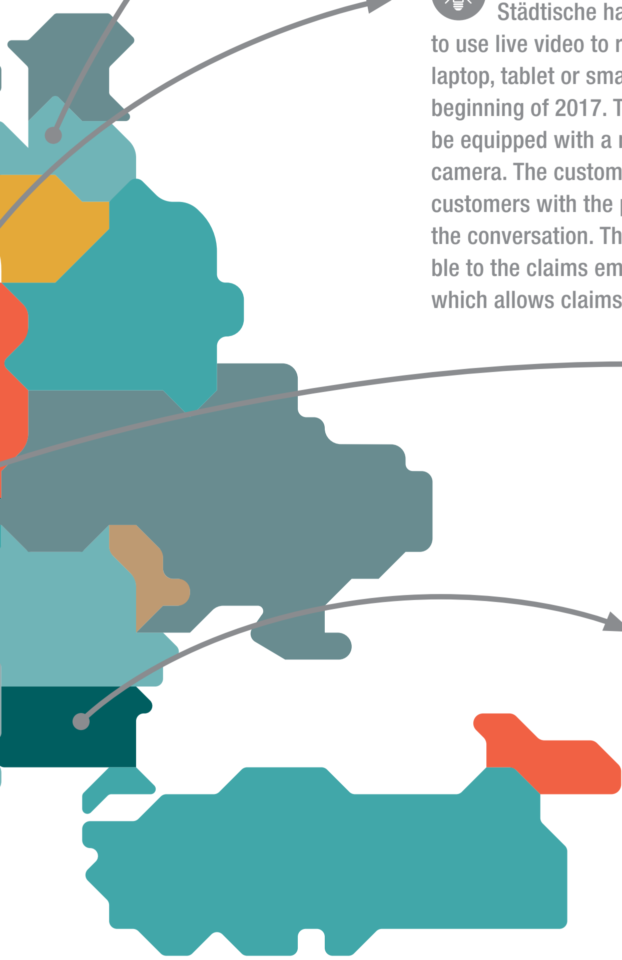
The Austrian Group company celebrated its 150th anniversary in 2017, making it the VIG brand with the longest tradition. Donau Versicherung has been part of the current Group since 1971 and is one of the largest companies of the Group. It attributes its success to its regional ties, market presence in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

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
VIENNA INSURANCE GROUP

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 POISŤOVŇA
VIENNA INSURANCE GROUP

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.

BULSTRAD Life
VIENNA INSURANCE GROUP

"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.

© Klaus Ranger

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.

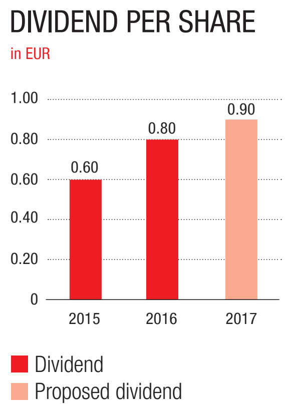
Slovakia, Hungary and Croatia will also have a positive effect on the Group's combined ratio over the long term. This will allow us to reach our targets for both premiums and profits.

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.

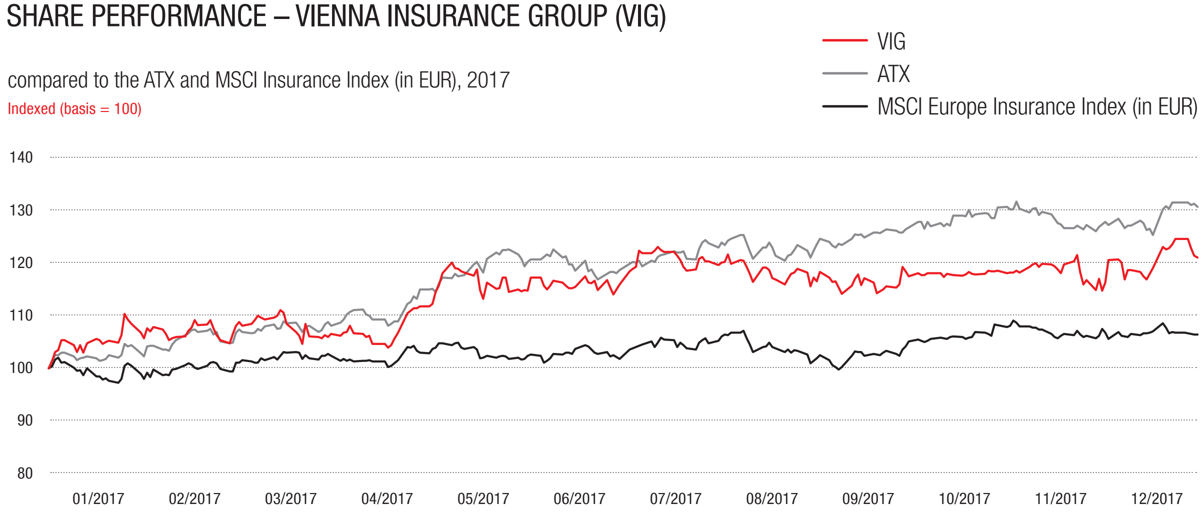
Best rating in the ATX index

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 website, including a version adapted for mobile devices. Individual sections may be downloaded 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)

Group management report 2017

ECONOMIC ENVIRONMENT

According to information from the International Monetary Fund (IMF), the global economy recorded real growth of 3.6% in 2017 (2016: +3.2%), primarily due to a major increase in world trade (+4.2% compared to +2.4% in 2016). Even though the price of oil (Brent) rose to an annual average of around USD 50 per barrel again, the economic upswing was robust enough that most key indicators nevertheless showed a positive developement. The global inflation rate rose to +3.1%, for example, while Europe in particular recorded decreases in both unemployment and new debt. Investments remained relatively constant worldwide with an increase of 0.5%. While decreasing around 1.0% in the emerging markets as a whole, they rose by 2.3% in Central and Eastern Europe (CEE) in 2017. After adjusting for purchasing power, real gross domestic product (GDP) increased 4.1% in the CEE countries in which VIG operates during the year just ended, and only 2.1% in the EU-15.

Due to its AA+ rating and a stable outlook from the Standard & Poor's rating agency, Austria continued to obtain funding at favourable terms in international capital markets. At less than one per cent of the GDP, the increase in debt was also relatively small. According to information from the Austrian Institute of Economic Research (WIFO), the growth in real GDP doubled in 2017 versus the previous year from 1.5% to 3.0%. As in 2016, investment growth continued to be one of the two main drivers of economic growth. Foreign trade was the second main driver of economic growth in Austria. Total premium volume rose in the insurance industry, while continuing to decrease in life insurance due to the low interest rate climate. The good growth rates in property and casualty and health insurance more than compensated for the decreases that were recorded, particularly in single premium life insurance.

2017 was also a year of growth in the CEE region from a macroeconomic point of view. The 2 percentage point higher real rate of GDP growth in the region compared to the EU-15 indicates convergence towards the Western Europe GDP level. Large countries, such as the Czech Republic and Poland, which recorded somewhat weaker economic growth in the previous year recovered again in 2017 and grew +3.7% and +3.8% respectively, according to the calculations of the Vienna Institute for International Economic Studies (WIIW), along with, for example, Romania, which grew a respectable 5.7% in 2017 (2016: +4.8%). Bulgaria (+3.8%), Croatia (+3.0%), Slovakia (+3.3%) and Hungary, Slovenia and the Baltic states (all +4.0%), along with Turkey (+5.4%) also contributed significantly to the upswing. No CEE country in which VIG operates recorded economic growth that was significantly less than 2.0%. Although the effects of this consistently good economic growth were different depending on market circumstances, they consistently resulted in an increased demand for insurance products in the CEE region.

The generally favourable global environment is also due to the fact that many economic uncertainty factors, such as the low interest rate levels, Brexit negotiations, potential economic policy changes in major economies such as the US and China, and stabilisation in the Eurozone, that created major uncertainty just a few years ago have now largely been priced in.

LEGAL ENVIRONMENT

DIRECTIVE ON INSURANCE DISTRIBUTION

Directive (EU) 2016/97 on insurance distribution (Insurance Distribution Directive – IDD) must be applied in the European Union by 1 October 2018 at the latest. The IDD affects all aspects of the insurance business, from recruiting insurance distributors including training and advanced training, to product development, the advisory process including wide-ranging duties to provide information and the distribution of standardised information sheets, all the way to handling conflicts of interest and remuneration. All of the distribution channels used by Vienna Insurance Group and its Group companies, such as salaried field employees, cooperation with insurance intermediaries (brokers and agents) and intermediaries performing distribution as a secondary activity, such as car dealers, are affected. Vienna Insurance Group conducted a Group-wide workshop to assist Group companies in the EU that are affected. Due to high demand, at least one more workshop will be offered. Furthermore, in addition to regular updates for the available legal bases, Group companies were also provided information and explanatory materials prepared for specific topics in order to create a shared understanding of the interpretation of European legal requirements, which is frequently kept to a very general level. Many questions from individual Group companies concerning local distribution solutions were also answered. As a result synergies were achieved, while simultaneously respecting local, independent implementation by the Group companies.

REGULATION ON KEY INFORMATION DOCUMENTS FOR PACKAGED RETAIL AND INSURANCE-BASED PRODUCTS (PRIIPS)

Regulation (EU) No. 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation) must be applied in the European Union as of 1 January 2018. The aim of this regulation is to allow consumers to compare banking, insurance and investment products based on standardised, pre-contractual, non-personalised information sheets. The member states must define their scope at local product level based on general European criteria. VIG companies are generally affected in the area of unit-linked and index-linked life insurance, and in some member states also in the traditional life insurance area. VIG conducted a Group-wide workshop to help affected Group companies in the EU with local, independent implementation of the requirements and to discuss and answer practical questions raised by the Group companies. This ensured that all companies could begin issuing key information documents to customers in a timely fashion.

GENERAL DATA PROTECTION REGULATION

Regulation (EU) No.2016/679 on the protection of natural persons with regard to the processing of personal data (General Data Protection Regulation – GDPR) enters into force on 25 May 2018 and must therefore be immediately applied in the European Union. The GDPR standardises the provisions applicable to the processing of personal data by private-sector companies and public bodies in the entire EU. The main objectives of the GDPR are data security and strengthening the fundamental rights and freedoms of natural persons. Although the GDPR is immediately applicable across the EU, it nevertheless contains opening clauses that allow member states to enact their own national regulations. The GDPR was implemented in Austrian law by the Austrian Data Protection Amendment Act of 2018 (Datenschutz-Anpassungsgesetz 2018), which extensively amended the Austrian Data Protection Act of 2000 (Datenschutzgesetz 2000).

The GDPR affects the processing of personal data of insurance customers of Vienna Insurance Group and its Group companies. The GDPR requirements were discussed and analysed in detail by the Vienna Insurance Group Data Protection Officer and data protection officers of the local Group companies during a Group-wide workshop, so that all of the affected companies could begin organisational implementation of the data protection provisions in a timely fashion.

BUSINESS DEVELOPMENT OF THE GROUP IN 2017

GENERAL INFORMATION

The around 50 insurance companies belonging to VIG operate in the following reporting segments: Austria (incl. the Wiener Städtische branches in Slovenia and Italy and the Donau Versicherung branch in Italy), Czech Republic, Slovakia, Poland, Romania, Baltic states, Hungary, Bulgaria, Turkey/Georgia, Remaining CEE, Other Markets and Central Functions. These twelve segments are explained in the segment reporting section.

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

The Montenegro and Belarus markets were not included in the Vienna Insurance Group consolidated financial statements in 2017 due to immateriality. More information on the scope of consolidation and consolidation methods is provided on page 121 of the notes to the consolidated financial statements. The notes to the consolidated financial statements provide detailed information on changes in the scope of consolidation starting on page 122.

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

To improve readability, company names have been shortened throughout the entire report. A list of full company names is provided on page 235 et seq. In order to avoid duplicate information, reference will be made below to appropriate information in the notes. Changes in significant balance sheet and income statement items are presented in both the segment report and the notes to the financial statements. Additional disclosures in the management report below are intended to explain these data in more detail.

FINANCIAL PERFORMANCE INDICATORS

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

Premium volume

A detailed disclosure of premium development is included in Note 15 Premiums written of the notes to the consolidated financial statements.

Vienna Insurance Group wrote EUR 9,386.0 million in Group premiums in 2017, an increase of 3.7% compared to the same period in the previous year. Excluding the single premium life insurance business, the Group recorded an even larger increase in premiums of 6.2%. Vienna Insurance Group retained EUR 8,585.3 million of the gross premiums written. EUR 800.8 million was ceded to reinsurance companies (2016: EUR 810.6 million).

Premiums written grew particularly in Slovakia (+10.6%), Hungary (+10.0%), Poland (+8.2%) and the Czech Republic (+4.9%). In the Remaining CEE countries, Bosnia-Herzegovina (+23.2%) and Serbia (+12.4%) recorded major premium increases in 2017. Overall, the Group generated 58.3% of its premiums outside Austria in 2017.

Net earned premiums rose by 3.9%, from EUR 8,191.3 million in 2016 to EUR 8,509.6 million in 2017. Net reinsurance cessions were EUR 793.5 million (2016: EUR 787.0 million).

KEY FIGURES FROM THE CONSOLIDATED INCOME STATEMENT

in EUR millions	2017	2016	Change in %
Premiums written – gross	9,386.0	9,051.0	3.7%
Net earned premiums – retention	8,509.6	8,191.3	3.9%
Expenses for claims and insurance benefits – retention	-6,872.6	-6,753.4	1.8%
Acquisition and administrative expenses	-2,040.3	-1,907.8	6.9%
Financial result excluding at equity consolidated companies	881.5	912.2	-3.4%
Result from shares in at equity consolidated companies	42.8	46.6	-8.3%
Other income and expenses	-78.4	-82.1	-4.5%
Result before taxes	442.5	406.7	8.8%

Expenses for claims and insurance benefits

A detailed disclosure of expenses for claims and insurance benefits is included in Note 19 Expenses for claims and insurance benefits of the notes to the consolidated financial statements.

Group expenses for claims and insurance benefits less reinsurers' share were EUR 6,872.6 million in 2017, representing a year-on-year increase of 1.8% (2016: EUR 6,753.4 million).

Acquisition and administrative expenses

A detailed disclosure of acquisition and administrative expenses is included in Note 20 Acquisition and administrative expenses of the notes to the consolidated financial statements.

Acquisition and administrative expenses for all consolidated companies of Vienna Insurance Group increased 6.9% year-on-year to EUR 2,040.3 million in 2017 (2016: EUR 1,907.8 million). This was primarily due to the increase in commissions and generally corresponded to the increase in premiums, not including single premium products.

Financial result

A detailed disclosure of the financial result (excluding at equity consolidated companies) is included in Note 16 Financial result of the notes to the consolidated financial statements.

Vienna Insurance Group generated a financial result (incl. the result from at equity consolidated companies) of EUR 924.3 million in 2017. This was 3.6% below the value in the previous year, in spite of including non-profit societies as fully consolidated companies for the entire 2017 reporting year (full consolidation started in September 2016).

Result before taxes

The Group result before taxes rose to EUR 442.5 million in 2017 (2016: EUR 406.7 million). The 8.8% increase in profits was primarily due to improvement of the combined ratio and the positive trend in the life insurance underwriting results in the Czech Republic and Slovakia.

Profits rose particularly strongly in Poland, Slovakia and the Baltic states in 2017.

Investments

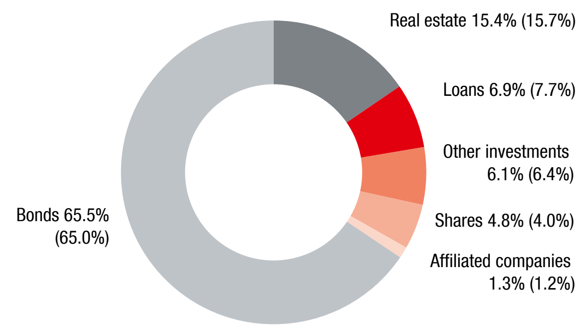
A brief presentation of the investments is included on page 134 of the notes to the consolidated financial statements.

Vienna Insurance Group's total investments (including cash and cash equivalents) rose due to increased investing activities and positive capital market developments to EUR 37,430.6 million as of 31 December 2017, representing a year-on-year increase of 1,194.4 or 3.3%.

The investments include all VIG land and buildings, all shares in at equity consolidated companies and all financial instruments, using the look-through approach for consolidated institutional funds, as well as other fund investments allocated to the asset classes.

Investments for unit-linked and index-linked life insurance are not included. These rose by 6.0% from EUR 8,549.6 million in 2016 to EUR 9,061.1 million in 2017, mainly due to positive market trends for unit- and index-linked products.

BREAKDOWN OF INVESTMENTS 2017



2016 values in parentheses

Shareholders' equity

Vienna Insurance Group's capital base increased by 5.8% to EUR 6,043.9 million in 2017 (2016: EUR 5,711.3 million). This change was mainly due to the result for 2017 less dividend payments and positive currency effects (EUR 60.2 million).

Underwriting provisions

Underwriting provisions (excluding underwriting provisions for unit-linked and index-linked life insurance) were EUR 30,168.2 million as of 31 December 2017, representing an increase of 3.2% in comparison with the previous year (2016: EUR 29,220.1 million).

COMPOSITION OF THE MATHEMATICAL RESERVE

Composition	31.12.2017	31.12.2016
in EUR '000		
Guaranteed policy benefits	20,296,586	19,791,408
Allocated and committed profit shares	754,879	808,622
Deferred mathematical reserve	911,167	928,866
Total	21,962,632	21,528,896

CHANGE IN THE MATHEMATICAL RESERVE

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	21,528,896	21,068,385
Exchange rate differences	108,888	-283
Book value as of 1.1.	21,637,784	21,068,102
Additions	2,313,871	1,821,155
Amount used/released	-2,049,883	-1,402,363
Transfer from provisions for premium refunds	44,150	42,198
Changes in scope of consolidation	16,710	-196
Book value as of 31.12.	21,962,632	21,528,896

MATURITY STRUCTURE OF THE MATHEMATICAL RESERVE

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	1,666,442	1,621,431
more than one year up to five years	5,907,616	5,909,867
more than five years up to ten years	4,422,063	4,491,253
more than ten years	9,966,511	9,506,345
Total	21,962,632	21,528,896

CHANGE IN THE PROVISION FOR OUTSTANDING CLAIMS

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	4,815,063	4,603,648
Exchange rate differences	45,628	-23,908
Book value as of 1.1.	4,860,691	4,579,740
Changes in scope of consolidation	879	60,989
Allocation of provisions for outstanding claims	5,081,147	3,196,819
for claims paid occurred in the reporting period	3,869,180	2,528,806
for claims paid occurred in previous periods	1,211,967	668,013
Use/release of provision	-4,801,317	-3,022,485
for claims paid occurred in the reporting period	-2,314,824	-1,457,007
for claims paid occurred in previous periods	-2,486,493	-1,565,478
Book value as of 31.12.	5,141,400	4,815,063

MATURITY STRUCTURE OF THE PROVISION FOR OUTSTANDING CLAIMS

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	2,473,952	2,318,508
more than one year up to five years	1,713,687	1,527,780
more than five years up to ten years	438,093	435,623
more than ten years	515,668	533,152
Total	5,141,400	4,815,063

Cash flow

The cash flow from operating activities rose from EUR 1,132.7 million in 2016 to EUR 1,269.9 million in 2017. The cash flow from investing activities changed from EUR -693.0 million in 2016 to EUR -1,328.9 million in 2017, primarily due to an increase in the size of the portfolio in the life lines of business and the accompanying increase in investing activities. VIG's financing activities produced a cash flow of EUR -37.9 million in 2017 (2016: EUR -110.1 million). This year-on-year improvement was primarily due to the positive net cash flow from the issue and repayment of subordinated liabilities. The Group had cash and cash equivalents of EUR 1,497.7 million at the end of 2017 (2016: EUR 1,589.9 million). Vienna Insurance Group received a total of EUR 897.2 million in interest and dividends in 2017 (2016: EUR 908.4 million).

KEY FIGURES FOR VIENNA INSURANCE GROUP

	2017	2016	2015	2014
in %				
Earnings per share (in EUR)	2.23	2.16	-0.27	2.46
Return on Equity	8.3	8.9	1.1	11.1
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

Earnings per share

Earnings per share is a key figure equal to annual profit for the Group (less non-controlling interests and interest on hybrid capital) divided by the average number of shares outstanding. Earnings per share were EUR 2.23 in 2017 (2016: EUR 2.16), slightly higher than the previous year level.

Return on equity (RoE)
RoE is the ratio of Group profit before taxes of the total average shareholders' equity of Vienna Insurance Group.

The Group earned a return on equity before taxes of 8.3% in 2017 (2016: 8.9%).

Combined ratio significantly below 100%
The combined ratio is calculated as the sum of all underwriting expenses and income, and net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums in the property and casualty line of business.

The Group combined ratio (after reinsurers' share, not including investment income) improved to 96.7% in 2017, primarily due to the increase in the underwriting result, particularly in Austria and Poland (2016: 97,3%). As a result, VIG was able to keep the combined ratio significantly below the 100% mark in spite of many adverse weather events and Storm Herwart.

DEVELOPMENT BY SEGMENT

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

PREMIUMS WRITTEN BY SEGMENT

	2017	2016	2015	2014
in EUR millions				
Austria	3,848.5	3,941.3	4,055.5	4,077.0
Czech Republic	1,603.2	1,529.1	1,554.8	1,683.4
Slovakia	810.0	732.3	716.5	727.0
Poland	886.6	819.2	838.9	1,034.1
Romania	506.5	533.4	428.6	339.7
Baltic states	327.6	140.2	59.3	51.6
Hungary	246.7	224.2	204.3	180.0
Bulgaria	150.1	136.7	131.1	114.4
Turkey/Georgia	207.8	208.7	182.3	170.4
Remaining CEE[1]	352.0	331.4	307.2	293.6
Other Markets[2]	292.6	353.0	410.0	345.8
Central Functions[3]	1,411.5	1,324.8	1,248.9	1,289.8
Consolidation	-1,257.3	-1,223.3	-1,117.7	-1,160.9
Total	**9,386.0**	9,051.0	9,019.8	9,145.7

1 Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine
2 Other Markets: Germany, Liechtenstein
3 Central Functions include VIG Holding, VIG Re, VIG Fund, the non-profit societies, corporate IT service providers and intermediate holding companies.

RESULT BEFORE TAXES BY SEGMENT

	2017	2016	2015	2014
in EUR millions				
Austria	175.3	196.1	213.0	169.7
Czech Republic	149.3	152.8	163.0	177.9
Slovakia	55.7	48.9	51.9	59.5
Poland	35.5	1.9	20.8	53.4
Romania	6.2	3.5	-87.6	6.1
Baltic states	1.4	-11.2	-2.7	-0.7
Hungary	2.1	3.8	-22.1	3.0
Bulgaria	6.9	5.4	-2.4	2.1
Turkey/Georgia	9.4	9.0	3.2	5.7
Remaining CEE[1]	-6.0	7.4	-25.4	11.3
Other Markets[2]	23.7	22.1	20.2	18.9
Central Functions[3]	-16.7	-33.3	-284.6	-29.4
Consolidation	-0.4	0.4	-0.3	0.7
Total	**442.5**	406.7	47.1	478.0

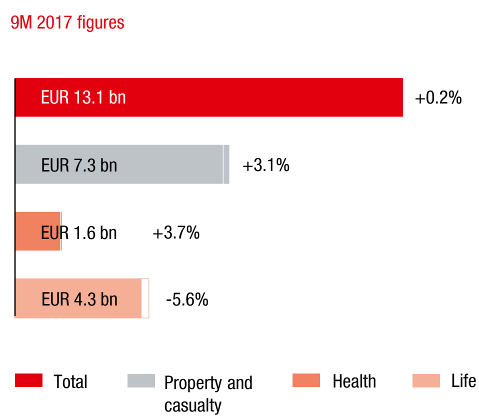
1 Remaining CEE: Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia, Ukraine
2 Other Markets: Germany, Liechtenstein
3 Central Functions include VIG Holding, VIG Re, VIG Fund, the non-profit societies, corporate IT service providers and intermediate holding companies.

AUSTRIA

AUSTRIAN INSURANCE MARKET

The top 5 insurance groups generated around 72% of the premium volume in Austria in the first three quarters of 2017. The two largest insurance groups generated around 45%.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR



Source: Austrian Insurance Association

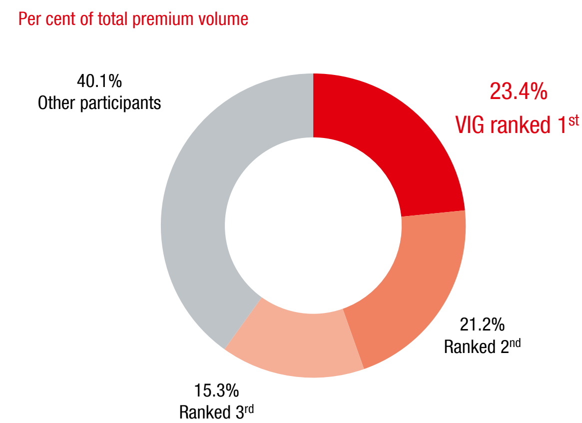
Premium volume in Austria remained close to the level of the previous year in the first three quarters of 2017. Growth rates of 3.1% in property and casualty and 3.7% in health insurance offset the 5.6% decrease in the life line of business, resulting in an overall 0.2% year-on-year increase in premiums in the Austrian insurance market.

The growth in property and casualty was mainly due to an increase in the number of policies, while average premiums have fallen in many individual lines of business. The increase of 3.7% in the motor lines of business made a major contribution to growth. Premium volume rose by 2.8% in the non-motor lines of business.

The ongoing low interest rate climate continues to have a negative effect on life insurance. Regular premiums fell 1.4%, and the single premium business fell 25.6%.

Lower life insurance premiums and a growing population caused insurance density to fall below the EUR 2,000 threshold in 2016. A per capita average of EUR 1,955 was spent on insurance in Austria, EUR 1,254 for non-life insurance and EUR 701 for life insurance.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS



Source: Austrian Insurance Association; as of 9M 2017

VIG COMPANIES IN AUSTRIA

In addition to VIG Holding, the Group operates three insurance companies in the Austrian market: Wiener Städtische, Donau Versicherung and s Versicherung. Wiener Städtische also operates branches in Italy and Slovenia. Donau Versicherung is also represented by a branch in Italy. VIG Holding operates out of Austria as reinsurer of the Group and as insurer in the cross-border corporate business and is therefore assigned to the Central Functions segment.

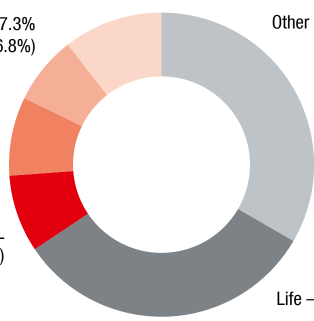
A total market share of 23.4% makes Vienna Insurance Group the largest insurance group in Austria. It holds first place in, the property and casualty insurance market as well as in the life insurance market. VIG is ranked second in the health insurance area.

s Versicherung will be merged with Wiener Städtische in 2018, subject to approval by the boards of the Group companies and the authorities. The merger is aimed at pooling the strengths of the two insurance companies to promote the bank insurance business. The s Versicherung brand will remain unchanged in the market and will continue to act as a central hub for insurance solutions provided through Erste Bank and Sparkassen. Wiener Städtische will become by far the largest life insurance company in Austria after the merger.

BUSINESS DEVELOPMENT IN AUSTRIA IN 2017

Premium development
The Vienna Insurance Group companies in Austria wrote EUR 3.848,5 million in gross written premiums in 2017 (2016: EUR 3,941.3 million). This corresponds to a year-on-year decrease of 2.4% due to the reduction in single premium life business. When adjusted to this, the Austrian Group companies recorded an increase of 1.2%. Net earned premiums were EUR 3,165.1 million in 2017, representing a decrease of 2.6% compared to the previous year.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits
The Austrian Group companies had expenses for claims and insurance benefits (less reinsurance) of EUR 3,045.4 million in 2017, or EUR 145.5 million less than in 2016. This corresponds to a reduction of 4.6% due to a smaller allocation to the mathematical reserve resulting from the decrease in single premium business.

Acquisition and administrative expenses
Acquisition and administrative expenses rose to EUR 647.3 million in 2017. The year-on-year increase of 4.6% is due to the inclusion of one-time project costs in connection with the optimisation of the bank cooperation, and increased commissions based on growth in regular premiums.

Result before taxes
The result before taxes in Austria decreased with 10.6% to EUR 175.3 million in 2017 as a result of a decrease in the financial result following one-off effects that positively affected the financial result in the previous year (2016: EUR 196.1 million).

Combined Ratio
In spite of many adverse weather events and Storm Herwart, the combined ratio (after reinsurance, not including investment income) improved in Austria to an outstanding 95.5% in 2017, primarily due to an improvement in claims development mainly in motor third party liability (2016: 97.6%).

VIENNA INSURANCE GROUP IN AUSTRIA

	2017	2016	2015	2014
in EUR millions				
Premiums written	3,848.5	3,941.3	4,055.5	4,077.0
Motor own damage insurance (Casco)	280.0	266.5	256.6	258.1
Motor third party liability insurance	316.9	316.0	320.9	351.5
Other property and casualty insurance	1,284.5	1,261.1	1,252.9	1,228.5
Life insurance – regular premium	1,240.3	1,246.4	1,248.4	1,247.9
Life insurance – single premium	321.9	456.4	595.5	622.8
Health insurance	405.0	394.9	381.2	368.2
Result before taxes	175.3	196.1	213.0	169.7

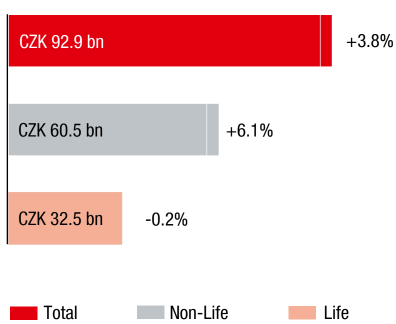
CZECH REPUBLIC

CZECH INSURANCE MARKET

The Czech insurance market has a high level of market concentration. The top 5 insurance groups generated around 85% of market premiums in the 1st to 3rd quarter of 2017, with the two largest insurance groups generating around 62%.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR

9M 2017 figures



Source: Czech Insurance Association

In the first three quarters of 2017, premiums in the Czech Republic increased by 3.8% based on local currency.

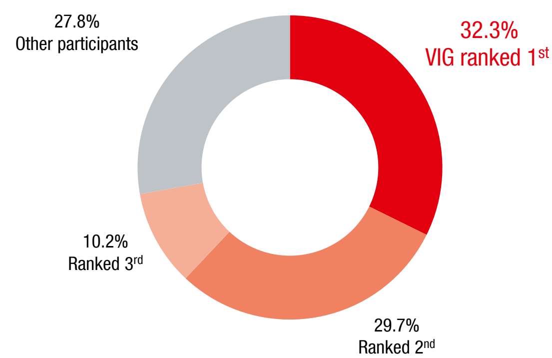
This increase was primarily due to the non-life sector, which recorded strong growth of 6.1% compared to the same period in the previous year. Motor premiums rose by 5.9% (motor third party liability +3.6%, motor own damage +8.9%). This was a continuation of the growth trend in this segment caused by a steady increase in the number of vehicles insured. The non-motor lines of business also recorded strong growth of 6.4%.

Life insurance fell slightly by 0.2% based on local currency. The single premium business decreased by 15.7% in the 1st to 3rd quarter of 2017, while regular premium life insurance rose by 0.3%.

A per capita average of EUR 504 was spent on insurance premiums in the Czech Republic in 2016. EUR 300 of this amount was for non-life insurance and EUR 204 for life insurance. The economic outlook continues to show good growth opportunities in the Czech Republic. A high employment rate and rising real wages are stimulating personal consumption and the demand for insurance products.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Czech Insurance Association; as of 9M 2017

VIG COMPANIES IN THE CZECH REPUBLIC

Vienna Insurance Group operates three insurance companies in the Czech Republic: Kooperativa, ČPP and PČS. The Group has also had its own reinsurance company, VIG Re, in Prague since 2008, but this company is allocated to the Central Functions in the reporting segment.

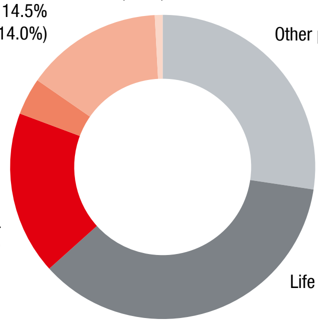
With a total market share of 32.3%, the VIG companies hold first place in the market ranking of leading insurance groups in the country. VIG is the clear number 1 in the life sector in the Czech Republic is ranked second in the non-life sector of the market.

VIG plans to merge its Group companies Kooperativa and PČS as of 1 January 2019, subject to approval by the local authorities and the boards of the companies. The aim is to strengthen the bank insurance business by combining the expertise of the two companies.

BUSINESS DEVELOPMENT IN THE CZECH REPUBLIC IN 2017

Premium development
The Czech Group companies wrote EUR 1,603.2 million in premiums written in 2017 (2016: EUR 1,529.1 million), representing an increase of 4.9% compared to the previous year. The large increase was mainly due to good performance in the regular premium life insurance and other property and casualty business. Net earned premiums were EUR 1,206.7 million in 2017 (2016: EUR 1,151.5 million).

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits
Expenses for claims and insurance benefits less reinsurers' share were EUR 792.0 million in 2017. The year-on-year increase of 7.3% was primarily due to a number of large losses in other property and casualty and in the indirect business as well as an increase in motor claim payments. There was also an increase in the number of adverse weather events in 2017.

Acquisition and administrative expenses
Acquisition and administrative expenses of the Czech Group companies increased 3.0% to EUR 361.4 million in 2017. Acquisition and administrative expenses were still EUR 350.8 million in 2016. Higher commission expenses due to premium growth were the main reason for the increase.

Result before taxes
Due to the negative change in the combined ratio, the result before taxes generated by the Czech Group companies declined by 2.2% year-on-year to EUR 149.3 million in 2017 (2016: EUR 152.8 million). However, the negative effect of the change in the combined ratio was almost offset by a significant improvement in the life insurance underwriting result.

Combined Ratio
In spite of the developments indicated in the expenses for claims and insurance benefits section and the deteriorating trend in motor third party liability insurance, the combined ratio of 97.5% continued to be below the 100% threshold in 2017 (2016: 90.5%).

VIENNA INSURANCE GROUP IN THE CZECH REPUBLIC

in EUR millions	2017	2016	2015	2014
Premiums written	1,603.2	1,529.1	1,554.8	1,683.4
Motor own damage insurance (Casco)	232.7	213.4	190.3	177.7
Motor third party liability insurance	278.4	266.1	256.8	256.1
Other property and casualty insurance	438.8	405.2	377.4	379.1
Life insurance – regular premium	576.7	534.0	507.6	487.2
Life insurance – single premium	63.3	97.0	209.1	369.5
Health insurance	13.3	13.4	13.6	13.8
Result before taxes	149.3	152.8	163.0	177.9

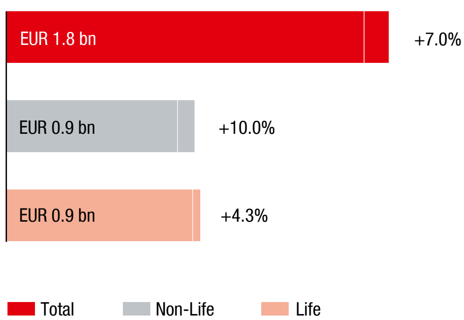
SLOVAKIA

SLOVAKIAN INSURANCE MARKET

The top 5 insurance groups generated around 79% of the premium volume in the first three quarters of 2017. The two largest insurance groups generated around 59%.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR

9M 2017 figures



Source: Slovak Insurance Association

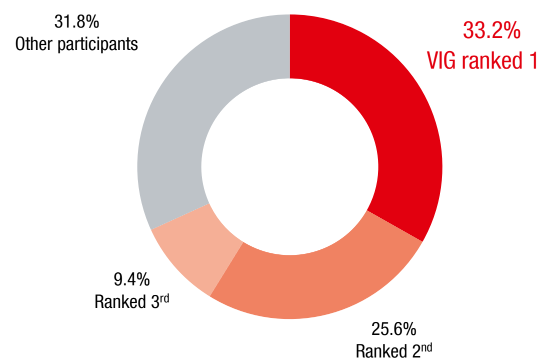
The Slovakian insurance market grew 7.0% in the 1st to 3rd quarter of 2017. Both the non-life and life sectors recorded a positive development.

The non-life market grew 10.0%. The large increase was partly due to the expansion of the 8% tax levy on all non-life insurance products sold as of 1 January 2017. Motor third party liability insurance was the only line of business affected by the tax levy prior to 2017, recorded a 9.6% increase. The remaining motor lines of business rose by 10.7%. The Slovakian Ministry of Finance is currently preparing an amendment of the law. The existing model will be replaced by a tax levy of which the amount varies depending on the line of business.

Following a decrease in the previous year, life insurance grew 4.3% in the first three quarters of 2017. This makes Slovakia an exception in Central and Eastern Europe, as the average per capita expenditure on life insurance exceeds that of non-life insurance. Insurance density was EUR 218 in the life sector and EUR 195 in the non-life sector in 2016. Total insurance expenditures averaged EUR 413 per capita in Slovakia.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Slovak Insurance Association; as of 9M 2017

VIG COMPANIES IN SLOVAKIA

VIG was represented by three insurance companies in Slovakia in 2017: Kooperativa, Komunálna and the life insurance company PSLSP, which specialises in bank distribution.

VIG's market share of 33.2% makes it the leading insurance group in Slovakia. It holds second place in the non-life market and is the market leader in life insurance.

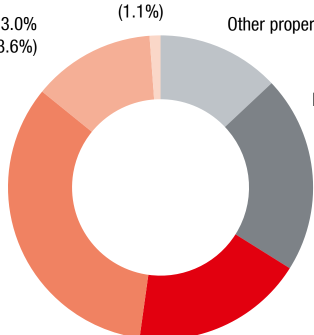
PSLSP will be merged with Kooperativa as of 1 April 2018. This step will promote the non-life business sales via the banks.

BUSINESS DEVELOPMENT IN SLOVAKIA IN 2017

Premium development

The Slovakian companies of Vienna Insurance Group wrote EUR 810.0 million in premiums written in 2017 (2016: EUR 732.3 million). This corresponds to a significant year-on-year increase of 10.6% that is primarily due to good growth in the life insurance lines of business. Net earned premiums were EUR 679.3 million, representing an increase of 13.6%.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits

Expenses for claims and insurance benefits (less reinsurance) were EUR 558.0 million in 2017. This year-on-year increase of 13.5% was mainly due to the large increase in single premium life insurance, which led to higher provisions.

Acquisition and administrative expenses

VIG recorded EUR 107.4 million in acquisition and administrative expenses in Slovakia in 2017 (2016: EUR 100.4 million). The increase of 6.9% essentially corresponds to the increase in regular premiums.

Result before taxes

The Slovakian companies generated a result before taxes of EUR 55.7 million in 2017. This corresponds to a year-on-year increase of 14.0%, which was due to the increase in the life insurance underwriting result.

Combined Ratio

The combined ratio of the Slovakian VIG Group companies was an excellent 95.4% in 2017 (2016: 94.9%).

VIENNA INSURANCE GROUP IN SLOVAKIA

in EUR millions	2017	2016	2015	2014
Premiums written	810.0	732.3	716.5	727.0
Motor own damage insurance (Casco)	105.2	99.5	90.1	88.0
Motor third party liability insurance	148.1	136.5	131.1	132.1
Other property and casualty insurance	105.1	109.8	109.1	104.9
Life insurance – regular premium	169.6	163.2	160.2	157.2
Life insurance – single premium	272.7	215.0	219.4	238.7
Health insurance	9.4	8.4	6.7	6.1
Result before taxes	55.7	48.9	51.9	59.5

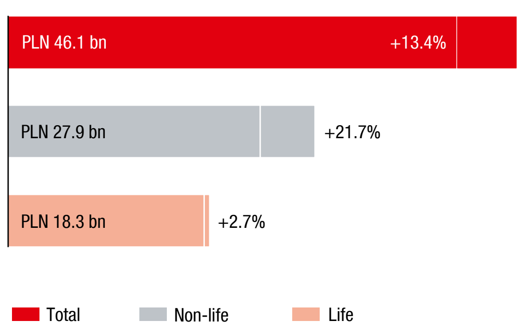
POLAND

POLISH INSURANCE MARKET

The Polish insurance market is one of the largest in Central and Eastern Europe. The top 5 insurance groups in the country generated around 70% of the premiums in the 1st to 3rd quarter of 2017.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR

9M 2017 figures



Source: Financial Market Authority Poland

A favourable turnaround occurred in Poland in the first nine months of 2017. After a small decrease in premium volume in the previous year, premiums increased 13.4% year-on-year based on local currency.

Premiums grew 21.7% in the non-life sector. The motor lines of business were the main driver of this change, recording large increases of 38.7% for motor third party liability and 18.0% for motor own damage insurance. Higher average premiums improved the profitability of insurers in the motor third party liability line of business, which had suffered for years. The non-motor lines of business recorded a 10.1% growth.

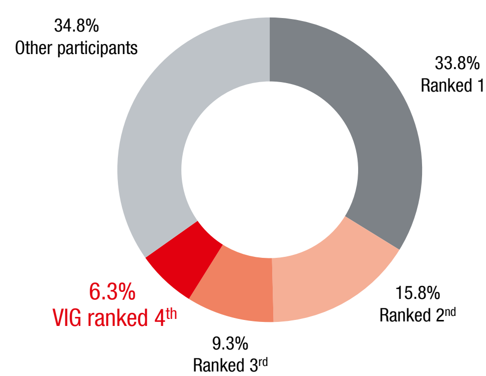
Life insurance premiums rose a moderate 2.7% in the 1st to 3rd quarter of 2017. Single premium products rose by 8.0% year-on-year. Regular premium life insurance remained almost unchanged with an increase of 0.3% compared to 2016, while unit-linked life insurance became attractive again (+10.2%).

The interest in private supplementary health insurance is increasing in Poland. Poland has also become an important centre for modern IT solutions in recent years, including in the insurance industry. The Polish know-how in this area is attracting international companies and promoting investment in research and development.

Poland had an insurance density of EUR 338 in 2016. Of this, EUR 194 was spent on non-life insurance and EUR 144 on life insurance.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Financial Market Authority Poland; as of 9M 2017

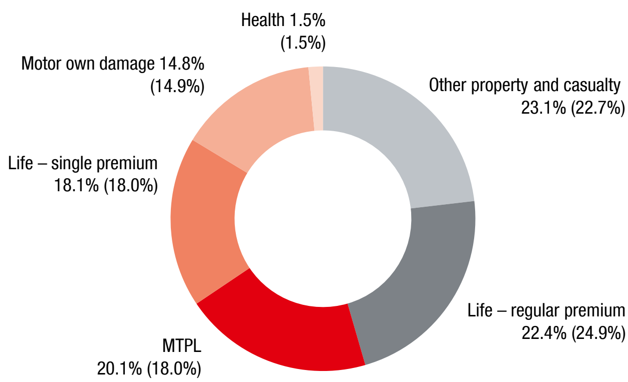
VIG COMPANIES IN POLAND

Five VIG insurance companies are operating on the Polish market: Compensa Life and Non-Life, InterRisk, Polisa and Vienna Life. Together they have a market share of 6.3%, which puts them in fourth place in the Polish insurance market. The Group is also ranked fourth in the non-life and life sectors.

BUSINESS DEVELOPMENT IN POLAND IN 2017

Premium development
VIG generated total premiums written of EUR 886.6 million in Poland in 2017 (2016: EUR 819.2 million), representing an increase of 8.2% compared to the previous year. The significant increase was mainly due to good performance in motor third party liability and other property and casualty insurance. Net earned premiums were EUR 716.3 million in 2017, 7.0% higher than in 2016.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits
The Polish VIG companies had expenses for claims and insurance benefits (less reinsurance) of EUR 532.3 million in 2017 (2016: EUR 542.6 million). This was a decrease of EUR 10.3 million or 1.9% in expenses for claims and insurance benefits (less reinsurance). It must be noted that the result of the previous year was greatly reduced by a change in the cancellation terms for the surrender of certain life insurance products and associated provisions.

Acquisition and administrative expenses
The Polish VIG companies managed to keep acquisition and administrative expenses at EUR 158.8 million in 2017, which is almost the same level as the previous year (2016: EUR 158.5 million).

Result before taxes
Result before taxes increased to 35.5 million in Poland in 2017 due to positive performance of the motor portfolio (2016: EUR 1.9 million). The increase was also partly due to the change in cancellation terms for the life lines of business in 2016 that was previously mentioned above.

Combined Ratio
The combined ratio also improved to an excellent 93.9% in 2017 due to positive performance of the motor lines of business (2016: 99.4%).

VIENNA INSURANCE GROUP IN POLAND

	2017	2016	2015	2014
in EUR millions				
Premiums written	886.6	819.2	838.9	1,034.1
Motor own damage insurance (Casco)	131.3	122.3	125.3	140.9
Motor third party liability insurance	177.9	147.6	150.8	177.9
Other property and casualty insurance	205.2	185.5	186.8	221.3
Life insurance – regular premium	198.3	204.2	210.9	157.6
Life insurance – single premium	160.4	147.0	153.5	322.6
Health insurance	13.5	12.6	11.6	13.9
Result before taxes	35.5	1.9	20.8	53.4

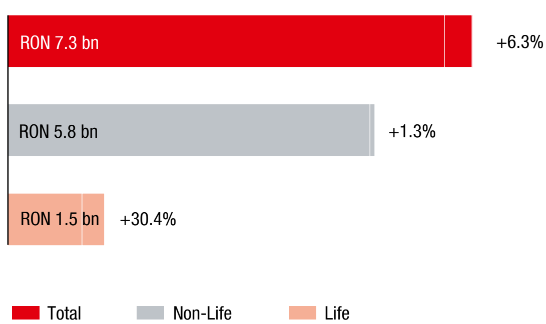
ROMANIA

ROMANIAN INSURANCE MARKET

The top 5 insurance groups generated around 70% of market premiums in the 1st to 3rd quarter of 2017.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR

9M 2017 figures



Source: Financial Supervisory Authority ASF

The Romanian insurance market recorded positive growth for the third year in a row. Although the growth rate slowed, premiums nevertheless rose by 6.3% year-on-year based on local currency in the first three quarters of 2017. This growth was mainly generated by life insurance.

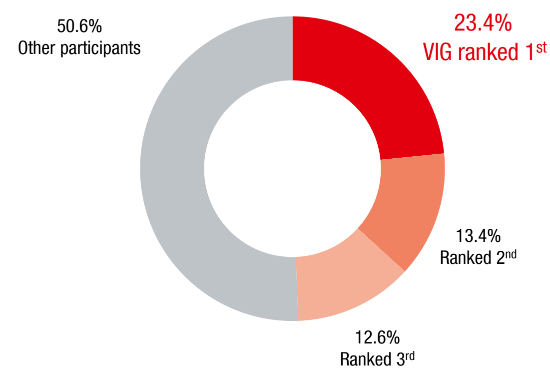
Premiums rose moderately by 1.3% in the non-life sector. After double-digit growth in the previous year, the dominant motor third party liability line of business recorded a drop of 5.3%, mainly due to a decrease in premium rates. A new law was enacted for this sector in May 2017 that led to mandatory changes in the structure of offers, such as the introduction of a reference rate or a limit on acquisition and administrative expenses. Motor own damage insurance grew 7.9%.

Life insurance rose by 30.4%, driven by a major 36.4% increase in unit-linked insurance.

High economic growth and a relatively low insurance density make the Romanian market attractive. Thanks to a reduction in value added tax and wage increases, Romania experienced a consumption boom in 2017. Romania had an insurance density of EUR 106 in 2016. EUR 87 of this amount was for non-life insurance and EUR 19 for life insurance.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: Financial Supervisory Authority ASF; as of 9M 2017

VIG COMPANIES IN ROMANIA

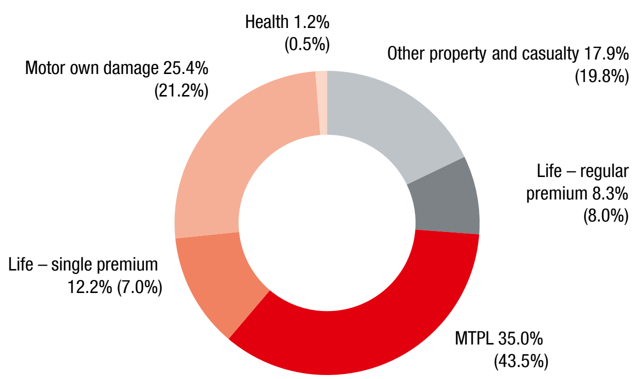
In addition to AXA Life, which was acquired in 2017, Vienna Insurance Group is represented by three insurance companies on the Romanian market: Omniasig, Asirom and BCR Life.

The Group's market share of 23.4% makes it number 1 of the leading Romanian insurance groups. Vienna Insurance Group also holds first place in the non-life sector, and second place in the life sector.

BUSINESS DEVELOPMENT IN ROMANIA IN 2017

Premium development
The Romanian Group companies wrote EUR 506.5 million in premiums in 2017, representing a decrease of 5.0% (2016: EUR 533.4 million). This decrease was mainly due to regulatory measures for motor insurance (reference rates). Net earned premiums were EUR 375.6 million in 2017, 7.0% higher than the previous year.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits
The Romanian companies had EUR 248.6 million in expenses for claims and insurance benefits (less reinsurance) in 2017 (2016: EUR 246.4 million).

Acquisition and administrative expenses
Vienna Insurance Group had acquisition and administrative expenses of EUR 104.8 million in Romania in 2017 (2016: EUR 90.6 million). The increase of 15.7% compared to the previous year was due to a reduction in reinsurance commissions.

Result before taxes
The Romanian Group companies increased their result before taxes to EUR 6.2 million in 2017 (2016: 3.5) due to an improvement in the combined ratio and a one-time effect in connection with first-time consolidation of AXA Life. The 2017 result also includes an impairment of EUR 7.8 million for the Asirom brand.

Combined Ratio
The improvement in the profit situation in the motor own damage business also had a positive effect on the combined ratio, which improved to 98.6% in 2017 (2016: 100.1%).

VIENNA INSURANCE GROUP IN ROMANIA

	2017	2016	2015	2014
in EUR millions				
Premiums written	506.5	533.4	428.6	339.7
Motor own damage insurance (Casco)	128.6	113.2	96.9	83.8
Motor third party liability insurance	177.3	231.9	160.3	116.4
Other property and casualty insurance	90.4	105.4	87.9	85.0
Life insurance – regular premium	42.3	42.5	42.3	35.6
Life insurance – single premium	61.8	37.5	38.3	18.7
Health insurance	6.2	3.0	2.9	0.1
Result before taxes	6.2	3.5	-87.6	6.1

BALTIC STATES

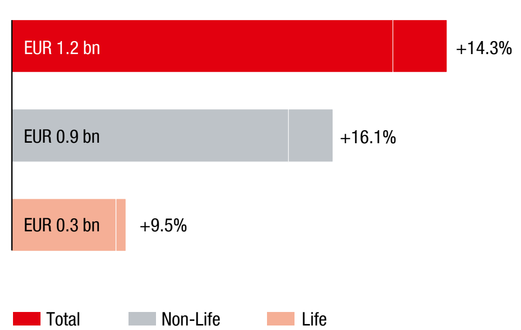
The Baltic states consist of the countries Estonia, Latvia and Lithuania.

THE BALTIC INSURANCE MARKET

In the insurance market in the Baltic states, many companies that have their registered office in one of the three countries are also represented by branches in the other two markets. This leads to an above-average number of market participants. The share of total premium volume generated by the top 5 insurance groups in the Baltic states is around 74%, which is about the same magnitude as other markets in the CEE region.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR

9M 2017 figures



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

Premium volume in the three Baltic states rose by 14.3% year-on-year in the 1st to 3rd quarter of 2017. Lithuania recorded the largest increase of 16.5%, and its 47.5% share of premium volume also makes it the largest of the Baltic markets. Latvia and Estonia also recorded major increases of 14.6% and 10.0%, respectively.

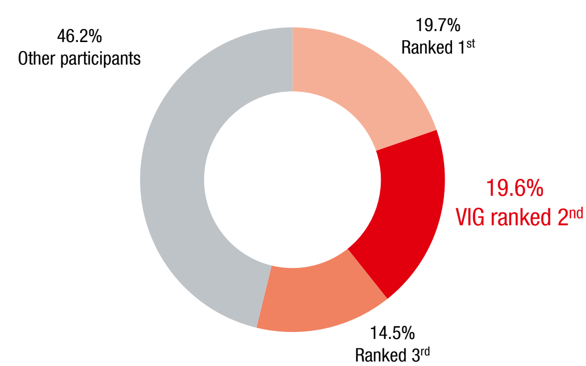
The non-life sector recorded dynamic premium growth of 16.1% in the first nine months of 2017. All three countries recorded double-digit premium increases, with the Lithuanian market taking the lead with an increase of 20.5% in the non-life sector. The motor lines of business were the main drivers of growth, increasing 27.9% compared to the same period in the previous year.

Life insurance premiums also recorded good growth of 9.5%. The largest increase in life insurance in the Baltic markets was recorded in Latvia, which rose by 15.1%, followed by Lithuania (+7.6%) and Estonia (+7.1%). Index-linked and unit-linked insurance is particularly important in the life market. In addition to being the most important life segment, it also recorded high growth rates – increasing 8.2% in Lithuania, and even as much as 25.3% in Estonia.

Average per capita expenditures for insurance were EUR 247 in Lithuania in 2016. EUR 161 of this amount was for non-life insurance and EUR 86 for life insurance. Estonia's insurance density of EUR 296 per capita was higher than in Lithuania. Of this, EUR 231 was spent on non-life insurance and EUR 65 on life insurance. Latvia had the lowest insurance density in the Baltic states, namely EUR 199. EUR 136 was for the non-life sector and EUR 63 for the life sector.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS

Per cent of total premium volume



Source: The Estonian National Statistics Board, Latvian Insurers Association, Central Bank of the Republic of Lithuania; as of 9M 2017

VIG COMPANIES IN THE BALTIC STATES

VIG is represented in all three Baltic countries. Compensa Life has its headquarters in Estonia and is also represented by branches in Latvia and Lithuania. In Latvia, in addition to BTA Baltic, VIG is also represented by the property and casualty insurer InterRisk (formerly Baltikums), which also has branches in Lithuania and distributes its products via brokers in Estonia. The Group is represented by Compensa

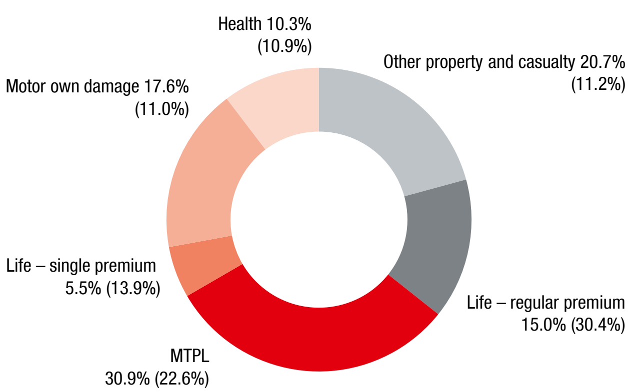
Non-Life in Lithuania. It also maintains branches in Latvia and Estonia.

Vienna Insurance Group is one of the leading insurance groups in the Baltic states. The Group holds a market share of 19.6%, putting it in second place in the market. The Group is also in second place in the non-life sector, and in third place for life insurance.

The Latvian supervisory authority approved the merger of the two VIG companies InterRisk and BTA Baltic at the end of 2017. The merger is aimed at combining the selling power of the two companies and strengthening their market presence by using the common brand BTA Baltic throughout the Baltic region. Subject to approval by the local authorities, VIG also plans to acquire 100% of the shares of the non-life insurer Seesam. The acquisition of Seesam will strengthen VIG's market position in the Baltic states and, above all, improve its position in Estonia.

BUSINESS DEVELOPMENT IN THE BALTIC STATES IN 2017

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Premium development

Premiums written in the Baltic states rose to EUR 327.6 million in 2017 (2016: EUR 140.2 million). In addition to the good performance achieved by all Group companies, the significant year-on-year increase in premiums was primarily due to the non-life insurance company BTA Baltic that was acquired previous year. Net earned premiums rose to EUR 242.9 million in 2017 (2016: EUR 108.1 million).

Expenses for claims and insurance benefits

Expenses for claims and insurance benefits less reinsurance were EUR 170.0 million in 2017 (2016: EUR 85.2 million). The increase was primarily due to the non-life insurer BTA Baltic that was acquired in the previous year.

Acquisition and administrative expenses

VIG recorded EUR 67.1 million in acquisition and administrative expenses in the Baltic states in 2017 (2016: EUR 35.2 million). The main reason for this increase is once again the non-life insurer BTA Baltic that was acquired in the previous year.

Result before taxes

The result before taxes of EUR 1.4 million achieved in the Baltic states in 2017 was a significant improvement over the previous year (2016: loss of EUR 11.2 million). The positive change was the result of a significant improvement in the combined ratio.

Combined Ratio

The combined ratio improved compared to the previous year to 99.0%, primarily because of the non-life insurer BTA Baltic acquired in the previous year and the significantly better underwriting result achieved for motor third party liability (2016: 135.4%).

VIENNA INSURANCE GROUP IN THE BALTIC STATES

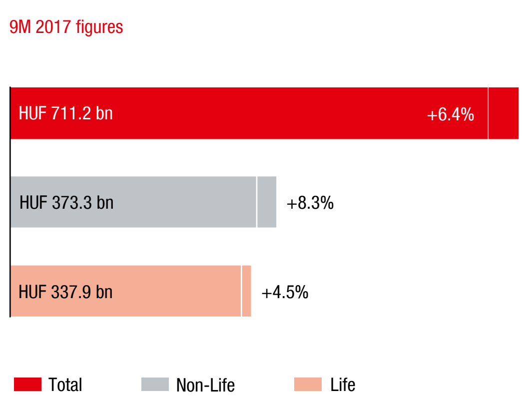
in EUR millions	2017	2016	2015	2014
Premiums written	327.6	140.2	59.3	51.6
Motor own damage insurance (Casco)	57.5	15.5	0.0	0.0
Motor third party liability insurance	101.3	31.7	0.0	0.0
Other property and casualty insurance	68.0	15.7	0.0	0.0
Life insurance – regular premium	49.0	42.7	37.0	39.2
Life insurance – single premium	18.0	19.5	14.7	12.4
Health insurance	33.9	15.2	7.7	0.0
Result before taxes	1.4	-11.2	-2.7	-0.7

HUNGARY

HUNGARIAN INSURANCE MARKET

The top 5 insurance groups generated around 60% of the premium volume. The two largest insurance groups generated around 30%.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR



Source: National Bank of Hungary (MNB)

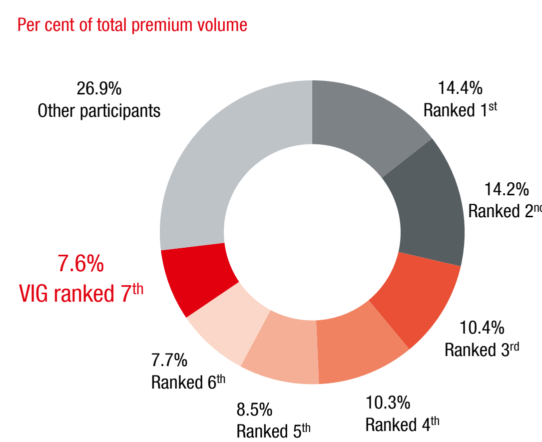
The Hungarian insurance market continued to grow in 2017. The insurance companies in the market increased premium volume by 6.4% in local currency terms in the first nine months of the year.

Premiums in the non-life sector were 8.3% higher year-on-year. This was primarily due to the motor third party liability line of business, which rose by 14.6%, mainly due to higher average premiums. The number of uninsured vehicles has decreased greatly in the last five years in Hungary (from 5.8% in 2012 to 1.8% in 2017). Motor own damage insurance grew 5.6%. Health insurance recorded very dynamic growth of 23.3%.

Life insurance premiums rose by 4.5%. Tax-privileged pension insurance continues to be popular and recorded a growth rate of 38%. Unit-linked and index-linked insurance, which represents more than half of all life premiums (51.2%), grew moderately at 1%.

The average per capita expenditure for insurance in Hungary was EUR 301 in 2016. Of this EUR 152 was spent for non-life insurance and EUR 149 for life insurance.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS



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

VIG COMPANIES IN HUNGARY

With its three insurance companies Union Biztosító, Erste Biztosító and Vienna Life Biztosító Vienna Insurance Group held a market share of 7.6% in 2016, putting it in 7th place in the market. It is in 7th place in the non-life sector and 5th place in life insurance.

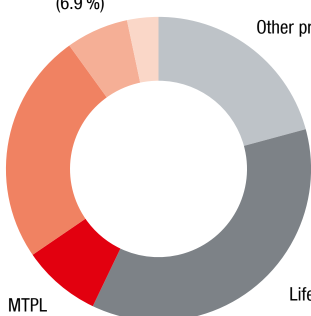
Vienna Insurance Group began the process of merging all three Hungarian insurance companies in 2017. The merger is expected to be concluded by the end of March 2018. After the merger, Vienna Insurance Group will only be represented by the insurance company Union Biztosító. The merger will give the Group an operating size in Hungary that ensures more effective operations and helps achieve the goal of a market share of around 10% in the medium term.

BUSINESS DEVELOPMENT IN HUNGARY IN 2017

Premium development

The Hungarian Group companies wrote EUR 246.7 million in premiums in 2017 (2016: EUR 224.2 million). This corresponds to a year-on-year increase of 10.0%, which was primarily due to strong premium growth in motor third party liability and regular premium life insurance. Net earned premiums were EUR 192.1 million in 2017, 10.1% higher than the previous year.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits

Vienna Insurance Group had expenses for claims and insurance benefits (less reinsurance) of EUR 142.6 million in Hungary in 2017 (2016: EUR 132.4 million). The 7.7% year-on-year increase was less than the increase in premiums, primarily due to the growth in motor third party liability insurance.

Acquisition and administrative expenses

Vienna Insurance Group acquisition and administrative expenses rose by 9.6% in Hungary to EUR 41.9 million in 2017 (2016: EUR 38.3 million), which generally corresponded to the increase in premiums.

Result before taxes

Hungary generated a result before taxes of EUR 2.1 million in 2017 (2016: EUR 3.8 million). The reduction was due to a EUR 2.9 million impairment of the Vienna Life insurance portfolio. The change in the combined ratio, on the other hand, had a positive effect.

Combined Ratio

The combined ratio improved significantly to 98.9% in 2017, mainly due to the growth in motor third party liability insurance (2016: 103.6%).

VIENNA INSURANCE GROUP IN HUNGARY

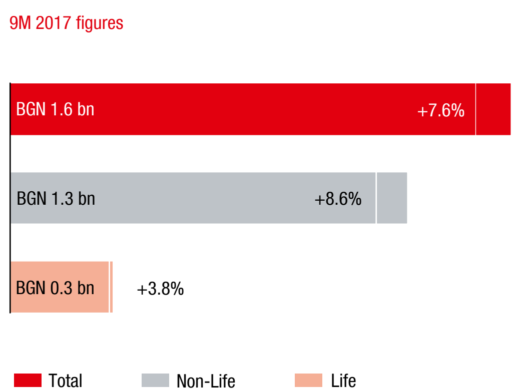
in EUR millions	2017	2016	2015	2014
Premiums written	246.7	224.2	204.3	180.0
Motor own damage insurance (Casco)	16.3	15.5	14.9	13.3
Motor third party liability insurance	20.6	14.0	10.7	10.6
Other property and casualty insurance	51.3	48.6	46.0	44.0
Life insurance – regular premium	89.6	81.8	77.4	58.6
Life insurance – single premium	60.7	59.4	51.8	52.1
Health insurance	8.2	4.8	3.6	1.4
Result before taxes	2.1	3.8	-22.1	3.0

BULGARIA

BULGARIAN INSURANCE MARKET

The top 5 insurance groups generated around 58% of market premiums in the 1st to 3rd quarter of 2017.

MARKET GROWTH IN THE 1ST TO 3RD QUARTER OF 2017 COMPARED TO THE PREVIOUS YEAR



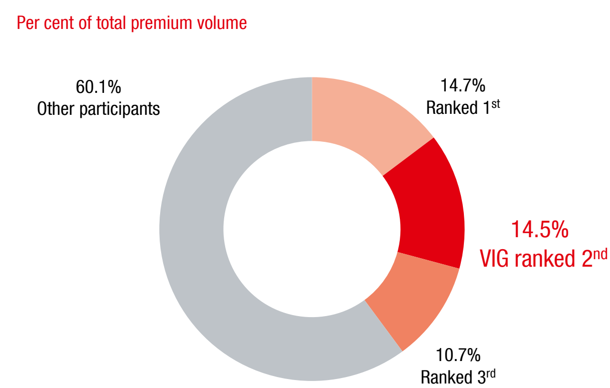
Source: Bulgarian Financial Supervision Commission (FSC)

The Bulgarian insurance market grew 7.6% in local currency terms in the first nine months of 2017. Premiums generated in the non-life sector increased 8.6% compared to the same period in the previous year. Around 70% of the premium volume in the non-life sector was generated in the motor lines of business, which also recorded high rates of growth in 2017 (motor third party liability +8.7%, motor own damage insurance +9.5%). The non-motor lines of business also grew strongly at 7.5%. The non-motor retail business and SME segment offer the greatest growth opportunities in the Bulgarian insurance market.

Most of the Bulgarian population has too little disposable income to invest in long-term savings products. Life insurance nevertheless recorded a premium increase of 3.8% in local currency terms.

The average per capita expenditure for life insurance in Bulgaria was EUR 31 in 2016. Almost four times as much, EUR 116, was spent on non-life insurance. This corresponds to a total per capita premium of EUR 147 per year for insurance services.

MARKET SHARES OF THE MAJOR INSURANCE GROUPS



Source: Bulgarian Financial Supervision Commission (FSC); as of 9M 2017

VIG COMPANIES IN BULGARIA

Vienna Insurance Group is represented in Bulgaria by the Group companies, Bulstrad Life, Bulstrad Non-Life and Nova.

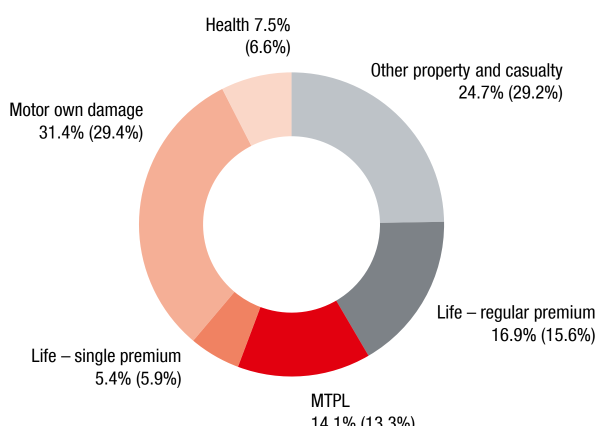
Vienna Insurance Group's market share of 14.5% puts it in second place in the Bulgarian insurance market. Vienna Insurance Group is in second place in the non-life sector, and is positioned as number one in life insurance. The largest pension fund, Doverie, also belongs to the Group.

BUSINESS DEVELOPMENT IN BULGARIA IN 2017

Premium development

Premiums written in Bulgaria increased to EUR 150.1 million in 2017 (2016: EUR 136.7 million). The sharp increase of 9.8% was primarily due to good performance in the motor lines of business and regular premium life insurance. Net earned premiums were EUR 109.6 million in 2017, 13.6% higher than the previous year.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits

The Bulgarian VIG companies had EUR 64.4 million in expenses for claims and insurance benefits (less reinsurance) in 2017 (2016: EUR 59.3 million). Due to a decrease in large losses the increase of 8.7% in insurance payments was significantly lower than the increase in net premiums (+13.6%).

Acquisition and administrative expenses

Acquisition and administrative expenses were EUR 38.8 million in 2017 (2016: EUR 32.0 million). The increase of 21.1% compared to the previous year was due to significantly higher commission expenses, which in turn was due to the increase in premiums and the elimination of almost commission-free large customer business.

Result before taxes

The Bulgarian Vienna Insurance Group companies, incl. the Doverie pension fund, contributed EUR 6.9 million to the total Group profit in 2017 (2016: EUR 5.4 million). Improvement in the combined ratio played a key role in this significant increase of 28.5%.

Combined Ratio

The combined ratio improved compared to the previous year to 97.1% due to a decrease in large losses (2016: 98.2%).

VIENNA INSURANCE GROUP IN BULGARIA

in EUR millions	2017	2016	2015	2014
Premiums written	150.1	136.7	131.1	114.4
Motor own damage insurance (Casco)	47.1	40.2	35.7	30.2
Motor third party liability insurance	21.2	18.2	24.1	21.8
Other property and casualty insurance	37.1	39.9	37.2	34.6
Life insurance – regular premium	25.3	21.3	20.8	19.9
Life insurance – single premium	8.2	8.1	6.7	7.9
Health insurance	11.3	9.0	6.6	0.0
Result before taxes	6.9	5.4	-2.4	2.1

TURKEY/GEORGIA

Turkey

The Turkish insurance market grew 14.7% year-on-year in local currency terms in the first three quarters. The Turkish insurance market continues to be dominated by the non-life sector, which represents around 85% of the total market. While the non-motor lines of business rose by 21.5% compared to the same period in the previous year, the motor lines of business showed a mixed picture, with motor third party liability decreasing 3.7%, and motor own damage increasing 10.3%. The life sector recorded an increase of 49.2%.

More than 60 insurance companies were operating in the Turkish insurance market as of 30 September 2017. The non-life insurance company belonging to the Group, Ray Sigorta, holds 18th place in the Turkish insurance market with a market share of 1.5%.

Georgia

The Georgian insurance market is dominated by health insurance, which represents around 47% of total premium volume. Total premium volume grew 10% year-on-year in local currency terms in the first three quarters. The non-life sector as a whole, including health insurance, grew significantly at a rate of 10.9% compared to the same period in the previous year. This increase also reflects the strong growth recorded in the motor lines of business (motor third party liability +17.5%, motor own damage +21.7%). At 2.4% of total premium volume, motor third party liability insurance has played a minor role to date. The local insurance supervisory authority, however, is currently preparing a law to make motor third party liability insurance mandatory. Only foreign vehicles will be affected at the start, domestic vehicles will be included later. Life insurance premiums declined 14.3% in the 1st to 3rd quarter of 2017.

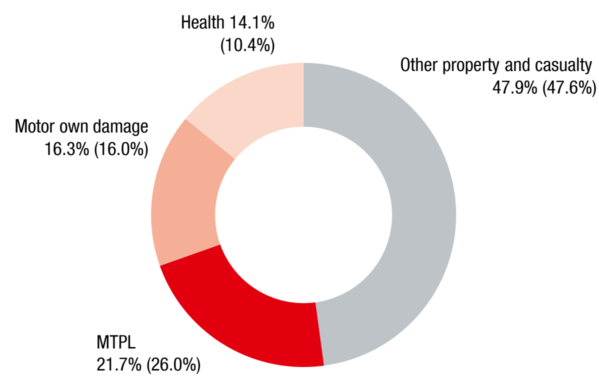
Vienna Insurance Group is represented by two companies in Georgia: GPIH and IRAO. Their combined market share of 30.0% puts them in second place in the Georgian insurance market. A total of 16 insurers operate in the market.

BUSINESS DEVELOPMENT IN THE TURKEY/GEORGIA SEGMENT IN 2017

Premium development

VIG recorded total premiums written of EUR 207.8 million in the Turkey/Georgia segment in 2017 (2016: EUR 208.7 million), representing a decrease of 0.4% compared to the previous year. This change was due to negative currency effects, especially in Turkey. When adjusted for these effects, however, the Turkey/Georgia segment recorded an increase of 19.6%. Net earned premiums were EUR 101.6 million in 2017 (2016: EUR 102.1 million), a decrease of 0.5% compared to the previous year.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits

Expenses for claims and insurance benefits less reinsurance were EUR 79.8 million in 2017 (2016: EUR 76.9 million). This corresponds to a year-on-year increase of 3.8% in expenses for claims and insurance benefits (less reinsurance), which was primarily the result of a higher volume of health insurance business in Georgia.

Acquisition and administrative expenses

Acquisition and administrative expenses in the Turkey/Georgia segment decreased from EUR 22.6 million in

2016 to EUR 19.7 million in 2017. This corresponds to a decrease of 12.8% compared to the previous year, mainly due to an exit from a local bank cooperation in Georgia.

Result before taxes
At EUR 9.4 million, the result before taxes was close to the level in the previous year (2016: EUR 9.0 million).

Combined Ratio
The combined ratio rose to 96.1% in 2017 (2016: 95.7%).

VIENNA INSURANCE GROUP IN THE TURKEY/GEORGIA SEGMENT

in EUR millions	2017	2016	2015	2014
Premiums written	207.8	208.7	182.3	170.4
Motor own damage insurance (Casco)	33.9	33.2	36.5	33.7
Motor third party liability insurance	45.1	54.4	34.8	27.3
Other property and casualty insurance	99.5	99.4	90.3	87.5
Life insurance – regular premium	0.0	0.0	0.0	0.0
Life insurance – single premium	0.0	0.0	0.0	0.0
Health insurance	29.3	21.8	20.8	21.9
Result before taxes	9.4	9.0	3.2	5.7

REMAINING CEE

The Remaining CEE segment includes the countries of Albania incl. Kosovo, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia and Ukraine. The Remaining CEE markets generated 3.8% of Group premiums in 2017. The companies in the Montenegro and Belarus markets were not included in the VIG consolidated financial statements.

Albania including Kosovo
The Albanian insurance market grew 11.4% year-on-year in local currency terms in the first three quarters of 2017. At a share of more than 92%, the insurance market is dominated by the non-life sector, and motor third party liability in particular. Motor third party liability recorded a significant increase of 11.1%, while motor own damage insurance declined 1.2%. Life insurance premiums rose by 28.8%. In Kosovo, insurance premiums in the non-life sector rose by 2.5% in the 1st to 3rd quarter of 2017.

VIG operates two insurance companies, Sigma Interalbanian and Intersig, in the non-life sector in Albania. Sigma Interalbanian also has a branch in Kosovo. VIG's market share of 23.7% puts it in second place in the Albanian insurance market.

Bosnia-Herzegovina
Premiums increased 8.1% in local currency terms in Bosnia-Herzegovina in the first three quarters of 2017. The non-life market grew 7.6% year-on-year, and life insurance grew somewhat faster at a rate of 9.9%. Motor third party liability insurance, which dominates the non-life sector, grew 7.9%.

Vienna Insurance Group has been represented by Wiener Osiguranje, headquartered in Banja Luka, in the Serbian Republika Srpska in Bosnia-Herzegovina since 2011. It has a market share of 5.5%. Based on data for the 1st to 3rd quarter of 2017, the acquisition of Merkur Osiguranje, which was signed at the end of October, would increase VIG's market share to 9.8% moving it from seventh place into the top 3. This step expands Vienna Insurance Group's regional presence by increasing its activities in the federation Bosnia-Herzegovina, and also expands its product portfolio by increasing activities in the life sector.

Croatia
Increases were recorded in both the non-life sector, which grew 3.4%, and the life sector, which rose slightly by 0.9% in the first three quarters of 2017 compared to the same period in the previous year. The overall market grew 2.6% in local currency terms. The motor lines of business showed a mixed picture. While premiums in the motor third party liability line of business decreased 0.7%, they increased 8.0% for motor own damage insurance.

VIG's market share of 8.5% puts it in fourth place in the Croatian insurance market. It holds sixth place in the non-life sector and third place in life insurance. In December 2017, the Group adopted a resolution to merge the life insurance company Erste Osiguranje, which specialises in bank distribution, with the composite insurer Wiener Osiguranje, subject to approval by the local authorities. After the planned fusion has been concluded, Vienna Insurance Group will be represented in the Croatian insurance market solely by the insurance company Wiener Osiguranje. The "Erste Osiguranje" brand will be retained for the bank insurance business.

Macedonia

Premiums increased moderately by 2.7% in local currency terms in the Macedonian insurance market during the 1st to 3rd quarter of 2017. Non-life insurance dominates the overall market with around 86% of premium volume. Starting from a smaller base, the life sector recorded strong year-on-year growth of 14.9%, while the non-life market increased slightly compared to the previous year with an increase of 0.9%. This was mainly due to the decrease in premiums in the non-motor lines of business.

Vienna Insurance Group is represented by three companies, Winner Non-Life, Winner Life and Makedonija Osiguruvanje, in the Macedonian insurance market, where its market share of 21.3% makes it a market leader. VIG holds first place in the non-life sector and third place in the life sector.

Moldova

The Moldovan insurance market is dominated by the non-life sector, and the motor lines of business in particular. Non-life insurance generates around 94% of the premium volume in the country. The Moldovan insurance market grew 5.2% in local currency terms in the 1st to 3rd quarter of 2017, with the non-life sector increasing 5.0% and the life sector 7.9%. The growth in the non-life sector was driven by the motor lines of business, which recorded a year-on-year premium increase of 7.3%, while the non-motor lines of business fell 1.9%.

VIG has been represented in the country by Group company Donaris since 2014. The company's market share of 14.7% now makes it the leading insurance company in Moldova.

Serbia

Premiums in the Serbian insurance market rose by 7.4% year-on-year in local currency terms in the first three quarters of 2017. This growth was primarily generated by the non-life sector, which increased 8.6%. Life insurance increased 3.7% in the 1st to 3rd quarter of 2017. Even though the rate of growth slowed compared to previous years, life insurance continued its long-term upward trend in 2017.

Vienna Insurance Group was focusing on its market presence in Serbia when it merged Group company Wiener Städtische Osiguranje with the two AXA companies that had been acquired seven months earlier in the previous year. As a result of the merger, it achieved a market share of 11.9% in the first three quarters of 2017. This puts it in fourth place in the Serbian insurance market. Vienna Insurance Group holds fourth place in the non-life sector and second place in life insurance.

Ukraine

The Ukrainian insurance market is dominated by non-life insurance (> 90% of premium volume) and exhibits a small, but rising, level of market concentration in the non-life sector – the ten leading insurers have a market share of around 40%. The overall market grew 26.4% in local currency terms in the first three quarters of 2017. Reinsurance between the local companies in the non-life sector played a major role in this. Direct premiums rose by 7.3% after adjusting for this effect. In spite of a price war and commission dumping, premiums rose by 8.0% year-on-year in the non-life sector. This growth was driven by increases in motor, accident, health and general third party liability insurance. Life insurance premiums rose moderately by 1.7%.

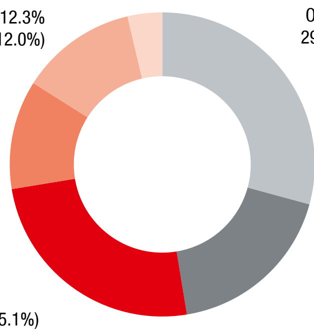
Vienna Insurance Group operates three non-life insurance companies, UIG, Kniazha and Globus, and the life insurance company Kniazha Life in the Ukrainian insurance market. It holds a market share of 3.8%, which puts it in fourth place in the ranking of leading insurance groups in the country. VIG holds fifth place in the non-life sector and sixth place in the life sector.

BUSINESS DEVELOPMENT IN THE REMAINING CEE SEGMENT IN 2017

Premium development

The VIG companies in the Remaining CEE countries wrote EUR 352.0 million in premiums in 2017 (2016: EUR 331.4 million). The increase of 6.2% compared to the previous year was mainly due to positive performance in other property and casualty insurance in Croatia and Serbia and good performance in motor third party liability in Serbia. Net earned premiums were EUR 247.2 million in 2017 (2016: EUR 232.9 million), an increase of 6.1% compared to the previous year.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Expenses for claims and insurance benefits
Expenses for claims and insurance benefits less reinsurance were EUR 170.6 million in 2017 (2016: EUR 161.8 million). This represented a year-on-year increase of 5,4% in expenses for claims and insurance benefits (less reinsurance), which was less than the growth in premiums in spite of increased Green Card losses in Ukraine.

Acquisition and administrative expenses
Acquisition and administrative expenses were EUR 93.3 million in the Remaining CEE segment in 2017 (2016: EUR 83.3 million). The increase of 12.0% was the result of a significant increase in commissions in Serbia due to higher premiums and a change in distribution structure.

Result before taxes
The loss of EUR 6.0 million reported in reporting year 2017 was due to a total of EUR 19.5 million in goodwill impairment in the Ukraine, Moldova and Albania incl. Kosovo CGU groups. This segment had a result before taxes of EUR 7.4 million in 2016. When adjusted for goodwill impairment in both years, the result for 2017 was close to the level in 2016.

Combined Ratio
The combined ratio improved slightly compared to the previous year, although at a level of 100.1% it was still above the 100% mark in 2017 (2016: 101.4%).

VIENNA INSURANCE GROUP IN THE REMAINING CEE SEGMENT

in EUR millions	2017	2016	2015	2014
Premiums written	352.0	331.4	307.2	293.6
Motor own damage insurance (Casco)	43.5	39.6	39.6	42.7
Motor third party liability insurance	88.0	83.3	83.0	77.3
Other property and casualty insurance	102.9	91.8	83.4	77.2
Life insurance – regular premium	64.0	62.6	64.5	65.9
Life insurance – single premium	40.7	45.8	28.8	22.7
Health insurance	12.9	8.1	7.9	7.8
Result before taxes	-6.0	7.4	-25.4	11.3

OTHER MARKETS

The Other Markets segment includes Germany and Liechtenstein. The Other Markets generated 3.2% of Group premiums in 2017.

Germany
Premium income in the German insurance industry grew 2.2% in the first nine months of 2017. While property and casualty rose by 3.0% and health insurance 4.9%, premium volume in life insurance in the narrow sense fell slightly (-0.3%) due to the decrease in single premium business. The regular premium business remained almost unchanged. The increase in private health insurance was the result of premium adjustments based on a drop in the technical interest rate.

Vienna Insurance Group is represented in Germany by InterRisk Non-Life and InterRisk Life. The InterRisk companies distribute exclusively through around 10,000 independent sales partners and have positioned themselves as highly profitable niche providers. InterRisk Non-Life specialises in accident and liability insurance and selected property insurance products. InterRisk Life focuses on retirement provision and occupational disability solutions, as well as protection for surviving dependants.

Liechtenstein
The Principality of Liechtenstein has been a member of the European Economic Area since 1995. This gives Liechtenstein insurance companies free access to the markets in 31 countries and around 500 million people in Europe. The life insurance companies domiciled in Liechtenstein primarily offer unit-linked and equity-linked (anteilsgebunden) retirement and insurance solutions for high net worth individuals. The property and casualty insurers cover all of the corresponding lines of business. At the end of 2017, 21 life insurance, 17 property and casualty insurance and 5 reinsurance companies had registered offices in Liechtenstein. Premium volume in the first three quarters of 2017 was around the same level as the previous year.

VIG is represented in Liechtenstein by the life insurance company Vienna-Life. Vienna-Life mainly offers unit-linked and index-linked life insurance.

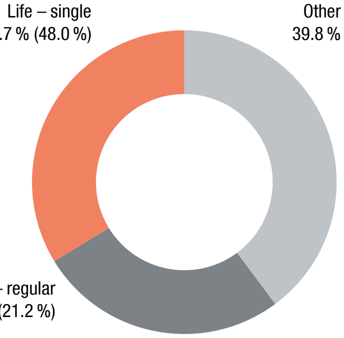
BUSINESS DEVELOPMENT IN THE OTHER MARKETS IN 2017

Premium development
In the Remaining Markets, Vienna Insurance Group generated total premiums written of EUR 292.6 million in 2017 (2016: EUR 353.0 million), representing a decrease of 17.1% compared to the previous year. The decrease was due to a reduction in single premium business in Liechtenstein. Net earned premiums were EUR 248.8 million in 2017 (2016: EUR 311.6 million), a decrease of 20.2% compared to the previous year.

Expenses for claims and insurance benefits
The VIG companies in the Other Markets segment had EUR 251.3 million in expenses for claims and insurance benefits (less reinsurance) in 2017. This was 1.5% less than in 2016 (EUR 255.0 million) due to the decrease in single premium business.

Acquisition and administrative expenses
Acquisition and administrative expenses rose in the Other Markets segment from EUR 25.2 million in 2016 to EUR 29.8 million in 2017. This corresponds to a year-on-year increase of 18.3%, which was due to an increase in commissions resulting from a higher level of new business in Germany.

PREMIUMS BY LINE OF BUSINESS



Values for 2016 in parentheses

Result before taxes
The result before taxes rose significantly by 7.0% to EUR 23.7 million in 2017 due to an improvement in the combined ratio and a significant increase in premiums in Germany.

Combined Ratio
VIG had an excellent combined ratio of 81.3% in the Other Markets in 2017 (2016: 81.8%).

VIENNA INSURANCE GROUP IN THE OTHER MARKETS

in EUR millions	2017	2016	2015	2014
Premiums written	292.6	353.0	410.0	345.8
Motor own damage insurance (Casco)	0.0	0.0	0.0	0.0
Motor third party liability insurance	0.0	0.0	0.0	0.0
Other property and casualty insurance	116.5	108.7	100.6	93.1
Life insurance – regular premium	77.4	74.8	72.9	72.6
Life insurance – single premium	98.7	169.5	236.5	180.1
Health insurance	0.0	0.0	0.0	0.0
Result before taxes	23.7	22.1	20.2	18.9

CENTRAL FUNCTIONS

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

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

The Group's own reinsurance company, VIG Re, was formed in Prague in 2008 and is a successful reinsurance provider for both Vienna Insurance Group companies and external partners. VIG has established itself as an important company in the CEE region and follows a conservative underwriting and investment strategy. Standard & Poor's confirmed VIG Re's A+ rating with a stable outlook in the summer of 2017.

BUSINESS DEVELOPMENT IN THE CENTRAL FUNCTIONS IN 2017

Premiums written in the Central Function segment rose by 6.5% to EUR 1,411.5 million in 2017. This was mainly the result of an increase in premiums generated by Group company VIG Re entering new reinsurance business areas (Western Europe) and an increase in internal Group reinsurance premiums received by VIG Holding. The improvement in the combined ratio for corporate business significantly improved the result before taxes in the Central Functions segment compared to the previous year, although a loss of EUR 16.7 million was still recorded (2016: loss of EUR 33.3 million).

BUSINESS DEVELOPMENT BY BALANCE SHEET UNIT

Further information on business development by balance sheet units is provided in the additional disclosures in accordance with the Austrian Insurance Supervision Act (VAG) in the notes to the consolidated financial statements starting on page 223.

CONSOLIDATED NON-FINANCIAL REPORT

Vienna Insurance Group is publishing a separate consolidated non-financial report for reporting year 2017 in accordance with § 267a of the Austrian Commercial Code (Unternehmensgesetzbuch – UGB). It is available in printed form and online on VIG's website (www.vig.com) in the "Corporate Responsibility" menu section under "Downloads".

CORPORATE GOVERNANCE

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.

RESEARCH AND DEVELOPMENT

Vienna Insurance Group is contributing its expertise to the development of insurance-specific software models. Vienna Insurance Group is also cooperating with the Insurance Innovation Lab in Leipzig.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The detailed risk report for VIG is provided in the notes to the consolidated financial statements on page 137.

For information on the financial instruments used, please see the notes to the consolidated financial statements (Summary of significant accounting policies) and the risk report (starting on page 137).

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ACCOUNTING PROCESS

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

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

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

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

Risk assessment
The annual financial statement process has been documented in order to identify risks in the accounting process and eliminate them as far as possible. The documentation covers the entire process all the way from data entry by the employees of Group companies and automatic and manual controls and analyses during the consolidation process, to publication of the final annual report.

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

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

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

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

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

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

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

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

Monitoring

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

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

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

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

DISCLOSURES ACCORDING TO § 267 (3A) IN COMBINATION WITH § 243A AND § 243 (3)(3) UGB

Detailed information on the disclosures according to § 267 (3a) in combination with § 243a and § 243 (3)(3) UGB is available in Note 8. Consolidated shareholders' equity in the notes to the consolidated financial statements starting on page 171.

DISCLOSURES ON OUTSOURCING ACCORDING TO § 156 (1)(1) IN COMBINATION WITH § 109 VAG

VIG Holding

A resolution was adopted allowing external service providers to perform services for VIG Holding. Outsourcing agreements that have been approved by the supervisory authority currently exist with IBM Austria (Internationale Büromaschinen Ges. m.b.H.), twinformatics GmbH and T-Systems Austria GesmbH, each having its registered office in Austria. In addition to these outsourcing agreements, VIG Holding has not outsourced any critical or important functions or business activities.

Group

Outsourcing takes place in the following areas, in particular, in the Group:

- IT area (in particular the operation of operating modules, computing centre operation, application development services, etc.)
- Claims handling area

The governance functions in the operating insurance companies were sometimes outsourced, in particular:

- Internal audit function
- Actuarial function and related activities
- Risk management (risk management function and support measures)

While governance functions within the VIG Group are, with few exceptions, outsourced to other Group companies, critical or important activities in the IT areas and claims handling are outsourced both inside and outside the Group.

The notification or approval of outsourcing of critical or important functions or activities to local supervisory authorities and the approval of such outsourcing by these authorities is done by the companies concerned in accordance with the applicable national legal requirements.

Outlook 2018

AUSTRIA

WIFO is forecasting further secure economic growth for the Eurozone, with a GDP increase of 2.4%. According to the forecast, Austria will benefit greatly from strong growth in foreign trade in this environment, which would maintain a high level of capacity utilisation for the production of material goods. Real export volume and investments in equipment are both projected to increase by another 5.0% in the coming year. Even though they will likely no longer reach the levels in 2017 (+5.5% and +8.5%, respectively), they are expected to make a major contribution to medium-term economic growth. As a result of the economic growth and further increases in employment, the unemployment rate would also fall further to 5.4% in 2018. The good economy and associated high level of economic activity would increase tax revenues thereby creating additional leeway in the public budget. The disposable income of private households is also forecast to increase in the next two years (+1.4% and 1.6%, respectively). This, combined with a lower savings rate, implies an increase within the level of private household consumption.

According to WIFO, government debt based on the Maastricht definition will fall to 0.4% of GDP in 2018 and move further towards a zero deficit in 2019. This will also have a highly positive effect on government debt (2017: 80.2% and 2018: 77.5%, respectively).

Even if the forecasts assume a moderate increase in the next two years, an abrupt change in the general interest rate environment cannot be expected in the short term.

The Austrian Insurance Association (VVO) is forecasting an increase in total premiums in 2018. This is once again expected to be comprised of a decrease in life insurance and major increases in the property and casualty and health lines of business. Regular premium life insurance would remain relatively stable, and health insurance is expected to be one of the strongest drivers in 2018.

CEE REGION

In its forecast of November 2017, WIIW continues to predict positive economic development for 2018 and 2019. Economic growth is expected to be stronger in small countries compared to 2017, while slowdowns could occur in some large countries. Slowdowns of this kind will likely be small in 2018. A stabilisation or new increase could even occur in 2019. Real economic growth in the CEE region will be significantly higher than 3% in both years. Due to the economic catch-up process taking place in small countries, such as Macedonia and Serbia, the CEE region is not only converging to Western Europe, but also becoming a more economically uniform region. Although the lowest national GDP growth rate in the region was still around 2% in 2017 (Macedonia), this will increase to 2.3% in 2018 and 2.6% in 2019 (Belarus in both cases).

The growth rate for the Czech Republic is expected to decrease to 3.2% in 2018. Economic growth will also be slower in Poland (3.5%), Romania (4.5%) and Turkey (3.9%) than the calendar year just ended. However, the growth rates expected for the Czech Republic, Poland and Turkey are still higher than those recorded in 2016. These growth rates are also solid or even excellent, especially when compared to Western European economies, and will continue to stabilise in 2019.

The positive economic development in the CEE region is primarily due to a combination of decreasing unemployment and rising wages, leading to strong private consumption, and slow increases in investment and net exports. All these factors directly or indirectly depend on increasingly well-established value chains that often have strong Western European demand at their end. Based on this, the CEE region will also continue to benefit from the robust economic development that is forecast for the Eurozone.

VIENNA INSURANCE GROUP-OUTLOOK

As a market leader in Austria and the CEE region, Vienna Insurance Group with its around 25,000 employees is in an excellent position to take advantage of the opportunities available in this region and the long-term growth possibilities they offer. VIG remains committed to its proven business strategy of profitable growth. Based on VIG's values of diversity, customer proximity and responsibility, the Group plans to use its successful management principles to consolidate and further increase its market share. This includes both organic growth and growth by acquisitions, particularly if an opportunity arises to strategically expand our existing portfolio or take advantage of economies of scale.

VIG also sees growth potential in the bank insurance business. A separate joint project aimed at further intensifying this distribution channel was initiated with our bank insurance partner, Erste Group, in reporting year 2017. The goal was, and continues to be, broadening the range of products offered and optimising the cooperation between banks and insurance companies in all countries where Erste Bank, Sparkassen and VIG are working together. On the insurance side, consideration was also given to organisational and structural changes to optimise the cooperation, leading to the merger of life insurance companies specialising in bank distribution with local Group companies. The mergers in Austria, the Czech Republic, Slovakia, Hungary and Croatia will be implemented at the beginning of 2019, subject to approval by the local authorities. Faster communication, simplified processes, easily understandable products and integration into bank online sales will generate additional business and cost benefits in the medium and long term.

The Group will continue to focus on efficiency improvements and making use of synergies, and will work systematically on reducing both losses and expenses with the aim of achieving sustainably a combined ratio of 95%. In life insurance, efforts will also be made to further promote biometric risk coverage and the regular premium business. This is aimed at offsetting the ongoing reduction in the ordinary financial result caused by the low interest rate environment.

The strategic measures and initiatives set by the Agenda 2020 work programme to optimise our business model, organisation and cooperation and ensure future viability helped accelerate the development of the Group in 2017. Based on this, VIG is moving forward the targets previously indicated for 2019, and now plans to generate EUR 9.5 billion in premiums and a profit before taxes of EUR 450 to 470 million in reporting year 2018.

Based on current conditions and the positive macroeconomic development of the region, Vienna Insurance Group aims to steadily increase premiums to more than EUR 10 billion and achieve a profit before taxes in the range of EUR 500 million to EUR 520 million over the medium term by 2020. This will also benefit our shareholders, who can expect to receive stable dividends that increase with corporate earnings based on VIG's established dividend policy.

Consolidated financial statements 2017 (page 90–234)

NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES AND SHAREHOLDERS' EQUITY

NOTES TO THE CONSOLIDATED INCOME STATEMENT

ADDITIONAL DISCLOSURES

VIG CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) 31.12.2017

Reporting period	1.1.2017–31.12.2017
Comparative reporting date of the balance sheet	31.12.2016
Comparative period for the income statement	1.1.2016–31.12.2016
Currency	EUR

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2017	31.12.2016
in EUR '000			
Intangible assets	1, A	1,970,641	2,054,500
Investments	2, B	35,932,907	34,646,256
Investments for unit-linked and index-linked life insurance	3, C	9,061,073	8,549,580
Reinsurers' share in underwriting provisions	4, D	1,066,320	985,211
Receivables	5, E	1,475,862	1,459,631
Tax receivables and advance payments out of income tax	F	239,455	236,940
Deferred tax assets	6, F	80,806	138,230
Other assets	7, G	389,160	347,819
Cash and cash equivalents		1,497,731	1,589,941
Total		51,713,955	50,008,108

Liabilities and shareholders` equity	Notes	31.12.2017	31.12.2016
in EUR '000			
Shareholder´s equity	8	6,043,949	5,711,257
Subordinated liabilities	9, K	1,458,839	1,265,009
Underwriting provisions	10, H	30,168,173	29,220,071
Underwriting provisions for unit-linked and index-linked life insurance	11, I	8,612,749	8,129,884
Non-underwriting provisions	12, J	793,792	815,248
Liabilities	13, K	4,032,102	4,202,585
Tax liabilities out of income tax	F	202,050	181,300
Deferred tax liabilities	6, F	255,064	325,150
Other liabilities		147,237	157,604
Total		51,713,955	50,008,108

The references (numbers and letters) shown for individual items in the consolidated balance sheet and consolidated income statement refer to detailed disclosures for those items in the notes to the consolidated financial statements. The numbers refer to the detailed disclosures in the "Notes to the consolidated balance sheet – assets" section starting on page 156. The letters refer to the explanatory text in the “Summary of significant accounting policies” section starting on page 97.

CONSOLIDATED INCOME STATEMENT

in EUR '000	Notes	2017	2016
Premiums			
Premiums written – gross	15	9,386,040	9,050,968
Premiums written – reinsurers´ share		-800,787	-810,623
Premiums written – retention		8,585,253	8,240,345
Change in unearned premiums – gross		-82,947	-72,735
Change in unearned premiums – reinsurers´ share		7,256	23,646
Net earned premiums – retention	L	8,509,562	8,191,256
Financial result excluding at equity consolidated companies	16	881,526	912,188
Income from investments		1,586,950	1,416,088
Expenses for investments and interest expenses		-705,424	-503,900
Result from shares in at equity consolidated companies	17	42,754	46,621
Other income	18	223,149	150,449
Expenses for claims and insurance benefits – retention	19, M	-6,872,588	-6,753,449
Expenses for claims and insurance benefits – gross		-7,366,621	-7,085,077
Expenses for claims and insurance benefits – reinsurers´ share		494,033	331,628
Acquisition and administrative expenses	20, N	-2,040,282	-1,907,805
Acquisition expenses		-1,769,054	-1,665,277
Administrative expenses		-414,666	-381,370
Reinsurance commissions		143,438	138,842
Other expenses	21	-301,572	-232,526
Result before taxes		442,549	406,734
Taxes	22	-69,958	-85,744
Result of the period		372,591	320,990
thereof attributable to Vienna Insurance Group shareholders		297,596	287,778
thereof other non-controlling interests		7,052	4,246
thereof non-controlling interests in non-profit societies		67,943	28,966
Earnings Result per share* (in EUR)	8	2.23	2.16
Result of the period (carryforward)		372,591	320,990

*The calculation of these figures includes the proportional interest expenses for hybrid capital. (Undiluted = diluted result per share)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR '000	2017	2016
Result of the period (carryforward)	372,591	320,990
Other comprehensive income (OCI)		
Items that will not be reclassified to profit and loss in subsequent periods	7,210	-52,323
+/- Underwriting gains and losses from provisions for employee benefits	13,022	-98,281
+/- Deferred profit participation	-3,362	29,833
+/- Deferred taxes	-2,450	16,125
Items that will be reclassified to profit or loss in subsequent periods	82,032	103,063
+/- Exchange rate changes through equity	60,172	-23,833
+/- Unrealised gains and losses from financial instruments available for sale	24,119	509,775
+/- Cash flow hedge reserve	621	4,571
+/- Share of other reserves of associated companies	3,139	-195
+/- Deferred mathematical reserve	17,698	-97,705
+/- Deferred profit participation	-19,723	-253,191
+/- Deferred taxes	-3,994	-36,359
Total OCI	89,242	50,740
Total profit	461,833	371,730
thereof attributable to Vienna Insurance Group shareholders	385,487	338,817
thereof other non-controlling interests	7,903	6,312
thereof non-controlling interests in non-profit societies	68,443	26,601

CONSOLIDATED SHAREHOLDERS' EQUITY

Development	Share capital	Capital reserves		Retained earnings	Other reserves		Subtotal*
		Other	payments hybrid capital		Currency reserve	Other	
in EUR '000							
As of 1 January 2016	132,887	2,109,003	193,619	1,718,620	-157,711	306,087	4,302,505
Changes in scope of consolidation/ownership interests	0	0	0	11,622	0	0	11,622
Other comprehensive income	0	0	0	287,778	-23,662	74,701	338,817
Other comprehensive income excluding currency changes	0	0	0	0	0	74,701	74,701
Currency change	0	0	0	0	-23,662	0	-23,662
Result of the period	0	0	0	287,778	0	0	287,778
Dividend payment	0	0	0	-88,681	0	0	-88,681
As of 31 December 2016	132,887	2,109,003	193,619	1,929,339	-181,373	380,788	4,564,263
As of 1 January 2017	132,887	2,109,003	193,619	1,929,339	-181,373	380,788	4,564,263
Changes in scope of consolidation/ownership interests	0	0	0	-4,625	0	1,167	-3,458
Other comprehensive income	0	0	0	297,596	59,757	28,134	385,487
Other comprehensive income excluding currency changes	0	0	0	0	0	28,134	28,134
Currency change	0	0	0	0	59,757	0	59,757
Result of the period	0	0	0	297,596	0	0	297,596
Dividend payment	0	0	0	-114,281	0	0	-114,281
As of 31 December 2017	132,887	2,109,003	193,619	2,108,029	-121,616	410,089	4,832,011

Development	Subtotal*	Non-controlling interests		Shareholders' equity
		Other	Non-profit societies	
in EUR '000				
As of 1 January 2016	4,302,505	111,955	0	4,414,460
Changes in scope of consolidation/ownership interests	11,622	2,668	1,006,174	1,020,464
Other comprehensive income	338,817	6,312	26,601	371,730
Other comprehensive income excluding currency changes	74,701	2,237	-2,365	74,573
Currency change	-23,662	-171	0	-23,833
Result of the period	287,778	4,246	28,966	320,990
Dividend payment	-88,681	-6,716	0	-95,397
As of 31 December 2016	4,564,263	114,219	1,032,775	5,711,257
As of 1 January 2017	4,564,263	114,219	1,032,775	5,711,257
Changes in scope of consolidation/ownership interests	-3,458	447	0	-3,011
Other comprehensive income	385,487	7,903	68,443	461,833
Other comprehensive income excluding currency changes	28,134	436	500	29,070
Currency change	59,757	415	0	60,172
Result of the period	297,596	7,052	67,943	372,591
Dividend payment	-114,281	-6,625	-5,224	-126,130
As of 31 December 2017	4,832,011	115,944	1,095,994	6,043,949

*The above subtotal equals the equity attributable to shareholders and other capital providers of the parent company.

Composition of dividend payments - retention	31.12.2017	31.12.2016
in EUR '000		
Dividends	102,400	76,800
Interest payments on the hybrid capital	15,841	15,841
Deferred taxes shown in equity	-3,960	-3,960
Total	114,281	88,681

Composition of other reserves	31.12.2017					
	Unrealised gains and losses	Cash flow hedge reserve	Underwriting gains and losses from provisions for employee benefits	Share of other reserves of associated companies	Currency reserve	Total
in EUR '000						
Gross	2,720,471	-2,492	-286,960	607	-122,886	2,308,740
+/- Exchange rate changes from financial instruments available for sale	8,277					8,277
+/- Deferred mathematical reserve	-911,167					-911,167
+/- Deferred profit participation	-1,093,592	0	86,975	0	0	-1,006,617
+/- Deferred taxes	-163,922	0	46,705	0	0	-117,217
+/- Other non-controlling interests	-9,184	0	1,474	-9	1,270	-6,449
+/- Non-controlling interests in non-profit societies	0	2,534	10,372	0	0	12,906
Net	550,883	42	-141,434	598	-121,616	288,473

Composition of other reserves	31.12.2016					
	Unrealised gains and losses	Cash flow hedge reserve	Underwriting gains and losses from provisions for employee benefits	Share of other reserves of associated companies	Currency reserve	Total
in EUR '000						
Gross	2,692,596	-3,113	-299,982	-2,532	-183,058	2,203,911
+/- Exchange rate changes from financial instruments available for sale	10,866					10,866
+/- Deferred mathematical reserve	-928,865					-928,865
+/- Deferred profit participation	-1,073,869	0	90,337	0	0	-983,532
+/- Deferred taxes	-159,695	-233	49,155	0	0	-110,773
+/- Other non-controlling interests	-9,077	0	1,613	181	1,685	-5,598
+/- Non-controlling interests in non-profit societies	0	3,278	10,128	0	0	13,406
Net	531,956	-68	-148,749	-2,351	-181,373	199,415

CONSOLIDATION CASH FLOW STATEMENT

in EUR '000	2017	2016
Result of the period	**372,591**	320,990
Change in net underwriting provisions net	806,992	710,921
Change in underwriting receivables and liabilities	-14,829	-85,826
Change in deposit receivables and liabilities as well as in reinsurance receivables and liabilities	-31,105	41,981
Change in other receivables and liabilities	-6,185	3,624
Change in financial instruments recognised at fair value through profit and loss (incl. held for trading)	144,389	65,041
Gain/loss from disposal of investments	-98,818	-84,717
Depreciation/appreciation of all other investments	207,821	64,081
Change in pension, severance and other personnel provisions	-36,438	98,500
Change in deferred tax asset/liability excl. tax liabilities	-15,872	-4,214
Change in other balance sheet items	-36,988	213
Change in goodwill and other intangible assets	165,715	87,033
Other cash-neutral income and expenses and adjustments to the result of the period[1]	-187,394	-84,963
Cash flow from operating activities	**1,269,879**	1,132,664
Cash inflow from the sale of associated companies	0	6,757
Payments for the acquisition of subsidiaries	-37,610	-107,482
Cash inflow from the sale of available for sale securities	2,975,505	3,268,788
Payments for the acquisition of available for sale securities	-4,181,627	-3,873,475
Cash inflow from disposals/repayments of held to maturity securities	224,339	186,173
Payments for the addition of held to maturity securities	-154,812	-191,713
Cash inflow from the sale of land and buildings	68,693	30,527
Payments for the acquisition of land and buildings	-278,323	-303,069
Cash inflow for the sale of intangible assets	4,313	2,071
Payments for the acquisition of intangible assets	-61,746	-41,390
Change in unit-linked and index-linked life insurance items	-713	-111,971
Change in other investments	113,124	441,778
Cash flow from investing activities	**-1,328,857**	-693,006
Cash inflow from subordinated liabilities	450,000	0
Cash outflow from subordinated liabilities	-257,355	-9,300
Dividend payments	-130,090	-99,357
Cash inflow from other financing activities	172,358	19,302
Cash outflow from other financing activities	-272,786	-20,713
Cash flow from financing activities	**-37,873**	-110,068
Change in cash and cash equivalents	**-96,851**	329,590
Cash and cash equivalents at beginning of period[2]	**1,589,941**	1,101,212
Change in cash and cash equivalents	-96,851	329,590
Additions/disposals from change in consolidation method	0	162,570
Effects of foreign currency exchange differences on cash and cash equivalents	4,641	-3,431
Cash and cash equivalents at end of period[2]	**1,497,731**	1,589,941
thereof non-profit societies	118,731	148,770

[1] The non-cash income and expenses are primarily due to the results of shares held in at equity companies and exchange rate changes.

[2] The amount of cash and cash equivalents at the beginning and the end of period correlates with position cash and cash equivalents on the asset side and consists of cash on hand and overnight deposits.

Additional information on the statement of cash flows	2017	2016
in EUR '000		
Received interest[1]	751,197	760,824
Received dividends[1]	145,965	147,601
Interest paid[2]	94,610	76,886
Income taxes paid[1]	49,590	45,725
Expected cash flow from reclassified securities	16,323	21,852
Effective interest rate of reclassified securities	4.24%	3.37%

[1] Income tax payments, received dividends and received interest are included in the cash flow from operating activities.

[2] Interest paid result primarily from financing activities.

Reconciliation of liabilities from financing activities	31.12.2017				
	Subordinated liabilities (including interests)	Liabilities to financial institutions	Liabilities from public funding	Financing liabilities[1]	Derivative financial instruments[2]
in EUR '000					
Book value as of 31.12. of the previous year	1,265,009	1,304,900	91,049	1,528,828	38
Cash changes	131,660	-113,179	4,274	-23,327	55
Cash inflows	450,000	106,595	7,742	57,808	213
Payments	-257,355	-205,190	-3,418	-64,020	-158
Interest paid	-60,985	-14,584	-50	-17,115	0
Non-cash changes	94,330	9,310	4,695	-25,084	1,073
Additions	59,852	12,352	5,210	17,579	0
Disposals	0	-11	-522	-10,436	0
Change in the scope of consolidation	0	0	0	-14	0
Reclassifications	33,326	341	0	-33,326	0
Measurement changes	0	-3,373	0	1,120	144
Exchange rate differences	1,152	1	7	-7	929
Book value as of 31.12.	1,490,999	1,201,031	100,018	1,480,417	1,166

[1] Contains lease liabilities, derivative liabilities from financing liabilities and other financing liabilities

[2] Only for derivatives from financing activities

Notes to the consolidated financial statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe is one of the leading Austrian insurance groups in Central and Eastern Europe and thus is also the largest listed insurance group in Austria. Its registered office is located at Schottenring 30, 1010 Vienna. The ultimate parent company, Wiener Städtische Versicherungsverein, includes Vienna Insurance Group in its consolidated financial statements.

Group insurance companies offer insurance services in the life, health and property and casualty areas in 25 countries of Central and Eastern Europe.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied during preparation of the consolidated financial statements are presented below. The policies described were applied consistently during the accounting periods presented in these financial statements.

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the applicable provisions of § 245a (1) of the Austrian Commercial Code (Unternehmensgesetzbuch – UGB) and Chapter 7 of the Austrian Insurance Supervision Act (Versicherungs-aufsichtsgesetz – VAG).

Preparing consolidated financial statements in accordance with the IFRS requires that estimates be made. In addition, application of the Company's accounting policies requires the Managing Board to make assumptions. Areas with greater leeway for discretion, highly complex areas, or areas involving assumptions and estimates that are of critical importance to the consolidated financial statements are listed in the notes on page 103.

Amounts were rounded to improve readability and, where not indicated otherwise, are shown in thousands of euros (EUR '000). Calculations, however, are done using exact amounts, including digits not shown, which may lead to rounding differences.

Changes in significant accounting policies
Except for the following changes, the Group has consistently applied the accounting policies indicated in all of the periods shown in these consolidated financial statements.

Standards used for the first time in the Group Annual Report

Amendments in IAS 7	Changes to the notes disclosure requirements for the statement of cash flows
Amendments in IAS 12	Recognition of deferred tax assets for unrealised losses
All IFRS	Annual improvements (Cycle 2014–2016)

The following standards have already been recognised by the European Union or are currently in the recognition process. Mandatory application, however, is not provided for until a future date.

New standards and changes to current reporting standards		Applicable as of
Those already adopted by the EU		
IFRS 15	Revenue from contracts with customers	1.1.2018
Clarification of IFRS 15	Clarifications concerning revenue from contracts with customers	1.1.2018
IFRS 16	Leases	1.1.2019
IFRS 9	Financial instruments	1.1.2018*
Amendments in IFRS 4	Application of IFRS 9 Financial instruments in conjunction with IFRS 4 Insurance contracts	1.1.2018
All IFRS	Annual improvements (Cycle 2014–2016)	1.1.2017 or 1.1.2018
Amendments in IFRS 2	Clarifications and measurement of share-based payments	1.1.2018
Amendments to IAS 40	Classification of property under construction	1.1.2018
Those not yet adopted by the EU		
IFRS 14	Regulatory Deferral Accounts	EU decided this standard shall not be transferred into EU law
IFRS 17	Insurance contracts	1.1.2021
Amendments according IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	First-time application deferred for an indefinite period
IFRIC 22	Foreign currency transactions and advance consideration	1.1.2018
IFRIC 23	Uncertainty over income tax treatments	1.1.2019
Amendments in IFRS 9	Prepayment features with negative compensation	1.1.2019
Amendments in IAS 28	Clarification for application of impairment requirements to long-term interests	1.1.2019
All IFRS	Annual improvements (Cycle 2015–2017)	1.1.2019
Amendments in IAS 19	Remeasurement on a plan amendment, curtailment or settlement	1.1.2019

*The first time adoption for insurance companies can be delayed to 1 January 2021.

Unless indicated otherwise, either the Group does not expect the standards listed in the two tables to have a material effect, or the amendments are not relevant to the Group.

AMENDMENTS TO IAS 7

Disclosures must be made for changes in financial liabilities whose cash inflows and outflows are shown in the cash flow from financing activities in the statement of cash flows. The Group has published the required disclosures in the statement of cash flows starting on page 95.

IFRS 15 AND CLARIFICATION OF IFRS 15

The objective is to combine many requirements previously included in a variety of standards and interpretations. Under IFRS 15, revenues are to be realised when control over the agreed goods and services passes to the customer and the customer can benefit from them. Transfer of significant risks and rewards is therefore no longer the deciding factor. The new model provides a five-step scheme for determining recognition of revenue. The scope of the notes disclosures required is also expanded. The amendment to IFRS 15 contains clarifications on identifying performance obligations, principal-agent relationships, determining licence types and transition requirements.

The Group mainly receives revenues from the following areas:

- revenues from insurance policies,
- income from participations held via holding companies,
- insurance service companies,
- income from real estate leasing and
- revenues from corporate IT service providers.

The revenues from insurance policies, participations and real estate leasing are not subject to IFRS 15. Insurance service companies are companies that mainly distribute insurance products for the Group or perform actuarial calculations for Group companies; in any case, they also provide their services to parties outside the Group. Revenues are not recognised, however, until control has passed to the customer or the customer can benefit from the service. Revenues of corporate IT service providers from outside the Group concern services such as hosting, maintenance or software programming.

An analysis of Group revenues has shown that applying IFRS 15 would cause less than a 0.5% change in total balance sheet assets, profit before taxes and revenues and can therefore be considered immaterial.

IFRS 16

Supersedes the previous requirements of IAS 17 "Leases" and associated interpretations IFRIC 4, SIC 15 and SIC 27. The new requirements primarily concern the accounting presentation of leases by the lessee. The lessee now recognises a liability for the future lease payments to be made for each lease. At the same time, a right-of-use asset (RoU asset) is recognised in the amount of the present value of the future lease payments and amortised linearly over the contractually stipulated useful life. As a result, the previous distinction between operating and finance leases no longer applies. The distinction between an operating lease and finance lease remains for the lessor, and the list of criteria for deciding which kind of lease one is dealing with has been taken from IAS 17 without change.

IFRS 16 significantly increases the scope of the disclosures in the notes, with the aim of providing users of the financial statements a better understanding of the effects that existing leases have on the net assets, financial position and results of operation of the Group.

With respect to first-time application of IFRS 16, one can choose to apply the standard using the full retrospective approach or modified retrospective approach (the adjustment from first-time application is shown as an adjustment entry in retained earnings in the opening balance sheet). The Group plans to use the modified retrospective approach.

Payment obligations as a lessee were EUR 233,374,000 as of 31 December 2017 (see 29. Obligations under leases on page 222), mainly due to motor vehicle leasing and real estate leases (e.g. for business offices). Under IFRS 16, a liability or RoU asset would have to be recognised for these payment obligations if the exceptions for short-term leases or low value assets did not apply.

Data is currently being collected on all leases in the Group and analysed for their potential effects on the consolidated financial statements. A reliable estimate of the size of the financial effect is not possible until this analysis has been completed.

The Group expects no material effect in the area of finance leases, since IAS 17 would also require an asset or liability to be recognised in this case.

IFRS 9 AND AMENDMENTS TO IFRS 4

IFRS 9 includes requirements for the recognition, measurement and derecognition of financial instruments, and for hedge accounting, and supersedes IAS 39, which was previously relevant in these areas. The revision primarily concerns the classification and recognition of financial instruments. Financial assets are to be classified and measured in only two groups in the future – at amortised cost and at fair value. Classification and measurement depends on the business model and contractual cash flows (SPPI criterion). The new requirements also concern the accounting for impairment of financial asset. In addition to actual losses, expected losses must now also be recognised. Exceptions exist for trade receivables and lease receivables. New requirements were also provided for hedge accounting. The objective is to orient hedge accounting more to the economic risk management of the entity.

Under IFRS 9, shares and investment fund units are no longer classified as available-for-sale as is currently the case, and unrealised gains and losses are no longer recognised in other comprehensive income and reclassified as profit for the period. Instead, unrealised gains and losses are either recognised exclusively in profit for the period (investment funds) or either in profit for the period or other comprehensive income without reclassification (shares). This amendment can be expected to lead to considerably higher volatility of profit for the period. Further amendments which are likely to have greater effects on the Group primarily concern the treatment of interest clauses in debt instruments and the treatment of impairment.

The amendments to IFRS 4 “Insurance contracts” allow insurance companies to defer application of the new IFRS 9 “Financial instruments” to 31 December 2021. Business activities must primarily be connected with the insurance business in order to use the deferral. This is only the case if the share of the book value of all insurance liabilities exceeds 90% of the total liabilities of the Group, or the share is between 80 and 90% and the Group does not pursue any other significant activities other than the insurance business.

The Group performed the required calculations for 31 December 2015 and satisfies the criteria for deferral of IFRS 4 with a result of more than 90%. As a result, IFRS 9 will be applied at the same time as IFRS 17 (provided first-time application of IFRS 17 takes place on 1 January 2021). IFRS 4 does not require periodic evaluation of the predominant business activity. Evaluation should only be done if there is a change in the entity's business activities. If the exeption is used, the change to IFRS 4 requires additional notes disclosures to be published during the period until application of IFRS 9. The consolidated financial statements will be revised appropriately and modified to satisfy the notes disclosure requirements in 2018.

The Group expects the changeover to IFRS 9 to have effects due to the new impairment model and interactions with IFRS 17. Fulfilment of the SPPI criterion and the effects of the changeover to IFRS 9 are currently being evaluated and therefore cannot be quantified for these consolidated financial statements.

IFRS 17

IFRS 17 “Insurance contracts”, which was issued on 18 May 2017 and submitted to EFRAG for endorsement, will be applied retrospectively starting 1 January 2021. This standard will supersede IFRS 4, which is still currently applicable. IFRS 4 allows local accounting practices to be used for insurance contracts in the consolidated balance sheet. In IFRS 17, for the first time the IASB prescribes a standardised accounting policy for insurance contracts.

The standard provides three measurement models for insurance contracts:

- The general measurement model (GMM) is generally applied to all contracts, unless the criteria of the other two models allow a different measurement. When the GMM is used for measurement, future cash inflows and outflows are discounted and adjusted using a risk margin. First-time measurement of insurance contracts results in either a profit component (contractual service margin – CSM) that is distributed over the term of the contract, or a loss component that must be recognised immediately in the income statement. Until the time of first application of IFRS 17, however, these two components are recognised in equity.

- The premium allocation approach (PAA) is applicable to short-term contracts when measurement using the general measurement model would not lead to significantly different values. In principle, the simplified approach is similar to the unearned premium model currently used for accounting in the property and casualty line of business. However, the loss reserve must also be accounted for based on an expected present value plus a risk margin.
- The variable fee approach (VFA) is applicable to all contracts that include profit participation. Measurement is performed according to the GMM, but the CSM is variable in the VFA due to the profit participation.

The high level of complexity due to the measurement approaches is further increased by the fact that the portfolios – insurance contracts subject to similar risks that are managed together – must be divided into three groups:

- a group of contracts already generating losses at the time they are concluded,
- a group of contracts unlikely to generate losses during their term and
- a group containing the remaining contracts.

A portfolio group, however, may only cover one production year at most.

Here is a summary of the most important changes in the accounting for insurance contracts:

- the use of current assumptions for valuing underwriting provisions,
- introduction of the CSM for underwriting provisions that is distributed across periods based on service provision,
- elimination of savings components and financing components in premium income and insurance payment expenses and
- the choice of recognising measurement changes due to discount rates in total comprehensive income instead of profit or loss.

Another challenge when introducing IFRS 17 will be to make use of the option for accounting for the interest effect due to discounting in such a way that the effects coincide as far as possible with the business model under IFRS 9. The goal is to have the fair value fluctuations due to the measurement of financial instruments and the discounting of future cash flows under IFRS 17 move together so they do not cause volatility in profit or loss.

VIG performed a preliminary analysis after the new standard was published that showed which IT systems required programme changes in order to satisfy the requirements of IFRS 17. IFRS 17 will have material effects on the Group's financial reporting concerning the presentation of insurance contracts in the balance sheet, the structure of the income statement and new mandatory notes disclosures. Due to the high level of complexity and additional software needed, the effects on the individual financial statement items cannot be quantified at present. The Group nevertheless expects the introduction of IFRS 9 and 17 will lead to significant additional expenses.

IAS 19

The current amendment to IAS 19 “Employee benefits” makes it clear that service cost and net interest are to be included based on updated assumptions for the rest of the period after an event like a plan amendment, curtailment or settlement. The amendments must be applied starting 1 January 2019 and earlier application is permitted.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions

The separate financial statements of each Group subsidiary are prepared in the currency that generally prevails for the ordinary business activities of the company (functional currency). Transactions not concluded in the functional currency are recognised using the mean rate of exchange on the date of the transaction. Monetary assets and liabilities in foreign currency existing on the balance sheet date are translated to euros using the mean rate of exchange on the balance sheet date. Any resulting foreign currency gains and losses are recognised in profit or loss during the reporting period.

Translation of separate financial statements in foreign currencies

These consolidated financial statements present the assets, liabilities, income and expenses of each Group subsidiary in euros, the reporting currency of VIG.

All assets and liabilities reported in the separate financial statements are translated to euros using the mean rate of exchange on the balance sheet date. Items in the income statement are translated using the average end-of-period mean rate of exchange during the reporting period. In the statement of cash flows, the mean rate of exchange on the balance sheet date is used for changes in balance sheet items, and the mean rate of exchange at the end of the period is used for income statement items. Unless otherwise indicated, all of the financial information presented in euros has been commercially rounded. Currency translation differences, including those that result from accounting using the equity method, are recognised directly in equity.

Name	Currency	End-of-period exchange rate		Average exchange rate	
		2017	2016	2017	2016
1 EUR ≙					
Albanian lek	ALL	132.9500	135.2300	134.1279	137.3710
Bosnian convertible marka	BAM	1.9558	1.9558	1.9558	1.9558
Bulgarian lev	BGN	1.9558	1.9558	1.9558	1.9558
Georgian lari	GEL	3.1044	2.7940	2.8370	2.6197
Croatian kuna	HRK	7.4400	7.5597	7.4637	7.5333
Macedonian denar	MKD	61.4907	61.4812	61.5742	61.5950
Moldovan leu	MDL	20.4099	20.8895	20.8282	22.0548
Turkish new lira	TRY	4.5464	3.7072	4.1206	3.3433
Polish zloty	PLN	4.1770	4.4103	4.2570	4.3632
Romanian leu	RON	4.6585	4.5390	4.5688	4.4904
Swiss franc	CHF	1.1702	1.0739	1.1117	1.0902
Serbian dinar	RSD	118.4727	123.4723	121.4027	123.1015
Czech koruna	CZK	25.5350	27.0210	26.3258	27.0343
Ukraine hryvnia	UAH	33.4954	28.4226	30.0753	28.3116
Hungarian forint	HUF	310.3300	309.8300	309.1933	311.4379
Belarusian ruble	BYR	2.3553	2.0450	2.1831	2.2001

ESTIMATES AND DISCRETIONARY DECISIONS

Preparation of the IFRS consolidated financial statements requires that the Managing Board make discretionary assessments and specify assumptions regarding future developments which could have a material effect on the recognition and value of assets and liabilities, the disclosure of other obligations on the balance sheet date and the reporting of income and expenses during the financial year.

Estimation uncertainties		Discretionary decisions	
Underwriting provisions	Details on page 117	Method of consolidation	Details on page 105 and starting page 121
Provisions for pensions and similar obligations	Details on page 119	Materiality	Details on page 105
Other non-underwriting provisions	Details on page 120		
Financial instruments measured at fair value not based on stock market prices or other marked prices (Level 3)	Details on page 104 and starting page 203		
Impairment of goodwill	Details on page 104		
Valuation allowances for receivables and other (accumulated) impairment losses	Details on page 104		
Value of defered tax assets	Details on page 104		

Please refer to the consolidated balance sheet on page 90 or to the associated disclosures in the notes for the book values of the estimated items on the balance sheet date. Sensitivity analyses for assets and liabilities from insurance operations are presented in the risk report on page 149 seq.

Provisions for pensions and similar obligations
The present value of an obligation depends on a large number of factors based on actuarial assumptions. The assumptions used to calculate the net liability (or assets) for obligations include a discount rate. Every change to these assumptions has an effect on the book value of the obligation.

The Group calculates the appropriate discount rate at a minimum at the end of each year. This is the rate used to calculate the present value of the future expected cash outflows needed to satisfy the obligation. The Group determines the discount rate using the interest rate on top quality industrial bonds that are denominated in the currency in which the benefits will be paid and have maturities matching those of the obligations.

Other important assumptions used to calculate obligations are based on market conditions. Further information on sensitivity analyses is provided in Note 12.1. Provisions for pensions and similar obligations starting on page 180. Details on the underlying assumptions can be found in the "Accounting policies for specific items in the consolidated financial statements – Provisions for pensions and similar obligations" section on page 119.

Other non-underwriting provisions
Provisions are recognised in accordance with the requirements of IAS 37.14. Non-underwriting provisions accordingly include estimates in connection with the amount recognised and an estimate of the probability of occurrence for settling the obligation.

Financial instruments measured at fair value

Suitable valuation methods are used to calculate the fair value of financial instruments that are not traded in active markets. The assumptions used are based on market data available on the balance sheet date. To determine the fair value of many financial assets that are not traded in active markets, the Group uses present value methods based on appropriate interest rate models. Further information on the valuation process is provided in Note 23. Financial instruments and fair value measurement hierarchy on page 203. For information on the impairment of financial instruments, please see page 112.

Impairment of goodwill

The Group tests goodwill for impairment at least once a year in accordance with the method explained on page 106 of the "Impairment of non-financial assets" section. Estimates in this area primarily concern the projected earnings of the CGUs that the calculations are based on, and specific parameters, in particular the growth rates.

Sensitivities Additional impairment needed	Cash flows	Growth rate	Discount rate	Cash flows and discount rate
	-10%	-1%p	+1%p	-10% and +1%p
in EUR millions				
Romania	37.7	25.4	57.9	100.1
Baltic states				25.3
Bulgaria				11.0
Turkey	6.4	1.6	5.8	6.4
Albania incl. Kosovo	3.5	2.0	3.6	6.2
Croatia				5.3

Valuation allowances for receivables

The collectability of receivables is based on experience and is therefore subject to estimation uncertainty. Information on the recognition of potential impairment losses is provided on page 113.

Value of deferred tax assets

Income taxes must be estimated for each tax jurisdiction in which the Group operates. The current income tax expected for each taxable entity must be calculated and the temporary differences due to differences between the IFRS treatment and tax treatment of certain balance sheet items must be assessed. If temporary differences exist, as a rule they lead to the recognition of deferred tax assets and liabilities in the financial statements based on the tax rate for each country.

The Managing Board must make judgements when calculating current and deferred taxes. Deferred tax assets are only recognised to the extent that it is probable they can be utilised. The utilisation of deferred tax assets depends on the likelihood of achieving sufficient taxable income of a particular tax type for a particular tax jurisdiction, while taking into account any statutory restrictions concerning maximum loss carry-forward periods. The Group considers the following factors when assessing the probability of being able to utilise deferred tax assets in the future:

- past results of operations,
- operating plans,
- loss carryforward periods,
- tax planning strategies and
- existing deferred tax liabilities.

Information on the existing group agreement for Austrian companies and some foreign companies is provided on page 114.

If actual events diverge from the estimates or the estimates must be adjusted in future periods, this could have an adverse effect on net assets, financial position and results of operations. If the assessment of the recoverability of deferred tax assets changes, the book value must be reduced or increased and the change recognised in the income statement or charged or credited to equity, depending on the treatment used when the deferred tax asset was originally recognised. Further information can be found in the section titled "Accounting policies for specific items in the consolidated financial statements – Taxes" starting on page 114 and in Note 6. Deferred taxes on page 169.

Method of consolidation

Discretionary decisions by the Managing Board primarily concern determining the scope of consolidation for fully consolidated companies and at equity consolidated companies. Note that other discretionary decisions could also have material effects on the net assets and results of operations of the Group.

The Managing Board holds the view that the Group has significant influence over some companies in which the Group holds an interest of less than 20% because the Group is represented in the executive bodies that make significant decisions for these companies. These companies represent 3.5% of the Group result reported.

Similarly, companies that were of material importance at the time of first consolidation continue to be included in the scope of consolidation. In addition, two companies that offer special services or receive most of their revenues from outside the Group are included in the consolidated financial statements using full consolidation. Companies that primarily receive revenues from within the Group due to their business activities are not included in the scope of consolidation.

Thresholds calculated based on previous quarterly financial statements and the latest annual financial statements are used to determine the current scope of consolidation.

The effect on the Group result due to all the companies in which the Group holds less than a 20% interest and that are not consolidated would be 0.4% (not including any consolidation effects).

Materiality

Under IAS 1.31, only material information is to be presented in the financial statements, even if a standard specifies certain requirements or minimum requirements. The IASB's aim in this paragraph was to create the foundation for clear, understandable financial reporting based on the most important information. Discretionary leeway exists when deciding whether information concerns material or immaterial disclosures. VIG introduced the use of a threshold for determining the materiality of notes disclosures in this Annual Report. The threshold is not applied if the Managing Board is of the opinion that information should be published in any case.

ACCOUNTING POLICIES FOR SPECIFIC ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

INTANGIBLE ASSETS (A)

Goodwill

Goodwill is accounted for in the functional currency of each entity. Goodwill is measured at cost less accumulated impairment losses. In the case of participations in associated companies, goodwill is included in the adjusted book value of the participation.

Other intangible assets

Purchased intangible assets are recognised on the balance sheet at cost less accumulated amortisation and impairment losses. No intangible assets were created by the companies in the scope of consolidation. Corporate asset SAP also essentially consists of a bundle of purchased software modules that are prepared for future use by in-house and third-party development work. Regular monitoring and assessment of the project ensures that the recognition criteria for capitalising these expenses are satisfied. With the exception of trademarks, all intangible assets have a finite useful life. The intangible assets are therefore amortised over their period of use. The useful lives of significant intangible assets are as follows:

Useful life in years	from	to
Software	3	15

Software is amortised using the straight-line method. Software components are also checked on an event-driven basis to see whether they can still be used. If there is a high probability that certain IT systems or programme sections can no longer be used, or no longer fully used, a write-down must be performed. Further information is provided in the notes to the consolidated balance sheet 1. Intangible assets starting on page 156.

Trademarks with unlimited useful lives were identified as part of the purchase price allocation during acquisition of the companies Asirom and BTA Baltic. The indefinite useful life results from the fact that there is no foreseeable end to its economic life. The fair value of the Asirom trademark at the time was calculated as the average of the trademark values from the relief-from-royalty method and incremental cash flow method, and the fair value of the BTA Baltic trademark was calculated using the relief-from-royalty method. A “tax amortisation benefit” was taken into account in the relief-from-royalty method. The Asirom trademark had a book value of EUR 18,043,000 (EUR 25,843,000) and the BTA Baltic trademark had a book value of EUR 37,000,000 (EUR 37,000,000) on 31 December 2017.

Impairment of non-financial assets

Non-financial assets are tested whenever indications of impairment exist. Intangible assets with an indefinite useful life (goodwill and trademarks carried on the balance sheet) are also tested when circumstances indicate and, at a minimum, at the end of the financial year. Testing is also performed during the year if triggering events occur. The subsidiaries are combined into economic units (CGU groups) at the geographical country level for this purpose. The CGU groups used for impairment testing essentially correspond to the VIG operating segments. The trademarks were also individually tested for impairment using the relief-from-royalty method.

Impairment is only recognised if the recoverable amount for the CGU group is less than the book value of the assets attributable to the group. As a rule, the value in use is calculated using the Discounted Cash Flow method. In cases where the value in use is less than book value, fair value less selling costs is also calculated. Fair value less selling costs is calculated using trailing stock exchange multipliers for the property and casualty and health lines of business in all regions and for the life business outside Austria, and using the Market Consistent Embedded Value for the life business in Austria. If one of the two values is more than book value then no impairment is performed, otherwise the value is written down to the larger of the values.

To calculate value in use, the cash flows available to shareholders for five budget years and the following perpetual annuity are discounted. All subsidiaries prepare detailed budgets in local currency for three years that are approved by the applicable supervisory boards and checked for plausibility on Group level as part of the planning and control process. Currencies are translated to euros using the exchange rate on the 31 December reporting date for the financial year. Extrapolation of the budget projections for a further two years and the perpetual annuity is performed using key parameters (combined ratios, premium growth, financial income) based on their past values and expected future market changes. The projected cash flows for the perpetual annuity are assumed to continue forever.

All of the underwriting business assets are assigned to the CGU groups. In addition to goodwill and trademarks, these also include all insurance portfolios and customer bases, investments, receivables and other assets. Underwriting provisions and current liabilities are deducted from the book values. Assets held at the Group level but used by the operating companies are allocated to the CGU groups in the form of corporate assets. The cash flows of the CGU groups are accordingly adjusted for amortisation of the allocated corporate assets.

To calculate the discount rates, the capital asset pricing model (CAPM) is used to calculate a cost of equity capital. The risk-free interest rate (equal to the yield on German government bonds on the reporting date calculated using the Svensson method), country-specific inflation differentials and risk premiums, and sector-specific market risk are added to this. The base rate before inflation differentials was 1.34% (1.03%). The market risk of 6.16% (6.25%) was multiplied by a beta factor of 0.96 (0.96) that was calculated based on a specified peer group.

The long-term growth rates are calculated during the financial year based on the compound annual growth rate (CAGR) assuming that insurance penetration in the countries concerned starting in 2013 will converge in 50–70 years with the current situation in Germany. An inflation adjustment equal to half of the inflation included in the cost of equity was added to the CAGR.

CGU groups	Discount rates		Country risks		Long-term growth rate	
	2017	2016	2017	2016	2017	2016
in %						
Austria	7.71	7.58	0.46	0.56	1.50	1.50
Czech Republic	7.88	8.24	0.81	1.00	3.94–4.31	4.05–4.69
Slovakia	8.23	8.23	0.98	1.21	4.96–5.24	4.81–5.21
Poland	8.56	8.65	0.98	1.21	5.30–5.68	5.29–5.50
Romania	10.46	10.95	2.54	3.13	5.46–7.67	5.62–7.54
Baltic states	8.44	8.49	1.19	1.47	5.14–5.51	5.08–5.29
Hungary	10.64	11.25	2.54	3.13	5.86–6.13	6.04–6.28
Bulgaria	9.21	9.79	2.19	2.71	6.17–6.49	6.28–6.71
Georgia	11.60	13.52	3.46	5.12	6.44	6.69
Turkey	16.05	15.30	2.88	3.55	7.41	6.98
Germany	7.25	7.02	0.00	0.00	1.50	1.50
Liechtenstein	7.25	7.32	0.00	0.00	1.50	1.65
Albania incl. Kosovo	13.25	14.46	5.19	6.40	6.74	7.13
Bosnia-Herzegovina	14.28	15.99	7.50	9.25	5.30–7.28	5.41–7.43
Croatia	10.21	11.25	3.46	4.27	4.98–6.26	5.17–6.49
Macedonia	11.16	12.12	4.15	5.12	5.64	5.72
Moldova	17.61	14.01	7.50	6.19	9.16	8.21
Serbia	12.22	15.40	4.15	6.40	5.75–7.18	6.35–7.98
Ukraine	21.45	25.61	10.38	14.21	8.89–12.94	9.07–13.11
Central Functions	7.80	7.91	0.46–0.81	0.56–1.00	1.50–4.31	1.50–4.69

Impairment and recoverable amounts for CGU groups	2017		2016	
	Impairment	Recoverable amount	Impairment	Recoverable amount
in EUR millions				
Albania incl. Kosovo	2.5	23.9		
Bosnia-Herzegovina			4.6	3.7
Moldova	5.9	4.3		
Ukraine	11.1	27.8		

Impairment testing of the Asirom trademark in financial year 2017 resulted in a need for EUR 7.8 million (EUR 7.5 million) in impairment.

Impairment of non-financial assets is recognised in other non-underwriting expenses in the income statement.

INVESTMENTS (B)

General information

In accordance with the relevant IFRS requirements, some Group assets and liabilities are carried at fair value in the consolidated financial statements. This concerns a significant portion of investments. The Group assigns all financial instruments measured at fair value, and assets and financial liabilities not measured at fair value – whose fair values are to be published in the notes to the financial statements – to one of the levels of the IFRS 13 measurement hierarchy. As a result of the decentralised organisational structure of the Group, the individual subsidiaries are responsible for this fair value categorisation. This takes account, in particular, of local knowledge of the quality of the individual fair values and any input parameters needed for model valuation.

Fair values are determined using the following hierarchy specified in IFRS 13:

- The determination of fair value for financial assets and liabilities is generally based on price quotations in active markets for identical assets or liabilities (Level 1).
- If a financial instrument is not listed and no market price quotations are available, fair value is determined using market price quotations for similar assets (Level 2). Standard valuation models with inputs that are observable in the market are used for Level 2 prices. These models are primarily used for illiquid bonds (present value method) and structured securities.
- The fair value of certain financial instruments, in particular bonds from countries without active capital markets and land and buildings, is determined using valuation models with input factors that are unobservable in the market. These models use, for example, transactions in inactive markets, expert reports and the structure of cash flows (Level 3).

The table below lists the methods used and most important input factors for Levels 2 and 3. The calculated fair values can be used for recurring and non-recurring measurements.

Pricing method	Used for	Fair Value	Input parameters
Level 2			Obervable
Present value method	Bonds; borrower's note loans; loans; securitised liabilities and subordinated liabilities	Theoretical price	Issuer, sector and rating-dependent yield curves
Hull-White present value method	Bonds; borrower's note loans with call options; securitised liabilities and subordinated liabilities	Theoretical price	Maturity dependent implied volatilities; issuer, sector and rating-dependent yield curves
Libor market model present value method	Bonds and borrower's note loans with other embedded derivates	Theoretical price	Money market and swap curves; implied volatility surface; cap & floor volatilities; issuer, sector and rating-dependent yield curves
Present value method	Currency futures contracts	Theoretical price	Exchange rates; money market curves for the currencies concerned
Present value method	Interest rate/currency swaps	Theoretical price	Exchange rates; money market and swap curves for the currencies concerned
Standard option price model	Stock options	Theoretical price	Share prices on the valuation date; implied volatilities
Level 3			Unobservable
Standard option price model	Stock options	Theoretical price	Share prices on the valuation date; volatilities
Market value method	Real estate	Appraisal value	Real estate-specific income and expense parameters; capitalisation rate; data on comparable transactions
Discounted cash flow model	Real estate	Appraisal value	Real estate-specific income and expense parameters; discount rate; indexes
Multiples approach	Shares	Theoretical price	Company-specific earnings figures; typical industry multipliers
Discounted cash flow model	Shares	Theoretical price	Company-specific earnings figures; discount rate
Share of capital	Shares	Book value	Company-specific equity according to separate financial statements
Amortised cost	Fixed income instruments (illiquid bonds, policy loans, loans) with no observable input data for comparable assets	Book value	Cost-price; redemption price; effective yield

For further information, please see Note 23. Financial instruments and fair value measurement hierarchy on page 203.

The following table presents the relationships between balance-sheet items and classes of financial instruments according to IFRS 7, incl. the basis of the measurements:

Balance sheet items, IAS 39 Categories and classes of financial instruments according to IFRS 7	Measurement method
Financial assets	
Loans and other investments	At amortised costs
Financial instruments held to maturity	At amortised costs
Financial instruments available for sale	At fair value
Financial instruments recognised at fair value through profit and loss*	At fair value
Investments for unit-linked and index-linked life insurance	At fair value
Financial liabilities	
Subordinated liabilities (other liabilities)	At amortised costs
Liabilities to financial institutions (other liabilities)	At amortised costs
Financing liabilities (other liabilities)	At amortised costs
Derivative liabilities (other liabilities)	At fair value

*Including held for trading

Land and buildings

Both self-used and investment properties are reported under land and buildings. Property that is both self-used and investment property is divided as soon as the self-used or investment portion exceeds 20%. If the 20% limit is not exceeded, the entire property is reported in the larger category (80:20 rule).

Costs incurred in later periods are only capitalised if they lead to a significant increase in future opportunities for use of the building (e.g. through building expansion or new building construction).

Self-used and investment buildings are both depreciated using the straight-line method over the expected useful. The following useful lives are assumed when determining depreciation rates:

Useful life in years	from	to
Buildings	20	50

SELF-USED PROPERTY

Self-used real estate is measured at cost minus accumulated depreciation and impairment losses. Cost comprises all costs incurred in putting the asset into its present location in its present condition.

For self-used property, imputed arm's length rental income is generally recognised as investment income, and an equivalent amount of rental expenses is recognised as material costs in the operating expenses.

INVESTMENT PROPERTY

Investment property consists of real estate that is held to earn rental income or for capital appreciation and not for the provision of services, administrative purposes or for sale in the ordinary course of business. Investment property is measured at cost minus accumulated depreciation and write-downs.

IMPAIRMENT OF LAND AND BUILDINGS

Real estate appraisals are performed at regular intervals for self-used real estate and investment property by sworn and judicially certified building construction and real estate appraisers. Market value is determined based on the capitalised earnings or asset value method, predominantly from capitalised earnings value reports, with the asset value method generally only being used for undeveloped property.

In exceptional cases, the DCF model or a mixed method is used for valuation. The mixed method combining the capitalised earnings and asset value methods is only used, however, if no single method produces a representative value on the analysis date. Old lease agreements or an under-rent situation are reasons for this.

If the fair value is below the book value (cost minus accumulated depreciation and write-downs), the asset is impaired. In this case, the book value is written down to fair value and the change recognised in profit or loss. The method used to test for impairment is also used to test for a reversal of impairment. On each balance sheet date, a test is performed for indications that a reversal of impairment has taken place. The book value after the reversal may not exceed the book value that would have existed (taking into account amortisation or depreciation) if no impairment had been recognised.

Impairment is reported in the financial result in the income statement and is shown starting on page 187. The fair values and level hierarchy according to IFRS 13 are shown in 23. Financial instruments and fair value measurement hierarchy on page 203.

Financial instruments

Financial instruments are divided into the following categories in accordance with the requirements of IAS 39:

- Loans and other receivables,
- Financial instruments held to maturity,
- Financial instruments available for sale,
- Financial instruments recognised at fair value through profit and loss and
- Financial instruments held for trading.

On initial recognition, the corresponding investments are measured at cost, which equals fair value at the time of acquisition. For subsequent measurement of financial instruments, two measurement methods are used.

LOANS, OTHER RECEIVABLES AND FINANCIAL INSTRUMENTS HELD TO MATURITY

Loans and other receivables and financial instruments held to maturity are subsequently measured at amortised cost. The amortised cost is determined using the effective interest rate of the asset in question. A write-down is recognised in profit or loss in the case of permanent impairment.

The current income recorded in the income statement is essentially interest income.

FINANCIAL INSTRUMENTS AVAILABLE FOR SALE

These financial instruments are non-derivative financial assets that are designated as available for sale and are not classified as loans and other receivables, held-to-maturity financial instruments or financial assets at fair value through profit or loss.

Financial instruments available for sale are measured at fair value. Fluctuations in value are recognised in other comprehensive income and reported in equity in other reserves. This does not include impairment, which is recognised in profit and loss. Upon disposal, the cumulative gains and losses recognised in other reserves in previous periods are transferred to the result for the period (recycling).

Spot transactions are accounted for at the settlement date.

FINANCIAL INSTRUMENTS RECOGNISED AT FAIR VALUE THROUGH PROFIT AND LOSS

Changes in fair value are recognised in profit or loss in the income statement. The financial instruments assigned to this category are predominantly structured investments ("hybrid financial instruments") that the Group has elected under IAS 39.11A and IAS 39.12 to assign to the category of "financial instruments at fair value through profit or loss". Structured investments are assigned to this category if the derivatives embedded in the host contract (as a rule securities or loans) are not closely related to the host contract so that otherwise the requirement under IAS 39 of isolating them from the host contract and measuring them separately at fair value would apply.

AMENDMENTS TO IAS 39 AND IFRS 7 – "RECLASSIFICATION OF FINANCIAL ASSETS"

In October 2008, the IASB published amendments to IAS 39 and IFRS 7 under the title "Reclassification of financial assets". The adjusted version of IAS 39 permits reclassification of non-derivative financial assets (except for financial instruments that were measured using the fair value option upon initial recognition) in the "held-for-trading" and "available-for-sale" categories.

The amendments to IAS 39 and IFRS 7 went into effect retroactively to 1 July 2008 and were applied prospectively from the time of reclassification. Reclassifications performed in VIG before 1 November 2008 used fair values as of 1 July 2008. Further details are provided on page 162 and page 164.

Derecognition of financial instruments is performed when the Group's contractual rights to their cash flows expire.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

On each balance sheet date, the book values of financial assets not measured at fair value through profit or loss are tested for objective evidence of impairment. Such evidence could be, for example, the debtor experiencing significant financial difficulties, a high probability of insolvency proceedings against the debtor, the loss of an active market for the financial asset, a significant change in the technological, economic, legal or market environment of the issuer, or a permanent decrease in the fair value of the financial asset below amortised cost. The Managing Board has considerable discretion when quantifying the influence of information that could affect the creditworthiness, rating and/or earning power of a debtor.

Any impairment losses due to fair value lying below the book value are recognised in profit or loss.

If any changes to the fair value of available for sale financial instruments were previously recognised directly in equity, these changes must be eliminated from equity and recognised in profit or loss on the income statement. As a rule, impairment of equity instruments is to be recognised if the average fair value during the last six months was consistently less than 80% of the historical cost of acquisition and/or if the fair value as of the reporting date is less than 50% of the historical cost of acquisition.

INVESTMENTS FOR UNIT-LINKED AND INDEX-LINKED LIFE INSURANCE (C)

Investments for unit-linked and index-linked life insurance provide cover for unit-linked and index-linked life insurance underwriting provisions. The survival and surrender payments for these policies are linked to the performance of the associated investments for unit-linked and index-linked life insurance, with the income from these investments also credited in full to policyholders. As a result, policyholders bear the risk associated with the performance of the investments for unit-linked and index-linked life insurance.

These investments are held in separate cover funds, and managed separately from the other investments of the Group. Since the changes in value of the investments for unit-linked and index-linked life insurance are occasionally equal to the changes in value of the underwriting provisions, these investments are valued in accordance with the requirements of IAS 39.9b. Investments for unit-linked and index-linked life insurance are therefore measured at fair value, and changes in value are recognised in the income statement.

REINSURERS' SHARE IN UNDERWRITING PROVISIONS (D)

The reinsurers' share in underwriting provisions is measured in accordance with contractual provisions.

The credit quality of each counterparty is taken into account when the reinsurers' share is measured. As a result of the good credit quality of the Group's reinsurers, no valuation allowances were needed for reinsurer shares as of the 31 December 2017 and 31 December 2016 balance sheet dates.

Information on the selection of reinsurers is provided in the "Financial instruments and risk management" section starting on page 133.

RECEIVABLES (E)

The receivables shown in the balance sheet relate in particular to the following receivables:

- Receivables from direct insurance business
  - from policyholders
  - from insurance intermediaries
  - from insurance companies
- Receivables from reinsurance business
- Other receivables

As a rule, receivables are reported at cost less impairment losses for losses already incurred but not yet known (e.g. death that is not yet known). In the case of receivables from policyholders, expected impairment losses from non-collectable premium receivables are shown on the liabilities side of the balance sheet under "Other underwriting provisions" (provisions for cancellations), or deducted from the premium receivable using a valuation allowance. The amounts included are shown in Note 5. Receivables on page 168.

TAXES (F)

Income tax expenses comprise actual taxes and deferred taxes. The income tax associated with transactions recognised directly in equity is also recognised directly in equity. The actual taxes for the individual VIG companies are calculated using the company's taxable income and the tax rate applicable in the country in question.

Deferred taxes are calculated using the balance sheet liability method for all temporary differences between the asset and liability values recognised in the IFRS consolidated financial statements and the individual company tax bases for these assets and liabilities. Under IAS 12.47 deferred taxes are measured using the tax rates applicable at the time of realisation. In addition, any probable tax benefits realisable from existing loss carry-forwards are included in the calculation. Exceptions to this deferral calculation are differences from non-tax-deductible goodwill and any deferred tax differences linked to participations.

Deferred tax assets are not recognised if it is not probable that the tax benefits they contain can be realised. Deferred taxes are calculated using the following tax rates:

Tax rates	31.12.2017	31.12.2016
in %		
Albania	15.0	15.0
Bosnia-Herzegovina	10.0	10.0
Bulgaria	10.0	10.0
Germany	30.0	30.0
Estonia[1]	0.0	0.0
Georgia[2]	15.0	15.0
Kosovo[3]	0.0	0.0
Croatia	18.0	18.0
Latvia[4]	0.0	15.0
Liechtenstein	12.5	12.5
Lithuania	15.0	15.0
Macedonia	10.0	10.0
Moldova	12.0	12.0
Austria	25.0	25.0
Poland	19.0	19.0
Romania	16.0	16.0
Serbia	15.0	15.0
Slovakia	21.0	21.0
Czech Republic	19.0	19.0
Turkey	20.0	20.0
Ukraine	18.0	18.0
Hungary	9.0	9.0

1 Basically, the reinvested profits of locally domiciled companies are not subject to corporate income tax. Profit distributions by the companies are subject to a tax rate of 14% to 20%.

2 Basically, the reinvested profits of locally domiciled companies will not be subject to corporate income tax starting 1 January 2019.

3 Insurance companies will be subject to 5% corporate income tax on their gross premiums.

4 Change in the tax system effective 1 January 2018: No tax on reinvested profits. Distributions are taxed at a rate of 20%.

Group taxation

Within the Group there is a tax group within the meaning of § 9 of the Austrian Corporate Income Tax Act (KStG) with Wiener Städtische Versicherungsverein as the head of the tax group. The taxable earnings of group members are attributed to the head of the tax group. The head of the tax group has entered into agreements with each group member governing the allocation of positive and negative tax amounts for the purpose of allocating corporate income tax charges according to origin. If a group member earns positive income, 25% is allocated to the head of the tax group. In case of negative income, the group member receives lump-sum compensation equal to 22.5% of the tax loss. Since the tax allocation is 25% in the case of positive income, the group member should provide 10% of the tax benefit from group taxation resulting from inclusion of that group member in the group. Cash settlement of tax benefits is performed for a period of three years.

OTHER ASSETS (G)

Other assets are measured at cost less impairment losses. Depreciation is performed using the straight-line method over the expected useful life of the asset.

Useful life in years	from	to
Office equipment	5	10
EDP facilities	3	5
Motor vehicles	5	5

CLASSIFICATION OF INSURANCE POLICIES

Contracts under which a Group company assumes a significant insurance risk from another party (the policyholder), by agreeing to provide compensation to the policyholder if a specified uncertain future event (the insured event) negatively affects the policyholder are treated as insurance policies for the purposes of IFRS. A distinction is made between insurance risk and financial risk. Financial risk is the risk of a possible future change in specific interest rates, securities prices, price indices, interest rate indices, credit ratings, credit indices, or some other variable, provided that the variable is not specific to one counterparty in the case of a non-financial variable. In many cases, particularly in the life insurance area, insurance policies as defined in IFRS also transfer financial risk.

Policies under which only an insignificant insurance risk is transferred from the policyholder to the Group company are treated as financial instruments ("financial insurance policies") for IFRS reporting purposes. Such policies exist only to a minor extent in the personal insurance area.

Both insurance contracts and financial insurance policies can have contract terms that qualify as discretionary participation in net income ("profit participation", "profit-dependent premium refund"). Contractual rights are considered discretionary participation in net income if in addition to guaranteed benefits the policyholder also receives additional payments that are likely to constitute a significant portion of the total contractual payments and are contractually based on:

- the profit from a certain portfolio of policies or a certain type of policy, or
- the realised and/or unrealised investment income from a certain portfolio of assets held by the insurance company, or
- the profit or loss of the company, investment fund, or business unit (e.g. balance sheet unit) holding the contract.

Policies with discretionary net income participation exist in all VIG countries primarily in the life insurance balance sheet unit and to a secondary extent in the property and casualty and health insurance areas as well and are treated as insurance policies in accordance with IFRS 4. The net income participation in life insurance exists essentially in the form of participation in the adjusted net income of the balance sheet unit in question calculated according to national accounting requirements. Net income or profit participation amounts that have already been allocated or committed to policyholders are reported in the mathematical reserve. Amounts reported in the local annual financial statements which have been committed or allocated to policyholders in the future by means of net income participation are reported in the balance sheet in the provision for performance-based premium refunds.

In addition, the profit-related portion resulting from IFRS measurement differences as compared to local measurement requirements (deferred profit participation) is also reported in the provision for profit-related premium refunds. This primarily concerns Austrian and German policies that are eligible for profit participation, as the profit participation in these countries is governed by regulations. Deferred profit participation is not recognised in balance sheets in other countries, since policyholder participation is at the sole discretion of the company concerned. The rate used for calculating deferred profit participation is 80% of the difference between the value recognised in the local financial statements and the value recognised in the IFRS financial statements.

As permitted by IFRS 4, the option to present unrealised gains and losses with the same effects on balance sheet measurements of underwriting provisions, capitalised acquisition costs and purchased insurance portfolios as realised gains and losses has been applied (shadow accounting). The first step is to allocate unrealised gains on available-for-sale financial instruments to a deferred mathematical reserve to serve as security for contractually agreed insurance payments. The policy-holder's share of the surplus from the remaining unrealised gains is then allocated to a provision for deferred profit participation. Any remaining asset balance is reported as deferred policyholder profit participation resulting from measurement differences. This deferred item is only recognised if it is highly probable, at the Group company level, that the item can be satisfied by future profits in which the policyholders participate.

Recognition and accounting methods for insurance policies

The Group fully applies the rules of IFRS 4 with respect to the valuation of insurance policies. Accordingly, the values recognised in the consolidated financial statements prepared in accordance with applicable national law are carried over to the IFRS consolidated financial statements, provided the provisions formed under national law satisfy the minimum requirements of IFRS 4. Equalisation and catastrophe provisions are therefore not recognised. In principle, accounting rules were not changed to differ from national accounting requirements, except when parameters used to calculate underwriting provisions did not lead to adequate funding for future provisions. In such cases, the Group uses its own parameters, which are consistent with these principles. In individual cases, the provisions formed locally by an insurance company for outstanding claims are increased in the consolidated financial statements based on the corresponding analysis. Detailed information on the valuation of underwriting items is available in the remarks for each item.

Adequacy test for liabilities arising from insurance policies

Liabilities from insurance policies are tested at each balance sheet date for adequacy of the provisions recognised in the financial statements.

If the value calculated based on up-to-date estimates of current valuation parameters, taking into account all future cash flows associated with the insurance policies, is higher than the provisions formed for liabilities from insurance policies, an increase in the provisions is recognised in profit or loss to eliminate the shortfall.

UNDERWRITING PROVISIONS (H)

Provision for unearned premiums

Under the current version of IFRS 4, figures in annual financial statements prepared in accordance with national requirements may be used for the presentation of figures relating to insurance policies in the consolidated financial statements. In Austria a cost discount of 15% is used when calculating unearned premiums in the property and casualty balance sheet unit (10% for motor third party liability insurance), corresponding to EUR 28,354,000 (EUR 28,503,000). Acquisition expenses in excess of this figure are not capitalised in Austria. For foreign companies in the property and casualty line of business a portion of the acquisition expenses is generally recognised in the same proportion as the ratio of net earned premiums to written premiums. To ensure uniform presentation within the Group, these capitalised acquisition costs are also shown in the consolidated financial statements as a reduction in the provision for unearned premiums: EUR 281,392,000 (EUR 275,231,000).

Mathematical reserve

Life insurance mathematical reserves are calculated using the prospective method as the actuarial present value of obligations (including declared and allocated profit shares and an administrative cost reserve) minus the present value of all future premiums received. The calculation is based on such factors as expected mortality, costs and the discount rate.

Basically, the mathematical reserve and related premium rate are calculated using the same basis, which is applied uniformly for the entire rate and during the entire term of the policy. The appropriateness of the calculation basis is reviewed each year in accordance with IFRS 4 and applicable national accounting requirements. Please refer to section Adequacy test for liabilities arising from insurance policies on page 116. For information on the use of shadow accounting, please see page 116. Basically, the official mortality tables of each country are used for the life balance sheet unit. If current mortality expectations differ to the benefit of policyholders from the calculation used for the rate, leading to a corresponding insufficiency in the mathematical reserves, the reserves are increased appropriately in connection with the adequacy test of insurance liabilities.

In the life insurance balance sheet unit acquisition costs are taken into account through zillmerisation or another actuarial method as a reduction of mathematical reserves. In accordance with national requirements, negative mathematical reserves resulting from zillmerisation are set to zero for Austrian insurance companies. Negative mathematical reserves are not set to zero for Group subsidiaries with registered offices outside Austria. These negative mathematical reserves are recognised in the mathematical reserve item in the consolidated financial statements. The following average discount rates are used to calculate mathematical reserves:

As of 31 December 2017: 2.18%
As of 31 December 2016: 2.31%

In Austria the average discount rate for life insurance was 2.08% during the reporting period (2.19%).

In addition, the share of unrealised gains and losses from available-for-sale financial instruments serving as security for contractual obligations is shown in the mathematical reserve as part of the shadow accounting performed according to IFRS 4. Further information is provided in the section Classification of insurance policies beginning on page 115.

In the health insurance balance sheet unit, mathematical reserves are also calculated according to the prospective method as the difference between the actuarial present value of future policy payments minus the present value of future premiums. The loss frequencies used to calculate the mathematical reserve derive primarily from analyses conducted on the Group's own insurance portfolio. As a rule, the mortality tables used correspond to published mortality tables. The following discount rates are used for the great majority of transactions when calculating mathematical reserves:

As of 31 December 2017: 2.80%
As of 31 December 2016: 2.82%

Provision for outstanding claims

National insurance law and national regulations (in Austria, the Austrian Commercial Code (UGB) and Austrian Insurance Supervision Act (VAG)) require VIG companies to form provisions for outstanding claims. The provisions are calculated for payment obligations arising from claims, which have occurred up to the balance sheet date but whose basis or size has not yet been established, as well as all related claims settlement expenses expected to be incurred after the balance sheet date, and, as a rule, are formed at the individual policy level. These policy-level provisions are marked up by a flat-rate allowance for unexpected additional losses. Except for the provisions for pension obligations, no discounting is performed. Insurance losses that have occurred up to the balance sheet date but were not known at the time that the balance sheet was prepared ("IBNR"), and losses that have occurred but have not been reported or not reported in the correct amount ("IBNER"), are to be included in the provision (incurred but not reported claims provisions and provisions for as yet unidentified large losses). Separate provisions for claims settlement expenses are formed for internally incurred expenses attributable to claims settlement under the allocation according to origin principle. Collectible recourse claims are deducted from the provision. Where necessary, actuarial estimation methods are used to calculate the provisions. The methods are applied consistently, with both the methods and calculation parameters tested continuously for adequacy and adjusted if necessary. The provisions are affected by economic factors (e.g. inflation rate) and by legal and regulatory developments, which may be subject to change over time. The current revision of IFRS 4 provides for provisions formed in accordance with applicable national requirements to be carried over into the consolidated financial statements.

Provision for profit-unrelated premium refunds

The provisions for profit-unrelated premium refunds relate, in particular, to the property and casualty and health balance sheet units, and pertain to premium refunds in certain insurance classes that are contractually guaranteed to policyholders in the event that there are no claims or a low level of claims. These provisions are formed at the individual policy level. Since the provisions are predominantly short-term provisions, no discounting has been performed.

Provision for profit-related premium refunds

Profit shares that were dedicated to policyholders in local business plans, but have not been allocated or committed to individual policyholders as of the balance sheet date, are shown in the provision for profit-related premium refunds ("discretionary net income participation"). In addition, both the portion realised through profit and loss and the portion realised directly in equity that results from measurement differences between IFRS and local measurement requirements ("deferred profit participation") are reported in this item. Please see the section Classification of insurance policies starting on page 115.

Other underwriting provisions

The other underwriting provisions item primarily include provisions for cancellations. Cancellation provisions are formed for the cancellation of premiums that have been written but not yet paid by the policyholder, and therefore represent a liabilities-side allowance for receivables from policyholders. These provisions are formed based on the application of certain percentage rates to overdue premium receivables.

UNDERWRITING PROVISIONS FOR UNIT-LINKED AND INDEX-LINKED LIFE INSURANCE (I)

Underwriting provisions for unit-linked and index-linked life insurance represent obligations to policyholders that are linked to the performance and income of the corresponding investments. The measurement of these provisions corresponds to the measurement of the investments for unit-linked and index-linked life insurance, and is based on the fair value of the investment unit or index serving as a reference.

NON-UNDERWRITING PROVISIONS (J)

Provisions for pensions and similar obligations

PENSION OBLIGATIONS

Pension obligations are based on individual contractual obligations and collective agreements. The obligations are defined benefit obligations. The plans are based on average salary and/or the number of years of service with the company.

These obligations are accounted for in accordance with IAS 19. The present value of the defined benefit obligation (DBO) is calculated. Calculation of the DBO is performed using the projected unit credit method. In this method future payments calculated based on realistic assumptions are accrued linearly over the period in which the beneficiary acquires these entitlements. The necessary provision amount is calculated for the relevant balance sheet date using actuarial reports that have been provided for 31 December 2016 and 31 December 2017.

The calculations are based on the following assumptions:

Pension assumptions	31.12.2017	31.12.2016
Interest rate	1.50%	1.25%
Pension increases	2.00%	1.80%
Salary increases	2.00%	1.80%
Employee turnover rate (age-dependent)	0%–4%	0%–4%
Retirement age, women (transitional arrangement)	62+	62+
Retirement age, men (transitional arrangement)	62+	62+
Life expectancy (for employees, in accordance with)	(AVÖ 2008-P)	(AVÖ 2008-P)

The weighted average length of the DBO for pensions was 15.56 years in financial year 2017 (15.85 years). A portion of the direct pension obligations are administered as an occupational group insurance plan following conclusion of an insurance contract in accordance with § 93–98 VAG.

Other non-underwriting provisions
Other non-underwriting provisions are recognised if

- a legal or constructive obligation to a third party resulting from a past event exists,
- it is probable that this obligation will lead to an outflow of resources and
- a reliable estimate can be made of the amount of the obligation.

The provisions are recognised at the value representing the best possible estimate of the expenditure needed to fulfil the obligation. If the present value of the provision determined using a normal market rate of interest differs significantly from the nominal value, the present value of the obligation is recognised. The other non-underwriting provisions item also includes personnel provisions other than provisions for pensions and similar obligations. These relate primarily to provisions for anniversary benefits.

(SUBORDINATED) LIABILITIES (K)

As a rule, liabilities are measured at amortised cost. This also applies to liabilities arising from financial insurance policies. The fair value of financial liabilities is shown in 23. Financial instruments and fair value measurement hierarchy starting on page 203.

EARNED PREMIUMS (L)

As a rule, unearned premiums (provision for unearned premiums) are determined on a pro rata basis over time. No deferral of unit-linked and index-linked life insurance premiums is performed, since the full amount of the premiums written in the reporting period is included in the calculation of the underwriting provisions for unit-linked and index-linked life insurance.

EXPENSES FOR CLAIMS AND INSURANCE BENEFITS (M)

All payments to policyholders arising from loss events, claims settlement expenses directly related to loss events, and internal costs attributable to claims settlement under the allocation according to origin principle, are shown as expenses for claims and insurance benefits. Expenses for loss prevention are also reported in this item. Expenses for claims and insurance benefits are reduced by the income gained from using existing contractual and statutory avenues of recourse (this applies in particular to property and casualty insurance). Changes in the underwriting provisions are also reported in expenses for claims and insurance benefits.

ACQUISITION AND ADMINISTRATIVE EXPENSES (N)

This item includes Group personnel and materials expenses allocated according to the origin principle.

SCOPE AND METHODS OF CONSOLIDATION

Full consolidation of a subsidiary begins when control is gained and ends when control is lost. The consolidated financial statements include a total of 68 Austrian and 84 foreign companies.

Associated companies are companies over which the Group has a significant influence but does not exercise control. These companies are accounted for at equity. These consolidated financial statements include 6 Austrian and 16 foreign companies accounted for at equity. 114 Companies that have no material effect on the net assets, financial position and results of operations when considered individually or in aggregate have essentially been measured at fair value.

The materiality or immateriality of subsidiaries, associated companies and joint arrangements for the consolidated financial statements is checked using a variety of thresholds defined at the Group level. Profit before taxes or total assets, for example, could be checked for this purpose. If a company does not satisfy any size criteria, in spite of the existence of control, a second step is performed to check whether the companies that are not included are material when taken as a whole. If this is not the case, these companies are not included in the scope of consolidation.

Fully controlled investment funds ("special funds") were fully consolidated in accordance with the requirements of IFRS 10. These consolidated institutional funds are not separate corporate entities and therefore not special purpose vehicles (SPVs) as defined in IFRS 10. They are investment funds that have not been designed for public capital markets.

Due to a lack of control, mutual funds are not consolidated, even if a majority of voting rights are held. The ability of subsidiaries to transfer funds (in the form of dividends) to parent companies can be restricted by corporate law and regulations.

BUSINESS COMBINATIONS (IFRS 3)

Business combinations are recognised using the purchase method. Goodwill is recognised as the value of the consideration transferred and all non-controlling interests in the acquired company less the identifiable assets acquired and liabilities assumed. In any business combination, present non-controlling interests that entitle holders to a proportionate share of the entity's net assets in the event of a liquidation can be measured either at fair value or as part of the identifiable net assets. Unless an IFRS provides another measurement method, all other components of non-controlling interests are measured at the corresponding share of the identifiable net assets. If the consideration is less than the net assets of the acquired subsidiary measured at fair value, the difference is checked again and recognised directly in the income statement. As a rule, the fair values calculated in accordance with IFRS 13 of all assets (incl. goodwill and other intangible assets) and liabilities are allocated to the country to which the purchased company is assigned.

The Group considers the reported goodwill to reflect the value of the ability to make use of the insurance-specific expertise of the employees of the acquired companies. When a market is entered, it represents the ability to offer insurance products in a country and take advantage of the opportunities that exist there. In countries where the Group is already represented by one or more companies, the goodwill represents the possibility of making use of potential synergies.

When real estate holding companies are acquired, they are checked to see whether they include business operations. If they do not, the purchase method is not used. In such cases, the acquisition costs, including transaction costs, are distributed among the acquired assets and assumed liabilities based on fair value. No deferred taxes are recognised in such cases (initial recognition exemption) and goodwill cannot arise.

All company acquisitions were performed with cash and cash equivalents. Note 27. on page 214 provides an overview of Participations – Details.

CHANGES IN THE SCOPE OF CONSOLIDATION

Expansion of the scope of consolidation

Expansion of the scope of consolidation*	Acquisition	Interest	First-time consolidation	Method
	Date	in %	Date	
AXA Life (Romania)	2016	100.00	1.7.2017	full consolidation
CP Solutions	2017	100.00	1.9.2017	full consolidation
Porzellangasse 4 Liegenschaftsverwaltung	2017	100.00	1.7.2017	full consolidation
Prazska softwarova	2017	100.00	1.7.2017	consolidated at equity

*Unless indicated otherwise, no goodwill exists.

With respect to the purchase of the Romanian AXA subsidiary, AXA Life (Romania), due to the market exit VIG realised a gain of EUR 7.4 million from the purchase. It was reported in the income statement as other non-underwriting income.

Companies acquired

Companies acquired during the reporting period, but not yet consolidated (no subject to closing at 31 December 2017)	Interest acquired
in %	
Seesam Insurance AS	100.00
Merkur Osiguranje	100.00

The local authorities approved the Merkur Osiguranje transaction on 8 February 2018. The requirements for including the two companies shown in the table in the consolidated financial statements were still not satisfied as of 31 December 2017, since closing had not taken place for the transactions and there was a lack of control over the companies.

Since first-time preparation of the accounts for Merkur Osiguranje had not been completed when the financial statements were approved, disclosures could not be made in accordance with IFRS 3.B64–66.

Founded companies

Founded companies	Interest	Established
	in %	Date
VITEC GmbH	51.00	4.4.2017
AB Modřice	100.00	20.12.2017
Main Point Karlín II.	100.00	20.12.2017

Information on the companies that are fully consolidated and included at equity in the consolidated financial statements of 31 December 2017 is provided in Note 27. Participations – Details on page 214.

Effect of the changes in the scope of consolidation

Balance sheet	Additions
in EUR '000	
Intangible assets	35,169
Investments	86,649
Investments for unit-linked and index-linked life insurance	372
Receivables (incl. tax receivables and advance payments out of income tax)	2,282
Other assets (incl. deferred tax assets)	452
Cash and cash equivalents	15,686
Underwriting provisions	-40,966
Underwriting provisions for unit-linked and index-linked life insurance	-380
Non-underwriting provisions	-10
Liabilities (incl. tax liabilities out of income tax)	-1,560
Other liabilities (incl. deferred tax liabilities)	-7,103

The figures shown in the table above reflect the actual dates of first consolidation, as indicated in the Changes in the scope of consolidation section on page 122.

Contribution to profit before taxes in reporting period	Additions
in EUR '000	
Net earned premiums – retention	707
Financial result	311
Other income	7,398
Expenses for claims and insurance benefits – retention	331
Acquisition and administrative expenses	-367
Other expenses	-12
Result before taxes	**8,368**

Inclusion of the first-time consolidated companies retroactively to 1 January 2017 would not cause any changes in balance sheet items. Inclusion of the first-time consolidated companies retroactively to 1 January 2017 would reduce the Group result before taxes and non-controlling interests by 0.15% (not including any consolidation effects).

Including the new companies in the scope of consolidation increased the number of employees by 26.

NON-PROFIT SOCIETIES

Non-profit societies build or renovate housing whose financing largely comes from housing construction subsidies that are provided for by subsidy laws and directives at the provincial level. Housing that is financed by housing construction subsidies is subject to special restrictions set down in the Austrian Non-Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz – WGG) that govern annual distributions and access to the assets of the housing society.

As a result, the total amount of annual profit that can be distributed may not exceed an amount equal to the total paid-in share capital times the interest rate (currently 3.5%) applicable under § 14 (1) no. 3 WGG. In addition, when members leave a housing society or a housing society is dissolved, the members may not receive more than their paid-in capital contributions and their share of distributable profits. Any remaining assets are to be used for the purposes of non-profit housing. Reorganisation possibilities are also restricted. Merger agreements for merger of a housing society with other companies and spin-offs to other companies are considered legally invalid if the absorbing or newly formed company is not non-profit within the meaning of the WGG. Title to buildings, residential units and business units (co-ownership, condominium ownership) may only be transferred to the tenants or another building society within the meaning of the WGG.

Due to these restrictions, even though a shareholder can acquire control over a non-profit society by holding a majority of the shares, the shareholder will not have full power of disposal over the society's assets. As a result, the earnings contributed by the non-profit societies are presented separately in these consolidated financial statements as non-controlling interests in the Group result.

VIG holds indirect interests in non-profit societies that were included in the consolidated financial statements in the past based on satisfaction of the criteria for control — due to a majority interest or far-reaching contractual agreements (e.g. the right to determine members of management) — either by full consolidation or, if only significant influence existed, by at-equity consolidation. These companies include:

- Neuland GmbH
- Sozialbau AG
- Urbanbau GmbH
- Erste Heimstätte GmbH
- Gemeinnützige Industrie-Wohnungsaktiengesellschaft
- Gemeinnützige Mürz-Ybbs Siedlungsanlagen-GmbH
- Schwarzatal GmbH
- Alpenländische Heimstätte GmbH
- Neue Heimat Oberösterreich GmbH

Government grants (must be repaid if the assets are not used for their intended purpose)

Government grants	31.12.2017
in EUR '000	
Government – through Income Statement	**55,146**
Grants related to assets – deducts the grant in calculating the carrying amount of the asset	43,733
Grants related to income – shown separately	9,974
Grants related to income – deducted from the related expense	1,439

Changes in the accounting for non-profit societies

When the contractual agreements with its parent company were amended in August 2016, VIG regained control over the non-profit companies. For this reason, the interests in the nine companies and WWG Beteiligungen GmbH have been fully consolidated since the 3rd quarter of 2016 and significant assets have been included in the consolidated balance sheet. These assets are primarily property with a book value of around EUR 3.6 billion. Since VIG's parent company had control in previous years, the change in control is a business combination involving entities under common control. The assets and liabilities were therefore included in the consolidated balance sheet using the book values reported by VIG's parent company. The share of the consolidated shareholders' equity attributable to the non-profit societies is reported separately under "non-controlling interests", since this part of the shareholders' equity is not within VIG's sphere of influence.

Assets	31.12.2017	thereof non-profit societies*	31.12.2016	thereof non-profit societies*
in EUR '000				
Intangible assets	1,970,641	1,592	2,054,500	1,244
Investments	35,932,907	3,772,645	34,646,256	3,724,565
Investments for unit-linked and index-linked life insurance	9,061,073	0	8,549,580	0
Reinsurers' share in underwriting provisions	1,066,320	0	985,211	0
Receivables	1,475,862	62,363	1,459,631	50,048
Tax receivables and advance payments out of income tax	239,455	6	236,940	0
Deferred tax assets	80,806	228	138,230	0
Other assets	389,160	5,570	347,819	5,627
Cash and cash equivalents	1,497,731	118,731	1,589,941	148,810
Total	51,713,955	3,961,135	50,008,108	3,930,294

*Incl. their subsidiaries

Liabilities and shareholders' equity	31.12.2017	thereof non-profit societies*	31.12.2016	thereof non-profit societies*
in EUR '000				
Subordinated liabilities	1,458,839	0	1,265,009	0
Underwriting provisions	30,168,173	0	29,220,071	0
Underwriting provisions for unit-linked and index-linked life insurance	8,612,749	0	8,129,884	0
Non-underwriting provisions	793,792	58,630	815,248	54,593
Liabilities	4,032,102	2,638,085	4,202,585	2,670,165
Tax liabilities out of income tax	202,050	7	181,300	0
Deferred tax liabilities	255,064	0	325,150	0
Other liabilities	147,237	322	157,604	377
Subtotal	45,670,006	2,697,044	44,296,851	2,725,135
Shareholders' equity	6,043,949		5,711,257	
Total	51,713,955	2,697,044	50,008,108	2,725,135

*Incl. their subsidiaries

Income statement	2017	thereof non-profit societies*	2016	thereof non-profit societies*
in EUR '000				
Premiums written – gross	9,386,040	0	9,050,968	0
Net earned premiums – retention	8,509,562	0	8,191,256	0
Financial result excluding at equity consolidated companies	881,526	69,813	912,188	30,372
Income from investments	1,586,950	299,919	1,416,088	107,077
Expenses for investments and interest expenses	-705,424	-230,106	-503,900	-76,705
Result from shares in at equity consolidated companies	42,754	0	46,621	0
Other income	223,149	0	150,449	0
Expenses for claims and insurance benefits – retention	-6,872,588	0	-6,753,449	0
Acquisition and administrative expenses	-2,040,282	0	-1,907,805	0
Other expenses	-301,572	-2,304	-232,526	-1,450
Result before taxes	442,549	67,509	406,734	28,922
Taxes	-69,958	108	-85,744	44
Result of the period	372,591	67,617	320,990	28,966

*Incl. their subsidiaries

SEGMENT REPORTING

DETERMINATION OF REPORTABLE SEGMENTS

The segments were determined in accordance with IFRS 8 "Operating segments" based on internal reporting to the principal decision-maker. The individual markets, in which the Group operates, were identified as the operating segments. The Group Managing Board, as principal decision-maker, regularly evaluates earning power based on the segments and decides on the allocation of resources to the segments. The focus on countries is also reflected in the country responsibilities of the members of the VIG Managing Board. The countries Estonia, Latvia and Lithuania are combined in the Baltic States operating segment, and Albania and Kosovo are combined in the Albania incl. Kosovo operating segment when reporting to the Managing Board. The countries of Turkey and Georgia are also combined into one reporting segment.

The reportable segments were determined using the aggregation criteria in IFRS 8.12 and IFRS 8.14 and the quantitative thresholds defined in IFRS 8.13.

The following were identified as reportable segments:

- Austria (incl. the Wiener Städtische branches in Slovenia and Italy and the Wiener Städtische and Donau Versicherung branches in Italy)
- Czech Republic,
- Slovakia,
- Poland,
- Romania,
- Baltic states,
- Hungary,
- Bulgaria,
- Turkey/Georgia,
- Remaining CEE,
- Other Markets and
- Central Functions.

The Remaining CEE segment includes the countries of Albania incl. Kosovo (a branch of an Albanian company is located in Kosovo), Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Serbia and Ukraine. The segment was aggregated in accordance with the aggregation criteria in IFRS 8.14 and was not reported in an "all other segments" in accordance with IFRS 8.16 in spite of falling below the thresholds. This segment is presented separately because of VIG's focus on the CEE region.

The Managing Board also feels that important information is provided by separately publishing financial information for Romania, the Baltic states, Hungary, Bulgaria and Turkey/Georgia in the segment reports, even though they fall below the thresholds. VIG's focus on the CEE region and the strong growth recorded in individual countries led to this decision.

The Other Markets reportable segment corresponds to the "all other segments" category in IFRS 8.16 and includes Germany and Liechtenstein.

Companies with management and coordination functions that cross regional boundaries and non-profit societies are included in the "Central Functions" segment.

BASIS OF THE REVENUES OF THE REPORTABLE SEGMENTS

Reportable segments (excl. Central Functions)
The scope of business operations includes private and corporate customer insurance business. The range of products includes, among other things, motor third party liability and own damage, accident, third party liability, fire and natural hazards, and travel insurance.

A large number of life and health insurance products are offered for individuals and groups. These include, for example, supplementary health insurance, nursing care insurance, endowment insurance, term life insurance and investment-oriented products. In accordance with the cornerstones of VIG, products are sold through all distribution channels in all markets. This means that insurance products are distributed, among others, by sales employees, banks, brokers and agents.

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

VIG Holding primarily focuses on managerial tasks for the Group. It also operates as an international reinsurer and in the international corporate business. The Group's own reinsurance company, VIG Re, is a successful provider of reinsurance for both VIG companies and external partners.

Information on major customers
The Group does not depend to a great extent on one single customer, as defined in IFRS 8.34. The 10 largest customer groups are responsible for 1.8% of the premiums written by the Group. Corporate customers that are under common control according to the information available to VIG are combined into customer groups.

GENERAL INFORMATION ON SEGMENT REPORTING

Like transactions with third parties, transfer prices between reportable segments are determined using market prices. Intragroup transactions between segments are eliminated in the consolidation column. The only exception is dividends and intercompany profits, which are eliminated in each segment.

PERFORMANCE MEASUREMENT FOR REPORTABLE SEGMENTS

A variety of performance indicators are used to determine the financial performance of the reportable segments. The IFRS contribution to earnings is used as an indicator in all cases. In the interests of comparability, the income statement by segments is appropriately reconciled with the consolidated income statement and only the main items are presented. The same applies to the balance statement by segments and consolidated balance sheet.

CONSOLIDATED BALANCE SHEET BY SEGMENT

Assets	Austria		Czech Republic		Slovakia	
	2017	2016	2017	2016	2017	2016
in EUR '000						
Intangible assets	369,941	357,481	497,204	434,563	119,262	117,179
Investments	22,471,543	21,811,944	3,187,622	3,099,805	1,314,977	1,247,048
Investments for unit-linked and index-linked life insurance	5,869,028	5,581,420	358,039	300,123	211,392	199,144
Reinsurers' share in underwriting provisions	423,340	379,602	97,678	100,134	33,111	58,039
Receivables	581,646	624,222	123,510	117,146	65,381	58,915
Tax receivables and advance payments out of income tax	17,523	30,937	13,964	9,290	1,203	4,726
Deferred tax assets	3,415	66,186	5,168	3,913	5,432	4,321
Other assets	135,236	146,056	159,513	136,641	11,410	7,221
Cash and cash equivalents	798,824	728,287	166,807	169,692	67,027	45,748
Total	30,670,496	29,726,135	4,609,505	4,371,307	1,829,195	1,742,341

Assets	Poland		Romania		Baltic states	
	2017	2016	2017	2016	2017	2016
in EUR '000						
Intangible assets	148,146	138,792	186,909	199,247	132,976	141,066
Investments	935,138	854,330	669,064	588,776	398,310	323,192
Investments for unit-linked and index-linked life insurance	940,143	774,197	177,958	208,854	51,850	41,910
Reinsurers' share in underwriting provisions	51,954	51,284	31,785	29,399	23,049	17,328
Receivables	125,510	129,874	162,084	156,642	51,323	37,830
Tax receivables and advance payments out of income tax	1,463	5,765	2,120	2,176	258	721
Deferred tax assets	5,686	5,485	25,884	20,357	1,057	1,878
Other assets	9,078	8,652	7,227	6,651	7,012	3,861
Cash and cash equivalents	32,310	21,292	11,892	8,954	43,239	54,233
Total	2,249,428	1,989,671	1,274,923	1,221,056	709,074	622,019

Assets	Hungary		Bulgaria		Turkey/Georgia	
	2017	2016	2017	2016	2017	2016
in EUR '000						
Intangible assets	23,592	26,188	184,696	191,141	22,459	25,276
Investments	154,371	161,548	166,353	154,317	95,576	98,446
Investments for unit-linked and index-linked life insurance	430,862	405,665	3,586	1,420	0	0
Reinsurers' share in underwriting provisions	15,651	9,895	15,637	19,699	80,682	65,948
Receivables	16,240	17,822	40,256	37,195	56,739	53,437
Tax receivables and advance payments out of income tax	3	29	6	4	57	11
Deferred tax assets	1,941	165	1,063	1,124	1,370	2,151
Other assets	6,031	6,480	2,010	2,109	2,048	993
Cash and cash equivalents	4,282	2,411	21,781	11,906	21,007	23,832
Total	652,973	630,203	435,388	418,915	279,938	270,094

Liabilities and shareholders' equity	Austria		Czech Republic		Slovakia	
	2017	2016	2017	2016	2017	2016
in EUR '000						
Subordinated liabilities	337,300	97,020	21,539	20,355	0	0
Underwriting provisions	22,023,833	21,634,337	3,016,152	2,926,311	1,140,185	1,046,660
Underwriting provisions for unit-linked and index-linked life insurance	5,599,225	5,320,409	219,815	168,628	226,462	215,728
Non-underwriting provisions	513,529	556,954	3,970	4,220	3,331	2,171
Liabilities	542,969	682,072	217,640	198,158	83,901	83,797
Tax liabilities out of income tax	179,838	164,337	11,989	9,262	2,973	98
Deferred tax liabilities	166,449	230,549	33,419	26,922	11,809	14,054
Other liabilities	78,872	91,125	16,788	11,612	6,217	8,409
Subtotal	29,442,015	28,776,803	3,541,312	3,365,468	1,474,878	1,370,917

Liabilities and shareholders' equity	Poland		Romania		Baltic states	
	2017	2016	2017	2016	2017	2016
in EUR '000						
Subordinated liabilities	0	0	0	0	0	0
Underwriting provisions	822,376	755,047	590,822	504,808	387,366	329,940
Underwriting provisions for unit-linked and index-linked life insurance	903,983	745,124	176,822	208,092	51,850	41,910
Non-underwriting provisions	9,220	8,358	25,971	11,283	335	2,039
Liabilities	85,024	91,307	74,946	85,561	36,961	29,129
Tax liabilities out of income tax	203	77	0	0	217	56
Deferred tax liabilities	21,620	19,847	0	0	2,683	10,333
Other liabilities	13,442	18,630	8,260	8,117	1,959	2,203
Subtotal	1,855,868	1,638,390	876,821	817,861	481,371	415,610

Liabilities and shareholders' equity	Hungary		Bulgaria		Turkey/Georgia	
	2017	2016	2017	2016	2017	2016
in EUR '000						
Subordinated liabilities	0	0	0	0	0	0
Underwriting provisions	144,046	127,540	148,198	143,365	187,618	178,515
Underwriting provisions for unit-linked and index-linked life insurance	420,163	392,680	3,452	1,420	0	0
Non-underwriting provisions	3,718	4,964	24,133	19,142	7,293	4,857
Liabilities	20,314	18,289	18,618	15,214	26,772	29,798
Tax liabilities out of income tax	356	213	398	214	510	572
Deferred tax liabilities	652	1,010	1,315	1,809	53	4
Other liabilities	2,682	2,609	416	178	1,881	2,062
Subtotal	591,931	547,305	196,530	181,342	224,127	215,808

Assets	Remaining CEE		Other Markets		Central Functions		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
in EUR '000								
Intangible assets	77,568	95,612	1,428	1,366	206,460	326,589	1,970,641	2,054,500
Investments	810,374	741,254	655,798	611,842	5,073,781	4,953,754	35,932,907	34,646,256
Investments for unit-linked and index-linked life insurance	86,497	74,307	931,718	962,540	0	0	9,061,073	8,549,580
Reinsurers' share in underwriting provisions	27,374	27,446	6,010	6,831	260,049	219,606	1,066,320	985,211
Receivables	77,580	69,779	15,355	15,603	160,238	141,166	1,475,862	1,459,631
Tax receivables and advance payments out of income tax	1,087	1,373	0	2,372	201,771	179,536	239,455	236,940
Deferred tax assets	3,836	3,323	1,894	987	24,060	28,340	80,806	138,230
Other assets	12,991	9,720	4,426	4,333	32,178	15,102	389,160	347,819
Cash and cash equivalents	22,103	25,433	25,263	47,454	283,196	450,699	1,497,731	1,589,941
Total	1,119,410	1,048,247	1,641,892	1,653,328	6,241,733	6,314,792	51,713,955	50,008,108

The investments included shares in at equity consolidated companies of EUR 256,879,000 in Austria (EUR 230,235,000), EUR 29,649,000 in the Czech Republic (EUR 28,022,000), and EUR 11,621,000 in the Central Functions segment (EUR 11,442,000).

Liabilities and shareholders' equity	Remaining CEE		Other Markets		Central Functions		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
in EUR '000								
Subordinated liabilities	0	0	0	0	1,100,000	1,147,634	1,458,839	1,265,009
Underwriting provisions	741,132	684,490	609,390	583,345	357,055	305,713	30,168,173	29,220,071
Underwriting provisions for unit-linked and index-linked life insurance	86,497	74,307	924,480	961,586	0	0	8,612,749	8,129,884
Non-underwriting provisions	7,611	7,455	9,061	8,863	185,620	184,942	793,792	815,248
Liabilities	40,392	38,654	36,219	40,657	2,848,346	2,889,949	4,032,102	4,202,585
Tax liabilities out of income tax	627	1,155	219	1	4,720	5,315	202,050	181,300
Deferred tax liabilities	2,694	2,223	584	867	13,786	17,532	255,064	325,150
Other liabilities	14,478	9,959	2	21	2,240	2,679	147,237	157,604
Subtotal	893,431	818,243	1,579,955	1,595,340	4,511,767	4,553,764	45,670,006	44,296,851
Shareholders' equity							6,043,949	5,711,257
Total							51,713,955	50,008,108

Intrasegment transactions have been eliminated from the amounts indicated for each segment. As a result, the segment assets and liabilities cannot be netted to determine the segment shareholders' equity.

CONSOLIDATED INCOME STATEMENT BY SEGMENT

	Austria		Czech Republic		Slovakia		Poland	
	2017	2016	2017	2016	2017	2016	2017	2016
in EUR '000								
Premiums written – gross	3,848,496	3,941,322	1,603,246	1,529,085	810,049	732,340	886,646	819,175
Net earned premiums – retention	3,165,095	3,247,941	1,206,716	1,151,471	679,295	597,912	716,271	669,704
Financial result excluding at equity consolidated companies	**655,774**	720,019	**89,860**	83,100	**53,605**	52,821	**24,495**	34,419
Income from investments	873,062	914,002	135,794	122,117	58,390	56,404	41,919	43,891
Expenses for investments and interest expenses	-217,288	-193,983	-45,934	-39,017	-4,785	-3,583	-17,424	-9,472
Result from shares in at equity consolidated companies	38,847	40,953	2,044	1,647	0	0	0	0
Other income	37,968	18,512	47,286	41,288	5,913	18,554	8,036	18,055
Expenses for claims and insurance benefits – retention	-3,045,392	-3,190,930	-792,031	-738,424	-558,023	-491,818	-532,349	-542,647
Acquisition and administrative expenses	-647,329	-619,008	-361,386	-350,776	-107,371	-100,410	-158,844	-158,453
Other expenses	-29,614	-21,397	-43,144	-35,538	-17,711	-28,179	-22,107	-19,203
Result before taxes	**175,349**	196,090	**149,345**	152,768	**55,708**	48,880	**35,502**	1,875
Taxes	-23,524	-37,613	-26,855	-29,651	-16,621	-13,265	-8,060	-9,914
Result of the period	**151,825**	158,477	**122,490**	123,117	**39,087**	35,615	**27,442**	-8,039

	Romania		Baltic states		Hungary		Bulgaria	
	2017	2016	2017	2016	2017	2016	2017	2016
in EUR '000								
Premiums written – gross	506,544	533,396	327,607	140,192	246,741	224,226	150,106	136,679
Net earned premiums – retention	375,626	351,128	242,858	108,102	192,130	174,565	109,596	96,511
Financial result excluding at equity consolidated companies	**13,289**	13,622	**6,108**	4,466	**6,385**	6,882	**9,355**	11,160
Income from investments	19,360	19,917	8,047	7,249	9,362	8,973	26,995	27,108
Expenses for investments and interest expenses	-6,071	-6,295	-1,939	-2,783	-2,977	-2,091	-17,640	-15,948
Result from shares in at equity consolidated companies	0	0	0	0	0	0	0	0
Other income	21,204	8,941	1,938	805	2,619	3,608	5,578	972
Expenses for claims and insurance benefits – retention	-248,593	-246,395	-169,965	-85,156	-142,584	-132,351	-64,438	-59,266
Acquisition and administrative expenses	-104,812	-90,585	-67,095	-35,162	-41,932	-38,267	-38,801	-32,030
Other expenses	-50,536	-33,198	-12,450	-4,282	-14,506	-10,630	-14,374	-11,966
Result before taxes	**6,178**	3,513	**1,394**	-11,227	**2,112**	3,807	**6,916**	5,381
Taxes	2,921	7,649	5,949	1,674	1,693	-191	-1,208	-1,618
Result of the period	**9,099**	11,162	**7,343**	-9,553	**3,805**	3,616	**5,708**	3,763

in EUR '000	Turkey/Georgia 2017	Turkey/Georgia 2016	Remaining CEE 2017	Remaining CEE 2016	Other Markets 2017	Other Markets 2016
Premiums written – gross	207,784	208,698	351,997	331,392	292,611	352,955
Net earned premiums – retention	101,591	102,131	247,150	232,908	248,771	311,570
Financial result excluding at equity consolidated companies	**8,992**	6,961	**28,669**	36,646	**21,270**	19,872
Income from investments	13,319	11,690	42,482	43,406	23,822	22,167
Expenses for investments and interest expenses	-4,327	-4,729	-13,813	-6,760	-2,552	-2,295
Result from shares in at equity consolidated companies	0	0	0	0	0	0
Other income	5,501	6,300	14,407	5,084	62,986	3,457
Expenses for claims and insurance benefits – retention	-79,843	-76,947	-170,594	-161,800	-251,284	-255,041
Acquisition and administrative expenses	-19,716	-22,603	-93,273	-83,293	-29,835	-25,219
Other expenses	-7,173	-6,838	-32,313	-22,112	-28,218	-32,491
Result before taxes	**9,352**	9,004	**-5,954**	7,433	**23,690**	22,148
Taxes	-3,489	-4,709	-3,441	-5,553	-8,715	-6,083
Result of the period	**5,863**	4,295	**-9,395**	1,880	**14,975**	16,065

in EUR '000	Central Functions 2017	Central Functions 2016	Consolidation 2017	Consolidation 2016	Total 2017	Total 2016
Premiums written – gross	1,411,536	1,324,835	-1,257,323	-1,223,327	9,386,040	9,050,968
Net earned premiums – retention	1,221,039	1,141,869	3,424	5,444	8,509,562	8,191,256
Financial result excluding at equity consolidated companies	**-36,299**	-77,308	**23**	-472	**881,526**	912,188
Income from investments	393,281	198,566	-58,883	-59,402	1,586,950	1,416,088
Expenses for investments and interest expenses	-429,580	-275,874	58,906	58,930	-705,424	-503,900
Result from shares in at equity consolidated companies	1,863	4,021	0	0	42,754	46,621
Other income	11,429	25,753	-1,716	-880	223,149	150,449
Expenses for claims and insurance benefits – retention	-818,075	-768,738	583	-3,936	-6,872,588	-6,753,449
Acquisition and administrative expenses	-366,428	-344,957	-3,460	-7,042	-2,040,282	-1,907,805
Other expenses	-30,201	-13,961	775	7,269	-301,572	-232,526
Result before taxes	**-16,672**	-33,321	**-371**	383	**442,549**	406,734
Taxes	11,392	13,530	0	0	-69,958	-85,744
Result of the period	**-5,280**	-19,791	**-371**	383	**372,591**	320,990

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FINANCIAL INSTRUMENTS

The Group invests in fixed-income securities (bonds, loans/credits), shares, real estate, participations and other investments, taking into account the overall risk position and the investment strategy provided for this purpose.

The investment strategy is laid down in the investment guidelines for each of the Group's insurance companies. Compliance is continuously monitored by the Asset Management and Asset Risk Management (ARM) departments and by the Internal Audit department on a sample basis. Investment guidelines are laid down centrally and must be followed by all Group companies. When determining exposure volumes and limits as part of establishing the strategic orientation of investments, the risk inherent in the specified categories and market risks are of fundamental importance.

The investment strategy principles may be summarised as follows:

- VIG practices a conservative investment policy designed for the long term.
- Vienna Insurance Group focuses on its asset mix as a way to ensure that cash flows match its long-term liability profile and to create sustainable increases in value through the use of correlation and diversification effects of the individual asset classes.
- Investment management depends on the asset class in question or on the objective within asset classes and is performed internally or by an outside manager.
- The currency profile of the investments should match as closely as possible the obligations to policyholders and other liabilities in foreign currency (currency matching).
- Risk management for securities is aimed at providing a transparent view of the risk exposure arising from price, interest-rate, and currency fluctuations as they affect profitability and the value of investments, and at limiting these risks. Risks are limited by a limit system at position level and by a value-at-risk limit system for risk exposure at the portfolio level.
- Market developments are monitored continuously and the allocation of portfolio assets is managed actively.

VIG's investment portfolio (with the look-through approach applied to consolidated institutional funds) includes a share of around 65.53% in bonds (65.04%) and around 6.91% in loans (7.66%). The share in equities is around 4.77% (4.04%), in real estate around 15.39% (15.67%), in participations around 1.31% (1.22%) and in other around 6.09% (6.37%), in all cases based on the book value of the total investment portfolio.

Composition of investments

Book values	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
	31.12.2017						
in EUR '000							
Land and buildings	1,351,553	150,650	33,577	15,796	38,688	5,127	1,526
Self-used land and buildings	151,700	148,736	27,286	7,173	37,897	4,681	1,526
Investment property	1,199,853	1,914	6,291	8,623	791	446	0
Shares in at equity consolidated companies	256,879	29,649	0	0	0	0	0
Loans	2,010,120	1,792	135,363	14,166	6,807	0	3,451
Loans	999,192	1,792	382	7,427	6,807	0	3,451
Reclassified loans	164,453	0	37,877	0	0	0	0
Bonds classified as loans	846,475	0	97,104	6,739	0	0	0
Other securities	18,661,221	2,957,108	1,146,037	830,508	579,590	376,277	149,394
Financial instruments held to maturity	0	1,582,491	315,856	220,005	9,376	65,574	0
Government bonds	0	1,391,173	191,462	216,893	8,303	53,947	0
Covered bonds	0	134,518	119,416	0	0	475	0
Corporate bonds	0	42,503	0	0	0	8,600	0
Bonds from banks	0	14,297	4,978	3,112	1,073	2,552	0
Financial instruments reclassified as held to maturity	0	596,410	0	0	0	0	0
Government bonds	0	580,221	0	0	0	0	0
Covered bonds	0	2,126	0	0	0	0	0
Bonds from banks	0	14,063	0	0	0	0	0
Financial instruments available for sale	18,515,195	755,142	813,078	559,120	564,712	301,505	148,391
Bonds	16,395,072	406,632	668,051	543,961	558,875	289,305	135,860
Shares and other participations[1]	706,288	14,553	108	4,935	4,034	6,226	701
Investment funds	1,413,835	333,957	144,919	10,224	1,803	5,974	11,830
Financial instruments recognised at fair value through profit and loss[2]	146,026	23,065	17,103	51,383	5,502	9,198	1,003
Bonds	103,886	13,628	15,492	12,182	1,751	0	0
Shares and other non-fixed-interest securities	19,834	0	0	20,126	0	1,099	0
Investment funds	245	8,338	1,611	19,075	3,751	8,099	0
Derivatives	22,061	1,099	0	0	0	0	1,003
Other investments	191,770	48,423	0	74,668	43,979	16,906	0
Bank deposits	191,579	40,141	0	74,551	43,979	16,906	0
Deposits on assumed reinsurance business	191	0	0	0	0	0	0
Other	0	8,282	0	117	0	0	0
Total	22,471,543	3,187,622	1,314,977	935,138	669,064	398,310	154,371

1 Includes shares in non-consolidated subsidiaries and other participations.

2 Including held for trading

Composition of investments	31.12.2017						31.12.2016
Book values	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Total	Total
in EUR '000							
Land and buildings	11,620	4,346	33,801	17,533	4,020,381	5,684,598	5,601,623
Self-used land and buildings	6,825	3,503	14,227	5,566	21,786	430,906	429,484
Investment property	4,795	843	19,574	11,967	3,998,595	5,253,692	5,172,139
Shares in at equity consolidated companies	0	0	0	0	11,621	298,149	269,699
Loans	944	2,739	10,360	270,627	132,310	2,588,679	2,777,645
Loans	944	149	10,360	231,446	132,310	1,394,260	1,397,395
Reclassified loans	0	0	0	39,181	0	241,511	339,591
Bonds classified as loans	0	2,590	0	0	0	952,908	1,040,659
Other securities	150,761	14,020	670,093	342,227	805,857	26,683,093	25,378,360
Financial instruments held to maturity	13,519	0	119,624	0	117,257	2,443,702	2,330,071
Government bonds	13,519	0	119,624	0	106,690	2,101,611	1,984,264
Covered bonds	0	0	0	0	0	254,409	251,677
Corporate bonds	0	0	0	0	10,567	61,670	69,396
Bonds from banks	0	0	0	0	0	26,012	24,734
Financial instruments reclassified as held to maturity	0	0	87,337	0	0	683,747	735,751
Government bonds	0	0	87,337	0	0	667,558	683,060
Covered bonds	0	0	0	0	0	2,126	39,355
Bonds from banks	0	0	0	0	0	14,063	13,336
Financial instruments available for sale	111,315	5,996	450,805	340,382	654,662	23,220,303	21,851,248
Bonds	97,397	0	437,999	303,192	475,202	20,311,546	19,275,583
Shares and other participations[1]	978	5,996	2,239	20,298	67,183	833,539	738,614
Investment funds	12,940	0	10,567	16,892	112,277	2,075,218	1,837,051
Financial instruments recognised at fair value through profit and loss[2]	25,927	8,024	12,327	1,845	33,938	335,341	461,290
Bonds	25,526	7,614	4,682	0	22,768	207,529	306,141
Shares and other non-fixed-interest securities	0	410	164	0	0	41,633	37,842
Investment funds	327	0	7,481	1,845	11,073	61,845	73,362
Derivatives	74	0	0	0	97	24,334	43,945
Other investments	3,028	74,471	96,120	25,411	103,612	678,388	618,929
Bank deposits	3,028	74,471	96,118	25,411	8,466	574,650	512,344
Deposits on assumed reinsurance business	0	0	2	0	95,087	95,280	96,960
Other	0	0	0	0	59	8,458	9,625
Total	166,353	95,576	810,374	655,798	5,073,781	35,932,907	34,646,256

[1] Includes shares in non-consolidated subsidiaries and other participations.
[2] Including held for trading

Land and buildings

VIG's real estate portfolio had a book value of 5,684.6 million as of 31. December 2017 (fair value: EUR 6,867.4 million, incl. the book value of the non-profit societies, for more information see page 203) and a book value of EUR 5,601.6 million as of 31. December 2016 (fair value: EUR 6,690.0 million – incl. the book value of the non-profit societies, for more information see page 203).

The portfolio of directly held real estate and real estate held in the form of participations is used primarily to create highly inflation-resistant long-term positions for the insurance business, and to create hidden reserves. The real estate portfolio represents 15.39% (15.67%) of VIG's total investment portfolio.

The following table shows VIG's real estate investments as of 31 December 2017 and 31 December 2016, broken down by type of use for the Austria and Central Functions segments and the totals for all other segments.

Use of real estate	% of the real estate portfolio	
	31.12.2017	31.12.2016
Austria	23.78	23.70
Self-used	2.67	2.80
Investment property	21.11	20.90
Central Functions	70.72	70.85
Self-used	0.35	0.35
Investment property	6.76	6.90
Non-profit societies*	63.61	63.60
Other segments	5.50	5.45
Self-used	4.53	4.52
Investment property	0.97	0.93

*Mainly held as investment property

At equity consolidated companies

VIG's shares in at equity consolidated companies had a book value of EUR 298.1 million as of 31 December 2017 and a book value of EUR 269.7 million as of 31 December 2016. Shares in at equity consolidated companies therefore represented 0.83% (0.78%) of the book value of the total investment portfolio as of 31 December 2017.

Loans

VIG loans had a book value of EUR 2,588.7 million as of 31 December 2017 and a book value of EUR 2,777.6 million as of 31 December 2016. Investments in loans are less important in the CEE region. A portfolio analysis and maturity structure of VIG loans are presented in Note 2.3. Loans and other investments on page 161.

Bonds

Bonds represented 65.53% of VIG's total investments as of 31 December 2017 (65.04%). VIG manages its bond portfolio using estimates of changes in interest rates, spreads and credit quality, taking into account limits related to individual issuers, credit quality, maturities, countries, currencies and issue volume. VIG is currently not planning any investment strategy changes with respect to its bond portfolio. In VIG's investment model, the bonds serve primarily to ensure stable earnings over the long term. Derivative products are only used to reduce risks or make efficient portfolio management easier. Relevant investment guidelines expressly govern the use of derivatives for bond portfolios managed by third parties such as investment funds.

Shares

As of 31 December 2017, VIG's share investments (including those contained in the funds) represented 4.77% (4.04%) of the book value of the total investment portfolio. In accordance with the investment guidelines for Austria, management is carried out using a top-down approach, subject to the constraint that diversification be used to minimise the market risk of the shares. The overall proportion of shares is very small for Group companies in the CEE countries.

RISK MANAGEMENT

Vienna Insurance Group's core competence is dealing professionally with risk. The Group's primary business is assuming risks from its customers using a variety of insurance policies. The insurance business consists of consciously assuming diverse risks and managing them profitably. One of the primary responsibilities of risk management is to ensure that the obligations assumed under insurance policies can be satisfied at all times.

In general, all Group companies are responsible for managing their own risks. The VIG corporate Risk Management department provides framework guidelines in all major areas for these companies. The requirements set in the investments and reinsurance areas are particularly strict.

The primary requirement for effective risk management is a risk management system that is consistent throughout the Group and a risk policy, and risk strategy set by management. The objective of such risk management is not complete avoidance of risk but rather a conscious acceptance of desired risks and the implementation of measures to monitor and possibly even reduce existing risks based on economic factors. The risk-return ratio is therefore a key measure that must be optimised in order to guarantee adequate security for the policyholder and the insurer itself while giving due consideration to the need to create value.

Risk management responsibilities in VIG are bundled together in independent organizational units and by a well-established risk and control culture, each individual employee contributes to successful management of risk. Transparent, verifiable decisions and processes within a company are very important aspects of its risk culture.

Risk strategy

The strategic orientation of the Company is based on a business strategy, capital strategy and a comprehensive risk strategy. The risk strategy specifies appropriate risk management measures for significant risks and is based on the following principles that are applicable Group-wide:

RISKS THAT ARE NOT ACCEPTED

- Risks from the insurance business are not accepted if they cannot be adequately measured. This includes, in particular, the areas of third party liability insurance for genetic engineering and atomic energy.
- With respect to investments, risks are not accepted if insufficient know-how is available to measure the risks, e.g. weather derivatives or forward transactions for foodstuffs, or if they could generate potentially unlimited losses.

RISKS ACCEPTED WITH RESTRICTIONS

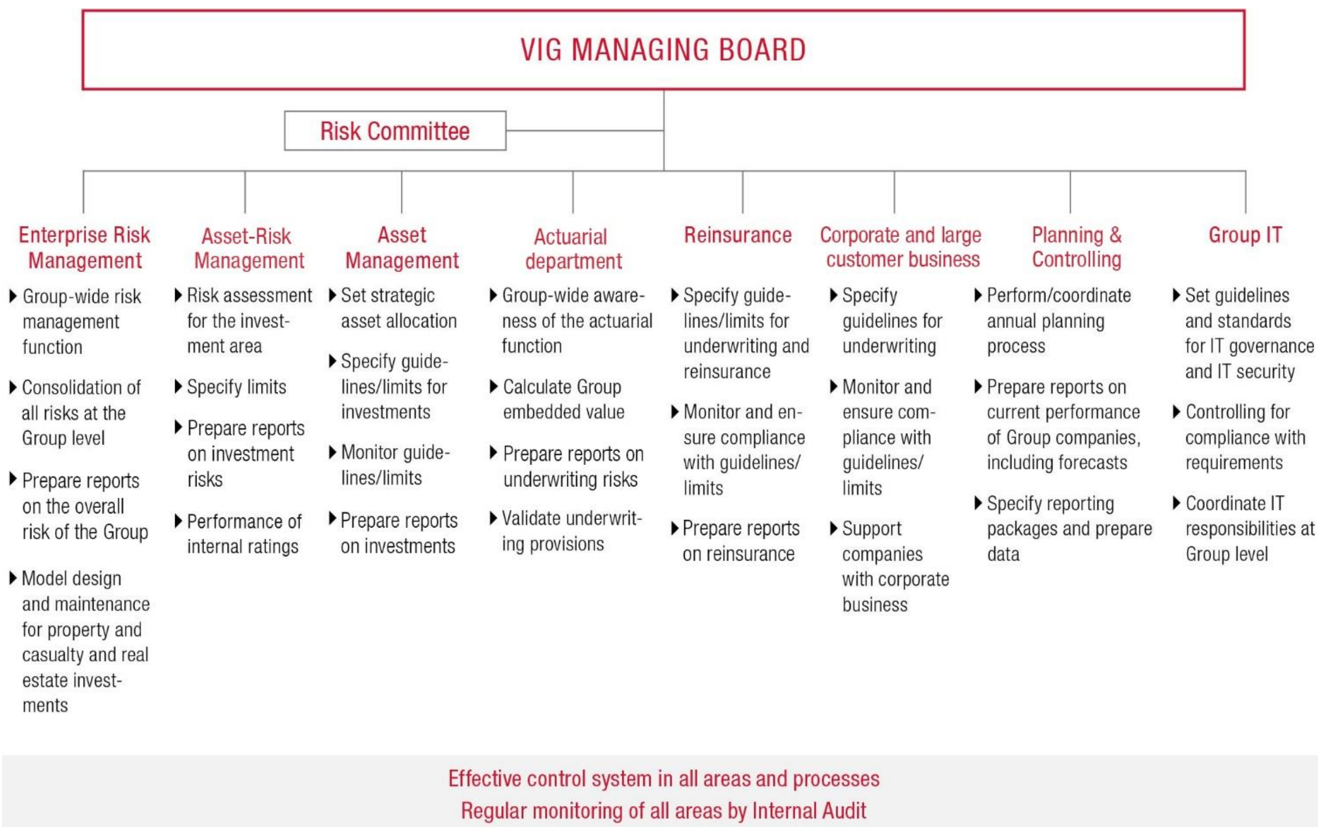
- Operational risks must be avoided as far as possible, but have to be accepted to a certain extent as they cannot be fully excluded or the costs for avoiding them exceed the expected losses.
- Observe and act in accordance with the prudent businessman rule in connection with investments.

RISK-MINIMISING MEASURES

- Establish functional risk governance by maintaining and promoting a high level of risk awareness.
- Reinsurance is a key instrument for hedging against large losses (tail risks), particularly in the property and casualty area.
- Limit market risk taking into account underwriting obligations.

Organisation of the risk management system

The risk management organisation is well integrated into VIG's organisational structure. All departments that assume responsibilities in the risk management system report either to the Managing Board or an individual member of the Managing Board. A short overview of the risk management organisation is provided in the chart below before the responsibilities and roles of the units involved are described.



MANAGING BOARD

The Managing Board has overarching responsibility for risk management. This centralised approach is also shown by the reporting lines of the corporate departments in which the Solvency II governance functions (Risk Management, Actuarial, Internal Audit and Compliance functions) are located. Judit Havasi is the contact person for risk management matters in the Managing Board.

The Managing Board as a whole is also responsible for the following areas related to risk management:

- Set up and promote risk management
- Define and communicate the risk strategy, including risk tolerances and risk appetite
- Approve corporate risk management guidelines
- Take the risk situation into account in strategic decisions

RISK COMMITTEE

The VIG Managing Board established the Risk Committee to ensure regular discussions of current matters relating to risk management across functional areas within the organisation and an exchange of information on the risk situation between the members of the committee (representatives of the units involved in risk management and the Compliance function) and the Managing Board. The Risk Committee meetings take place at least quarterly and are chaired by Managing Board member Judit Havasi. The Risk Committee reports to the Managing Board after its meetings.

ENTERPRISE RISK MANAGEMENT (ERM)

The Enterprise Risk Management department reports to the Managing Board and is responsible for Group-wide risk management. The head of the department performs the Risk Management function and reports to the Managing Board. Judit Havasi is the contact person in the Managing Board.

ERM provides a Group-wide aggregation solution with extensive reporting and partial modelling approaches for calculating solvency capital. Calculation of the solvency capital requirement during the year, analysis of risk-bearing capacity using proprietary analysis tools and reviewing the internal control system are other important activities performed by the department.

The department also assists the Managing Board with updating the corporate risk strategy, improvements to the risk organisation and further corporate risk management topics.

ASSET-RISK MANAGEMENT (ARM)

The ARM department reports to Managing Board member Franz Fuchs. The primary responsibility of the department is to analyse, assess and monitor risks associated with investments, in particular with respect to the Group's solvency result and financial result. For this purpose, the department specifies Group-wide standards and methods, implements a central asset inventory system and specifies and monitors risk budgets for the investments of the individual companies. The department is also responsible for developing and maintaining an internal rating approach for banks.

ASSET MANAGEMENT

The Asset Management department reports to Managing Board member Martin Simhandl. One of the key responsibilities of the department is to define a strategic orientation for the investments of each VIG insurance company and for the Group as a whole, and to specify an investment strategy and investment process aimed at ensuring that current income is as high as possible, but also as secure as possible, while simultaneously taking advantage of opportunities to increase the value of investments. Guidelines and limits are used to manage investments in the Group. Regular reports are also provided for investments, limits and income.

ACTUARIAL DEPARTMENT

The Actuarial department reports to the Managing Board. Managing Board member Franz Fuchs is the contact person. The head of the department performs the Actuarial function required by Solvency II. The department is therefore responsible, in particular, for the duties related to the Actuarial function. The Actuarial department also calculates the embedded value for the life and health insurance and prepares profitability analyses and company valuations. The department assists actuarial collaboration and functional networking.

REINSURANCE

The Reinsurance department reports to Managing Board member Peter Höfinger. The department coordinates and assists all Group companies and their reinsurance departments with reinsurance matters in the non-life business (property and casualty, third party liability and accident insurance) by preparing and applying guidelines. The department also administers Group-wide reinsurance programmes in the non-life lines of business. The primary objective is to create a safety net to provide continuous protection for all of the companies in the Group against the negative effects of catastrophes, individual large losses and negative changes in entire insurance portfolios.

CORPORATE AND LARGE CUSTOMER BUSINESS

The Corporate and Large Customer Business department reports to Managing Board member Peter Höfinger and underwrites insurance contracts for large Austrian and international customers. The department also assists subsidiaries with resources and know-how. The aim is to achieve a uniform underwriting philosophy and approach in all Group companies that perform such business.

PLANNING & CONTROLLING

The Planning & Controlling department is an important part of the integrated risk management approach and reports to Managing Board member Judit Havasi. The department coordinates business planning over a 3-year horizon. The standardised reports include key figure and variance analyses for planning, forecasts and ongoing performance of VIG Holding and other Group companies. Regular monthly premium reports, quarterly reports for each company (aggregated at the country and Group level) and cost reports are prepared.

INTERNAL AUDIT

The Internal Audit department reports to the Managing Board. Managing Board Chairwoman Elisabeth Stadler is the contact person in the Managing Board. The Internal Audit department systematically monitors operating and business processes, the internal control system of all operational business areas, including compliance with legal requirements, and the functionality and adequacy of risk management. The Internal Audit department operates continuously and reports directly to the Managing Board. The head of the department performs the Internal Audit function required by Solvency II.

GROUP IT

The Group IT department reports directly to Managing Board member Judit Havasi. The department is responsible for IT management at the Group level (IT strategy, IT governance, IT security, IT Group projects, etc.), for assisting Group companies with large IT projects, and for developing Group-wide guidelines and common standards. The Austrian business organisation assists Group IT with this by providing outside IT and telephony services.

Risk management processes

Many risk management processes have been established in the individual departments of the risk management organisation to cover the entire risk management cycle from risk identification to risk assessment, risk control and risk monitoring. These processes are governed by a number of internal guidelines. This ensures that VIG's risk exposure is appropriately recorded and taken into account when business decisions are made.

RISK IDENTIFICATION

The risk management process begins with the identification of risks. This is performed using a standardised process that is supplemented by ad hoc analyses. A comprehensive reporting process ensures that newly identified risks and the effects of extraordinary events are appropriately included in the risk profile.

RISK ASSESSMENT

A number of assessment methods are used to assess identified risks. Assessment is primarily based on internal models and the standard model and is performed annually and during the year. If the standard formula is used for assessment, an appropriateness check is also performed. The total risk is determined by aggregating the assessed risks, taking into account diversification effects between the risks. The results of the own risk and solvency assessment, the embedded value for the life and health insurance, findings from the S&P capital model and value-at-risk calculations for the investments area are also taken into account in the risk assessment.

RISK CONTROL

The risk strategy, planning, reinsurance programme, risk budgets and risk-bearing capacity are the most important elements of risk control.

The Managing Board reviews the risk strategy each year and makes any modifications needed. The ERM department assists the Managing Board with this.

The Group Controlling department is responsible for performance of an annual planning process and subsequently for monitoring day-to-day business development of the Group insurance companies. Regular reports are used for this purpose, including variance analyses and forecast accounts for the financial year. The planning horizon is three years. The planning data is used in the ORSA and forms a starting basis for calculating future expected solvency.

The Reinsurance department coordinates the Group-wide reinsurance programme and manages the annual renewal process for natural catastrophe coverage. The ERM department assists the Reinsurance department in validating the external natural catastrophe models used and evaluating the effectiveness of reinsurance coverage using the internal non-life model.

The Asset Risk Management department specifies quarterly risk budgets for investments. These budgets are then also used to limit the value-at-risk for the investments.

RISK MONITORING

The solvency corridor defined at the Group level and the Group-wide limit system for risk-bearing capacity form the basis for continuous monitoring of the solvency situation of the Group and subsidiaries.

Compliance with the securities guidelines, risk budgets and key figures is also continuously checked and monitored. Monitoring is performed by means of periodic fair value measurements, value-at-risk calculations and detailed sensitivity analyses and stress tests and determining the solvency capital requirement during the year.

Liquidity risk is managed and monitored by matching the investment portfolio to insurance obligations. Operational and strategic risks which might be caused by deficiencies or errors in business processes, controls and projects, or changes in the business environment, are also continuously monitored by the internal control system.

Periodic risk monitoring is documented, for example, in the quarterly reports provided to the Managing Board following the meetings of the Risk Committee and forms the starting point for any further analyses or corrective control measures.

Risk categories

Because of its activities, VIG is exposed to a large number of financial and non-financial risks. The overall risk of the Group can be divided into the following risk categories:

MARKET RISK
Market risk is the risk of losses due to changes in market prices. Changes in value occur, for example, due to changes in yield curves, share prices, exchange rates and the value of real estate and participations.

CREDIT RISK
Credit risk quantifies the potential loss due to a deterioration of the situation of a counterparty, against which claims exist.

UNDERWRITING RISKS
Vienna Insurance Group's core business consists of the transfer of risk from policyholders to the insurance company. Underwriting risks in the areas of life insurance, health insurance and non-life insurance are primarily the result of changes in insurance-specific parameters, such as loss frequency, loss amount or mortality, as well as lapse rates and lapse costs.

OPERATIONAL RISKS
Operational risks may result from deficiencies or errors in business processes, controls or projects caused by technology, staff, organisation or external factors.

REPUTATION RISK
Reputation risk is the risk of negative changes in business due to damage to a company's reputation.

LIQUIDITY RISK
This category includes the risk of VIG not having sufficient assets that can be liquidated at short notice to satisfy its payment obligations.

STRATEGIC RISKS
Strategic risks can arise due to changes in the economic environment, case law, or the regulatory environment.

Managing significant risks
In addition to the risks in the property and casualty balance sheet unit and real estate investments that are modelled using the partial internal model, the following risks must be noted due to their great importance for VIG:

- the interest rate risk as part of market risk, which primarily results from sales of long-term guarantee products,
- the asset default risk inherent in investments, which can be assigned to credit risk and indirectly to market risk,
- life insurance lapse risk, which can occur due to an increase in cancellation rates.

MARKET RISK
Vienna Insurance Group is exposed to market risk, that is, the risk of suffering losses as a result of changes to market parameters. For VIG, interest rates and issuer spreads are the most relevant parameters for market risk. Ignoring investments held for the account of and at the risk of policyholders, Vienna Insurance Group's investments consist largely of fixed-income securities. The majority of these securities are denominated in euros and Czech koruna. Consequently, interest rate fluctuations and exchange rate changes in these currencies primarily have an effect on the value of these financial assets.

The management of investments is aimed at providing coverage for insured risks that is appropriate for the insurance business and the maturities of VIG liabilities.

Market risk affecting earnings is controlled by calculating value-at-risk at regular intervals based on the “Investment and Risk Strategy” guideline for securities and comparing it to the limit relative to the risk budget. Value-at-risk is determined using a variance/covariance calculation. VIG statistically estimates the variances and covariances from market data.

Depending on the purpose of the application, VIG performs value-at-risk calculations for different sub-portfolios. Confidence levels vary between 95.0% and 99.5%, and the holding period varies from 20 to 250 days. Due to the nature of the portfolio, interest rate and spread components make the largest contributions to value-at-risk. As a plausibility check of the calculations, the value-at-risk for the most important sub-portfolios is determined using both the parametric method described above and the historical calculation method.

The following table shows the value-at-risk (at a 99% confidence level) for VIG financial instruments that are measured as available for sale or at fair value through profit or loss.

Value-at-Risk	31.12.2017	31.12.2016
in EUR millions		
10-day holding period	292.6	381.7
20-day holding period	413.8	539.8
60-day holding period	716.8	935.0

Market risk is divided into interest rate, spread, share price, currency, real estate and concentration risk. For VIG, interest rates, spreads and share prices are the most relevant parameters for market risk.

Interest rate risk

The main source of interest rate risk for VIG is the sizeable portfolio of policies with guaranteed minimum interest rates, which includes pension and endowment insurance, and the resulting investments. For existing life insurance policies, VIG guarantees a minimum interest rate averaging around 2.18% p.a. (2.31% p.a.). If interest rates fall below the guaranteed average minimum rate for any length of time, VIG could find itself forced in the future to use its capital to subsidise reserves for these products and consequently increase them through profit or loss as a result of the adequacy test.

Spread risk

Spread risk arises from all assets and liabilities whose values depend on changes in the size of credit spreads over the riskless yield curve. Duration and the creditworthiness of the debtor are the main factors determining the amount of spread risk. Diversification and a uniform limit system for investments in fixed-interest instruments are used to limit this risk at the portfolio level.

Share price risk

Among other things, Vienna Insurance Group’s share investments include participations in a number of Austrian companies and equity positions in other companies whose shares trade primarily on the Vienna Stock Exchange or stock exchanges in the Eurozone or CEE region. A deterioration of the current economic situation could result in the share portfolio losing value.

Shares serve to increase earnings over the long term, provide diversification and compensate for long-term erosion in value due to inflation. VIG assesses share price risk by considering diversification within the overall portfolio and correlation with other securities exposed to price risk. Risk diversification within VIG's share portfolio is mainly achieved by geographic diversification primarily in the home markets of the Group and in the Eurozone. Share investments are predominantly made by the Austrian companies.

Currency risk

To diversify its portfolio, the investment area also makes use of international capital markets and, to a very small extent, foreign currencies. VIG's high degree of involvement in the CEE region results in currency risks at the Group level in spite of matching local currency investments made at the local level.

Concentration risk

Internal guidelines and Vienna Insurance Group's limit system are used to keep concentrations within the desired safety margin. Consultation across business lines provides for a comprehensive view of all significant risks.

Investments show a small risk concentration for Erste Group Bank across all asset classes. This is due to the strategic partnership with Erste Group Bank and VIG consciously accepts this risk. Exposure is regularly assessed and monitored by the risk management processes that have been established.

CAPITAL MARKET SCENARIO ANALYSIS

This analysis is carried out annually for all VIG companies in order to check the risk capacity of the investments. The following table shows the stress parameters and the effects on IFRS capital of each scenario for 31 December 2017 (not including deferred taxes, deferred profit participation or deferred mathematical reserve).

Reduction in market value	Scenario 0	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
of shares	0%	-20%	-10%	-20%	-20%	0%
of bonds	0%	-5%	-3%	-5%	0%	-5%
of real estate	0%	-5%	-10%	0%	-10%	-10%
Market value of assets less liabilities (in EUR millions)	7,818.7	5,671.2	6,081.6	6,018.0	6,755.4	5,694.1

In scenario 1, the fair value of shares, bonds and real estate all decrease sharply at the same time – ceteris paribus. The fair value of the assets is always still significantly higher than the value of the liabilities after stress.

CREDIT RISK FROM INVESTMENTS

When managing risks related to credit quality, a distinction must be made between liquid and tradable risks (e.g. exchange-listed bonds) and bilateral risks, such as, for example, time deposits, OTC derivatives, loans, private placements and securities accounts/depositories. The risk is monitored by means of ratings and limited by diversification limits at the portfolio level.

Consideration is only given to those issuers or contracting parties whose credit quality or reliability can be assessed by VIG, whether on the basis of analyses performed by the Group, credit assessments/ratings from recognised sources, provision of security (e.g. guarantor's liability) or the possibility of recourse to reliable mechanisms for safeguarding investments.

Under the investment guidelines of the material Group companies, bond investments (which represent the largest share of investments) are made almost entirely in the investment grade range. Investments in non-investment grade bonds are only made in individual cases and in accordance with decisions made by the Managing Board of the local company. The goal is to achieve the greatest possible diversification among individual issuers, to avoid accumulation risks, to ensure good average creditworthiness, to control foreign currency effects and to make the majority of investments in mid to long-term maturities in order to reflect the maturity profile of the liabilities as efficiently as possible.

Use of ratings

The "second best rating" method specified under Solvency II is used as a rating method. The latest (issue or issuer) rating from each of the three major rating agencies is used to determine the second best rating.

If the latest rating is an issuer rating, and this rating cannot be directly used due to a difference in quality of the security (e.g. senior unsecured debt rating and a lower tier 2 bond), the rating is adjusted downwards appropriately. The adjustment is one notch down for lower tier 2 bonds and two notches down for upper tier 2 or tier 1 bonds.

This results in up to three valid ratings for each bond. These ratings are then ranked according to increasing probability of default and the rating with the second-lowest probability of default taken as the "second best rating". If the ratings in first and second place have the same probability of default, these two ratings are the "second best rating". In cases where a rating has only been assigned by one rating agency, due to a lack of other information, this rating is used as the "second best rating".

CREDIT RISK FROM REINSURANCE

VIG cedes a portion of assumed risks to reinsurance companies. This transfer of risk to reinsurers does not, however, relieve VIG of its obligations to policy holders. VIG is exposed to the risk of reinsurer insolvency. VIG therefore designs its reinsurance programme carefully and monitors reinsurer rating changes.

UNDERWRITING RISKS

Underwriting risks are divided into life insurance, non-life insurance and health insurance (incl. accident insurance) and are managed by the International Actuarial department, a team of actuaries. This department subjects all insurance solutions to in-depth actuarial analysis covering all lines of insurance business (life, health, and property and casualty).

The Actuarial function in the International Actuarial department coordinates the Group-wide determination of underwriting provisions to prepare the economic balance sheet in accordance with Solvency II.

Life underwriting risk and health underwriting risk similar to life

Life underwriting risk includes lapse risk, cost risk, disability risk, morbidity risk, longevity risk, mortality risk, catastrophe risk and audit risk. VIG's main risks in this area are lapse risk and cost risk, as well as biometric risks, such as life expectancy, occupational disability, illness and the need for nursing care.

To account for these underwriting risks, VIG has formed provisions for future insurance payments. VIG calculates its underwriting provisions using recognised actuarial methods and assumptions. These assumptions include estimates of the long-term interest rate trend, returns on investments, the allocation of investments between equities, interest-bearing instruments and other categories, net income participations, mortality and morbidity rates, lapse rates and future costs. The Group monitors actual experience relating to these assumptions and adjusts its long-term assumptions where changes of a long-term nature occur.

To minimise lapse risk, VIG uses an effective complaint management department, qualified advisors and customer loyalty programmes to increase customer satisfaction and avoid cancellations. Policyholder cancellation behaviour is continuously monitored so that targeted measures can be taken if unfavourable changes occur.

VIG uses regular analyses, targeted product design and detailed underwriting guidelines to address these risks. A variety of reinsurance contracts also exist that help to reduce the general level of risk. A broadly diversified product portfolio in all life and composite companies and a well-mixed customer base in the CEE region minimise risk concentrations.

Non-life underwriting risk and health underwriting risk similar to non-life

Risk in the non-life sector is divided into premium risk, reserve risk, lapse risk and catastrophe risk. Property and casualty underwriting risks are primarily managed using actuarial models for setting rates and monitoring the progress of claims, as well as guidelines regarding the assumption of insurance risks.

Health underwriting risk is primarily concentrated in the Austrian companies. In the CEE markets, motor third party liability has a high volume compared to the other lines of business. This risk concentration was consciously accepted in order to enter these markets. VIG's strong market position and above-average growth prospects in the CEE region will help growth in the other lines of business, thereby reducing the concentration in motor third party liability.

The environmental catastrophes that have been becoming increasingly common in recent years, such as floods, mudslides, landslides and storms may have been brought about by general climate change. The number of claims caused in this way may continue to rise in the future.

VIG forms provisions for claims and claims settlement expenses and regularly monitors them in order to effectively cover the risk associated with the insurance business. This risk is also significantly reduced by ceding reinsurance.

LIQUIDITY RISK

Efficient asset liability management can be used to prevent liquidity shortages. Investments and obligations are analysed regularly to identify liquidity needs. These analyses, together with clear investment requirements (limit systems) and a conservative investment policy, help to appropriately manage liquidity risk. The Treasury/Capital Market department performs regular monitoring of cash flows and prepares quarterly reports on insurance company liquidity changes. The reports from the companies include the cash flows from operating activities, investing activities and financing activities. The department evaluates and analyses the data.

To ensure that every company continues to have adequate liquidity in the future, Group guidelines specify liquidity management standards that must be observed by every company. Among other things, these standards require a regular examination of current and future cash inflows and outflows.

The derivative liabilities do not represent a risk for VIG's liquidity, since the expected cash flows are covered by the underlying instrument.

The financing liabilities are largely due to the non-profit societies (see page 203). Since the properties of the non-profit societies are almost fully rented, no liquidity risk is seen in connection with servicing the financing liabilities.

OTHER RISKS

VIG's business activities result in other risks, primarily non-financial risks that are assessed and managed as part of risk management. These include, in particular, operational risks, as well as reputation risks and strategic risks.

In addition, a comprehensive internal control system (ICS) ensures that adequate risk control infrastructure has been set up for non-financial operational risks and is regularly checked for appropriateness and effectiveness. The ICS itself is comprised of all measures and control activities used to minimise risks – particularly for the areas of accounting and compliance, but also for other operational risks. It extends all the way from specially established processes, organisational units such as accounting and controlling, all the way to guidelines, regulations and individual controls within processes, such as automated audits or use of the "four-eyes" principle.

Aspects of the legal tax framework affecting earnings

Changes to tax law may negatively affect the attractiveness of certain VIG products that currently enjoy tax advantages. For example, the introduction of laws to reduce the tax advantages of the Group's retirement benefit products or other life insurance products could considerably diminish the attractiveness of those products.

Regulatory environment

VIG is subject to domestic and foreign (insurance) supervisory regulations. These regulations govern such matters as:

- Capital requirements of insurance companies and groups
- Admissibility of investments as security for underwriting provisions
- lcences of the different VIG companies
- Marketing activities and the sale of insurance policies and
- Cancellation rights of policy holders

Changes to the statutory framework may make restructuring necessary, thus resulting in increased costs.

Developments in Central and Eastern Europe

The expansion and development of business operations in the countries of Central and Eastern Europe is a core component of VIG's strategy. It has a very strong presence in these countries. The prescribed risk guidelines ensure consistent risk management in all CEE countries in the Group.

Risks due to mergers and acquisitions

In the past, VIG acquired a number of companies in Central and Eastern Europe or acquired participations in these companies. Mergers of Group companies are considered if the synergies that can be achieved outweigh the benefits of multiple market presences. Mergers and acquisitions often bring challenges in terms of corporate management and financing, such as:

- The need to integrate the infrastructure of the acquired or merged company, including management information systems, and risk management and controlling systems,
- handling unsettled matters of a legal or regulatory nature and associated legal and compliance risks resulting from the merger or acquisition,
- integration of marketing, customer support and product ranges, and
- integration of different corporate and management cultures.

When performing mergers, a number of additional risks must be taken into account in the strategy, in particular process and organisational risks.

Portfolio changes in the life line of business

	Endowment insurance (not incl. risk insurance)		Risk insurance		Annuity insurance	
	No. of policies	Amt. insured	No. of policies	Amt. insured	No. of policies	Amt. insured
	Quantity	in EUR '000	Quantity	in EUR '000	Quantity	in EUR '000
As of 31.12.2016	2,073,030	23,157,036	1,822,867	56,776,128	558,922	11,616,022
Exchange rate differences	0	113,576	0	666,232	0	8,684
As of 1.1.2017	2,073,030	23,270,612	1,822,867	57,442,360	558,922	11,624,706
Changes in scope of consolidation	4,808	36,432	13,824	39,361	0	0
Additions	142,344	1,924,643	488,543	32,596,507	29,084	930,929
New business	139,798	1,811,417	471,885	28,420,290	28,987	803,694
Increases	2,546	113,226	16,658	4,176,217	97	127,235
Changes	1,893	27,116	-10,362	-1,548,389	1,464	-16,062
Changes in additions	25,725	766,340	25,860	1,011,627	9,737	393,093
Changes in disposals	-23,832	-739,224	-36,222	-2,560,016	-8,273	-409,155
Disposals due to maturity	-102,657	-1,113,326	-139,907	-21,974,750	-15,167	-196,213
Due to expiration	-82,995	-992,835	-135,862	-21,899,147	-13,763	-168,603
Due to death	-19,662	-120,491	-4,045	-75,603	-1,404	-27,610
Premature disposals	-102,654	-1,187,429	-415,861	-3,674,797	-20,294	-415,144
Due to non-redemption	-3,120	-53,662	-22,397	-205,696	-899	-22,250
Due to lapse without payment	-19,821	-191,770	-219,367	-2,465,715	-2,160	-61,507
Due to redemption	-80,286	-865,905	-174,080	-957,484	-17,233	-245,652
Due to waiver of premium	573	-76,092	-17	-45,902	-2	-85,735
As of 31.12.2017	2,016,764	22,958,048	1,759,104	62,880,292	554,009	11,928,216

	Unit-linked and index-linked insurance		Government sponsored pension plans		Total	
	No. of policies	Amt. insured	No. of policies	Amt. insured	No. of policies	Amt. insured
	Quantity	in EUR '000	Quantity	in EUR '000	Quantity	in EUR '000
As of 31.12.2016	1,922,683	16,349,678	466,918	9,513,466	6,844,420	117,412,330
Exchange rate differences	0	338,732	0	-166	0	1,127,058
As of 1.1.2017	1,922,683	16,688,410	466,918	9,513,300	6,844,420	118,539,388
Changes in scope of consolidation	412	523	0	0	19,044	76,316
Additions	275,807	2,422,130	11,930	598,188	947,708	38,472,397
New business	250,810	2,352,347	11,878	324,746	903,358	33,712,494
Increases	24,997	69,783	52	273,442	44,350	4,759,903
Changes	2,625	-14,653	146	-70,788	-4,234	-1,622,776
Changes in additions	44,768	2,352,587	9,530	154,503	115,620	4,678,150
Changes in disposals	-42,143	-2,367,240	-9,384	-225,291	-119,854	-6,300,926
Disposals due to maturity	-31,862	-191,249	-1,468	-27,963	-291,061	-23,503,501
Due to expiration	-27,845	-158,508	-942	-18,838	-261,407	-23,237,931
Due to death	-4,017	-32,741	-526	-9,125	-29,654	-265,570
Premature disposals	-202,899	-1,635,053	-24,761	-515,166	-766,469	-7,427,589
Due to non-redemption	-34,520	-98,852	-283	-13,035	-61,219	-393,495
Due to lapse without payment	-78,872	-636,119	-432	-5,290	-320,652	-3,360,401
Due to redemption	-78,515	-649,336	-24,123	-286,488	-374,237	-3,004,865
Due to waiver of premium	-10,992	-250,746	77	-210,353	-10,361	-668,828
As of 31.12.2017	1,966,766	17,270,108	452,765	9,497,571	6,749,408	124,534,235

EMBEDDED VALUE SENSITIVITY ANALYSES FOR THE LIFE AND HEALTH INSURANCE BUSINESSES

The following table shows the sensitivities for changes in the assumptions used to calculate the embedded value for the life and health insurance businesses and value of new business as of 31 December 2017:

Embedded value for the life and health insurance business	Austria/Germany	Change	CEE	Change	Total	Change
	in EUR '000	in %	in EUR '000	in %	in EUR '000	in %
Base value	2,539,936		1,964,651		4,504,586	
Increase in yield curve 1%	285,281	11.23	-70,254	-3.58	215,027	4.77
Decrease yield curve 1%	-563,677	-22.19	61,473	3.13	-502,204	-11.15
Decrease in share and real estate values 10% as of the reporting date	-140,897	-5.55	-17,006	-0.87	-157,903	-3.51
Increase in share and real estate volatility 25%	-91,041	-3.58	-1,214	-0.06	-92,255	-2.05
Increase in yield curve volatility 25%	-32,407	-1.28	-1,056	-0.05	-33,463	-0.74
Decrease in administrative expenses 10%	87,208	3.43	55,261	2.81	142,469	3.16
Decrease in lapse rates 10%	-236	-0.01	73,054	3.72	72,818	1.62
Decrease in mortality rates for endowment and risk insurance 5%	13,426	0.53	53,385	2.72	66,811	1.48
Decrease in mortality rates for annuities 5%	-12,215	-0.48	-372	-0.02	-12,587	-0.28
No volatility adjustment	-36,802	-1.45	0	0.00	-36,802	-0.82

Value of new business	Austria/ Germany	Change	CEE	Change	Total	Change
	in EUR '000	in %	in EUR '000	in %	in EUR '000	in %
Base value	40,223		112,742		152,965	
Increase in yield curve 1%	4,175	10.38	-2,476	-2.20	1,699	1.11
Decrease in yield curve 1%	-14,349	-35.67	4,650	4.12	-9,699	-6.34
Decrease in administrative expenses 10%	1,982	4.93	7,036	6.24	9,018	5.90
Decrease in lapse rates 10%	4,217	10.48	13,514	11.99	17,731	11.59
Decrease in mortality rates for endowment and risk insurance 5%	1,570	3.90	8,739	7.75	10,309	6.74
Decrease in mortality rates for annuities 5%	445	1.11	666	0.59	1,110	0.73
No volatility adjustment	-819	-2.04	0	0.00	-819	-0.54

The sensitivities are based on the same management rules and policyholder behaviour as the base case. Each sensitivity is calculated separately. If two events occur simultaneously, the effect is not necessarily equal to the sum of the individual sensitivities.

Provisions in the property and casualty line of business

GENERAL INFORMATION

If claims are asserted by or against policyholders, all amounts that a company in VIG's property and casualty line of business pays or expects to have to pay to the claimant are referred to as losses, and the costs of investigating, adjusting and processing these claims are referred to as "claims settlement expenses". VIG has formed provisions by lines of business, extent of cover and year for each Group company to pay for losses and claims settlement expenses due to claims under its property and casualty insurance policies.

Losses and claims settlement expenses can be divided into two categories: reserves for known but still outstanding claims and reserves for claims that have been incurred but have not yet been reported, or the correct amount has not been reported ("IBNR", "IBNER"). Provisions for outstanding claims are based on estimates of future payments, including claims settlement expenses, for these claims. These estimates are made on a case-by-case basis in accordance with facts and circumstances ascertainable at the time the provision is formed.

The estimates reflect the well-founded judgement of Group adjusters based on general practices for forming insurance provisions and a knowledge of the nature and value of each type of claim. These provisions are adjusted regularly during normal processing and represent the expected eventual costs necessary to finally settle all pending reported claims, taking into account inflation, interest rates and other social and economic factors that could affect the amount of provisions that are required.

Historical developments in distribution patterns and claims payments, the level of reported and still outstanding claims and the nature of the extent of cover are also taken into account. In addition, court decisions and economic conditions can also affect the estimate of provisions and the eventual size of claims.

IBNR and IBNER provisions are formed to offset the expected costs of losses that have been incurred but not yet reported to the individual Group companies. These provisions, just like the provisions for reported claims, are formed to pay the expected costs, including claims settlement expenses, necessary to finally settle these claims. Because, by definition, the extent of these losses is still unknown when the provisions are formed, the Group calculates its IBNR and IBNER liabilities based on historical claims experience, adjusted for current developments in claims-related factors. These provisions are based on estimates made using actuarial and statistical forecasts of the expected costs to finally settle these claims. The analyses are based on the facts and circumstances known at the time and on expectations regarding changes in legal and/or economic factors that determine the level of loss, such as case law, the inflation rate and labour costs. These provisions are regularly reviewed and revised once additional information is known and claims are actually reported. The time needed to learn of these claims and settle them is an important factor that must be taken into account when forming provisions.

Claims which are easy to settle, such as property damage under motor insurance, are reported within a few days or weeks and are normally settled within a year.

More complicated claims, such as personal injury under motor or general liability insurance, typically require longer settlement times (on average four to six years, in some cases considerably longer). Difficult claims, where settlement regularly depends on the results of often protracted litigation, also lead to substantially longer settlement times, especially in the liability, casualty, building and professional liability lines of business.

The final costs of the claims and claims settlement expenses depend on a number of variable circumstances. Between the time a claim is reported and final settlement, changing circumstances may require that the provisions that were formed be revised upwards or downwards. For example, changes in the law, the outcome of litigation and changes in medical costs, costs for materials for auto and house repair and hourly wage rates, loss frequency and loss amount can have a substantial effect on the costs of claims. These factors may result in actual developments differing from expectations — sometimes substantially. Loss reserve estimates are regularly reviewed and updated, using the most recent information available to the Managing Board. Any changes to provision estimates are reflected in the operating result. VIG's conservative policy toward provisions is shown, for example, by the fact that liquidation of loss reserves has generally led to a profit. Based on the Group's internal procedures and the information currently available to it, management believes that the Group's provisions in the property and casualty insurance area are adequate. However, forming loss reserves is by nature an uncertain process and therefore no guarantee can be given that in the end losses will not differ from the Group's initial estimates.

CHANGE IN GROSS LOSS RESERVE

The following table shows the changes in VIG's direct loss reserve as of the end of each year indicated. The provisions reflect the amount of expected losses, based on claims that occurred in the current and all previous loss years and had not yet been paid as of the balance sheet date, including IBNR and IBNER.

Interpreting the information contained in this table requires caution, because each amount contains the effects of all changes from the previous periods. The circumstances and trends that affected liability in the past could possibly recur in the future and therefore no conclusions can be drawn from the information given in this table as to future results.

Claim payments for each year of occurrence on the applicable balance sheet date (gross)

Year of occurrence*	Calender year									
	≤2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
in EUR '000										
2008 and before	2,545,366	950,902	303,922	170,272	112,173	94,986	70,399	69,753	57,289	35,959
2009		1,687,960	713,178	180,476	69,027	38,112	25,020	16,847	15,673	9,919
2010			1,714,403	705,902	161,705	73,596	44,006	26,997	25,863	17,143
2011				1,616,214	651,472	101,100	107,425	52,275	43,849	33,054
2012					1,711,639	775,993	194,023	93,221	84,701	44,606
2013						1,811,908	705,274	179,122	130,960	70,628
2014							1,545,509	773,664	192,081	101,832
2015								1,565,072	734,971	212,354
2016									1,619,590	806,055
2017										1,827,020
Total	2,545,366	2,638,862	2,731,503	2,672,864	2,706,016	2,895,695	2,691,656	2,776,951	2,904,977	3,158,570

*Currency translation effects and changes in the scope of consolidation can lead to differences in the figures for previous years.

Loss reserve for each year of occurrence on the applicable balance sheet date (gross)

Year of occurrence*	Calender year									
	≤2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
in EUR '000										
2008 and before	3,244,374	1,873,058	1,346,843	1,041,376	800,527	667,485	601,923	512,045	468,769	445,454
2009		1,414,103	653,175	387,931	234,502	162,405	134,355	111,606	100,578	84,719
2010			1,519,003	649,507	392,546	229,759	170,849	136,974	105,317	94,608
2011				1,596,365	765,298	410,771	269,853	194,351	157,623	121,972
2012					1,592,559	764,380	437,836	285,304	211,434	168,909
2013						1,686,441	788,263	479,577	279,969	197,272
2014							1,739,007	809,712	467,509	312,895
2015								1,680,149	786,209	466,268
2016									1,747,035	799,591
2017										1,892,313
Total	3,244,374	3,287,161	3,519,021	3,675,179	3,785,432	3,921,241	4,142,086	4,209,718	4,324,443	4,584,001

*Currency translation effects and changes in the scope of consolidation can lead to differences in the figures for previous years.

Reinsurance

VIG limits its potential liability arising from the insurance business by passing on, to the extent necessary, a portion of the assumed risks to the international reinsurance market. Some of the risks of Group companies are reinsured within VIG and these risks are in turn ceded to reinsurers at the Group level.

REINSURANCE GUIDELINES

The reinsurance guidelines are jointly determined each year by the corporate Reinsurance department and the member of the Managing Board responsible for reinsurance during the development of the reinsurance strategy for the next financial year. They require each Group company to provide, in consultation with the corporate Reinsurance department, reinsurance coverage that is appropriate for its local company. These guidelines govern the following points.

REINSURANCE IS A PREREQUISITE FOR THE ACCEPTANCE OF INSURANCE COVERAGE

Underwriting departments may only make a binding commitment to insure a risk if sufficient reinsurance coverage has already been assured.

RETENTION
It is Group-wide policy that no more than EUR 50 million for the first two natural catastrophes and EUR 20 million for each additional event can be placed at risk on a PML (probable maximum loss) basis. The maximum Group-wide retention per individual loss is less than EUR 10 million.

SELECTION OF REINSURERS – DIVERSIFICATION
VIG and its Group companies divide their reinsurance coverage among many different international reinsurance companies that VIG feels have appropriate credit quality, so as to minimise the risk arising from one reinsurer's inability to pay (credit risk). The monetary limit per reinsurer is set individually for each subsidiary. No significant reinsurer default has occurred in the history of VIG.

SELECTION OF REINSURERS – RATINGS
For lines of business where claims settlement takes a long time, in particular for motor third party liability, general liability and aviation, VIG uses reinsurers with outstanding ratings (at least a Standard & Poor's rating of A, preferably a rating of AA or higher), which in all likelihood will also continue to exist over the long term. Even for lines of business with claims that are settled quickly (for example, natural catastrophes, fire, technology, transportation, storm, burglary, household, water pipes, auto collision), where the number of reinsurers is greater, the preferred rating is Standard & Poor's "A" or higher. Only in a few cases – and for limited periods of time – are reinsurers with lower ratings accepted.

DESIGN OF REINSURANCE PROGRAMMES
If it can be justified economically, any Group company can purchase reinsurance coverage individually from external reinsurers. If individual reinsurance policies can only be purchased by a Group company at uneconomical terms, VIG strives, as far as possible, to jointly place reinsurance contracts covering risks from natural catastrophes, property lines of business, casualty, transport, aviation and motor liability. If necessary, intra-Group assumptions of reinsurance are also passed on as retrocession in the reinsurance market for safety reasons. The guidelines for Wiener Städtische reinsurance coverage are presented below. Retentions for all other companies in the Group are below those of Wiener Städtische.

REINSURANCE COVERAGE USING THE EXAMPLE OF WIENER STÄDTISCHE
Natural catastrophes
Wiener Städtische provides insurance for damage caused by natural catastrophes such as storms, hail, flooding or earthquakes. Wiener Städtische AG uses reinsurance coverage to limit its retention for natural catastrophes to EUR 16.5 million for the first loss event and EUR 5.0 million for each additional event.

Private customer business
The private customer business consists of essentially stable insurance portfolios having calculable results that are characterised above all by a stable claims frequency. Thus, such recurrent claims are only reinsured in exposed lines of business, for example storm insurance, with a targeted use of proportional reinsurance to reduce the effects on the retention. The effects on the retention of the small number of expected major losses are covered by non-proportional reinsurance. Even in this operating segment, Wiener Städtische's maximum net loss is between EUR 1 million and EUR 2 million, depending on the line of business.

Management and control
LIQUIDITY MANAGEMENT
VIG manages its liquidity using guidelines approved by the Managing Board of VIG Holding. As a rule, VIG Holding and each subsidiary are responsible for their own liquidity planning. As the Group parent company, VIG Holding is responsible for allocating capital for the Group as a whole. This allows capital to be efficiently distributed within the Group. It also allows VIG Holding to ensure that the target levels of liquidity and capital resources are available both at the Group level and in the individual operating units.

Most of the liquidity for day-to-day operations comes from premiums received from primary insurance, regular income from investments and proceeds from the sale of investments. These inflows are offset by payments for property and casualty insurance claims, and benefit payments for life and health insurance. The remaining net liquidity is used to cover acquisition and operating costs.

The maturity pattern of the insurance business provides a natural liquidity buffer. Unlike the premiums received, VIG guarantees insurance coverage for a certain period of time, and no cash outflow occurs during this period until an insured event occurs. The liquidity buffer is invested during this period and generates investment income. A portion is held in the form of liquid investments to ensure that it can be quickly converted into cash to pay claims. In addition, the bond portfolio, in particular, is structured so that the proceeds from maturing bonds are received on the dates it is anticipated they will be needed. External influence factors, such as capital market developments and the interest rate level, affect the liquidity situation by improving or restricting the ability to sell the investment portfolio at market value.

The time, frequency and size of insured claims are also important for the liquidity situation of property and casualty insurance. The number of policy extensions also plays a role.

The liquidity needs for life insurance are generally affected by the difference between actual mortality experience and the assumptions used to calculate underwriting provisions. Market returns or minimum interest rates and the behaviour of life insurance customers, such as the number of policies surrendered or terminated, also have an effect on VIG liquidity needs.

CAPITAL MANAGEMENT

In the interests of our shareholders and insurance customers, our goal is to ensure that VIG has adequate capital resources at all times and that all operating insurance companies fulfil their respective minimum regulatory capital requirements. Due to its successful business strategy, VIG has traditionally had very good capital resources. Maintaining this good capital base in the future is also important to us, both to allow us to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

Standard & Poor's rating

VIG also places great importance on permanently maintaining a strong credit rating with Standard & Poor's (S&P). VIG is regularly rated by S&P. S&P has its own capital model for assessing the relationship between the risk capital required by a company and the capital resources available to it. In August 2017, S&P confirmed VIG's A+ rating with a "stable" outlook.

The subordinated bonds issued in 2013 (EUR 500 million, tier 2, first call date 9 October 2023), in 2015 (EUR 400 million, tier 2, first call date 2 March 2026) and in 2017 (EUR 200 million, tier 2, first call date 13 April 2027) and the hybrid bond issued in 2008 (outstanding volume EUR 198 million, restricted tier 1, first call date 12 September 2018) have been rated A- by S&P.

According to the S&P rating report of 17 August 2017, VIG's capital resources exceed the requirements for the AAA level. This means that VIG has a very good credit rating when compared to similar insurance companies and outstanding capital resources. When performing regular capital planning, VIG takes account of the effects on its rating, with the goal of strengthening it over the long term.

Active capital management

VIG uses the criteria above to monitor its capital positions and takes appropriate measures to further improve its capital structure and strengthen its capital and solvency situation over the long term. VIG has set itself a goal of holding the solvency ratio at the current level in all of the insurance companies in the Group in spite of planned growth.

Capital management focuses on subordinated long-term liabilities with equity-like characteristics. VIG Treasury continuously monitors capital market developments, with particular attention to developments concerning bonds with equity-like characteristics from the European insurance sector. New capital instruments developing in the capital market for insurance companies are examined for applicability to VIG.

Capital resources

As of 31 December 2017, share capital of EUR 132,887,468.20 was registered in the commercial register, divided into 128,000,000 no-par value bearer ordinary shares with voting rights. VIG Holding held no own shares on 31 December 2017 (2016: none). In addition, VIG Holding can, according to the authorisation by the shareholders, increase its shareholders' equity by issuing common or preferred shares. The individual authorisations are listed in Note 8. Consolidated shareholders' equity on page 171.

A calculation at the level of the listed Group leads to a solvency requirement under Solvency II of EUR 3.48 billion as of the 3rd quarter of 2017, compared to Group's existing capital of EUR 7.82 billion (unaudited figures). The calculations for 31 December 2017 had not yet been finished when the consolidated financial statements were finalised.

	30.09.2017*	31.12.2016
in EUR billions		
Capital	7.82	6.64
Capital requirement	3.48	3.41
Solvency ratio	**approx. 225%**	**approx. 195%**

*Values not audited

Regulatory Group solvency reporting is performed at the level of VIG's principal shareholder, Wiener Städtische Versicherungsverein.

In April 2017, VIG Holding issued a EUR 200 million bond with a term of 30 years. VIG Holding can call the bond for the first time after 10 years. The bond satisfies the requirements for tier 2 capital under Solvency II and is eligible as capital based on the requirements of the S&P rating agency.

Long-term debt financing

As of 31 December 2017, VIG Holding had outstanding subordinated bonds and outstanding hybrid capital with a variety of maturities. Detailed information on the VIG Holding bond programme is available in Note 9. Subordinated liabilities on page 174. As shown by the maturities, VIG's focus is on subordinated liabilities that are eligible capital. General capital market conditions and other circumstances that affect the financial services sector as a whole or the Group in particular could have an adverse effect on the cost and availability of debt financing. The goal, therefore, is to actively manage the Group's capital structure to keep refinancing risks as low as possible.

NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

1. INTANGIBLE ASSETS

Composition	31.12.2017	31.12.2016
in EUR '000		
Goodwill	1,537,694	1,532,190
Purchased insurance portfolios	28,092	43,339
Other intangible assets	**404,855**	478,971
Purchased software	334,821	395,761
Other	70,034	83,210
Total	**1,970,641**	2,054,500

Development of goodwill	31.12.2017	31.12.2016
in EUR '000		
Acquisition costs	1,884,782	1,838,652
Cumulative depreciation as of 31.12. of the previous year	-352,592	-349,613
Book value as of 31.12. of the previous year	**1,532,190**	1,489,039
Exchange rate differences	23,790	-7,332
Book value as of 1.1.	**1,555,980**	1,481,707
Additions	1,176	55,082
Impairment	-19,462	-4,599
Book value as of 31.12.	**1,537,694**	1,532,190
Cumulative impairment as of 31.12.	368,823	352,592
Acquisition costs	**1,906,517**	1,884,782

The additions in the previous year were due to the acquisition of subsidiaries consolidated for the first time.

The impairment in the current reporting year concern the Ukraine, Moldova and Albania incl. Kosovo CGU groups. The impairment in the previous year was due to the Bosnia-Herzegovina CGU group.

Book values of goodwill of cash-generating units	31.12.2017	31.12.2016
in EUR '000		
Austria	301,716	301,716
Czech Republic	442,002	417,695
Slovakia	111,257	111,257
Poland	144,127	135,389
Romania	160,899	165,135
Baltic states	75,301	75,301
Hungary	16,555	16,581
Bulgaria	184,154	184,154
Georgia	14,349	15,838
Turkey	6,433	7,889
Albania incl. Kosovo	12,186	14,439
Croatia	45,612	44,890
Macedonia	12,579	12,581
Moldova	0	5,721
Serbia	239	230
Ukraine	0	13,089
Central Functions	10,285	10,285
Total	**1,537,694**	1,532,190

Please see the "Impairment of non-financial assets" section on page 106 for information on the assumptions used for impairment testing.

Development of purchased software	31.12.2017	31.12.2016
in EUR '000		
Acquisition costs	1,001,317	961,460
Cumulative depreciation as of 31.12. of the previous year	-605,556	-541,761
Book value as of 31.12. of the previous year	**395,761**	419,699
Exchange rate differences	1,254	-167
Book value as of 1.1.	**397,015**	419,532
Reclassifications	1,350	24
Additions	55,728	38,063
Disposals	-1,744	-1,262
Changes in scope of consolidation	0	2,117
Scheduled depreciation	-81,886	-62,602
Impairment	-35,642	-111
Book value as of 31.12.	**334,821**	395,761
Cumulative depreciation as of 31.12.	720,629	605,556
Acquisition costs	**1,055,450**	1,001,317

Corporate assets were included in the impairment testing for 31 December 2017. This is discussed starting on page 106.

The change in the scope of consolidation in the previous year was the result of first-time consolidation of BTA Baltic, Nova and the non-profit societies.

Please see the section Accounting policies for specific items in the consolidated financial statements on page 106 for information on the assumptions used for impairment testing. The impairment of acquired software was based on a risk assessment of possible regulatory requirements with respect to the future usability of existing systems.

2. INVESTMENTS

Composition	31.12.2017	31.12.2016
in EUR '000		
Land and buildings	5,684,598	5,601,623
Shares in at equity consolidated companies	298,149	269,699
Loans and other investments	3,267,067	3,396,574
Other securities	26,683,093	25,378,360
Total	**35,932,907**	**34,646,256**

2.1. Land and buildings

Development	Self-used	
	31.12.2017	31.12.2016
in EUR '000		
Acquisition costs	634,965	627,856
Cumulative depreciation as of 31.12. of the previous year	-205,481	-193,550
Book value as of 31.12. of the previous year	**429,484**	**434,306**
Exchange rate differences	7,846	-1,243
Book value as of 1.1.	**437,330**	**433,063**
Reclassifications	456	-3,096
Additions	13,430	17,570
Disposals	-1,985	-1,427
Changes in scope of consolidation	0	516
Appreciation	2,264	1,121
Scheduled depreciation	-19,863	-14,324
Impairment	-726	-3,939
Book value as of 31.12.	**430,906**	**429,484**
Cumulative depreciation as of 31.12.	226,205	205,481
Acquisition costs	**657,111**	**634,965**
thereof land	45,014	43,898

The impairment is primarily due to fair value lying below book value of land and buildings, as shown by appraisal reports.

Development	Investment property	
	31.12.2017	31.12.2016
in EUR '000		
Acquisition costs	7,328,996	2,081,067
Cumulative depreciation as of 31.12. of the previous year	-2,156,857	-607,636
Book value as of 31.12. of the previous year	**5,172,139**	1,473,431
Exchange rate differences	3,317	-924
Book value as of 1.1.	**5,175,456**	1,472,507
Reclassifications	-617	3,165
Additions	264,893	289,999
Disposals	-50,721	-31,138
Changes in scope of consolidation	38,684	3,527,007
Appreciation	5,457	0
Scheduled depreciation	-159,948	-76,446
Impairment	-19,512	-12,955
Book value as of 31.12.	**5,253,692**	5,172,139
Cumulative depreciation as of 31.12.	2,323,981	2,156,857
Acquisition costs	**7,577,673**	7,328,996
thereof land	1,112,560	1,068,894
Rental income from investment property	**535,230**	255,912
Contingent rental income from operating lease	205	109
From investment property	535,025	255,803
Operating expenses for rented investment property	159,951	68,874
Operating expenses for vacant investment property	7,183	4,763

The changes in the scope of consolidation result from the first-time inclusion of AXA Life (Romania) (EUR +400,000) and Porzellangasse 4 (EUR +38,284,000).

The impairment is primarily due to fair value lying below book value of land and buildings, as shown by appraisal reports.

2.2. Shares in at equity consolidated companies

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	**269,699**	319,636
Book value as of 1.1.	**269,699**	319,636
Additions	345	367
Disposals	-5,390	-2,046
Changes in scope of consolidation	863	-906
Disposals due to acquisition of control	0	-78,914
Share of changes in OCI	3,139	-195
Pro rata result of the period of at equity consolidated companies	44,941	45,516
Dividend payment	-15,448	-13,759
Book value as of 31.12.	**298,149**	269,699
thereof segment Austria	256,879	230,235
thereof segment Czech Republic	29,649	28,022
thereof segment Central Functions	11,621	11,442

Associated companies are measured at equity. The disposal due to acquisition of control in the previous year was due to regaining control over the non-profit societies (also see page 123).

Shares in significant associated companies	2017				
	Beteiligungs- und Wohnungs-anlagen GmbH	Gewista-Werbe-gesellschaft m.b.H.	Österreichisches Verkehrsbüro	S IMMO AG	VBV - Betriebliche Altersvorsorge AG
in EUR '000					
Group interest in %	25.00%	33.00%	36.58%	10.33%	23.71%
Income	0	84,205	940,534	198,616	59,425
Expenses	-186	-69,974	-924,213	-114,618	-35,609
Financial result	17,956	10,396	3,424	107,386	5,780
Taxes	2,104	-3,487	-3,683	-29,815	-7,160
Result of the period	**19,874**	**21,140**	**16,062**	**161,569**	**22,436**
Parent company minority interests	0	0	-127	-7,834	0
Result of the period less non-controlling interests	**19,874**	**21,140**	**15,935**	**153,735**	**22,436**
thereof non-controlling interests	20	8,469	43	8,192	319
thereof shares of associated companies held by shareholders	19,854	12,671	16,019	153,377	22,117
Share of result	**4,969**	**6,976**	**5,829**	**15,881**	**5,312**
Fixed assets	340,336	78,018	102,183	2,017,384	256,899
Current assets (incl. other assets)	20,686	82,287	174,525	204,997	10,420,963
Borrowings	-255,666	-70,887	-190,161	-1,342,254	-10,477,446
Net assets	**105,356**	**89,418**	**86,547**	**880,127**	**200,416**
thereof non-controlling interests	105	35,821	232	44,622	2,853
thereof shares of associated companies held by shareholders	105,251	53,597	86,315	835,505	197,563
Share of net assets	**26,339**	**29,508**	**31,657**	**90,916**	**47,519**
Goodwill	0	0	24,460	0	0
Book value of shares in associated companies	**26,339**	**29,508**	**56,117**	**90,916**	**47,519**

S IMMO AG, Beteiligungs- und Immobilien GmbH and Beteiligungs- und Wohnungsanlagen GmbH were included in the consolidated financial statements with a different balance sheet date (30 September). Although the Group only holds slightly more than 10% of the shares of S IMMO AG, the Group has a significant influence over the company because the Group appoints the chairman of the supervisory board and one other supervisory board member. The Group is also one of the largest shareholders of S IMMO AG.

Development of shares in material associated companies	2017				
	Beteiligungs- und Wohnungs-anlagen GmbH	Gewista-Werbe-gesellschaft m.b.H.	Österreichisches Verkehrsbüro	S IMMO AG	VBV - Betriebliche Altersvorsorge AG
in EUR '000					
Book value as of 31.12. of the previous year	23,217	26,908	54,100	73,924	43,939
Book value as of 1.1.	**23,217**	**26,908**	**54,100**	**73,924**	**43,939**
Additions	0	0	0	58	287
Disposals	0	0	0	-2,736	-654
Share of changes in OCI	0	0	-593	3,789	-37
Pro rata result of the period of at equity consolidated companies	4,969	6,976	5,829	15,881	5,312
Dividend payment	-1,847	-4,376	-3,219	0	-1,328
Book value as of 31.12.	**26,339**	**29,508**	**56,117**	**90,916**	**47,519**

Materiality of associated companies is generally determined based on the amount of the at equity book value.

2.3. Loans and other investments

Loans and other investments	31.12.2017	31.12.2016
in EUR '000		
Loans	1,394,260	1,397,395
Reclassified loans	241,511	339,591
Bonds classified as loans	952,908	1,040,659
Subtotal	**2,588,679**	2,777,645
Other investments	678,388	618,929
thereof bank deposits	574,650	512,344
thereof deposits on assumed reinsurance business	95,280	96,960
Total	**3,267,067**	3,396,574

Composition of total loans	31.12.2017	31.12.2016
in EUR '000		
Loans	**1,394,260**	1,397,395
Loans to non-consolidated affiliated companies	75,708	72,744
Loans to participations	33,383	44,897
Mortgage loan	391,716	422,790
Policy loans and prepayments	23,517	26,526
Other loans	**869,936**	830,438
to public authorities	207,499	194,432
to financial institutions	207,264	184,505
to other commercial borrowers	453,773	449,710
to private persons and others	1,400	1,791
Reclassified loans	**241,511**	339,591
Bonds classified as loans	**952,908**	1,040,659
to public authorities	111,758	113,392
to financial institutions	791,313	883,287
to other commercial borrowers	49,837	43,980
Total	**2,588,679**	2,777,645

Public sector borrowers include national, state and local authorities. The loans included under other loans are generally loans that are not secured by insurance policies.

Collateral was provided for around 57.7% of the total loans reported.

Development of loans, total	31.12.2017	31.12.2016
in EUR '000		
Acquisition costs	2,815,842	2,975,359
Cumulative depreciation as of 31.12. of the previous year	-38,197	-95,025
Book value as of 31.12. of the previous year	2,777,645	2,880,334
Exchange rate differences	1,115	-860
Book value as of 1.1.	2,778,760	2,879,474
Additions	169,018	207,588
Disposals	-352,493	-341,525
Changes in scope of consolidation	0	12,275
Appreciation	92	20,387
Impairment	-6,698	-554
Book value as of 31.12.	2,588,679	2,777,645
Cumulative depreciation as of 31.12.	31,194	38,197
Acquisition costs	2,619,873	2,815,842

The write-up in the previous year was primarily due to the reduction in impairment of HETA bonds (EUR 19.8 million). Further information is provided in Note 2.4. Other securities on page 163.

Maturity structure of total loans	31.12.2017	31.12.2016
in EUR '000		
Loans	1,394,260	1,397,395
up to one year	113,521	93,423
more than one year up to five years	222,503	234,301
more than five years up to ten years	384,548	398,172
more than ten years	673,688	671,499
Bonds classified as loans	952,908	1,040,659
up to one year	33,969	37,978
more than one year up to five years	231,352	203,731
more than five years up to ten years	404,126	448,556
more than ten years	283,461	350,394

Financial instruments in the “Financial instruments available for sale” category that were reclassified as loans in 2008 had a fair value of EUR 1,037,036,000 as of the reclassification date.

2.4. Other securities

Development	Held to maturity (incl. reclassified)		Available for sale		Recognised at fair value through profit and loss*	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
in EUR '000						
Acquisition costs	3,063,233	3,080,231				
Cumulative depreciation as of 31.12. of the previous year	2,589	-14,116				
Book value as of 31.12. of the previous year	3,065,822	3,066,115	21,851,248	20,649,481	461,290	400,784
Exchange rate differences	136,911	-6,265	34,806	-10,417	5,569	-2,745
Book value as of 1.1.	3,202,733	3,059,850	21,886,054	20,639,064	466,859	398,039
Reclassifications	0	0	-10,676	11,186	-1,988	11,259
Additions	149,434	192,014	4,187,627	3,887,838	174,378	302,890
Disposals/repayments	-224,289	-186,151	-2,966,688	-3,234,330	-301,222	-361,534
Change in the scope of consolidation	0	0	46,290	3,877	0	111,101
Changes in value recognised in profit and loss	0	187	0	20,820	-2,686	-465
Changes recognised directly in equity	0	0	86,153	546,944	0	0
Impairment	-429	-78	-8,457	-24,151	0	0
Book value as of 31.12.	3,127,449	3,065,822	23,220,303	21,851,248	335,341	461,290
Cumulative appreciation/depreciation as of 31.12.	261	-2,589				
Acquisition costs	3,127,710	3,063,233				

*Including held for trading

The reclassifications shown for the available for sale, held for trading and recognised at fair value through profit and loss categories are generally reclassifications from and to investments for unit-linked and index-linked life insurance.

The affected VIG companies accepted the offer made on 7 October 2016 offer by the Carinthian Compensation Payment Fund (CCPF) in financial year 2016 for a one-to-one exchange of senior bonds for zero coupon bearer bonds issued by the CCPF and guaranteed by the federal government, and a one-to-one exchange of subordinated bonds for zero coupon bonds issued by the federal government.

Acceptance of the offer led to a write-up of around EUR 40.1 million for the bonds that had previously been written down (including EUR 19.8 million reported under loans on page 161).

Composition of book values of government bonds[1]	Held to maturity (incl. reclassified)		Available for sale		Recognised at fair value through profit and loss[2]	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
in %						
Austria	0.55%	0.54%	16.25%	18.18%	0.00%	0.00%
Germany	0.04%	0.04%	2.23%	2.45%	55.30%	22.27%
Czech Republic	72.20%	71.38%	5.20%	5.57%	0.00%	0.00%
Slovakia	4.65%	5.13%	7.29%	8.45%	0.00%	0.00%
Poland	10.35%	10.66%	11.79%	11.34%	25.83%	7.85%
Romania	0.11%	0.14%	5.54%	4.88%	0.00%	0.00%
Other countries	12.10%	12.11%	51.70%	49.13%	18.87%	69.88%

[1] Government bonds also include government-guaranteed bonds, municipal bonds and bonds issued by supranational organisations and federal or constituent states.
[2] Including held for trading

Financial instruments held to maturity

Composition	Amortised cost		Fair value	
Financial instruments held to maturity	31.12.2017	31.12.2016	31.12.2017	31.12.2016
in EUR '000				
Financial instruments held to maturity	2,443,702	2,330,071	2,736,209	2,797,680
Government bonds	2,101,611	1,984,264	2,333,025	2,379,577
Covered bonds	254,409	251,677	307,855	316,242
Corporate bonds	61,670	69,396	66,456	76,452
Bonds from banks	26,012	24,734	28,873	25,409
Financial instruments reclassified as held to maturity	683,747	735,751	801,581	923,103
Government bonds	667,558	683,060	782,948	865,916
Covered bonds	2,126	39,355	2,415	40,853
Bonds from banks	14,063	13,336	16,218	16,334

Maturity structure	Amortised cost		Fair value	
Financial instruments held to maturity	31.12.2017	31.12.2016	31.12.2017	31.12.2016
in EUR '000				
Financial instruments held to maturity	2,443,702	2,330,071	2,736,209	2,797,680
up to one year	150,817	124,237	155,551	677,098
more than one year up to five years	699,640	629,610	763,524	424,742
more than five years up to ten years	685,853	786,859	799,643	801,840
more than ten years	907,392	789,365	1,017,491	894,000
Financial instruments reclassified as held to maturity	683,747	735,751	801,581	923,103
up to one year	119,667	86,677	122,212	88,436
more than one year up to five years	418,207	369,820	478,004	425,306
more than five years up to ten years	10,276	151,384	12,184	190,975
more than ten years	135,597	127,870	189,181	218,386

Rating categories	Amortised cost	
Financial instruments held to maturity (incl. reclassified)	31.12.2017	31.12.2016
in EUR '000		
AAA	67,635	69,450
AA	249,424	262,143
A	2,530,306	2,459,878
BBB	60,442	60,613
BB and lower	195,886	183,823
No rating	23,756	29,915
Total	3,127,449	3,065,822

Financial instruments in the “Financial instruments held to maturity” category that were reclassified as financial instruments available for sale in 2008 had a fair value of EUR 1,393,784,000 as of the reclassification date. The Group made use of the provisions on “reclassification of financial assets” in IAS 39.50 et seq. due to financial market developments in the 2nd half of 2008. Since the required information is not available and the cost to obtain the information would be excessively high, it would not be possible to determine the book values if reclassification had not been performed.

Financial instruments available for sale

Composition Financial instruments available for sale	Fair value 31.12.2017	Fair value 31.12.2016
in EUR '000		
Bonds	20,311,546	19,275,583
Government bonds	10,003,103	9,811,659
Covered bonds	1,469,643	1,409,681
Corporate bonds	4,607,261	4,025,527
Bonds from banks	3,318,729	3,243,837
Subordinated bonds	912,810	784,879
Shares and other participations*	833,539	738,614
Investment funds	2,075,218	1,837,051
Equity funds	1,010,258	786,755
Pension funds	790,526	818,155
Alternative funds	4,005	2,123
Real estate funds	72,094	72,215
Balanced funds	198,335	157,803
Total	23,220,303	21,851,248

*Includes shares in non-consolidated subsidiaries and other participations of EUR 191,943,000 (EUR 173,832,000).

Unrealised gains and losses	31.12.2017			31.12.2016		
Financial instruments available for sale	Fair value	Unrealised gains	Unrealised losses	Fair value	Unrealised gains	Unrealised losses
in EUR '000						
Bonds	20,311,546	2,364,081	-88,165	19,275,583	2,529,123	-65,299
Shares and other participations	833,539	300,458	-12,462	738,614	179,437	-9,431
Investment funds	2,075,218	191,372	-34,813	1,837,051	100,104	-41,337
Total	23,220,303	2,855,911	-135,440	21,851,248	2,808,664	-116,067

In the case of the financial instruments available for sale category, the balance sheet value equals fair value. Unrealised gains and losses represent the difference between amortised cost and fair value.

Impairment	31.12.2017			31.12.2016		
Financial instruments available for sale*	Gross book value	Impairment	Net book value	Gross book value	Impairment	Net book value
in EUR '000						
Bonds	385	316	69	569	390	179
Shares	13,427	5,186	8,241	8,168	2,282	5,886
Investment funds	10,900	1,176	9,724	40,565	12,186	28,379
Total	24,712	6,678	18,034	49,302	14,858	34,444

*Not including impairment of shares in affiliated companies and other participations

Maturity structure	Fair value	
Financial instruments available for sale	31.12.2017	31.12.2016
in EUR '000		
no maturity	2,820,847	2,495,732
up to one year	754,010	953,683
more than one year up to five years	5,532,497	4,637,365
more than five years up to ten years	8,228,955	8,132,037
more than ten years	5,883,994	5,632,431
Total	23,220,303	21,851,248

Rating categories	Fair value	
Fixed-interest financial instruments available for sale	31.12.2017	31.12.2016
in EUR '000		
AAA	2,349,187	2,277,337
AA	4,986,648	5,226,447
A	8,128,516	6,686,991
BBB	3,981,304	4,184,283
BB and lower	792,626	830,426
No rating	73,265	70,099
Total	20,311,546	19,275,583

Financial instruments recognised at fair value through profit and loss (incl. held for trading)

Composition	Fair value	
Financial instruments recognised at fair value through profit and loss*	31.12.2017	31.12.2016
in EUR '000		
Bonds	207,529	306,141
Government bonds	72,064	139,560
Corporate bonds	7,862	8,533
Bonds from banks	113,060	144,226
Subordinated bonds	14,543	13,822
Shares and other non-fixed-interest securities	41,633	37,842
Investment funds	61,845	73,362
Equity funds	8,762	12,126
Pension funds	20,568	20,395
Alternative funds	1,992	5,237
Real estate funds	3,378	2,728
Balanced funds	27,145	32,876
Derivatives	24,334	43,945
Total	335,341	461,290

*Including held for trading

3. INVESTMENTS FOR UNIT-LINKED AND INDEX-LINKED LIFE INSURANCE

Composition	31.12.2017			31.12.2016
	Unit-linked	Index-linked	Total	Total
in EUR '000				
Investment funds	6,620,377	54,858	6,675,235	6,201,029
Bonds	0	2,270,140	2,270,140	2,213,143
Shares	0	4,711	4,711	4,596
Derivatives (guarantee claim)	0	2,738	2,738	1,420
Bank deposits	56,685	41,099	97,784	119,790
Deposit receivables	10,740	0	10,740	10,205
Net of receivables and liabilities	-275	0	-275	-603
Total	6,687,527	2,373,546	9,061,073	8,549,580

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
no maturity	6,777,732	6,325,414
up to one year	203,136	63,438
more than one year up to five years	1,664,192	1,378,105
more than five years up to ten years	294,422	552,345
more than ten years	121,591	230,278
Total	9,061,073	8,549,580

4. REINSURERS' SHARE IN UNDERWRITING PROVISIONS

Composition	31.12.2017	31.12.2016
in EUR '000		
Provision for unearned premiums	153,784	149,918
Mathematical reserve	37,850	40,141
Provision for outstanding claims	858,473	781,567
Provision for profit-unrelated premium refunds	14,670	11,291
Other underwriting provisions	1,543	2,294
Total	1,066,320	985,211

Development	Book value as of 1.1.	Exchange rate differences	Additions	Amount used/released	Book value as of 31.12.
in EUR '000					
Provision for unearned premiums	149,918	-5,269	133,867	-124,732	153,784
Mathematical reserve	40,141	-1	5,613	-7,903	37,850
Provision for outstanding claims	781,567	-1,175	602,284	-524,203	858,473
Provision for profit-unrelated premium refunds	11,291	292	8,329	-5,242	14,670
Other underwriting provisions	2,294	-26	815	-1,540	1,543
Total	985,211	-6,179	750,908	-663,620	1,066,320

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	499,585	477,785
more than one year up to five years	324,676	287,634
more than five years up to ten years	117,515	84,697
more than ten years	124,544	135,095
Total	1,066,320	985,211

5. RECEIVABLES

Composition	31.12.2017	31.12.2016
in EUR '000		
Underwriting	768,188	794,974
Receivables from direct insurance business	639,792	651,748
from policyholders	492,952	486,109
from insurance intermediaries	102,919	109,638
from insurance companies	43,921	56,001
Receivables from reinsurance business	128,396	143,226
Non-underwriting	707,674	664,657
Other receivables	707,674	664,657
Total	1,475,862	1,459,631

Composition of other receivables	31.12.2017	31.12.2016
in EUR '000		
Receivables from financial services and leasing	2,425	2,675
Receivables from recourse claims	23,358	0
Pro rata and outstanding interest and rent	414,491	409,566
Receivables from tax authority (excl. income tax) and from fees of all kinds	46,553	49,054
Receivables from employees and social security receivables	2,805	3,342
Receivables from sales of investments	15,683	9,466
Receivables from property management	14,047	13,640
Receivables from third party claims settlement	25,843	26,138
Receivables from green card deposits and surety	36,355	31,279
Receivables from pre-payments	10,303	15,442
Receivables from public funding and financing contributions	16,900	17,393
Other receivables	98,911	86,662
thereof receivables from charges for services	72,243	56,196
Total	707,674	664,657

Maturity structure	31.12.2017			31.12.2016
	Premium receivables due	Non-underwriting	Total	Total
in EUR '000				
up to one year	244,320	605,365	849,685	860,842
more than one year up to five years	13,150	59,796	72,946	44,763
more than five years up to ten years	0	17,906	17,906	9,312
more than ten years	0	24,607	24,607	18,887
Subtotal	257,470	707,674	965,144	933,804
Premium receivables not yet due			316,118	272,111
Receivables from reinsurance business			128,396	143,226
Other underwriting receivables			66,204	110,490
Total			1,475,862	1,459,631

The gross receivables are offset by impairment (directly reducing the asset item) of EUR 89,953,000 (EUR 93,668,000) and provisions for cancellations of EUR 10,329,000 (EUR 8,962,000).

Ageing analysis	31.12.2017				
Overdue receivables	1–60 days overdue	61–90 days overdue	91–120 days overdue	More than 120 days overdue	Total
in EUR '000					
Premium receivables	160,835	33,316	33,910	70,445	298,506
not adjusted	83,922	10,083	27,183	34,939	156,127
adjusted	76,913	23,233	6,727	35,506	142,379
Non-underwriting receivables	10,209	934	583	29,507	41,233
not adjusted	9,747	744	519	20,966	31,976
adjusted	462	190	64	8,541	9,257

Ageing analysis	31.12.2016				
Overdue receivables	1–60 days overdue	61–90 days overdue	91–120 days overdue	More than 120 days overdue	Total
in EUR '000					
Premium receivables	137,566	55,609	19,415	59,512	272,102
not adjusted	87,112	35,808	13,510	32,885	169,315
adjusted	50,454	19,801	5,905	26,627	102,787
Non-underwriting receivables	5,669	1,073	1,634	26,609	34,985
not adjusted	5,272	1,038	142	21,864	28,316
adjusted	397	35	1,492	4,745	6,669

6. DEFERRED TAXES

The deferred tax assets and liabilities reported relate to temporary differences in the balance sheet items listed in the table below. (The differences were measured using the applicable tax rates.) It should be noted that deferred taxes, as far as permissible, are offset at the taxpayer level, and, accordingly, the different balances are shown either as assets or liabilities on the balance sheet.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that the deferred tax assets can be used. Deferred tax assets are examined each balance sheet date and reduced to the extent that it is no longer probable that the associated tax benefits can be realised.

Composition	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
in EUR '000				
Intangible assets	15,158	8,052	6,909	14,940
Investments	78,957	312,149	104,071	342,322
Receivables and other assets	21,428	16,785	16,445	13,838
Accumulated losses carried forward	69,872	0	67,802	0
Tax-exempt reserves	0	13,223	0	21,361
Underwriting provisions	130,382	177,094	129,402	153,764
Non-underwriting provisions	91,296	10,656	89,781	9,626
Liabilities and other liabilities	15,705	21,139	13,069	22,629
Sum before valuation allowance	**422,798**	**559,098**	427,479	578,480
Valuation allowance for DTA	-37,958		-35,919	
Total before netting	**384,840**	**559,098**	391,560	578,480
Netting	-304,034	-304,034	-253,330	-253,330
Net balance	**80,806**	**255,064**	138,230	325,150

Maturity structure	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
in EUR '000				
up to one year	4,583	13,646	7,468	13,525
more than one year	76,223	241,418	130,762	311,625
Total	**80,806**	**255,064**	138,230	325,150

Deferred tax assets from seven-year amortisation of participations to going concern value were recognised in the amount of EUR 14,597,000 (EUR 20,416,000). Deferred tax liabilities and deferred tax assets of consolidated taxable entities in the tax group collected by the same tax authority were netted, resulting in a deferred tax liability of EUR 129,615,000 (EUR 129,105,000). In accordance with IAS 12.39, deferred tax liabilities were not reported for temporary differences from interests in subsidiaries since they would not be reversed in the foreseeable future. The difference between the book value for tax purposes and IFRS shareholders' equity is EUR 1,786,779,000 (EUR 1,619,237,000). Deferred taxes for undistributed subsidiary profits of EUR 10,281,000 (EUR 6,611,000) were also not reported, because a decision to distribute the profits had not yet been made.

An amount of EUR 37,499,000 (EUR 35,688,000) in deferred taxes on loss carry-forwards was not recognised.

7. OTHER ASSETS

Composition	31.12.2017	31.12.2016
in EUR '000		
Tangible assets and inventories	117,112	98,717
Prepayments for projects	121	636
Other assets	68,235	78,650
Asset-side accruals	203,692	169,816
Total	**389,160**	347,819

NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES AND SHAREHOLDERS' EQUITY

8. CONSOLIDATED SHAREHOLDERS' EQUITY

The **share capital** and **other capital reserves** items include contributions to share capital made by VIG shareholders. Other capital reserves report the share of contributions paid that is in excess of the share capital. In addition, the **hybrid capital** item separately reports the amounts received from the corporate bond issued in 2008. The capital reserves are reduced by external costs directly related to corporate actions affecting equity after taking tax effects into account.

Retained earnings are the earnings that Group companies have earned since joining VIG. These are reduced by the dividends distributed by the Group parent company. Amounts resulting from changes in the scope of consolidation are also recognised. If changes are made to accounting policies, the adjustments for earlier periods that are not included in the financial statements are recognised in the opening balance sheet value of retained earnings for the earliest period presented.

Other reserves consist of unrealised gains and losses from other measurement of available for sale financial instruments, and actuarial gains and losses that are directly recognised in comprehensive income in accordance with IAS 19. Unrealised gains and losses from the at equity measurement of associated companies, and translation differences resulting from currency translation for foreign subsidiaries are also reported in other reserves. In addition, measurement gains or losses from cash flow hedges are also recognised.

Non-controlling interests are also shown as part of shareholders' equity. These consist of shares held by third parties in the equity of consolidated subsidiaries that are not directly or indirectly fully owned by VIG.

Hybrid bonds

Issue date	Outstanding volume	Maturity	Interest	Fair value
	in EUR '000	in years	in %	in EUR '000
12.6.2008	198,017	unlimited	until 12.09.2018 8% p.a., afterwards variable	209,898

Non-controlling interests

Composition of non-controlling interests	31.12.2017	31.12.2016
in EUR '000		
Other non-controlling interests	115,944	114,219
Unrealised gains and losses	9,184	9,077
Share in the result of the period	7,052	4,246
Other	99,708	100,896
Non-controlling interests in non-profit societies	1,095,994	1,032,775
Share in the result of the period	67,943	28,966
Other	1,028,051	1,003,809
Total	1,211,938	1,146,994

Please see page 124 for information on accounting and measurement for the non-profit societies.

Earnings per share

Under IAS 33.10, basic earnings per share are to be calculated by dividing profit or loss attributable to common shareholders of the parent entity (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period.

Earnings per share		2017	2016
Result of the period	EUR '000	372,591	320,990
Other non-controlling interests in net result of the period	EUR '000	-7,052	-4,246
Non-controlling interests in the result of the period of non-profit societies	EUR '000	-67,943	-28,966
Result of the period less non-controlling interests	**EUR '000**	**297,596**	287,778
Interest expenses for hybrid capital	EUR '000	11,881	11,881
Number of shares at closing date	units	128,000,000	128,000,000
Earnings per share*	**EUR**	**2.23**	2.16

*The calculation of these figures includes the proportional interest expenses for hybrid capital. (Undiluted = diluted result per share)

Since there were no potential dilution effects in either the current or previous reporting period, the basic earnings per share equal the diluted earnings per share.

Detailed information on capital management is available in the "Management and control" section on page 153.

Consolidated shareholders' equity

SHARE CAPITAL AND VOTING RIGHTS

The Company has share capital of EUR 132,887,468.20. It is divided into 128,000,000 no-par value ordinary bearer shares with voting rights, with each share representing an equal portion of the share capital. The number of shares issued remains unchanged since the previous financial year.

The Managing Board is not aware of any restrictions on voting rights or the transfer of shares. Employees who hold shares exercise their voting rights without a proxy during General Meetings.

The Managing Board must have at least three and no more than seven members. The Supervisory Board has three to ten members (shareholder representatives). Wiener Städtische Versicherungsverein, which directly and indirectly holds around 71.26% of the share capital, has the right to appoint up to one third of the members of the Supervisory Board if, and so long as, it holds 50% or less of the Company's voting shares. General Meeting resolutions are adopted by a simple majority, unless a different majority is required by law or the articles of association.

No shares have special rights of control. See the section indicated above for information on the rights of the shareholder Wiener Städtische Versicherungsverein.

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

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

ANTICIPATORY RESOLUTIONS

The Managing Board is authorised to increase the share capital of the Company by a nominal amount of EUR 66,443,734.10 by issuing 64,000,000 no-par value bearer or registered shares in one or more tranches on or before 11 May 2022 against cash or in-kind contributions. The terms of the shares, the exclusion of shareholder pre-emption rights, and other terms and conditions of the share issue are decided by the Managing Board, subject to Supervisory Board approval. Preferred shares without voting rights may also be issued, with rights equivalent to those of existing preferred shares. The issue prices of common and preferred shares may differ.

The General Meeting of 12 May 2017 authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer convertible bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 11 May 2022, with or without exclusion of shareholder pre-emptive rights, and to grant the holders of convertible bonds conversion rights for up to 30,000,000 no-par value bearer shares with voting rights in accordance with the convertible bond terms set by the Managing Board.

The share capital has consequently been raised in accordance with § 159(2) no. 1 of the Austrian Stock Corporation Act (AktG) by a contingent capital increase of up to EUR 31,145,500.36 through the issue of up to 30,000,000 no-par value bearer shares with voting rights. The contingent capital increase will only be implemented to the extent that holders of convertible bonds issued on the basis of the General Meeting resolution of 12 May 2017 exercise the subscription or exchange rights they were granted. The Managing Board has not adopted any resolutions to date concerning the issuance of convertible bonds based on the authorisation granted on 12 May 2017.

The General Meeting of 12 May 2017 further authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer income bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 11 May 2022, with or without exclusion of shareholder pre-emptive rights. The Managing Board has not adopted any resolutions to date regarding the issuance of income bonds based on this authorisation.

The General Meeting of 12 May 2017 authorised the Managing Board to acquire the Company's own no-par value bearer shares in accordance with § 65(1) no. 4 and 8 and (1a) and (1b) AktG to the maximum extent permissible by law during a period of 30 months following the date the General Meeting resolution was adopted. The amount paid upon repurchase of the Company's own shares may not be more than a maximum of 50% below, or more than a maximum of 10% above, the average unweighted stock exchange closing price on the 10 stock exchange trading days preceding the repurchase. The Managing Board may choose to make the purchase on the stock exchange, through a public offer or in any other legally permissible and expedient manner.

The General Meeting of 12 May 2017 also authorised the Managing Board to use own shares

- for issuing shares to employees and senior management of the Company or to employees, senior management and managing board members of companies affiliated with the Company;
- for servicing convertible bonds issued based on the resolution adopted by the General Meeting of 12 May 2017;
- for sales in accordance with § 65(1b) AktG on the stock market or through a public offer. The Managing Board is also authorised for a period of a maximum of five years after adoption of the resolution to dispose of the acquired own shares in some other way without or with partial or full exclusion of shareholder pre-emptive rights. The written report on the reasons for exclusion of shareholder pre-emptive rights was submitted to the General Meeting.

The Managing Board has not made use of these authorisations to date. The Company held none of its own shares on balance sheet date.

Income bonds (hybrid bonds) with a total nominal value of EUR 250,000,000.00, (Tranche 1) were issued on 12 June 2008 and income bonds with a total nominal value of EUR 250,000,000.00, (Tranche 2) were issued on 22 April 2009 based on the authorisation granted by the General Meeting of 16 April 2008. Tranche 2 was repurchased in August 2013, and EUR 51,983,000.00 of the nominal value of Tranche 1 was repurchased in March 2015. The income bonds are traded on the Vienna Stock Exchange. The interest rate is 8% p.a. until 12 September 2018 (fixed interest rate), after which the income bonds pay variable interest. The Company has the right to call the bonds each quarter after the start of the variable interest period.

Payout 2017 for the financial year 2016	Per share	Total
in EUR		
Ordinary shares	0.80	102,400,000

Proposed allocation of profits
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) ended financial year 2017 with net retained profit of EUR 157,128,123.45. The following allocation of profits will be proposed in the Annual General Meeting:

The 128 million shares shall receive a dividend of EUR 0.90 per share. The payment date for this dividend will be 30 May 2018, the record date 29 May 2018, and the ex-dividend date 28 May 2018.

A total of EUR 115,200,000.00 will therefore be distributed. The net retained profit of EUR 41,928,123.45 remaining for financial year 2017 after distribution of the dividend is to be carried forward.

9. SUBORDINATED LIABILITIES

VIG Holding subordinated liabilities
Interest on supplementary capital bonds is only paid out to the extent that the interest is covered by the company's national annual profit. The interest is, however, always included as an expense.

On 9 October 2013 the Company issued a subordinated bond with a total nominal value of EUR 500,000,000.00 and a term of 30 years. VIG Holding can call the bond in full for the first time on 9 October 2023 and on each following coupon date. The subordinated bond bears interest at a fixed rate of 5.50% p.a. during the first ten years of its term and variable interest after that. The subordinate bond satisfies the tier 2 requirements of Solvency II. The bonds are traded on the Vienna Stock Exchange.

On 2 March 2015 the Company issued a subordinated bond with a total nominal value of EUR 400,000,000.00 and a term of 31 years. VIG Holding can call the bond in full for the first time on 2 March 2026 and on each following coupon date. The subordinated bond bears interest at a fixed rate of 3.75% p.a. during the first eleven years of its term and variable interest after that. The subordinate bond satisfies the tier 2 requirements of Solvency II. The bond is listed on the Luxembourg Stock Exchange.

The EUR 200 million subordinated bond was privately placed with international institutional investors. The subordinated bond has a term of 30 years and VIG can call it for the first time after 10 years. It satisfies the tier 2 requirements of Solvency II and qualifies as capital based on the requirements of the S&P rating agency. The subordinated bond bears interest at a fixed rate of 3.75% p.a. during the first ten years of its term and variable interest after that. The subordinated bond was included in the Third Market of the Vienna Stock Exchange on 13 April 2017.

On 5 December 2016, VIG Holding decided to call the two supplementary capital bonds issued on 12 January 2005 effective 12 January 2017 for early repayment at their redemption amount of 100% of nominal value plus all accrued interest up to (but not including) the repayment date.

Subordinated liabilities of the Group

Issuing company	Issue date	Outstanding volume	Maturity	Interest	Fair value
		in EUR '000	in years	in %	in EUR '000
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	9.10.2013	500,000	30[1]	First 10 years: 5.5% p.a.; thereafter variable	538,148
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	2.3.2015	400,000	31[2]	First 11 years: 3.75% p.a.; thereafter variable	399,356
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	13.4.2017	200,000	30[3]	First 10 years: 3.75% p.a.; thereafter variable	213,704
DONAU Versicherung AG Vienna Insurance Group	15.4.+ 21.5.2004	3,500	unlimited [4]	4.95% p.a.	3,900
DONAU Versicherung AG Vienna Insurance Group	1.7.1999	1,500	unlimited [5]	4.95% p.a.	1,655
Sparkassen Versicherung AG Vienna Insurance Group	1.3.1999	12,000	unlimited [6]	4.90% p.a.	13,332
Sparkassen Versicherung AG Vienna Insurance Group	2.7.2001	16,100	unlimited [7]	6.10% p.a.	18,943
Sparkassen Versicherung AG Vienna Insurance Group	15.11.2003	19,500	unlimited [8]	4.95% p.a.	21,892
Sparkassen Versicherung AG Vienna Insurance Group	30.6.2006	34,700	unlimited [9]	4.75% p.a.	38,435
WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group	11.5.2017	250,000	10 [10]	3.50% p.a.	266,600
Kooperativa pojst'ovna, a.s., Vienna Insurance Group	22.12.2010	21,539	unlimited [11]	5.05% p.a.	21,732
Total		1,458,839			1,537,697

1 The right to ordinary and extraordinary cancellation by the holder is excluded. Regular cancellation by the issuer is first allowed effective 9 October 2023.
2 The right to ordinary and extraordinary cancellation by the holder is excluded. Regular cancellation by the issuer is first allowed effective 2 March 2026.
3 The right to ordinary and extraordinary cancellation by the holder is excluded. Regular cancellation by the issuer is first allowed after 10 years.
4 This may be determined, in whole or in part, with 5 years´ notice effective as of 1 July 2009 by the holders and by Donau Versicherung, and effective as of 31 December of each following year.
5 This may be terminated, in whole or in part, with 5 years´ notice effective as of 1 July 2009 by the holders and by Donau Versicherung, and effective as of 1 July of each following year.
6 This can only be cancelled subject to not less than 5 years' notice, unless Austrian insurance regulators agree to payment being made early. Due to cancellations, EUR 3,750,000 will be repaid in 2018.
7 This can only be cancelled subject to not less than 5 years' notice, unless Austrian insurance regulators agree to payment being made early. No cancellations have been made for the next 5 years.
8 This can only be cancelled subject to not less than 5 years' notice, unless Austrian insurance regulators agree to repayment being made early. Due to cancellations, EUR 390,000 will be repaid in 2018.
9 This can only be cancelled subject to not less than 5 years' notice, unless Austrian insurance regulators agree to repayment being made early. No cancellations were made for the next 5 years.
10 The right to ordinary and extraordinary cancellation by the holder is excluded. No provision has been made for regular cancellation by the issuer.
11 This can only be cancelled subject to not less than five years' notice.

10. UNDERWRITING PROVISIONS – GROSS

Composition	31.12.2017	31.12.2016
in EUR '000		
Provision for unearned premiums	1,395,073	1,282,164
Mathematical reserve	**21,962,632**	**21,528,896**
Guaranteed policy benefits	20,296,586	19,791,408
Allocated and committed profit shares	754,879	808,622
Deferred mathematical reserve	911,167	928,866
Provision for outstanding claims	5,141,400	4,815,063
Provision for premium refunds	**1,619,268**	**1,554,797**
Profit-related premium refunds	315,181	297,704
Profit-unrelated premium refunds	65,620	63,605
Deferred profit participation recognised through profit and loss*	231,850	209,956
Deferred profit participation recognised directly in equity*	1,006,617	983,532
Other underwriting provisions	49,800	39,151
Total	**30,168,173**	**29,220,071**

*The deferred profit participation is solely due to the profit-related premium refund.

10.1. Provision for unearned premiums

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	**1,282,164**	**1,181,269**
Exchange rate differences	8,164	-22,093
Book value as of 1.1.	**1,290,328**	**1,159,176**
Additions	1,112,168	869,201
Amount used/released	-1,008,959	-798,000
Changes in scope of consolidation	1,536	51,787
Book value as of 31.12.	**1,395,073**	**1,282,164**

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	1,243,514	1,144,017
more than one year up to five years	123,576	113,726
more than five years up to ten years	16,145	13,619
more than ten years	11,838	10,802
Total	**1,395,073**	**1,282,164**

10.2. Mathematical reserve

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	21,528,896	21,068,385
Exchange rate differences	108,888	-283
Book value as of 1.1.	21,637,784	21,068,102
Additions	2,313,871	1,821,155
Amount used/released	-2,049,883	-1,402,363
Transfer from provisions for premium refunds	44,150	42,198
Changes in scope of consolidation	16,710	-196
Book value as of 31.12.	21,962,632	21,528,896

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	1,666,442	1,621,431
more than one year up to five years	5,907,616	5,909,867
more than five years up to ten years	4,422,063	4,491,253
more than ten years	9,966,511	9,506,345
Total	21,962,632	21,528,896

10.3. Provision for outstanding claims

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	4,815,063	4,603,648
Exchange rate differences	45,628	-23,908
Book value as of 1.1.	4,860,691	4,579,740
Changes in scope of consolidation	879	60,989
Allocation of provisions for outstanding claims	5,081,147	3,196,819
for claims paid occurred in the reporting period	3,869,180	2,528,806
for claims paid occurred in previous periods	1,211,967	668,013
Use/release of provision	-4,801,317	-3,022,485
for claims paid occurred in the reporting period	-2,314,824	-1,457,007
for claims paid occurred in previous periods	-2,486,493	-1,565,478
Book value as of 31.12.	5,141,400	4,815,063

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	2,473,952	2,318,508
more than one year up to five years	1,713,687	1,527,780
more than five years up to ten years	438,093	435,623
more than ten years	515,668	533,152
Total	5,141,400	4,815,063

EUR 143,222,000 (EUR 111,563,000) in recourse claims was deducted from the provision for outstanding claims.

A detailed presentation of the change in gross loss reserve for the property and casualty line of business is provided on page 151.

10.4. Provision for premium refunds

Development	31.12.2017	31.12.2016
in EUR '000		
Provision for premium refunds		
Book value as of 31.12. of the previous year	361,309	313,173
Exchange rate differences	2,099	314
Book value as of 1.1.	363,408	313,487
Additions	284,229	311,613
Amount used/released	-223,080	-221,593
Changes in scope of consolidation	394	0
Transfer to mathematical reserve	-44,150	-42,198
Book value as of 31.12.	380,801	361,309
Deferred profit participation		
Book value as of 31.12. of the previous year	1,193,488	925,519
Exchange rate differences	0	-26
Book value as of 1.1.	1,193,488	925,493
Unrealised gains and losses on financial instruments available for sale	19,723	253,191
Underwriting gains and losses from provisions for employee benefits	3,362	-29,833
Revaluations recognised through profit and loss	21,894	44,637
Book value as of 31.12.	1,238,467	1,193,488
Provision for premium refunds incl. deferred profit participation	1,619,268	1,554,797

Maturity structure for profit-related premium refunds incl. deferred profit participation	31.12.2017	31.12.2016
in EUR '000		
up to one year	642,946	613,746
more than one year up to five years	582,452	586,664
more than five years up to ten years	175,421	170,514
more than ten years	152,829	120,268
Total	1,553,648	1,491,192

Maturity structure for profit-unrelated premium refunds	31.12.2017	31.12.2016
in EUR '000		
up to one year	59,757	59,310
more than one year up to five years	1,373	881
more than five years up to ten years	2,894	2,024
more than ten years	1,596	1,390
Total	65,620	63,605

10.5. Other underwriting provisions

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	39,151	53,129
Exchange rate differences	1,214	76
Book value as of 1.1.	40,365	53,205
Additions	9,933	8,365
Amount used/released	-23,503	-22,756
Changes in scope of consolidation	23,005	337
Book value as of 31.12.	49,800	39,151

Other underwriting provisions are primarily provisions for old claims and cancellations.

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	11,770	11,036
more than one year up to five years	3,511	432
more than five years up to ten years	3,153	103
more than ten years	31,366	27,580
Total	49,800	39,151

11. UNDERWRITING PROVISIONS FOR UNIT-LINKED AND INDEX-LINKED LIFE INSURANCE

Composition	31.12.2017	31.12.2016
in EUR '000		
Unit-linked life insurance	6,438,200	5,953,526
Index-linked life insurance	2,174,549	2,176,358
Total	8,612,749	8,129,884

Development	31.12.2017	31.12.2016
in EUR '000		
Book value as of 31.12. of the previous year	8,129,884	7,776,602
Exchange rate differences	-28,113	-7,395
Book value as of 1.1.	8,101,771	7,769,207
Additions	1,265,182	715,751
Amount used/released	-754,804	-355,074
Changes in scope of consolidation	600	0
Book value as of 31.12.	8,612,749	8,129,884

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	485,504	289,512
more than one year up to five years	2,522,574	2,020,458
more than five years up to ten years	1,291,428	1,512,817
more than ten years	4,313,243	4,307,097
Total	8,612,749	8,129,884

12. NON-UNDERWRITING PROVISIONS

Composition	31.12.2017	31.12.2016
in EUR '000		
Provisions for pensions and similar obligations	483,408	518,766
Other non-underwriting provisions	310,384	296,482
Total	793,792	815,248

12.1. Provisions for pensions and similar obligations

Composition	31.12.2017	31.12.2016
in EUR '000		
Provision for pension obligations	375,054	409,259
Provision for severance obligations	108,354	109,507
Total	483,408	518,766

Pension obligations

Development of DBO	31.12.2017	31.12.2016
in EUR '000		
Present value of obligation (DBO) as of 1.1.	835,519	727,012
Current service costs	13,933	10,655
Past service costs	-687	16
Interest expense	10,295	14,632
Remeasurement	-14,498	91,222
Actuarial gain/loss demographic	-120	-249
Actuarial gain/loss financial	-7,134	89,251
Experience adjustment	-7,244	2,220
Exchange rate differences	19	-5
Settlement payment	-925	-323
Benefits paid	-32,419	-30,669
Changes in scope of consolidation	0	22,979
Present value of the obligation (DBO) as of 31.12.	811,237	835,519
thereof DBO employees	294,936	299,880
thereof DBO retirees	516,301	535,639

Development of plan assets	31.12.2017	31.12.2016
in EUR '000		
Plan assets as of 1.1.	426,260	428,024
Interest income	5,363	8,547
Remeasurement	-100	-5,400
Net return on assets	-100	-5,400
Contributions	32,528	13,397
Settlement payment	-169	1,630
Benefits paid	-27,699	-25,331
Changes in scope of consolidation	0	5,395
Plan assets as of 31.12.	436,183	426,260

Development of provisions	31.12.2017	31.12.2016
in EUR '000		
Book value as of 1.1.	409,259	298,988
Current service costs	13,933	10,655
Past service costs	-687	16
Interest expense	4,932	6,085
Remeasurement	-14,398	96,622
Net return on assets	100	5,400
Actuarial gain/loss demographic	-120	-249
Actuarial gain/loss financial	-7,134	89,251
Experience adjustment	-7,244	2,220
Exchange rate differences	19	-5
Contributions	-32,528	-13,397
Settlement payment	-756	-1,953
Benefits paid	-4,720	-5,338
Changes in scope of consolidation	0	17,584
Book value as of 31.12.	375,054	409,259

The plan assets consist of the following:

Structure of investments in the mathematical reserve for occupational group insurance	31.12.2017	31.12.2016
in %		
Wiener Städtische and VIG Holding	100.00	100.00
Fixed-interest securities	80.71	84.76
Loans	4.94	5.19
Bank deposits	14.35	10.05
Donau Versicherung	100.00	100.00
Fixed-interest securities	95.58	100.00
Bank deposits	4.42	0.00

The asset allocation of the actuarial reserve for occupational group insurance is structured according to the maturity of the liabilities.

Pension contributions are expected to be EUR 13,676,000 in financial year 2018 (ACTUAL in 2017: EUR 32,360,000 incl. transfers).

Sensitivity analysis

Pension sensitivity analysis	Variation	DBO	Change
	in %	in EUR '000	in %
Base parameters		811,237	
Interest rate	+0.5	745,754	-8.07
	-0.5	869,591	7.19
Future salary increases	+0.5	813,867	0.32
	-0.5	794,279	-2.09
Future pension increases	+0.5	856,995	5.64
	-0.5	755,411	-6.88
Employee turnover	+2.5	764,150	-5.80
	-2.5	809,177	-0.25
Mortality	+5.0	788,648	-2.79
	-5.0	819,171	0.98

METHOD FOR PERFORMING SENSITIVITY ANALYSIS

Parameter variations were calculated. Mortality is increased or decreased proportionally.

Pension cash flow	Expected payments
year(s)	in EUR '000
1	32,725
2	33,362
3	33,813
4	34,083
5	34,243
6–10	173,008
11–15	168,886
16–20	157,635
21–30	254,971
31–40	164,318
41+	107,780

12.2. Other provisions

Composition	31.12.2017	31.12.2016
in EUR '000		
Provision for anniversary benefits	24,688	24,815
Other personnel provision	7,168	8,249
Provision for customer support and marketing	44,961	44,815
Provision for litigation	21,925	21,702
Other provisions	211,642	196,901
Provision for construction activities by non-profit societies	17,249	13,771
Provision for subsequent purchase price reductions for company acquisitions	11,700	11,700
Provision for IT expenses	39,796	39,911
Provision for advertising and sponsorship	2,192	4,788
Provision for guaranteed interest for pension funds	18,134	15,856
Provision for regulatory risks	13,000	0
Provision for performance fees and bonuses	8,444	6,915
Risk provision in connection with Donau Versicherung's Italian business	19,096	23,900
Onerous maintenance contracts	16,200	20,000
Miscellaneous other provisions	65,831	60,060
Total	310,384	296,482

Development	Book value as of 1.1.	Changes in scope of consolidation	Exchange rate differences	Amount used	Release	Reclassi-fication	Additions	Book value as of 31.12.
in EUR '000								
Provision for anniversary benefits	24,815	0	35	-1,577	-2,308	0	3,723	24,688
Other personnel provision	8,249	0	161	-4,624	-2,181	-278	5,841	7,168
Provision for customer support and marketing	44,815	0	42	-4,518	-5,652	0	10,274	44,961
Provision for litigation	21,702	11	-699	-1,437	-4,510	3,287	3,571	21,925
Other provisions	196,901	0	-202	-53,759	-50,147	71	118,778	211,642
Total	296,482	11	-663	-65,915	-64,798	3,080	142,187	310,384

Maturity structure	31.12.2017	31.12.2016
in EUR '000		
up to one year	210,279	197,012
more than one year up to five years	48,121	46,543
more than five years up to ten years	11,383	14,654
more than ten years	40,601	38,273
Total	310,384	296,482

Other provisions with a maturity of more than ten years mainly consist of EUR 20,275,000 (EUR 20,291,000) in provisions for anniversary benefits and a non-discountable provision of EUR 18,134,000 (EUR 15,856,000) for pension fund guaranteed interest.

13. LIABILITIES

Composition	31.12.2017	31.12.2016
in EUR '000		
Underwriting	778,908	852,885
Liabilities from direct business	625,886	653,676
to policyholders	407,101	442,872
to insurance intermediaries	191,205	175,597
to insurance companies	27,580	35,207
Liabilities from reinsurance business	102,197	144,063
Deposits from ceded reinsurance business	50,825	55,146
Non-underwriting	3,253,194	3,349,700
Liabilities to financial institutions	1,201,031	1,304,901
Other liabilities	2,052,163	2,044,799
Total	4,032,102	4,202,585

Composition of other liabilities	31.12.2017	31.12.2016
in EUR '000		
Tax liabilities (excl. income taxes), levies and fees	86,149	86,429
Liabilities for social security	16,424	14,942
Property management, building contract and property transfer liabilities	31,625	37,103
Liabilities to employees and employee-related liabilities	97,071	87,300
Liabilities for legal and consulting fees	3,513	4,856
Liabilities for unpaid incoming invoices	79,531	79,465
Interest payable for subordinated liabilities	32,160	0
Liabilities from sureties	22,238	20,036
Financing liabilities*	1,481,081	1,535,834
Liabilities from public funding	100,018	91,049
Liabilities from purchase of capital investments	1,390	1,867
Other liabilities	100,963	85,918
thereof liabilities from charges for services	71,267	34,475
Total	2,052,163	2,044,799

*Includes lease liabilities, derivative liabilities and other financing liabilities

The financing liabilities reported are primarily from the non-profit societies and mainly consist of municipal financing loans for non-profit housing projects.

The amount of EUR 27,200,000 of the financing liabilities are guaranteed by third parties.

Maturity structure	31.12.2017			31.12.2016
	Underwriting	Non-underwriting	Total	Total
in EUR '000				
up to one year	756,252	576,906	1,333,158	1,198,357
more than one year up to five years	20,015	545,085	565,100	633,175
more than five years up to ten years	1,155	488,743	489,898	626,074
more than ten years	1,486	1,642,460	1,643,946	1,744,979
Total	778,908	3,253,194	4,032,102	4,202,585

14. CONTINGENT LIABILITIES AND RECEIVABLES

Litigation relating to coverage

In their capacity as insurance companies, the Group companies are involved in a number of court proceedings as defendants or have been threatened with litigation. In addition, there are proceedings, in which the Group companies are not involved as parties, but may be affected by the outcome of such lawsuits due to agreements with other insurers concerning participation in claims. In the opinion of the Group, adequate provisions proportionate to the amount in dispute have been established for all claims in accordance with the law.

Off-balance sheet claims	31.12.2017	31.12.2016
in EUR '000		
Contingent receivables	15,359	16,800

The off-balance sheet claims for the individual financial years were primarily related to guarantees from agencies and guarantee retentions.

Off-balance sheet commitments	31.12.2017	31.12.2016
in EUR '000		
Liabilities and assumed liabilities	23,311	30,185
Letters of comfort	435	460
Guarantee bond	0	1,062
Litigation	11,033	0

The off-balance sheet commitments for the individual financial years were primarily related to loans of participations, potential court cases due to the change in the law in Poland and liabilities for social housing.

No off-balance sheet financing structures via special purpose vehicles (SPVs) or other similar corporate structures exist.

Litigation

The Group is involved in a number of legal disputes in connection with its normal business activities that are included in the underwriting provisions. Off-balance sheet legal disputes concern the potential court cases in Poland as indicated above.

15. PREMIUMS WRITTEN

Premiums written	2017						
Gross	Motor own damage insurance (Casco)	Motor third party liability insurance	Other property and casualty insurance	Life insurance – regular premium	Life insurance – single premium	Health insurance	Total
in EUR '000							
Austria	279,991	316,863	1,284,453	1,240,337	321,852	405,000	3,848,496
Czech Republic	232,705	278,428	438,835	576,688	63,296	13,294	1,603,246
Slovakia	105,194	148,072	105,139	169,626	272,653	9,365	810,049
Poland	131,313	177,922	205,207	198,313	160,353	13,538	886,646
Romania	128,645	177,251	90,421	42,265	61,759	6,203	506,544
Baltic states	57,522	101,252	67,976	48,991	18,005	33,861	327,607
Hungary	16,334	20,636	51,296	89,562	60,727	8,186	246,741
Bulgaria	47,053	21,214	37,110	25,304	8,161	11,264	150,106
Turkey/Georgia	33,941	45,099	99,454	0	0	29,290	207,784
Remaining CEE	43,478	87,976	102,902	63,984	40,742	12,915	351,997
Other Markets	0	0	116,529	77,416	98,666	0	292,611
Central Functions	0	0	1,373,984	16,560	0	20,992	1,411,536
Consolidation							-1,257,323
Total	1,076,176	1,374,713	3,973,306	2,549,046	1,106,214	563,908	9,386,040

Premiums written	2016						
Gross	Motor own damage insurance (Casco)	Motor third party liability insurance	Other property and casualty insurance	Life insurance – regular premium	Life insurance – single premium	Health insurance	Total
in EUR '000							
Austria	266,492	316,024	1,261,097	1,246,449	456,372	394,888	3,941,322
Czech Republic	213,399	266,131	405,218	533,992	96,971	13,374	1,529,085
Slovakia	99,481	136,471	109,785	163,180	214,974	8,449	732,340
Poland	122,298	147,571	185,483	204,173	147,047	12,603	819,175
Romania	113,200	231,881	105,359	42,482	37,523	2,951	533,396
Baltic states	15,499	31,665	15,660	42,658	19,487	15,223	140,192
Hungary	15,471	14,032	48,621	81,844	59,426	4,832	224,226
Bulgaria	40,236	18,166	39,860	21,329	8,078	9,010	136,679
Turkey/Georgia	33,154	54,364	99,386	0	0	21,794	208,698
Remaining CEE	39,606	83,347	91,848	62,637	45,830	8,124	331,392
Other Markets	0	0	108,705	74,786	169,464	0	352,955
Central Functions	0	0	1,281,106	19,021	0	24,708	1,324,835
Consolidation							-1,223,327
Total	958,836	1,299,652	3,752,128	2,492,551	1,255,172	515,956	9,050,968

16. FINANCIAL RESULT EXCLUDING AT EQUITY CONSOLIDATED COMPANIES

Composition	2017						
	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
in EUR '000							
Current income	803,054	103,287	44,676	33,384	17,117	7,103	8,062
Income from appreciation	11,050	3,379	3,048	4,189	132	781	0
of which a reduction in impairment	6,035	0	0	0	0	0	0
Gains from disposal of investments	58,958	29,128	10,666	4,346	2,111	163	1,300
Total income	873,062	135,794	58,390	41,919	19,360	8,047	9,362
Depreciation of investment	77,363	6,154	3,426	5,447	1,375	842	704
of which impairment of investments	6,083	0	0	3,750	91	19	485
Exchange rate differences	110	22,366	27	2,972	-900	0	432
Losses from disposal of investments	17,235	8,073	104	900	27	53	481
Interest expenses	51,066	2,700	117	3,927	2,787	313	286
Personnel provisions	5,221	0	0	0	0	0	0
Interest expenses for liabilities to financial institutions	1,846	0	0	0	0	0	6
Interest expenses for financing liabilities	1,433	0	0	0	0	0	0
Interest expenses for subordinate liabilities	30,557	1,055	0	521	1,074	276	203
Other interest expenses	12,009	1,645	117	3,406	1,713	37	77
Other expenses	71,514	6,641	1,111	4,178	2,782	731	1,074
Managed Portfolio Fees	3,962	2,632	140	1,754	746	72	359
Asset management expenses	57,756	1,287	870	2,424	1,691	639	715
Other expenses	9,796	2,722	101	0	345	20	0
Total expenses	217,288	45,934	4,785	17,424	6,071	1,939	2,977

Please see Note 2.1. Land and buildings on page 158 for information on operating expenses for investment property.

Composition	2017						
	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Consolidation	Total
in EUR '000							
Current income	24,124	11,315	36,579	21,288	376,603	-58,883	1,427,709
Income from appreciation	1,039	1,912	691	259	1,281	0	27,761
of which a reduction in impairment	0	0	651	8	1,119	0	7,813
Gains from disposal of investments	1,832	92	5,212	2,275	15,397	0	131,480
Total income	26,995	13,319	42,482	23,822	393,281	-58,883	1,586,950
Depreciation of investment	2,977	2,095	2,309	1,215	134,473	0	238,380
of which impairment of investments	1,625	0	1,219	0	22,080	0	35,352
Exchange rate differences	580	-552	8,359	2	-15,725	0	17,671
Losses from disposal of investments	553	38	492	136	4,569	0	32,661
Interest expenses	**351**	**1,452**	**649**	**168**	**119,126**	**-58,454**	**124,488**
Personnel provisions	0	0	0	0	621	0	5,842
Interest expenses for liabilities to financial institutions	0	0	0	0	14,191	0	16,043
Interest expenses for financing liabilities	146	100	62	0	49,490	-28,062	23,169
Interest expenses for subordinate liabilities	160	0	138	0	48,136	-21,617	60,503
Other interest expenses	45	1,352	449	168	6,688	-8,775	18,931
Other expenses	**13,179**	**1,294**	**2,004**	**1,031**	**187,137**	**-452**	**292,224**
Managed Portfolio Fees	163	12	417	0	214	0	10,471
Asset management expenses	12,367	215	1,252	906	182,450	0	262,572
Other expenses	649	1,067	335	125	4,473	-452	19,181
Total expenses	17,640	4,327	13,813	2,552	429,580	-58,906	705,424

Composition	2016						
	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
in EUR '000							
Current income	808,895	102,412	43,938	30,824	14,138	5,161	8,589
Income from appreciation	44,828	2,869	1,691	3,128	1,269	738	0
of which a reduction in impairment	40,372	0	0	0	1,121	0	0
Gains from disposal of investments	60,279	16,836	10,775	9,939	4,510	1,350	384
Total income	914,002	122,117	56,404	43,891	19,917	7,249	8,973
Depreciation of investment	73,706	8,361	2,249	2,336	2,113	1,910	478
of which impairment of investments	28,756	1,070	0	342	859	905	478
Exchange rate differences	-57	-1,221	-4	-964	-319	25	-165
Losses from disposal of investments	12,582	18,675	278	1,232	106	215	331
Interest expenses	37,940	3,650	271	3,138	2,358	242	701
Personnel provisions	6,842	0	0	0	0	0	0
Interest expenses for liabilities to financial institutions	52	0	0	0	0	0	0
Interest expenses for financing liabilities	2,621	0	0	0	0	0	0
Interest expenses for subordinate liabilities	20,276	1,028	0	628	1,076	185	530
Other interest expenses	8,149	2,622	271	2,510	1,282	57	171
Other expenses	69,812	9,552	789	3,730	2,037	391	746
Managed Portfolio Fees	4,776	2,829	79	1,100	735	22	142
Asset management expenses	57,192	3,851	708	2,630	1,256	369	604
Other expenses	7,844	2,872	2	0	46	0	0
Total expenses	193,983	39,017	3,583	9,472	6,295	2,783	2,091

Composition	2016						
	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Consolidation	Total
in EUR '000							
Current income	23,571	9,208	37,025	20,056	192,596	-59,402	1,237,011
Income from appreciation	1,326	1,745	211	1,356	209	0	59,370
of which a reduction in impairment	0	0	54	1,353	0	0	42,900
Gains from disposal of investments	2,211	737	6,170	755	5,761	0	119,707
Total income	27,108	11,690	43,406	22,167	198,566	-59,402	1,416,088
Depreciation of investment	2,318	1,998	3,541	1,189	50,308	0	150,507
of which impairment of investments	761	313	2,283	343	5,600	0	41,710
Exchange rate differences	85	-281	-888	0	8,154	0	4,365
Losses from disposal of investments	1,003	610	168	132	2,326	0	37,658
Interest expenses	298	955	1,964	208	106,361	-58,930	99,156
Personnel provisions	0	0	0	0	787	0	7,629
Interest expenses for liabilities to financial institutions	0	0	2	0	8,971	0	9,025
Interest expenses for financing liabilities	74	174	79	0	30,842	-26,071	7,719
Interest expenses for subordinate liabilities	0	0	158	0	54,800	-17,296	61,385
Other interest expenses	224	781	1,725	208	10,961	-15,563	13,398
Other expenses	12,244	1,447	1,975	766	108,725	0	212,214
Managed Portfolio Fees	165	17	372	0	601	0	10,838
Asset management expenses	11,416	350	1,329	689	106,354	0	186,748
Other expenses	663	1,080	274	77	1,770	0	14,628
Total expenses	15,948	4,729	6,760	2,295	275,874	-58,930	503,900

The income from the reduction of impairment is primarily due to the HETA bonds that were impaired in 2014. Further information is available in Note 2.4. Other securities on page 163.

Composition Income	2017 Current income	 Income from appreciation	 Gains from disposal of investments	 Total
in EUR '000				
Land and buildings	388,466	7,721	16,103	412,290
Self-used land and buildings	20,370	2,264	239	22,873
Investment property	368,096	5,457	15,864	389,417
Loans	101,533	92	8,982	110,607
Loans	44,776	92	2	44,870
Reclassified loans	13,464	0	1,043	14,507
Bonds classified as loans	43,293	0	7,937	51,230
Financial instruments held to maturity	80,656	0	50	80,706
Government bonds	69,710	0	50	69,760
Covered bonds	8,104	0	0	8,104
Corporate bonds	2,244	0	0	2,244
Bonds from banks	598	0	0	598
Financial instruments reclassified as held to maturity	33,373	0	0	33,373
Government bonds	31,413	0	0	31,413
Covered bonds	1,299	0	0	1,299
Bonds from banks	661	0	0	661
Financial instruments available for sale	656,618	0	83,870	740,488
Bonds	570,976	0	30,485	601,461
Government bonds	276,734	0	17,351	294,085
Covered bonds	45,559	0	438	45,997
Corporate bonds	115,078	0	8,665	123,743
Bonds from banks	94,501	0	2,280	96,781
Subordinated bonds	39,104	0	1,751	40,855
Shares and other participations	30,206	0	33,933	64,139
Investment funds	55,436	0	19,452	74,888
Financial instruments recognised at fair value through profit and loss*	6,708	19,948	22,460	49,116
Bonds	5,790	8,681	379	14,850
Government bonds	2,686	3,414	184	6,284
Corporate bonds	257	508	68	833
Bonds from banks	2,539	3,785	108	6,432
Subordinated bonds	308	974	19	1,301
Shares and other non-fixed-interest securities	534	6,627	1,779	8,940
Investment funds	305	3,429	404	4,138
Derivatives	79	1,211	19,898	21,188
Other investments	124,802	0	15	124,817
Unit-linked and index-linked life insurance	35,553	0	0	35,553
Total	1,427,709	27,761	131,480	1,586,950
thereof participations	6,845		423	7,268

*Including held for trading

EUR 59,302,000 for financial instruments available for sale were reclassified from shareholders' equity to the income statement in the current reporting period.

Composition	2017			
Expenses	Depreciation of investments	Exchange rate differences	Losses from disposal of investments	Total
in EUR '000				
Land and buildings	200,049	0	114	200,163
Self-used land and buildings	20,589	0	17	20,606
Investment property	179,460	0	97	179,557
Loans	6,698	450	7,370	14,518
Loans	6,698	530	0	7,228
Reclassified loans	0	0	98	98
Bonds classified as loans	0	-80	7,272	7,192
Financial instruments held to maturity	429	1,790	0	2,219
Government bonds	0	1,769	0	1,769
Corporate bonds	429	21	0	450
Financial instruments reclassified as held to maturity	0	315	0	315
Government bonds	0	315	0	315
Financial instruments available for sale	8,457	32,425	15,751	56,633
Bonds	316	14,100	3,989	18,405
Government bonds	0	9,825	3,146	12,971
Covered bonds	0	625	226	851
Corporate bonds	315	1,501	296	2,112
Bonds from banks	0	702	244	946
Subordinated bonds	1	1,447	77	1,525
Shares and other participations	6,965	455	994	8,414
Investment funds	1,176	17,870	10,768	29,814
Financial instruments recognised at fair value through profit and loss*	22,747	-1,818	9,386	30,315
Bonds	7,542	40	1,569	9,151
Government bonds	2,855	30	43	2,928
Corporate bonds	670	0	0	670
Bonds from banks	3,413	42	1,526	4,981
Subordinated bonds	604	-32	0	572
Shares and other non-fixed-interest securities	1,625	5	423	2,053
Investment funds	1,518	761	309	2,588
Derivatives	12,062	-2,624	7,085	16,523
Other investments	0	-15,491	40	-15,451
Total	238,380	17,671	32,661	288,712
thereof impairment	35,352			35,352
thereof participations	1,779		105	1,884

*Including held for trading

Interest expenses and other expenses result from items on the liabilities side of the balance sheet or from business operations and therefore cannot be directly allocated to an investment class.

Composition Income	2016 Current income	Income from appreciation	Gains from disposal of investments	Total
in EUR '000				
Land and buildings	202,107	1,121	3,272	206,500
Self-used land and buildings	19,832	1,121	225	21,178
Investment property	182,275	0	3,047	185,322
Loans	115,533	20,387	8,678	144,598
Loans	45,919	19,854	1,390	67,163
Reclassified loans	19,848	533	1,332	21,713
Bonds classified as loans	49,766	0	5,956	55,722
Financial instruments held to maturity	81,752	286	22	82,060
Government bonds	70,579	0	3	70,582
Covered bonds	8,128	0	0	8,128
Corporate bonds	2,324	0	0	2,324
Bonds from banks	720	286	19	1,025
Subordinated bonds	1	0	0	1
Financial instruments reclassified as held to maturity	34,365	0	0	34,365
Government bonds	32,318	0	0	32,318
Covered bonds	1,402	0	0	1,402
Bonds from banks	645	0	0	645
Financial instruments available for sale	654,663	20,820	91,024	766,507
Bonds	575,678	20,820	62,217	658,715
Government bonds	277,652	0	36,617	314,269
Covered bonds	45,786	0	1,680	47,466
Corporate bonds	110,674	648	6,098	117,420
Bonds from banks	102,209	20,000	11,263	133,472
Subordinated bonds	39,357	172	6,559	46,088
Shares and other participations	28,741	0	10,073	38,814
Investment funds	50,244	0	18,734	68,978
Financial instruments recognised at fair value through profit and loss*	5,404	16,756	16,504	38,664
Bonds	4,705	7,765	703	13,173
Government bonds	2,458	3,394	601	6,453
Corporate bonds	132	30	25	187
Bonds from banks	1,824	3,673	15	5,512
Subordinated bonds	291	668	62	1,021
Shares and other non-fixed-interest securities	612	6,012	1,007	7,631
Investment funds	87	2,897	760	3,744
Derivatives	0	82	14,034	14,116
Other investments	108,539	0	207	108,746
Unit-linked and index-linked life insurance	34,648	0	0	34,648
Total	1,237,011	59,370	119,707	1,416,088
thereof participations	6,093		286	6,379

*Including held for trading

EUR 37,182,000 for financial instruments available for sale was reclassified from shareholders' equity to the income statement in the previous reporting period.

Composition	2016			
Expenses	Depreciation of investments	Exchange rate differences	Losses from disposal of investments	Total
in EUR '000				
Land and buildings	107,664	0	809	108,473
Self-used land and buildings	18,263	0	49	18,312
Investment property	89,401	0	760	90,161
Loans	554	-132	5,419	5,841
Loans	554	-132	0	422
Reclassified loans	0	0	170	170
Bonds classified as loans	0	0	5,249	5,249
Financial instruments held to maturity	177	39	0	216
Government bonds	3	55	0	58
Corporate bonds	174	-17	0	157
Subordinated bonds	0	1	0	1
Financial instruments reclassified as held to maturity	0	546	0	546
Government bonds	0	546	0	546
Financial instruments available for sale	24,151	-5,837	19,383	37,697
Bonds	390	-2,291	1,356	-545
Government bonds	0	-1,924	929	-995
Covered bonds	0	-52	16	-36
Corporate bonds	390	-354	379	415
Bonds from banks	0	16	32	48
Subordinated bonds	0	23	0	23
Shares and other participations	11,575	-65	154	11,664
Investment funds	12,186	-3,481	17,873	26,578
Financial instruments recognised at fair value through profit and loss*	17,928	2,835	11,684	32,447
Bonds	6,968	-70	1,650	8,548
Government bonds	2,843	-41	657	3,459
Corporate bonds	320	0	30	350
Bonds from banks	3,408	-29	927	4,306
Subordinated bonds	397	0	36	433
Shares and other non-fixed-interest securities	1,300	0	1,135	2,435
Investment funds	2,097	-431	763	2,429
Derivatives	7,563	3,336	8,136	19,035
Other investments	33	6,914	363	7,310
Total	150,507	4,365	37,658	192,530
thereof impairment	41,710			41,710
thereof participations	9,293			9,293

*Including held for trading

Interest expenses and other expenses result from items on the liabilities side of the balance sheet or from business operations and therefore cannot be directly allocated to an investment class.

17. RESULT FROM SHARES IN AT EQUITY CONSOLIDATED COMPANIES

Composition	2017	2016
in EUR '000		
Income	42,754	46,621
Current result	42,754	43,951
Gains from disposal of investments	0	2,670
Total	42,754	46,621

18. OTHER INCOME

Composition	2017			2016		
Other income	Underwriting	Non-underwriting	Total	Underwriting	Non-underwriting	Total
in EUR '000						
Austria	11,722	26,246	37,968	11,226	7,286	18,512
Czech Republic	46,202	1,084	47,286	38,626	2,662	41,288
Slovakia	5,251	662	5,913	17,974	580	18,554
Poland	2,070	5,966	8,036	4,332	13,723	18,055
Romania	12,399	8,805	21,204	8,331	610	8,941
Baltic states	1,091	847	1,938	158	647	805
Hungary	726	1,893	2,619	648	2,960	3,608
Bulgaria	679	4,899	5,578	924	48	972
Turkey/Georgia	1,201	4,300	5,501	1,700	4,600	6,300
Remaining CEE	5,821	8,586	14,407	4,342	742	5,084
Other Markets	62,542	444	62,986	3,106	351	3,457
Central Functions	477	10,952	11,429	126	25,627	25,753
Consolidation	-1,716	0	-1,716	-880	0	-880
Total	148,465	74,684	223,149	90,613	59,836	150,449

Details of other income	2017	2016
in EUR '000		
Other income	223,149	150,449
thereof compensation for services performed	7,270	12,605
thereof release of other provisions	20,551	27,082
thereof fees of all kinds	25,069	15,479
thereof exchange rate gains	94,429	24,551
thereof reversal of allowances for receivables and receipt of payment for written-off receivables	22,494	25,579
thereof commission income	6,028	6,327

The increase in exchange rate gains over the previous year was mainly caused by larger currency fluctuations, which were due to the Swiss franc being unpegged from the euro. This exchange rate effect is neutral with respect to the Group result, since an offsetting change takes place in the underwriting result.

19. EXPENSES FOR CLAIMS AND INSURANCE BENEFITS

Composition	2017						
	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
in EUR '000							
Expenses for claims and insurance benefits – gross	**3,534,306**	**964,425**	**636,928**	**636,430**	**344,449**	**215,223**	**159,961**
Payments for claims and insurance benefits	3,234,375	1,010,949	551,275	580,068	311,877	161,439	143,790
Changes in the provision for outstanding claims	93,523	-10,221	9,619	12,905	41,841	20,903	8,161
Change in mathematical reserve	109,229	-58,122	74,599	42,071	1,293	32,876	4,795
Change in other underwriting provisions	-374	-3,485	0	-140	-9,937	0	782
Expenses for profit-related and profit-unrelated premium refunds	97,553	25,304	1,435	1,526	-625	5	2,433
Expenses for claims and insurance benefits – reinsurers´ share	**-488,914**	**-172,394**	**-78,905**	**-104,081**	**-95,856**	**-45,258**	**-17,377**
Payments for claims and insurance benefits	-431,797	-183,509	-80,879	-94,286	-79,917	-35,079	-11,634
Changes in the provision for outstanding claims	-53,434	12,852	2,120	-9,823	-15,939	-10,179	-5,379
Change in mathematical reserve	2,384	0	0	28	0	0	0
Change in other underwriting provisions	325	0	0	0	0	0	-364
Expenses for profit-unrelated premium refunds	-6,392	-1,737	-146	0	0	0	0
Expenses for claims and insurance benefits – retention	**3,045,392**	**792,031**	**558,023**	**532,349**	**248,593**	**169,965**	**142,584**
Payments for claims and insurance benefits	2,802,578	827,440	470,396	485,782	231,960	126,360	132,156
Changes in the provision for outstanding claims	40,089	2,631	11,739	3,082	25,902	10,724	2,782
Change in mathematical reserve	111,613	-58,122	74,599	42,099	1,293	32,876	4,795
Change in other underwriting provisions	-49	-3,485	0	-140	-9,937	0	418
Expenses for profit-related and profit-unrelated premium refunds	91,161	23,567	1,289	1,526	-625	5	2,433

Composition	2017						
	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Consolidation	Total
in EUR '000							
Expenses for claims and insurance benefits – gross	79,264	139,287	214,400	268,609	955,536	-782,197	7,366,621
Payments for claims and insurance benefits	78,923	102,902	174,364	207,516	835,521	-757,394	6,635,605
Changes in the provision for outstanding claims	-1,464	36,536	5,853	13,357	120,653	-63,426	288,240
Change in mathematical reserve	1,968	0	34,347	41,144	-692	38,623	322,131
Change in other underwriting provisions	0	-151	-236	-56	0	0	-13,597
Expenses for profit-related and profit-unrelated premium refunds	-163	0	72	6,648	54	0	134,242
Expenses for claims and insurance benefits – reinsurers´ share	-14,826	-59,444	-43,806	-17,325	-137,461	781,614	-494,033
Payments for claims and insurance benefits	-16,545	-34,088	-82,214	-12,178	-91,912	757,446	-396,592
Changes in the provision for outstanding claims	1,711	-25,429	-838	-4,953	-45,450	63,046	-91,695
Change in mathematical reserve	8	0	39,246	-208	-99	-38,878	2,481
Change in other underwriting provisions	0	73	0	14	0	0	48
Expenses for profit-unrelated premium refunds	0	0	0	0	0	0	-8,275
Expenses for claims and insurance benefits – retention	64,438	79,843	170,594	251,284	818,075	-583	6,872,588
Payments for claims and insurance benefits	62,378	68,814	92,150	195,338	743,609	52	6,239,013
Changes in the provision for outstanding claims	247	11,107	5,015	8,404	75,203	-380	196,545
Change in mathematical reserve	1,976	0	73,593	40,936	-791	-255	324,612
Change in other underwriting provisions	0	-78	-236	-42	0	0	-13,549
Expenses for profit-related and profit-unrelated premium refunds	-163	0	72	6,648	54	0	125,967

Composition	2016						
	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
in EUR '000							
Expenses for claims and insurance benefits – gross	3,573,868	910,854	578,544	630,469	343,583	105,548	149,783
Payments for claims and insurance benefits	3,285,802	965,516	530,563	520,350	258,963	65,851	131,081
Changes in the provision for outstanding claims	-9,936	2,149	28,370	-5,518	70,922	6,864	3,656
Change in mathematical reserve	145,638	-75,595	17,464	114,958	13,807	32,849	15,287
Change in other underwriting provisions	0	-7,463	0	29	0	0	-2,628
Expenses for profit-related and profit-unrelated premium refunds	152,364	26,247	2,147	650	-109	-16	2,387
Expenses for claims and insurance benefits – reinsurers´ share	-382,938	-172,430	-86,726	-87,822	-97,188	-20,392	-17,432
Payments for claims and insurance benefits	-433,957	-177,183	-68,138	-87,821	-72,613	-14,943	-19,170
Changes in the provision for outstanding claims	54,288	3,668	-17,721	-28	-24,575	-5,449	1,140
Change in mathematical reserve	850	7	0	27	0	0	0
Change in other underwriting provisions	0	0	0	0	0	0	592
Expenses for profit-unrelated premium refunds	-4,119	1,078	-867	0	0	0	6
Expenses for claims and insurance benefits – retention	3,190,930	738,424	491,818	542,647	246,395	85,156	132,351
Payments for claims and insurance benefits	2,851,845	788,333	462,425	432,529	186,350	50,908	111,911
Changes in the provision for outstanding claims	44,352	5,817	10,649	-5,546	46,347	1,415	4,796
Change in mathematical reserve	146,488	-75,588	17,464	114,985	13,807	32,849	15,287
Change in other underwriting provisions	0	-7,463	0	29	0	0	-2,036
Expenses for profit-related and profit-unrelated premium refunds	148,245	27,325	1,280	650	-109	-16	2,393

Composition	2016						
	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Consolidation	Total
in EUR '000							
Expenses for claims and insurance benefits – gross	72,475	127,744	207,350	272,994	842,429	-730,564	7,085,077
Payments for claims and insurance benefits	65,569	104,856	160,511	231,594	778,446	-693,288	6,405,814
Changes in the provision for outstanding claims	-320	22,580	-760	11,697	63,247	-35,719	157,232
Change in mathematical reserve	7,090	0	47,541	26,425	726	-1,557	344,633
Change in other underwriting provisions	0	308	510	71	0	0	-9,173
Expenses for profit-related and profit-unrelated premium refunds	136	0	-452	3,207	10	0	186,571
Expenses for claims and insurance benefits – reinsurers´ share	-13,209	-50,797	-45,550	-17,953	-73,691	734,500	-331,628
Payments for claims and insurance benefits	-13,712	-38,187	-49,149	-13,861	-88,228	694,571	-382,391
Changes in the provision for outstanding claims	506	-12,443	4,788	-4,164	14,532	38,367	52,909
Change in mathematical reserve	-3	0	-1,189	89	5	1,562	1,348
Change in other underwriting provisions	0	-167	0	-17	0	0	408
Expenses for profit-unrelated premium refunds	0	0	0	0	0	0	-3,902
Expenses for claims and insurance benefits – retention	59,266	76,947	161,800	255,041	768,738	3,936	6,753,449
Payments for claims and insurance benefits	51,857	66,669	111,362	217,733	690,218	1,283	6,023,423
Changes in the provision for outstanding claims	186	10,137	4,028	7,533	77,779	2,648	210,141
Change in mathematical reserve	7,087	0	46,352	26,514	731	5	345,981
Change in other underwriting provisions	0	141	510	54	0	0	-8,765
Expenses for profit-related and profit-unrelated premium refunds	136	0	-452	3,207	10	0	182,669

20. ACQUISITION AND ADMINISTRATIVE EXPENSES

Composition	2017						
	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
in EUR '000							
Acquisition expenses	**627,558**	**410,364**	**115,838**	**165,888**	**110,927**	**59,317**	**38,613**
Commission expenses	372,880	284,931	86,228	140,682	77,750	42,611	30,834
Pro rata personnel expenses	136,705	75,915	15,568	16,538	19,351	12,007	4,105
Pro rata material expenses	117,973	49,518	14,042	8,668	13,826	4,699	3,674
Administrative expenses	**165,857**	**63,245**	**27,121**	**42,258**	**12,136**	**23,850**	**17,902**
Pro rata personnel expenses	71,425	30,682	11,746	19,687	6,281	14,906	7,535
Pro rata material expenses	94,432	32,563	15,375	22,571	5,855	8,944	10,367
Received reinsurance commissions	-146,086	-112,223	-35,588	-49,302	-18,251	-16,072	-14,583
Total	**647,329**	**361,386**	**107,371**	**158,844**	**104,812**	**67,095**	**41,932**

Composition	2017						
	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Consolidation	Total
in EUR '000							
Acquisition expenses	37,580	31,733	91,036	38,397	389,088	-347,285	1,769,054
Commission expenses	30,132	22,573	58,271	33,539	381,915	-347,285	1,215,061
Pro rata personnel expenses	4,637	5,890	18,962	2,524	4,048	0	316,250
Pro rata material expenses	2,811	3,270	13,803	2,334	3,125	0	237,743
Administrative expenses	5,429	10,081	32,061	9,519	5,207	0	414,666
Pro rata personnel expenses	2,683	6,157	14,251	5,073	330	0	190,756
Pro rata material expenses	2,746	3,924	17,810	4,446	4,877	0	223,910
Received reinsurance commissions	-4,208	-22,098	-29,824	-18,081	-27,867	350,745	-143,438
Total	38,801	19,716	93,273	29,835	366,428	3,460	2,040,282

Composition	2016						
	Austria	Czech Republic	Slovakia	Poland	Romania	Baltic states	Hungary
in EUR '000							
Acquisition expenses	620,376	399,154	111,147	150,183	109,127	29,250	34,868
Commission expenses	367,394	276,996	83,255	125,922	81,635	25,182	26,856
Pro rata personnel expenses	136,585	70,400	13,782	14,863	16,913	2,284	3,798
Pro rata material expenses	116,397	51,758	14,110	9,398	10,579	1,784	4,214
Administrative expenses	150,306	60,497	25,348	43,507	13,720	10,088	16,626
Pro rata personnel expenses	67,464	27,991	10,530	20,186	7,268	6,391	6,462
Pro rata material expenses	82,842	32,506	14,818	23,321	6,452	3,697	10,164
Received reinsurance commissions	-151,674	-108,875	-36,085	-35,237	-32,262	-4,176	-13,227
Total	619,008	350,776	100,410	158,453	90,585	35,162	38,267

Composition	2016						
	Bulgaria	Turkey/ Georgia	Remaining CEE	Other Markets	Central Functions	Consolidation	Total
in EUR '000							
Acquisition expenses	33,253	35,172	81,264	34,997	363,599	-337,113	1,665,277
Commission expenses	25,663	25,842	49,696	30,148	360,686	-337,113	1,142,162
Pro rata personnel expenses	4,501	6,010	18,701	2,514	1,259	0	291,610
Pro rata material expenses	3,089	3,320	12,867	2,335	1,654	0	231,505
Administrative expenses	4,981	11,205	31,291	9,374	4,427	0	381,370
Pro rata personnel expenses	2,340	6,613	14,069	4,971	1,603	0	175,888
Pro rata material expenses	2,641	4,592	17,222	4,403	2,824	0	205,482
Received reinsurance commissions	-6,204	-23,774	-29,262	-19,152	-23,069	344,155	-138,842
Total	32,030	22,603	83,293	25,219	344,957	7,042	1,907,805

21. OTHER EXPENSES

Composition	2017			2016		
Other expenses	Underwriting	Non-underwriting	Total	Underwriting	Non-underwriting	Total
in EUR '000						
Austria	9,335	20,279	29,614	12,571	8,826	21,397
Czech Republic	40,007	3,137	43,144	30,954	4,584	35,538
Slovakia	17,631	80	17,711	27,779	400	28,179
Poland	7,381	14,726	22,107	6,867	12,336	19,203
Romania	24,442	26,094	50,536	22,476	10,722	33,198
Baltic states	6,740	5,710	12,450	3,046	1,236	4,282
Hungary	8,473	6,033	14,506	7,691	2,939	10,630
Bulgaria	4,646	9,728	14,374	4,917	7,049	11,966
Turkey/Georgia	817	6,356	7,173	1,024	5,814	6,838
Remaining CEE	9,235	23,078	32,313	12,489	9,623	22,112
Other Markets	27,285	933	28,218	30,467	2,024	32,491
Central Functions	958	29,243	30,201	530	13,431	13,961
Consolidation	-19	-756	-775	-1,009	-6,260	-7,269
Total	156,931	144,641	301,572	159,802	72,724	232,526

Details of other expenses	2017	2016
in EUR '000		
Other expenses	301,572	232,526
thereof impairment (not including investments)	44,967	45,556
thereof write-downs of the insurance portfolio and customer base	19,919	10,534
thereof brokering expenses	22,259	22,049
thereof underwriting taxes	26,074	36,318
thereof exchange rate losses	42,896	24,496
thereof other contributions and fees	15,254	16,485
thereof expenses for government-imposed contributions	23,837	20,951
thereof impairment of goodwill and trademarks*	27,262	12,099

*The impairment in the current reporting year mainly concern the CGU groups Ukraine, Moldova and Albania incl. Kosovo as well as the Asirom trademark. The impairment in the previous year mainly concerns the CGU group Bosnia-Herzegovina and Asirom trademark.

22. TAXES

Composition	2017	2016
in EUR '000		
Actual taxes	89,287	91,702
from the current period	105,400	98,635
from previous periods	-16,113	-6,933
Deferred taxes	-19,329	-5,958
Change of deferred taxes in the current year	-10,212	-14,736
Deferred taxes due to temporary differences relating to other periods	-9,265	8,954
Deferred taxes due to loss carry forwards relating to other periods	148	-176
Total	69,958	85,744

Reconciliation	2017	2016
in EUR '000		
Expected tax rate in %	25.0%	25.0%
Result before taxes	442,549	406,734
Expected tax expenses	110,637	101,684
Adjusted for tax effects due to:		
Different local tax rate	-21,682	-18,378
Change of tax rates	-6,212	624
Non-deductible expenses	53,636	28,957
Income not subject to tax	-58,157	-30,477
Taxes from previous years	-25,230	1,845
Non-recognition/reduction of deferred tax assets due to temporary differences	-480	-58
Non-recognition/reduction of deferred tax assets due to loss carry forwards	-6,650	-7,995
Effects due to group taxation/profit transfers	4,425	-10,857
Tax effects due to deferred profit participation	12,294	14,829
Others	7,377	5,570
Effective tax expenses	69,958	85,744
Effective tax rate in %	15.8%	21.1%

The income tax rate of the parent company VIG Holding is used as the Group tax rate.

ADDITIONAL DISCLOSURES

23. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT HIERARCHY

Information on the nature and extent of risks arising from financial instruments is provided in the section titled Financial instruments and risk management on page 133.

Fair value and book value of financial instruments and other investments
The table below shows the book values and fair values of holdings of financial instruments and other investments:

Fair values and book values of financial instruments and other investments	2017				
	Book value	Level 1	Level 2	Level 3	Fair value
in EUR '000					
Land and buildings excluding non-profit societies	2,070,171	0	72,101	3,180,883	3,252,984
Self-used land and buildings	430,906	0	40,432	634,323	674,755
Investment property	1,639,265	0	31,669	2,546,560	2,578,229
Investment property held by non-profit societies	3,614,427				
Shares in at equity consolidated companies	298,149				
Loans	2,588,679	261,277	2,479,234	196,127	2,936,638
Loans	1,394,260	0	1,330,410	181,086	1,511,496
Reclassified loans	241,511	127,478	160,665	0	288,143
Bonds classified as loans	952,908	133,799	988,159	15,041	1,136,999
Other securities	26,683,093	23,571,234	3,209,867	312,333	27,093,434
Financial instruments held to maturity	2,443,702	2,367,296	360,487	8,426	2,736,209
Financial instruments reclassified as held to maturity	683,747	782,948	18,633	0	801,581
Financial instruments available for sale	23,220,303	20,259,701	2,696,134	264,468	23,220,303
Financial instruments recognised at fair value through profit and loss[1]	335,341	161,289	134,613	39,439	335,341
Other investments	678,388				
Investments for unit-linked and index-linked life insurance	9,061,073	9,061,073			9,061,073
Subordinated liabilities	1,458,839	0	1,515,965	21,732	1,537,697
Liabilities to financial institutions	1,201,031				1,201,031
thereof non-profit societies	1,040,498				1,040,498
Financing liabilities[2]	1,476,569				1,476,569
thereof non-profit societies	1,417,446				1,417,446

[1] Including held for trading
[2] Not including lease liabilities and derivative liabilities

The book values were generally used for the fair value of the financial liabilities (except for subordinated liabilities), which were primarily due to the non-profit societies, as no market exists for property subject to the Austrian Non-Profit Housing Act (WGG). The same applies to their financing loans and bonds, whose terms are determined by the special nature of the non-profit sector and consequently are not available in this form to companies outside this sector. As a result, no market can be found for these forms of financing either.

Fair values and book values of financial instruments and other investments	2016				
	Book value	Level 1	Level 2	Level 3	Fair value
in EUR '000					
Land and buildings excluding non-profit societies	2,038,894	0	70,499	3,056,741	3,127,240
Self-used land and buildings	429,484	0	37,400	610,665	648,065
Investment property	1,609,410	0	33,099	2,446,076	2,479,175
Investment property held by non-profit societies	3,562,729				
Shares in at equity consolidated companies	269,699				
Loans	2,777,645	424,847	2,721,444	37,635	3,183,926
Loans	1,397,395	0	1,529,603	15,233	1,544,836
Reclassified loans	339,591	238,555	159,290	0	397,845
Bonds classified as loans	1,040,659	186,292	1,032,551	22,402	1,241,245
Other securities	25,378,360	22,532,287	3,174,206	326,828	26,033,321
Financial instruments held to maturity	2,330,071	2,466,364	321,614	9,702	2,797,680
Financial instruments reclassified as held to maturity	735,751	865,916	57,187	0	923,103
Financial instruments available for sale	21,851,248	18,943,142	2,650,989	257,117	21,851,248
Financial instruments recognised at fair value through profit and loss[1]	461,290	256,865	144,416	60,009	461,290
Other investments	618,929				
Investments for unit-linked and index-linked life insurance	8,549,580	8,549,580			8,549,580
Subordinated liabilities	1,265,009	0	1,277,003	20,807	1,297,810
Liabilities to financial institutions	1,304,901				1,304,901
thereof non-profit societies	1,065,466				1,065,466
Financing liabilities[2]	1,525,964				1,525,964
thereof non-profit societies	1,374,064				1,374,064

1 Including held for trading
2 Not including lease liabilities and derivative liabilities

Land and buildings – market value	31.12.2017	31.12.2016
in EUR '000		
Fair value of self-used land and buildings	674,755	648,065
evaluated by an independent expert	281,886	254,829
evaluated by an internal expert	392,869	393,236
Fair value of investment property, not including non-profit societies	2,578,229	2,479,175
evaluated by an independent expert*	847,393	793,629
evaluated by an internal expert	1,730,836	1,685,546

*This corresponds to 32.87% (32.01%) of the fair value of investment property, not including the non-profit societies.

Measurement process

The measurement process aims to determine fair value using price quotations that are publicly available in active markets or valuations based on recognised economic models using observable inputs. If public price quotations and observable market data are not available for a financial asset, the asset is generally measured using valuation reports prepared by appraisers (e.g. expert reports). The organisational units responsible for appraisal of investments are independent of the units that assume the risk exposure of the investments, thereby ensuring separation of functions and responsibilities.

As a rule, the aim is to use the same price within the Group to value a particular security on each valuation date. In practice, however, situations occur when the cost of process compliance would be inappropriate. For example, the local provisions in some countries (in which the Group operates) require the insurance companies there to use prices on the local stock exchange to value certain investments. In this case, if the same security is held by other Group companies, these companies might use another price source for valuation.

Institutional funds are another example where uniform valuation can only be achieved at an inordinately high cost. The Austrian companies hold varying amounts of institutional funds that are required under the IFRS to be included in the consolidated financial statements. However, the valuation logic of an institutional fund requires the fund value (NAV) on a particular date to be calculated using the (in general, closing) prices on the previous day. In this case, a security that is both held in an institutional fund and directly held will be valued using different prices.

The following items are measured at fair value:

- Financial instruments available for sale,
- Financial instruments recognised at fair value through profit and loss (incl. held for trading),
- Derivative financial instruments (assets/liabilities) and
- Investments for unit-linked and index-linked life insurance.

Balance sheet items that are not reported at fair value are subject to non-recurring measurement at fair value. These items are measured at fair value when events occur that indicate that the book value might no longer be recoverable (impairment). The following items are not reported at fair value:

- Financial instruments held to maturity,
- Shares in at equity consolidated companies,
- Land and buildings (self-used and investment property),
- Loans and
- Receivables.

REAL ESTATE VALUATION

The following valuation methods are used to calculate the fair value of real estate in the Group:

- the capitalised earnings method,
- asset value method and
- discounted cash flow method.

Each time valuation is performed, the methods are verified, which allows the fair value of a property to be calculated. The Group mainly uses the capitalised earnings method. Less frequently, the asset value method, discounted cash flow method or a mixed method combining the capitalised earnings and asset value methods is used, provided they can be used to determine the highest and best use value for the property type. The mixed method is used if no single method results in a representative value on the analysis date. Old lease agreements or an under-rent situation are reasons for this.

Capitalised earnings method

In this method, the value of a property is determined by using an appropriate interest rate to capitalise expected or received future gross profits over the expected useful life. The net operating income is calculated by deducting actual operating, maintenance and administrative expenses (management expenses). An allowance for lost rental income and any liquidation proceeds and costs are also taken into account. The rate used to calculate capitalised earnings is based on the achievable return on investment. Net operating income minus the return on the land is capitalised at this rate over the remaining useful life to calculate the capitalised earnings value of the physical facilities. This is added to the land value to calculate the total capitalised earnings value of the property.

Asset value method

The asset value method is comprised of the land value, building value, the value of outdoor facilities and the value of existing annexes and represents a market-oriented method. This method is generally used to calculate the value of undeveloped properties, or developed properties when the property is not primarily being used to earn income and the replacement costs of the individual parts of the property are important to a prospective buyer.

Discounted cash flow method

The discounted cash flow method is a valuation method that discounts cash flows during the forecast phase (phase I) back to the valuation date. Discounting is performed using a rate for a comparable risky investment with property- and market-specific premiums. The gross profit for the year plus vacancy rental (at current market rent) minus non-allocatable management costs equals the net operating income for the year. The method allows precise analysis of the individual years of the initial forecast phase so that investments and vacancies to be assigned to individual years and accounted for in advance. In phase II, the proceeds from a fictitious disposal at the end of the forecast phase (max. 10 years) are calculated by capitalising future cash flows. The rate used for this calculation is the rate for a comparably risky investment plus market- and property-specific premiums, less the expected increase in value.

OTHER DISCLOSURES ABOUT THE VALUATION PROCESS

The use of different pricing models and assumptions can lead to differing results for fair value. Changes in the estimates and assumptions used to determine the fair value of assets in cases where no market price quotations are available may necessitate a write-up or write-down of the book value of the assets in question and recognition of the corresponding income or expense on the income statement.

Certain investments whose fair value is normally not measured repeatedly, are measured a single time at fair value when events or changes in circumstances indicate that the book value might no longer be recoverable. If financial assets are measured at fair value when impairment is recognised or fair value minus selling costs is used as a measurement basis in accordance with IFRS 5, a disclosure to this effect is included in Note 16. Financial result excluding at equity consolidated companies on page 187 or Note 21. Other expenses on page 201.

Reclassification of financial instruments

The Group companies regularly review the validity of the last fair value classification performed on each valuation date. A reclassification is performed, for example, if needed inputs are no longer directly observable in the market.

Reclassifications between Level 1 and 2 primarily occur if liquidity, trading frequency or trading activity of the particular financial instrument once again, or no longer allows to conclude the existence of an active market. For example, the market maker for a security changes frequently, with corresponding changes on liquidity. A similar example is when shares are included in (or removed from) an index that acts as a benchmark for many funds. The classification can also change in this case. As a result of the decentralised organisation of the Group, the classifications are generally reviewed by the local companies at the end of the period. Any reclassifications are presented as if they had taken place at the end of the period.

Reclassification of financial instruments	2017				
	Between Level 1 and Level 2	Level 3 to Level 1	Level 1 to Level 3	Level 3 to Level 2	Level 2 to Level 3
Number					
Financial instruments available for sale	22	5	10	7	8
Financial instruments recognised at fair value through profit and loss*	2	0	3	0	0
Total	24	5	13	7	8

*Including held for trading

The reclassifications between Level 1 and Level 2 are primarily due to changes in liquidity, trading frequency and trading activity. The reclassifications to Level 3 were performed due to consolidation effects between the measurement hierarchies, and reclassifications from Level 3 to Level 1 in the financial instruments available for sale category were performed for the same reason.

Reclassification of financial instruments	2016				
	Between Level 1 and Level 2	Level 3 to Level 1	Level 1 to Level 3	Level 3 to Level 2	Level 2 to Level 3
Number					
Financial instruments available for sale	42	1	0	5	106
Financial instruments recognised at fair value through profit and loss*	7	0	0	0	0
Total	49	1	0	5	106

*Including held for trading

Reclassifications between Level 1 and Level 2 were primarily due to changes in liquidity, trading frequency and trading activity, but also resulted from a harmonisation of measurement hierarchies due to the introduction of Solvency II, and consolidation effects between the measurement hierarchies. The harmonisation of hierarchies due to the introduction of Solvency II also led to reclassifications between Level 3 and Level 2 in the financial instruments available for sale category. The reclassification from Level 3 to Level 1 in the financial instruments available for sale category was due to consolidation effects.

Unobservable input factors

Asset class	Measurement methods	Unobservable input factors	Range
Real estate	Market value	Capitalisation rate	1%–7%
		Rental income	EUR 3,000–EUR 3,703,000
		Land prices	EUR 0–EUR 5,000
	Discounted Cash flow	Capitalisation rate	4.00%–9.75%
		Rental income	EUR 88,000–EUR 4,090,000

Hierarchy for financial instruments measured at fair value

Measurement hierarchy	Level 1		Level 2		Level 3	
Financial instruments recognised at fair value	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
in EUR '000						
Financial assets						
Financial instruments available for sale	20,259,701	18,943,142	2,696,134	2,650,989	264,468	257,117
Bonds	17,693,862	16,715,094	2,559,555	2,505,492	58,129	54,997
Shares and other participations	534,841	441,393	92,359	95,101	206,339	202,120
Investment funds	2,030,998	1,786,655	44,220	50,396	0	0
Financial instruments recognised at fair value through profit and loss*	161,289	256,865	134,613	144,416	39,439	60,009
Bonds	80,713	164,260	112,607	124,129	14,209	17,752
Shares and other non-fixed-interest securities	21,746	21,223	19,887	16,619	0	0
Investment funds	57,738	71,350	938	837	3,169	1,175
Derivatives	1,092	32	1,181	2,831	22,061	41,082
Investments for unit-linked and index-linked life insurance	9,061,073	8,549,580				

*Including held for trading

The unrealised effect on the result (net profit or loss) from Level 3 financial instruments that are still in the portfolio and whose fair value is recognised in the income statement was EUR -11,153,000 during the reporting year (EUR -6,227,000).

Sensitivities

With respect to the value of shares measured using a Level 3 method (multiples approach), the Group assumes that alternative inputs and alternative methods do not lead to significant changes in value.

Due to a lack of available data, no sensitivity analysis information can be provided for the other securities whose fair value in Level 3 has been determined by independent third parties.

The following sensitivities result from calculations using the Solvency II partial internal model:

Sensitivities – real estate	Fair Value
in EUR millions	
Fair value at 31.12.2017	2,454.3
Rental income -5%	2,366.5
Rental income +5%	2,545.0
Capitalisation rate -50bp	2,584.8
Capitalisation rate +50bp	2,343.7
Land prices -5%	2,426.5
Land prices +5%	2,484.2

Since real estate is measured at cost in the VIG balance sheet, negative sensitivities would only affect the income statement if property value fell below book value. Other comprehensive income was therefore unaffected.

Reconciliation of financial assets and liabilities

Development of financial instruments by Level	Financial instruments available for sale					
	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
in EUR '000						
Fair value at 31.12. des Vorjahres	18,943,142	2,650,989	257,117	17,750,295	2,763,552	135,634
Exchange rate differences	27,737	6,480	589	-11,312	1,742	-847
Fair value at 1.1.	18,970,879	2,657,469	257,706	17,738,983	2,765,294	134,787
Reclassification between securities categories	-1,655	0	-9,021	12,076	-230	-660
Reclassification to Level	14,168	108,277	30,475	194,727	172,035	117,274
Reclassification from Level	-115,421	-17,727	-19,772	-125,383	-309,054	-49,599
Additions	3,813,979	332,764	40,884	3,644,530	167,319	75,989
Disposals	-2,515,668	-404,569	-46,451	-2,855,790	-360,741	-17,799
Change in the scope of consolidation	46,066	16	208	-123,407	129,673	-2,389
Changes in value recognised in profit and loss	0	0	0	648	20,019	153
Changes recognised directly in equity	51,827	21,833	12,493	462,928	75,143	8,873
Impairment	-4,474	-1,929	-2,054	-6,170	-8,469	-9,512
Fair value at 31.12.	20,259,701	2,696,134	264,468	18,943,142	2,650,989	257,117

Development of financial instruments by Level	Financial instruments recognised at fair value through profit and loss*					
	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
in EUR '000						
Fair value at 31/12 of the previous year	256,865	144,416	60,009	171,891	162,097	66,796
Exchange rate differences	2,001	3,236	332	-3,218	472	1
Fair value at 1.1.	258,866	147,652	60,341	168,673	162,569	66,797
Reclassification between securities categories	-1,988	0	0	11,259	0	0
Reclassification to Level	1,749	129	1,846	17,255	8,647	0
Reclassification from Level	-1,846	-1,749	-129	-8,647	-17,255	0
Additions	140,490	31,087	2,801	169,445	128,522	4,923
Disposals	-239,726	-47,418	-14,078	-212,172	-143,910	-5,452
Change in the scope of consolidation	0	0	0	108,887	2,214	0
Changes in value recognised in profit and loss	3,744	4,912	-11,342	2,165	3,629	-6,259
Changes recognised directly in equity	0	0	0	0	0	0
Fair value at 31.12.	161,289	134,613	39,439	256,865	144,416	60,009

*Including held for trading

Please refer to Note 16. Financial result excluding at equity consolidated companies on page 187 for information on the effects of changes in value recognised in profit and loss.

Development of financial instruments assigned to Level 3	Subordinated liabilities	
	31.12.2017	31.12.2016
in EUR '000		
Fair value at 31.12. of the previous year	20,807	20,761
Exchange rate differences	1,202	83
Fair value at 1.1.	22,009	20,844
Additions	0	98
Changes in value recognised in profit and loss	-277	-135
Fair value at 31.12.	21,732	20,807

24. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

Employee statistics	2017	2016
Number		
Austria	5,141	5,170
Field staff	2,806	2,787
Office staff	2,335	2,383
Czech Republic	4,895	4,762
Field staff	3,071	2,949
Office staff	1,824	1,813
Slovakia	1,752	1,678
Field staff	887	826
Office staff	865	852
Poland	1,576	1,586
Field staff	763	784
Office staff	813	802
Romania	1,954	1,991
Field staff	1,163	1,187
Office staff	791	804
Baltic states	1,285	1,281
Field staff	629	622
Office staff	656	659
Hungary	468	464
Field staff	35	36
Office staff	433	428
Bulgaria	867	834
Field staff	289	285
Office staff	578	549
Turkey/Georgia	1,081	888
Field staff	659	480
Office staff	422	408
Remaining CEE	4,741	4,720
Field staff	3,300	3,301
Office staff	1,441	1,419
Other Markets	130	126
Field staff	7	7
Office staff	123	119
Central Functions	1,169	1,101
Office staff	1,169	1,101
Total	25,059	24,601
thereof field staff	13,609	13,264
thereof office staff	11,450	11,337

The employee figures shown are average values based on full-time equivalents.

The number of employees in the Central Functions segment includes 682 employees of the non-profit societies.

Personnel expenses	2017	2016
in EUR '000		
Wages and salaries	506,741	448,316
Expenses for severance benefits and payments to company pension plans	7,139	10,975
Expenses for retirement provisions	17,192	15,320
Mandatory social security contributions and expenses	156,159	139,342
Other social security expenses	18,039	15,258
Total	705,270	629,211
thereof field staff	312,239	286,088
thereof office staff	393,031	343,123

Supervisory board and managing board compensation (gross)	2017	2016
in EUR '000		
Compensation paid to Supervisory Board members	494	429
Total payments to former members of the Managing Board or their survivors	719	2,771
Provision for future pension and severance obligations of Managing Board members	1,588	2,168
Provision for other future long-term claims of Managing Board members	2,392	2,545
Compensation paid to active Managing Board members	4,511	3,942
Total	9,704	11,855

Compensation plan for members of the Managing Board

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 financial year.

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

Large parts of the performance-related compensation are only paid after a delay. The delay for financial year 2017 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 aspects of corporate governance that express social responsibility in practice, in particular the “Social Active Day”.

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

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

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

The standard employment contract for a member of the Managing Board 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 compensation). 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 period of time provide for a severance payment entitlement 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 of his or her own volition before retirement is possible, or leaves due to a fault of his or her own, is not entitled to a severance payment.

The provisions of the Austrian Employee and-Employment Provisions Act apply to the remaining Managing Board contracts.

Members of the Managing Board are provided a company car for both business and personal use. The members of the Managing Board received EUR 4,511,000 (EUR 3,942,000) from the Company during the reporting period for their services. The members of the Managing Board received EUR 608,000 (EUR 641,000) from subsidiaries during the reporting period.

Former members of the Managing Board received EUR 719,000 (EUR 2,771,000). Former members of the Managing Board received EUR 347,000 (EUR 95,000) from subsidiaries during the reporting period.

During financial year 2017, the Managing Board had six members in the first half of the year and five members in the second half of the year.

25. AUDITING FEES AND AUDITING SERVICES

Composition	2017	2016
in EUR '000		
Audit of consolidated financial statements	243	243
Audit of parent company financial statements	56	56
Other audit services	357	769
Tax advisory fees	6	56
Other fees	354	541
Total	**1,016**	1,665

26. BODIES OF THE COMPANY

The Supervisory Board had the following Members:

Chairman:
Günter **Geyer**

1st Deputy Chairman:
Rudolf **Ertl** (since 1 May 2017. Member until 30 April 2017)
Karl **Skyba** (1st Deputy Chairman until 30 April 2017, resigned from his position in the Supervisory Board effective the date of formal approval by the Vienna Insurance Group General Meeting on 12 May 2017)

2nd Deputy Chairwoman:
Maria **Kubitschek**

Members:
Bernhard **Backovsky**
Martina **Dobringer**
Gerhard **Fabisch** (since 12 May 2017)
Heinz **Öhler**
Reinhard **Ortner** († 21 January 2017)
Georg **Riedl**
Gabriele **Semmelrock-Werzer** (since 12 May 2017)
Gertrude **Tumpel-Gugerell**

The Managing Board had the following Members:

Chairwoman:
Elisabeth **Stadler**

Members:
Franz **Fuchs**
Roland **Gröll** (until 30 June 2017)
Judit **Havasi**
Liane **Hirner** (since 1 February 2018)
Peter **Höfinger**
Martin **Simhandl**

27. PARTICIPATIONS – DETAILS

Affiliated companies and participations of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

Company	Country of domicile	Equity interest 2017[1]	Equity interest 2016[1]	Equity 2017[2]	Equity 2016[2]
		in %	in %	in EUR '000	in EUR '000
Fully consolidated companies					
"BULSTRAD LIFE VIENNA INSURANCE GROUP" JOINT STOCK COMPANY, Sofia	Bulgaria	100.00	100.00	14,825	9,271
"Grüner Baum" Errichtungs- und Verwaltungsges.m.b.H., Vienna	Austria	100.00	100.00	39,844	38,826
"POLISA-ŻYCIE" Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw	Poland	99.90	99.43	15,821	13,523
"Schwarzatal" Gemeinnützige Wohnungs- und Siedlungsanlagen-GmbH, Vienna	Austria	100.00	100.00	137,705	130,026
"WIENER RE" akcionarsko društvo za reosiguranje, Belgrade	Serbia	100.00	100.00	7,173	7,059
Alpenländische Heimstätte, gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H., Innsbruck	Austria	94.84	94.84	168,210	155,033
Anděl Investment Praha s.r.o., Prague	Czech Republic	100.00	100.00	27,197	25,774
Anif-Residenz GmbH & Co KG, Vienna	Austria	100.00	100.00	14,844	14,752
Arithmetica Versicherungs- und Finanzmathematische Beratungs-Gesellschaft m.b.H., Vienna	Austria	100.00	100.00	571	571
Asigurarea Românească - ASIROM Vienna Insurance Group S.A., Bucharest	Romania	99.65	99.65	99,106	98,526
ATBIH GmbH, St. Pölten	Austria	100.00	100.00	163,366	181,677
AXA Life Insurance S.A., Bucharest	Romania	100.00		16,999	
BČR Asigurări de Viață Vienna Insurance Group S.A., Bucharest	Romania	93.98	93.98	36,384	34,130
Blizzard Real Sp. z o.o., Warsaw	Poland	100.00	100.00	4,841	3,792
BML Versicherungsmakler GmbH, Vienna	Austria	100.00	100.00	773,866	773,871
BTA Baltic Insurance Company AAS, Riga	Latvia	90.83	90.00	54,498	34,053
Bulgarski Imoti Asistans EOOD, Sofia	Bulgaria	100.00	100.00	-521	-480
Businesspark Brunn Entwicklungs GmbH, Vienna	Austria	100.00	100.00	33,249	30,618
CAL ICAL "Globus", Kiev	Ukraine	100.00	100.00	2,407	1,823
CAPITOL, akciová spoločnosť, Bratislava	Slovakia	100.00	100.00	688	455
CENTER Hotelbetriebs GmbH, Vienna	Austria	80.00	80.00	-513	-544
Central Point Insurance IT-Solutions GmbH, Vienna	Austria	100.00	100.00	7,217	20,788
Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group, Prague	Czech Republic	100.00	100.00	101,946	92,724
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chişinău	Moldova	99.99	99.99	4,466	3,285
COMPENSA Holding GmbH, Wiesbaden	Germany	100.00	100.00	54,573	58,055
Compensa Life Vienna Insurance Group SE, Tallinn	Estonia	100.00	100.00	36,037	34,625
Compensa Towarzystwo Ubezpieczeń Na Życie S.A. Vienna Insurance Group, Warsaw	Poland	100.00	100.00	47,659	42,794
Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw	Poland	99.94	99.94	94,738	72,218
Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Vilnius	Lithuania	100.00	100.00	21,161	24,298
CP Solutions a.s., Prague	Czech Republic	100.00		15,761	
DBLV Immobesitz GmbH, Vienna	Austria	100.00	100.00	41	39
DBLV Immobesitz GmbH & Co KG, Vienna	Austria	100.00	100.00	1,691	1,686
DBR-Liegenschaften GmbH & Co KG, Stuttgart	Germany	100.00	100.00	10,492	10,225
DBR-Liegenschaften Verwaltungs GmbH, Stuttgart	Germany	100.00	100.00	21	22
Deutschmeisterplatz 2 Objektverwaltung GmbH, Vienna	Austria	100.00	100.00	3,018	3,041
Donau Brokerline Versicherungs-Service GmbH, Vienna	Austria	100.00	100.00	90,556	90,560

Company	Country of domicile	Equity interest 2017[1]	Equity interest 2016[1]	Equity 2017[2]	Equity 2016[2]
		in %	in %	in EUR '000	in EUR '000
DONAU Versicherung AG Vienna Insurance Group, Vienna	Austria	99.24	99.24	90,654	84,538
DVIB GmbH, Vienna	Austria	100.00	100.00	89,419	89,371
ELVP Beteiligungen GmbH, Vienna	Austria	100.00	100.00	23,317	25,060
Erste gemeinnützige Wohnungsgesellschaft Heimstätte Gesellschaft m.b.H., Vienna	Austria	99.77	99.77	277,343	260,531
Erste osiguranje Vienna Insurance Group d.d., Zagreb	Croatia	100.00	95.00	16,903	14,339
ERSTE Vienna Insurance Group Biztosító Zrt., Budapest	Hungary	95.00	95.00	8,229	7,853
Gemeinnützige Industrie-Wohnungsaktiengesellschaft, Leonding	Austria	55.00	55.00	274,295	260,155
Gemeinnützige Mürz-Ybbs Siedlungsanlagen-GmbH, Kapfenberg	Austria	99.92	99.92	121,817	114,477
Gesundheitspark Wien-Oberlaa Gesellschaft m.b.H., Vienna	Austria	100.00	100.00	29,391	28,790
IM31 Floridsdorf am Spitz GmbH, Salzburg	Austria	100.00	100.00	18,895	18,351
Insurance Company Nova Ins EAD, Sofia	Bulgaria	100.00	100.00	6,192	4,193
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia	Bulgaria	100.00	99.38	38,055	32,857
International Insurance Company "IRAO" LTD, Tbilisi	Georgia	100.00	100.00	4,179	4,236
InterRisk Lebensversicherungs-AG Vienna Insurance Group, Wiesbaden	Germany	100.00	100.00	23,518	23,518
InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw	Poland	99.99	99.98	88,171	76,055
InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden	Germany	100.00	100.00	49,970	48,400
INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana	Albania	89.98	89.98	3,950	3,396
Joint Stock Company Insurance Company GPI Holding, Tbilisi	Georgia	90.00	90.00	11,474	10,955
Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje	Macedonia	100.00	100.00	5,938	5,542
Kaiserstraße 113 GmbH, Vienna	Austria	100.00	100.00	2,412	2,330
KÁLVIN TOWER Ingatlanfejlesztési és Beruházási Korlátolt Felelősségű Társaság, Budapest	Hungary	100.00	100.00	2,113	2,068
Kapitol pojišťovací a finanční poradenství, a.s., Brno	Czech Republic	100.00	100.00	3,236	3,045
KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group, Bratislava	Slovakia	100.00	100.00	47,760	55,176
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group, Bratislava	Slovakia	100.00	100.00	304,709	308,380
Kooperativa pojišťovna, a.s., Vienna Insurance Group, Prague	Czech Republic	98.39	98.39	490,464	461,828
Limited Liability Company "UIG Consulting", Kiev	Ukraine	100.00	100.00	5,250	5,306
LVP Holding GmbH, Vienna	Austria	100.00	100.00	567,543	522,208
MAP Bürodienstleistung Gesellschaft m.b.H., Vienna	Austria	100.00	100.00	118,123	118,605
MH 54 Immobilienanlage GmbH, Vienna	Austria	100.00	100.00	26,423	26,421
NEUE HEIMAT Oberösterreich Gemeinnützige Wohnungs- und SiedlungsgesmbH, Linz	Austria	99.82	99.82	173,718	160,134
Neuland gemeinnützige Wohnbau-Gesellschaft m.b.H., Vienna	Austria	61.00	61.00	102,224	98,371
OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest	Romania	99.50	99.50	151,233	153,096
Palais Hansen Immobilienentwicklung GmbH, Vienna	Austria	56.55	56.55	20,819	23,681
Passat Real Sp. z o.o., Warsaw	Poland	100.00	100.00	438	-439
Pension Insurance Company Doverie AD, Sofia	Bulgaria	92.58	92.58	22,269	20,749
PFG Holding GmbH, Vienna	Austria	89.23	89.23	123,224	123,567
PFG Liegenschaftsbewirtschaftungs GmbH & Co KG, Vienna	Austria	92.88	92.88	16,860	20,880
Poisťovňa Slovenskej sporiteľne, a.s. Vienna Insurance Group, Bratislava	Slovakia	95.00	95.00	56,457	49,683
Pojišťovna České spořitelny, a.s.,Vienna Insurance Group, Pardubice	Czech Republic	95.00	95.00	159,009	142,411
Porzellangasse 4 Liegenschaftsverwaltung GmbH & Co KG, Vienna	Austria	100.00		11,086	

Company	Country of domicile	Equity interest 2017[1]	Equity interest 2016[1]	Equity 2017[2]	Equity 2016[2]
		in %	in %	in EUR '000	in EUR '000
PRIVATE JOINT-STOCK COMPANY "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev	Ukraine	97.80	97.80	1,442	1,693
Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev	Ukraine	100.00	100.00	8,705	9,329
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev	Ukraine	99.99	99.99	1,492	4,634
PROGRESS Beteiligungsges.m.b.H., Vienna	Austria	60.00	60.00	18,182	17,221
Projektbau GesmbH, Vienna	Austria	100.00	100.00	15,981	17,103
Projektbau Holding GmbH, Vienna	Austria	90.00	90.00	18,508	18,509
Rathstraße 8 Liegenschaftsverwertungs GmbH, Vienna	Austria	100.00	100.00	1,261	1,215
Ray Sigorta A.Ş., Istanbul	Turkey	94.96	94.96	43,279	34,077
Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH & Co KG, Vienna	Austria	100.00	100.00	7,769	7,757
Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH, Vienna	Austria	100.00	100.00	38	48
SECURIA majetkovosprávna a podielová s.r.o., Bratislava	Slovakia	100.00	100.00	7,512	7,552
Senioren Residenz Fultererpark Errichtungs- und Verwaltungs GmbH, Innsbruck	Austria	100.00	100.00	-5,608	-5,382
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	Austria	66.70	66.70	8,668	8,738
Sigma Interalbanian Vienna Insurance Group Sh.a, Tirana	Albania	89.05	89.05	12,414	11,670
SOZIALBAU gemeinnützige Wohnungsaktiengesellschaft, Vienna	Austria	54.17	54.17	315,547	309,871
Sparkassen Versicherung AG Vienna Insurance Group, Vienna	Austria	95.00	95.00	495,258	488,800
Stock Company for Insurance and Reinsurance Makedonija Skopje - Vienna Insurance Group, Skopje	Macedonia	94.26	94.26	24,593	23,698
SVZ GmbH, Vienna	Austria	100.00	100.00	133,570	71,646
SVZI GmbH, Vienna	Austria	100.00	100.00	137,185	73,086
T 125 GmbH, Vienna	Austria	100.00	100.00	9,222	9,088
TBI BULGARIA EAD, Sofia	Bulgaria	100.00	100.00	40,640	40,778
twinformatics GmbH, Vienna	Austria	100.00	100.00	1,553	1,275
UNION Vienna Insurance Group Biztosító Zrt., Budapest	Hungary	100.00	100.00	33,569	32,767
Untere Donaulände 40 GmbH & Co KG, Vienna	Austria	100.00	100.00	12,363	12,165
Urbanbau Gemeinnützige Bau-, Wohnungs- und Stadterneuerungsgesellschaft m.b.H., Vienna	Austria	51.46	51.46	118,560	112,803
V.I.G. ND, a.s., Prague	Czech Republic	100.00	100.00	93,063	87,977
Vienibas Gatve Investments OÜ, Tallinn	Estonia	100.00	100.00	-151	-85
Vienibas Gatve Properties SIA, Riga	Latvia	100.00	100.00	1,647	1,555
Vienna Life Vienna Insurance Group Biztosító Zártkörüen Müködö Részvénytársaság, Budapest	Hungary	100.00	100.00	17,857	14,555
Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern	Liechtenstein	100.00	100.00	12,164	13,255
Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warsaw	Poland	100.00	100.00	2,417	3,807
VIG-CZ Real Estate GmbH, Vienna	Austria	100.00	100.00	112,106	112,096
VIG FUND, a.s., Prague (Consolidated Financial Statements)[3]	Czech Republic	100.00	100.00	139,189	141,531
VIG Properties Bulgaria AD, Sofia	Bulgaria	99.97	99.97	3,887	3,854
VIG RE zajišťovna, a.s., Prague	Czech Republic	100.00	100.00	169,614	138,798
VIG REAL ESTATE DOO, Belgrade	Serbia	100.00	100.00	10,694	8,889
VIG Real Estate GmbH, Vienna	Austria	100.00	100.00	92,215	92,209
VIG Services Ukraine, LLC, Kiev	Ukraine	100.00	100.00	30	75
VITEC Vienna Information Technology Consulting GmbH, Vienna	Austria	51.00		49	
VLTAVA majetkovosprávní a podílová spol.s.r.o., Prague	Czech Republic	100.00	100.00	4,256	4,411
WGPV Holding GmbH, Vienna	Austria	100.00	100.00	105,278	103,793
Wiener Osiguranje Vienna Insurance Group ad, Banja Luka	Bosnia-Herzegovina	100.00	100.00	6,011	6,646

Company	Country of domicile	Equity interest 2017[1]	Equity interest 2016[1]	Equity 2017[2]	Equity 2016[2]
		in %	in %	in EUR '000	in EUR '000
Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb	Croatia	97.82	99.47	78,374	74,861
WIENER STÄDTISCHE Beteiligungs GmbH, Vienna	Austria	100.00	100.00	807,312	807,217
WIENER STÄDTISCHE Finanzierungsdienstleistungs GmbH, Vienna	Austria	100.00	100.00	795,187	799,034
WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje, Belgrade	Serbia	100.00	100.00	44,048	31,697
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	Austria	99.90	99.90	987,437	986,607
WIENER VEREIN BESTATTUNGS- UND VERSICHERUNGSSERVICE-GESELLSCHAFT M.B.H., Vienna	Austria	100.00	100.00	1,104	1,101
WILA GmbH, Vienna	Austria	100.00	100.00	4,695	4,063
WNH Liegenschaftsbesitz GmbH, Vienna	Austria	100.00	100.00	4,267	4,168
WOFIN Wohnungsfinanzierungs GmbH, Vienna	Austria	100.00	100.00	1,477	1,104
WSBV Beteiligungsverwaltung GmbH & Co KG, Vienna	Austria	100.00	100.00	4,340	4,314
WSV Immoholding GmbH, Vienna	Austria	100.00	100.00	274,423	272,586
WWG Beteiligungen GmbH, Vienna	Austria	87.07	87.07	83,626	81,096

Company	Country of domicile	Equity interest 2017[1]	Equity interest 2016[1]	Equity 2017[2]	Equity 2016[2]
		in %	in %	in EUR '000	in EUR '000
At equity consolidated companies					
AB Modřice, a.s., Prag	Czech Republic	100.00		390	
AIS Servis, s.r.o., Brno	Czech Republic	100.00	100.00	2,066	1,646
Benefita, a.s., Prague	Czech Republic	100.00	100.00	597	506
Beteiligungs- und Immobilien GmbH, Linz	Austria	25.00	25.00	15,571	21,902
Beteiligungs- und Wohnungsanlagen GmbH, Linz	Austria	25.00	25.00	192,446	179,956
ČPP servis, s.r.o., Prague	Czech Republic	100.00	100.00	79	62
CROWN-WSF spol. s.r.o., Prague	Czech Republic	30.00	30.00	9,544	8,076
ERSTE d.o.o. - za upravljanje obveznim i dobrovljnim mirovinskim fondovima, Zagreb	Croatia	25.30	25.30	14,909	14,446
Gewista-Werbegesellschaft m.b.H., Vienna	Austria	33.00	33.00	89,418	81,540
GLOBAL ASSISTANCE, a.s., Prague	Czech Republic	100.00	100.00	4,186	3,783
Global Expert, s.r.o., Pardubice	Czech Republic	100.00	100.00	741	385
HOTELY SRNÍ, a.s., Prague	Czech Republic	100.00	100.00	8,012	7,521
KIP, a.s., Prague	Czech Republic	100.00	100.00	9,252	8,906
Main Point Karlín II., a.s., Prague	Czech Republic	100.00		390	
Pražská softwarová s.r.o., Prague	Czech Republic	100.00		38	
Österreichisches Verkehrsbüro Aktiengesellschaft, Vienna (Consolidated Financial Statements)	Austria	36.58	36.58	85,024	81,219
S - budovy, a.s., Prague	Czech Republic	100.00	100.00	2,995	2,849
S IMMO AG, Vienna (Consolidated Financial Statements)	Austria	10.33	10.25	883,715	744,994
Sanatorium Astoria, a.s., Karlsbad	Czech Republic	100.00	100.00	5,193	4,931
S-správa nemovitosti, a.s., Prague	Czech Republic	100.00	100.00	583	448
SURPMO, a.s., Prague	Czech Republic	100.00	100.00	110	95
VBV - Betriebliche Altersvorsorge AG, Vienna (Consolidated Financial Statements)	Austria	23.71	23.56	203,938	189,496

Company	Country of domicile	Equity interest 2017[1]
		in %
Non-consolidated companies		
Assistance Company Ukrainian Assistance Service LLC, Kiev	Ukraine	100.00
"Compensa Services" SIA, Riga	Latvia	100.00
"Eisenhof" Gemeinnützige Wohnungsgesellschaft m.b.H., Vienna	Austria	20.13
Medical Clinic DIYA LLC, Kiev	Ukraine	100.00
"Neue Heimat" Stadterneuerungsgesellschaft m.b.H., Linz	Austria	79.51
Akcionarsko družstvo za životno osiguranje Wiener Städtische Podgorica a.d., Podgorica	Montenegro (Rep.)	100.00
ALBA Services GmbH, Vienna	Austria	49.95
Amadi GmbH, Wiesbaden	Germany	100.00
Anif-Residenz GmbH, Vienna	Austria	99.90
AQUILA Hausmanagement GmbH, Vienna	Austria	99.90
AREALIS Liegenschaftsmanagement GmbH, Vienna	Austria	49.95
Autosig SRL, Bucharest	Romania	99.50
B&A Insurance Consulting s.r.o., Moravska Ostrava	Czech Republic	48.15
Benefia Ubezpieczenia Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	99.94
Brunn N68 Sanierungs GmbH, Vienna	Austria	49.95
Bulstrad Trudova Meditzina EOOD, Sofia	Bulgaria	100.00
Camelot Informatik und Consulting Gesellschaft m.b.H., Villach	Austria	90.18
CAPITOL BROKER DE PENSII PRIVATE S.R.L., Bucharest	Romania	98.16
CAPITOL INTERMEDIAR DE PRODUSE BANCARE S.R.L., Bucharest	Romania	98.16
CAPITOL INTERMEDIAR DE PRODUSE DE LEASING S.R.L., Bucharest	Romania	98.16
CAPITOL Sp. z o.o., Warsaw	Poland	99.98
CARPLUS Versicherungsvermittlungsagentur GmbH, Vienna	Austria	99.90
Compensa Dystrybucja Sp. z o. o., Warsaw	Poland	99.99
DIRECT-LINE Direktvertriebs-GmbH, Vienna	Austria	99.90
DV Asset Management EAD, Sofia	Bulgaria	100.00
DV CONSULTING EOOD, Sofia	Bulgaria	100.00
DV Invest EAD, Sofia	Bulgaria	100.00
DVS Donau-Versicherung Vermittlungs- und Service-Gesellschaft m.b.H., Vienna	Austria	94.40
EBS Wohnungsgesellschaft mbH Linz, Linz	Austria	24.97
EBV-Leasing Gesellschaft m.b.H., Vienna	Austria	73.92
EGW Datenverarbeitungs-Gesellschaft m.b.H., Vienna	Austria	71.92
EGW Liegenschaftsverwertungs GmbH, Vienna	Austria	71.92
EGW Wohnbau gemeinnützige Ges.m.b.H., Wiener Neustadt	Austria	71.92
Erste Bank und Sparkassen Leasing GmbH, Vienna	Austria	48.95
Erste Biztositasi Alkusz Kft, Budapest	Hungary	95.00
European Insurance & Reinsurance Brokers Ltd., London	United Kingdom	85.00
EXPERTA Schadenregulierungs-Gesellschaft mbH, Vienna	Austria	95.78
Finanzpartner GmbH, Vienna	Austria	49.95
Foreign limited liability company "InterInvestUchastie", Minsk	Belarus	100.00
GC Liegenschaftschaftsentwicklungs GmbH, Judenburg	Austria	24.98
GELUP GmbH, Vienna	Austria	33.30
GEO HOSPITALS LLC, Tbilisi	Georgia	93.50
GGVier Projekt-GmbH, Vienna	Austria	54.95
Glamas Beteiligungsverwaltungs GmbH & Co "Beta" KG, Vienna	Austria	23.31
Glamas Beteiligungsverwaltungs GmbH, Vienna	Austria	23.31
GLOBAL ASSISTANCE SERVICES s.r.o., Prague	Czech Republic	100.00
GLOBAL ASSISTANCE SERVICES SRL, Bucharest	Romania	99.70
GLOBAL ASSISTANCE SLOVAKIA s.r.o., Bratislava	Slovakia	100.00
Global Services Bulgaria JSC, Sofia	Bulgaria	100.00
Hausservice Objektbewirtschaftungs GmbH, Vienna	Austria	20.72
HORIZONT Personal-, Team- und Organisationsentwicklung GmbH, Vienna	Austria	98.58

Company	Country of domicile	Equity interest 2017[1]
		in %
Immodat GmbH, Vienna	Austria	20.72
IMOVE Immobilienverwertung- und -verwaltungs GmbH, Vienna	Austria	20.72
InterRisk Informatik GmbH, Wiesbaden	Germany	100.00
Jahorina auto d.o.o., Banja Luka	Bosnia-Herzegovina	100.00
Joint Stock Company "Curatio", Tbilisi	Georgia	90.00
Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group, Skopje	Macedonia	100.00
KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company, Minsk	Belarus	98.26
KWC Campus Errichtungsgesellschaft m.b.H., Klagenfurt	Austria	49.95
LiSciV Muthgasse GmbH & Co KG, Vienna	Austria	23.31
MC EINS Investment GmbH, Vienna	Austria	49.95
Money & More Pénzügyi Tanácsadó Zártkörüen Müködö Részvéntársaság, Budapest	Hungary	100.00
Nußdorfer Straße 90-92 Projektentwicklung GmbH & Co KG, Vienna	Austria	94.93
Nuveen Management Austria GmbH, Vienna	Austria	34.97
People's Pharmacy LLC, Tbilisi	Georgia	45.00
PFG Liegenschaftsbewirtschaftungs GmbH, Vienna	Austria	73.76
Privat Joint-stock company "OWN SERVICE", Kiev	Ukraine	100.00
Renaissance Hotel Realbesitz GmbH, Vienna	Austria	37.76
Risk Consult Bulgaria EOOD, Sofia	Bulgaria	50.44
Risk Consult Polska Sp.z.o.o., Warsaw	Poland	67.78
RISK CONSULT Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H., Vienna	Austria	50.44
Risk Expert Risk ve Hasar Danismanlik Hizmetleri Limited Sirketi, Istanbul	Turkey	63.80
Risk Experts s.r.o., Bratislava	Slovakia	50.44
Risk Logics Risikoberatung GmbH, Vienna	Austria	50.44
SB Liegenschaftsverwertungs GmbH, Vienna	Austria	40.26
S.C. CLUB A.RO S.R.L., Bucharest	Romania	99.68
S.C. Risk Consult & Engineering Romania S.R.L., Bucharest	Romania	50.44
S.C. SOCIETATEA TRAINING IN ASIGURARI S.R.L., Bucharest	Romania	98.45
S.O.S.- EXPERT d.o.o. za poslovanje nekretninama, Zagreb	Croatia	100.00
Senioren Residenzen gemeinnützige Betriebsgesellschaft mbH, Vienna	Austria	99.90
Slovexperta, s.r.o., Žilina	Slovakia	100.00
Soleta Beteiligungsverwaltungs GmbH, Vienna	Austria	23.31
Sparkassen-Versicherungsservice Gesellschaft m.b.H., Vienna	Austria	94.93
Spoldzielnia Uslugowa VIG EKSPERT W WARSZAWIE, Warsaw	Poland	99.96
Spoldzielnia Vienna Insurance Group IT Polska, Warsaw	Poland	99.97
SVZ Immoholding GmbH & Co KG, Vienna	Austria	94.93
SVZ immoholding GmbH, Vienna	Austria	94.93
SVZD GmbH, Vienna	Austria	100.00
TBI Info EOOD, Sofia	Bulgaria	98.62
TOGETHER GmbH, Vienna	Austria	24.28
UAB "Compensa Services", Vilnius	Lithuania	100.00
UAB "Compensa Life Distribution", Vilnius	Lithuania	100.00
UNION-Informatikai Szolgáltató Kft., Budapest	Hungary	100.00
Untere Donaulände 40 GmbH, Vienna	Austria	97.70
Versicherungsbüro Dr. Ignaz Fiala Gesellschaft m.b.H., Vienna	Austria	33.30
Vienna Insurance Group Polska Spółka z organiczoną odpowiedzialnością, Warsaw	Poland	99.99
Vienna International Underwriters GmbH, Vienna	Austria	100.00
VIG Asset Management investiční společnost, a.s., Prague	Czech Republic	100.00
VIG AM Services GmbH, Vienna	Austria	100.00
VIG Management Service SRL, Bucharest	Romania	98.45
VIG Services Bulgaria EOOD, Sofia	Bulgaria	100.00
VIG Services Shqiperi Sh.p.K., Tirana	Albania	89.52
VIG-AT Beteiligungen GmbH, Vienna	Austria	100.00

Company	Country of domicile	Equity interest 2017[1]
		in %
VÖB Direkt Versicherungsagentur GmbH, Graz	Austria	49.95
WAG Immobilien Einsiedlergasse GmbH, Linz	Austria	24.98
WAG Immobilien Einsiedlergasse GmbH & Co OG, Linz	Austria	24.98
WAG Immobilien GmbH & Co OG, Linz	Austria	24.98
WAG Wohnungsanlagen Gesellschaft m.b.H., Linz	Austria	24.98
Wien 3420 Aspern Development AG, Vienna	Austria	24.44
Wiener Städtische Donau Leasing GmbH, Vienna	Austria	99.90
WINO GmbH, Vienna	Austria	99.90
WSBV Beteiligungsverwaltung GmbH, Vienna	Austria	99.90
WSV Beta Immoholding GmbH, Vienna	Austria	99.90
WSV Vermögensverwaltung GmbH, Vienna	Austria	99.90

[1] The share in equity equals the share in voting rights before non-controlling interests.

[2] The capital value shown corresponds to the latest local annual financial statements available.

[3] In addition to the parent company, the consolidated financial statements of VIG FUND, a.s., Prague, also include the following companies: EUROPEUM Business Center s.r.o, Bratislava, HUN BM Korlátolt Felelősségű Társaság, Budapest and SK BM s.r.o., Bratislava.

Please see the section entiteled Scope and methods of consolidation on page 121 for information on changes in the scope of consolidation.

The information required under § 265 (2) no. 4 of the Austrian Corporation Code (UGB) is provided in the overview of participations in the separate financial statements.

28. RELATED PARTIES

Related parties
Related parties are the affiliated companies, joint ventures and associated companies listed in Note 27. Participations – Details starting on page 214. In addition, the members of the Managing Board and Supervisory Board of VIG and their relatives also qualify as related parties. Wiener Städtische Versicherungsverein directly and indirectly holds around 71.26% (around 71.21%), and therefore a majority of the voting rights of VIG. Based on this controlling interest, it and the members of its managing board are therefore also related parties.

Members of the Managing Board and Supervisory Board did not receive any advances or loans and had no loans outstanding during the reporting periods.

There were also no guarantees outstanding for members of the Managing Board or Supervisory Board during the reporting periods.

Transactions with related parties
The Group charges Wiener Städtische Versicherungsverein for office space. Other services (e.g. accounting services) are also provided by the Group.

Transactions with non-consolidated affiliated and associated companies mainly relate to financing and intra-company charges for services.

Open items with related companies	31.12.2017	31.12.2016
in EUR '000		
Loans	65,410	54,506
Associated companies	1,631	1,237
Subsidiaries not included in the consolidated financial statements	63,779	53,269
Receivables	251,423	214,628
Parent company	218,641	200,918
Associated companies	3,509	1,290
Subsidiaries not included in the consolidated financial statements	29,273	12,420
Liabilities	184,164	151,783
Parent company	164,126	129,343
Associated companies	2,148	1,976
Subsidiaries not included in the consolidated financial statements	17,890	20,464

Transaction volumes with related companies	2017	2016
in EUR '000		
Loans	13,260	28,589
Parent company	0	668
Associated companies	796	268
Subsidiaries not included in the consolidated financial statements	12,464	27,653
Receivables	75,108	59,426
Parent company	30,426	25,502
Associated companies	10,529	4,776
Subsidiaries not included in the consolidated financial statements	34,153	29,148
Liabilities	160,068	187,716
Parent company	47,659	77,344
Associated companies	36,867	28,643
Subsidiaries not included in the consolidated financial statements	75,542	81,729

Transaction volume does not include changes in open items resulting from a change in the scope of consolidation.

Open items with related persons	31.12.2017	31.12.2016
in EUR '000		
Loans	12	27
Receivables	0	3
Liabilities	1,484	942

Transaction volumes with related parties	2017	2016
in EUR '000		
Loans	15	21
Receivables	190	118
Liabilities	2,224	2,206

Income statement items for related parties	2017	2016
in EUR '000		
Payments to Supervisory Board members	1,081	1,654
Insurance premiums received	429	397
Other payments (incl. dividends paid)	1,089	796

29. OBLIGATIONS UNDER LEASES

Payments recorded as expenses	31.12.2017
in EUR '000	
Minimum lease payments from operating leases	29,817
Contingent lease payments from operating leases	1,556
Payments received from subletting under operating leases	-1,338
Total	30,035

29.1. Operating leases

The Group's lease obligations are primarily due to leases of company vehicles and real estate.

Maturity structure of minimum lease payments – lessee	31.12.2017
in EUR '000	
Up to one year	31,158
More than one year up to five years	48,574
More than five years	153,642
Total	233,374

Maturity structure of minimum lease payments – lessor	31.12.2017
in EUR '000	
Up to one year	107,617
More than one year up to five years	3,390
More than five years	394
Total	111,401

The lessor minimum lease payments mainly concern non-profit society residential rental agreements with unlimited terms that are generally subject to a termination notice period of one to three months.

29.2. Finance leases

The Group has no material finance leases, either as a lessor or lessee.

30. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the financial statements were prepared.

ADDITIONAL DISCLOSURES IN ACCORDANCE WITH THE AUSTRIAN INSURANCE SUPERVISION ACT (VAG)

PROFIT PARTICIPATION IN AUSTRIA

Life insurance

Under the FMA regulation of 6 October 2015 on profit participation in the life insurance sector (LV-GBV), the expenses for profit-related premium refunds and policy holder profit participation plus any direct credits must be at least 85% of the measurement basis. The measurement basis within the meaning of § 4(1) LV-GBV is calculated as follows for life insurance policies eligible for profit participation:

Life measurement basis	31.12.2017	31.12.2016
in EUR '000		
Net earned premiums – retention	915,322	1,075,057
Income and expenses for investments and interest expenses	390,963	449,341
Expenses for claims and insurance benefits – retention	-1,116,539	-1,276,321
Administrative expenses	-132,179	-144,971
Other underwriting and non-underwriting income and expenses	-996	8,829
Taxes	-1,041	-17,998
Total	55,530	93,937

Health insurance

According to § 1 of the FMA regulation on profit participation in the health insurance sector (KV-GBV) of 15 October 2015, the regulation is applicable to policies whose actuarial bases were submitted after 30 June 2007 and whose terms provide for profit participation. The expenses for profit-related premium refunds plus any direct credits must be at least 85% of the measurement basis for the health insurance policies concerned. The measurement basis within the meaning of § 3(1) KV-GBV is calculated as follows for health insurance policies eligible for profit participation:

Health measurement basis	31.12.2017	31.12.2016
in EUR '000		
Net earned premiums – retention	8,473	8,500
Income and expenses for investments and interest expenses	566	860
Expenses for claims and insurance benefits – retention	-7,111	-7,670
Administrative expenses	-1,137	-981
Other underwriting and non-underwriting income and expenses	-139	-179
Taxes	-7	-3
Total	645	527

VIG expenses for profit-related premium refunds

VIG had EUR 86,330,000 (EUR 135,040,000) in expenses for profit-related premium refunds incl. policy holder profit participation.

MATHEMATICAL RESERVE

Life insurance mathematical reserve	31.12.2017	31.12.2016
in EUR '000		
Direct business	20,579,617	20,177,848
Policy benefits	18,913,571	18,440,361
Allocated profit share	738,984	793,318
Committed profit shares	15,895	15,304
Deferred mathematical reserve	911,167	928,865
Indirect business	93,643	131,721
Policy benefits	93,643	131,721
Total	20,673,260	20,309,569

Health insurance mathematical reserve	31.12.2017	31.12.2016
in EUR '000		
Direct business	1,289,257	1,219,231
Individual insurance	942,415	894,897
Group insurance	346,842	324,334
Total	1,289,257	1,219,231

OPERATING RESULT FOR DIRECT AND INDIRECT RETENTION PER COUNTRY AND BALANCE SHEET UNIT

	2017	2016
in EUR '000		
Property and casualty insurance	235,761	163,711
Austria	67,478	81,201
Czech Republic	95,239	121,955
Slovakia	18,905	26,536
Poland	31,805	27,496
Romania	19,059	16,916
Turkey	15,209	4,298
Central Functions	-87,143	-157,945
Other countries	75,209	43,254
Life insurance	320,453	332,095
Austria	120,990	210,554
Czech Republic	118,572	87,139
Slovakia	33,204	25,326
Poland	13,642	-20,392
Hungary	3,633	3,513
Other countries	30,412	25,955
Health insurance	42,622	58,856
Austria	43,807	59,182
Georgia	-274	-326
Other countries	-911	0
Total	598,836	554,662

BUSINESS DEVELOPMENT PER BALANCE SHEET UNIT

	2017				2016			
	Property/ Casualty	Life	Health	Total	Property/ Casualty	Life	Health	Total
in EUR '000								
Operating result for direct business	266,076	319,894	42,570	628,540	233,942	332,086	58,734	624,762
Gross direct premiums written	5,089,361	3,650,199	458,208	9,197,768	4,751,294	3,746,570	412,484	8,910,348
Gross direct[1]	352,060	335,702	42,683	730,445	462,575	347,899	58,786	869,260
Underwriting result[2]	263,637			263,637	408,744			408,744
Financial result[2]	88,423			88,423	53,831			53,831
Direct reinsurance cessions	-85,984	-15,808	-113	-101,905	-228,633	-15,813	-52	-244,498
Operating result for indirect business	-30,315	559	52	-29,704	-70,231	9	122	-70,100
Gross indirect premiums written	173,860	14,346	66	188,272	127,321	13,118	181	140,620
Gross indirect	22,718	1,680	52	24,450	1,474	312	122	1,908
Indirect reinsurance cessions	-53,033	-1,121	0	-54,154	-71,705	-303	0	-72,008
Operating result for direct and indirect retention	235,761	320,453	42,622	598,836	163,711	332,095	58,856	554,662
Other non-underwriting income and expenses	-76,426	6,463	6	-69,957	-17,110	4,538	-316	-12,888
Expenses for profit related premium refunds	0	-85,770	-560	-86,330	0	-134,580	-460	-135,040
Result before taxes	159,335	241,146	42,068	442,549	146,601	202,053	58,080	406,734
Taxes	-30,166	-35,132	-4,660	-69,958	-27,428	-48,003	-10,313	-85,744
Result of the period	129,169	206,014	37,408	372,591	119,173	154,050	47,767	320,990

[1] Includes commissions of EUR 1,170,489,000 (EUR 1,107,341,000) for direct insurance business.

[2] A breakdown of the underwriting result was only performed for property and casualty insurance. Due to immateriality, investments were not transferred to the underwriting account in property and casualty insurance. Investment results were transferred in full to the underwriting account for the life and health insurance business.

GROSS PREMIUMS WRITTEN PER BALANCE SHEET UNIT (INCL. CONSOLIDATION EFFECTS)

Property and casualty insurance	2017	2016
in EUR '000		
Direct business	5,089,361	4,751,294
Casualty insurance	379,282	360,866
Health insurance	67,231	56,029
Motor own damage insurance (Casco)	1,076,176	958,836
Rail vehicle own-damage	3,926	3,626
Aircraft own-damage insurance	5,136	5,178
Sea, lake and river shipping own-damage insurance	9,640	7,832
Transport insurance	55,456	51,623
Fire and natural hazards insurance	920,833	860,095
Other property	491,531	476,917
Motor third party liability	1,374,713	1,299,652
Carrier insurance	16,536	15,151
Aircraft liability insurance	5,327	4,680
Sea, lake and river shipping liability insurance	3,522	3,097
General liability insurance	418,729	407,794
Credit insurance	6,561	5,704
Guarantee insurance	39,023	26,371
Insurance for miscellaneous financial losses	90,324	88,415
Legal expenses insurance	55,807	54,850
Assistance insurance, travel health insurance	69,608	64,578
Indirect business	173,860	127,321
Marine, aviation and transport insurance	11,143	11,909
Other insurance	141,725	90,704
Health insurance	20,992	24,708
Total	5,263,221	4,878,615

A portion of the net earned premiums of EUR 1,149,000 (EUR 1,369,000) from indirect property and casualty insurance business was deferred one year before being recognised in the income statement. Of the EUR 412,000 (EUR 454,000) in net earned premiums from indirect life insurance business, EUR 347,000 (EUR 387,000) was deferred for one year before being shown in the income statement.

Life insurance	2017	2016
in EUR '000		
Regular premium – direct business	2,541,415	2,488,992
Single-premium – direct business	1,108,784	1,257,578
Direct business	3,650,199	3,746,570
thereof policies with profit participation	1,572,475	1,660,636
thereof policies without profit participation	436,907	429,021
thereof unit-linked life insurance portfolio	1,601,148	1,612,487
thereof index-linked life insurance portfolio	39,669	44,426
Indirect business	14,346	13,118
Total	3,664,545	3,759,688

Please refer to the respective separate financial statements for information on investments for unit-linked and index-linked life insurance.

Health insurance	2017	2016
in EUR '000		
Direct business	458,208	412,484
Indirect business	66	181
Total	458,274	412,665

GROSS PREMIUMS WRITTEN PER COUNTRY AND BALANCE SHEET UNIT

Composition	2017	2016
in EUR '000		
Property and casualty insurance	5,263,221	4,878,615
Austria	1,846,588	1,799,115
Czech Republic	963,126	897,873
Slovakia	364,564	349,824
Poland	527,978	467,955
Romania	400,063	451,825
Turkey	164,540	164,866
Central Functions	183,895	142,316
Other countries	812,467	604,841
Life insurance	3,664,545	3,759,688
Austria	1,561,910	1,702,499
Czech Republic	639,984	630,963
Slovakia	442,279	378,153
Poland	358,667	351,221
Hungary	153,993	143,535
Other countries	507,712	553,317
Health insurance	458,274	412,665
Austria	405,000	394,888
Georgia	24,453	17,777
Other countries	28,821	0
Total	9,386,040	9,050,968

KEY FIGURES PER BALANCE SHEET UNIT

	2017				2016			
	Property/ Casualty	Life	Health	Total	Property/ Casualty	Life	Health	Total
in %								
Cost ratio	30.41	17.45	15.03	24.08	30.37	18.45	13.99	24.14
Claims ratio	66.27				66.92			
Combined ratio	96.68				97.29			

DECLARATION BY THE MANAGING BOARD

We declare to the best of our knowledge that the consolidated financial statements prepared in accordance with applicable accounting standards give a true and fair view of the Group's net assets, financial position and results of operations, that the Group management report presents the business development, result and position of the Group so as to give a true and fair view of its net assets, financial position and results of operations, and that the Group management report provides a description of the principal risks and uncertainties to which the Group is exposed.

The declaration for the annual financial statements of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe is issued in the annual report of this company.

The consolidated financial statements for financial year 2017 were approved for publication by a resolution of the Managing Board on 19 March 2018.

Vienna, 19 March 2018

The Managing Board:

Elisabeth Stadler
General Manager,
Chair 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

Managing Board areas of responsibility:

Elisabeth Stadler: 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

Franz Fuchs: Performance management personal and motor vehicle insurance, Asset-Risk Management; Country responsibilities: Baltic states, Moldova, Poland, Ukraine

Judit Havasi: Planning & Controlling, Legal department, Group IT, Data Management & Processes; Country responsibilities: Slovakia, Romania

Liane Hirner: Finance and accounting

Peter Höfinger: Corporate and large customer business, Vienna International Underwriters (VIU), Reinsurance; Country responsibilities: Albania (incl. Kosovo), Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Montenegro, Serbia

Martin Simhandl: Asset Management, Affiliated companies department, Treasury/Capital Market; Country responsibilities: Germany, Georgia, Liechtenstein, Turkey

The Managing Board as a whole is responsible for Enterprise Risk Management, General Secretariat, Actuarial department, Group compliance, Internal Audit and Investor Relations.

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion
We have audited the consolidated financial statements of

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe,
Vienna, Austria,

and its subsidiaries (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2017, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Shareholders' Equity, the Consolidated Cash Flow Statement for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as other legal or regulatory requirements.

Basis for our Opinion
We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

We have identified the following key audit matters:

- Recoverability of goodwill
- Liability Adequacy Test – "LAT"

RECOVERABILITY OF GOODWILL
Refer to notes pages 104, 106 to 108

Risk for the Consolidated Financial Statements
The book value of goodwill recorded in the consolidated financial statements of Vienna Insurance Group, amounting to EUR 1,537.7 million, is monitored separately at country level. At least once a year and in case of a triggering event on an ad hoc basis Vienna Insurance Group performs a recoverability test (the so-called impairment test) of the recorded goodwill amounts.

The impairment test of goodwill is complex and based on discretionary factors. Those factors include in particular the expected future cash flows of the individual countries (taking into account the development of future premiums, budgeted combined ratios and financial income), which are primarily based on past experience as well as on the management's assessment of the expected market environment. Other factors are the assumed long-term growth rate as well as the underlying region-specific costs of capital.

Our Response

Together with our valuation experts we have assessed the appropriateness of key assumptions, of discretionary decisions and of the valuation method applied for the impairment testing. We have reconciled the expected future cash flows used in the calculation with the strategic business planning approved by the management. We have reconciled the assumptions regarding the market development with general and sector-specific market expectations. We have analysed the consistency of planning data using information from prior periods.

Given that minor changes in the applied cost of capital rate significantly impact the recoverable amount of the cash generating units, we have compared the parameters used for derivation of the applied cost of capital with those used by a group of comparable companies (Peer Group).

By means of our own sensitivity analysis we have determined whether the tested book values are still sufficiently covered by the recoverable amounts in case of possible changes in the assumptions within a realistic range.

Additionally, we have assessed whether the disclosures in the notes with respect to the recoverability of goodwill are appropriate.

LIABILITY ADEQUACY TEST – "LAT"

Refer to notes pages 116 and page 149 seq.

Risk for the Consolidated Financial Statements

With life and health insurance, Vienna Insurance Group holds a significant amount of long-term contracts for which premiums have been calculated using a high discount rate. As these interest rates are also used to measure the liabilities from insurance contracts, there is – due to the persistently low interest rates in the market - a risk that the insurance liabilities are not adequately measured.

At each balance sheet date Vienna Insurance Group uses current estimates of future cash flows from insurance contracts to determine whether the insurance liabilities are adequately accounted for in the balance sheet.

To ensure this, future cash flows from existing policies are calculated on a best estimate basis using actuarial methods. For life and health insurance the cash flow model used for this purpose is also used to calculate the Market Consistent Embedded Value ("MCEV"). The MCEV is determined according to the "Market Consistent Embedded Value Principles" published by the CFO Forum in June 2008 and last amended in April 2016.

The performance of the liability adequacy test is complex and its underlying assumptions are based on a large number of estimates and discretionary factors.

Our Response

We have examined the appropriateness of key assumptions and discretionary decisions as well as the calculation models and methods applied. In order to assess the appropriateness of the assumptions and methods used, we gained an understanding of the methodology in discussions with the actuaries of Vienna Insurance Group and analysed the assumptions used as well as the resulting cash flows.

In particular, we assessed whether the applied methodology was consistent with the "Market Consistent Embedded Value Principles" published by the CFO Forum in June 2008 and last amended in April 2016. In addition, we assessed the appropriateness of the implementation of the methodology within the models, analysed the consistency of assumptions used on the basis of information from prior periods, and examined the completeness of the modeled portfolio.

Furthermore, we critically dealt with the sensitivity analysis prepared by the company.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as other legal or regulatory requirements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor’s report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

OPINION
In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

STATEMENT
Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information
Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 EU Regulation
At the Annual General Meeting dated 13 May 2016, we were elected as group auditors. We were appointed by the Supervisory Board on 8 June 2016. We have been the Group's auditors from the year ended 31 December 2013 without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner
The engagement partner is Mr. Michael Schlenk.

Vienna, 26 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Michael Schlenk
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.
The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

List of abbreviations

Abbreviation	Full company name
AB Modřice	AB Modřice, a.s., Prague
Alpenländische Heimstätte GmbH	Alpenländische Heimstätte, gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H., Innsbruck
Anif-Residenz KG	Anif-Residenz GmbH & Co KG, Vienna
Asirom	Asigurarea Românească - ASIROM Vienna Insurance Group S.A., Bucharest
ATBIH	ATBIH GmbH, St. Pölten
AXA Life (Romania)[1]	AXA Life Insurance S.A., Bucharest
AXA Non-Life (Serbia)[1]	AXA Nezivotno Osiguranje akcionarsko drustvo za osiguranje, Belgrade
AXA Life (Serbia)[1]	AXA Životno Osiguranje akcionarsko drustvo za osiguranje, Belgrade
Baltikums	"Baltikums Vienna Insurance Group" AAS, Riga
BČR Life	BČR Asigurări de Viață Vienna Insurance Group S.A., Bucharest
Beteiligungs- und Wohnungsanlagen GmbH	Beteiligungs- und Wohnungsanlagen GmbH, Linz
BTA Baltic	BTA Baltic Insurance Company AAS, Riga
Bulstrad Life	BULSTRAD LIFE VIENNA INSURANCE GROUP JOINT STOCK COMPANY, Sofia
Bulstrad Non-Life	INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia
Central Point	Central Point Insurance IT-Solutions GmbH, Vienna
Compensa Life (Estonia)[1]	Compensa Life Vienna Insurance Group SE, Tallinn
Compensa Life (Lithuania)[1]	Compensa Life Vienna Insurance Group SE, Vilnius
Compensa Life (Poland)[1)]	Compensa Towarzystwo Ubezpieczeń Na Życie S.A. Vienna Insurance Group, Warsaw
Compensa Life Distribution	UAB "Compensa Life Distribution", Vilnius
Compensa Non-Life (Estonia)[1]	Compensa Non-Life, Compensa Vienna Insurance Group, UADB, Tallin
Compensa Non-Life (Lithuania)[1]	Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Vilnius
Compensa Non-Life (Poland)[1]	Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw
ČPP	Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group, Prague
DBLV GmbH & Co KG	DBLV Immobesitz GmbH & Co KG, Vienna
DBLV Immobesitz	DBLV Immobesitz GmbH, Vienna
Donaris	Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chișinău
Donau Versicherung	DONAU Versicherung AG Vienna Insurance Group, Vienna
Doverie	Pension Insurance Company Doverie AD, Sofia
ELVP	ELVP Beteiligungen GmbH, Vienna
Erste Biztosító	ERSTE Vienna Insurance Group Biztosító Zrt., Budapest
Erste Group	Erste Group Bank AG, Vienna
Erste Heimstätte GmbH	Erste gemeinnützige Wohnungsgesellschaft Heimstätte Gesellschaft m.b.H., Vienna
Erste Osiguranje	Erste osiguranje Vienna Insurance Group d.d., Zagreb
Erste Pensionsfonds, Zagreb	ERSTE d.o.o. - mandatory and voluntary pension fund management company, Zagreb
Gemeinnützige Industrie-Wohnungsaktiengesellschaft	Gemeinnützige Industrie-Wohnungsaktiengesellschaft, Leonding
Gemeinnützige Mürz-Ybbs Siedlungsanlagen-GmbH	Gemeinnützige Mürz-Ybbs Siedlungsanlagen-GmbH, Kapfenberg
Gewista-Werbegesellschaft m.b.H.	Gewista-Werbegesellschaft m.b.H., Vienna
GLOBAL ASSISTANCE	GLOBAL ASSISTANCE, a.s., Prague
Globus	CAL ICAL "Globus", Kiev
GPIH	Joint Stock Company Insurance Company GPI Holding, Tbilisi
IM31 Floridsdorf am Spitz	IM31 Floridsdorf am Spitz GmbH, Salzburg
InterRisk (Baltic states)[1]	InterRisk Vienna Insurance Group AAS, Riga
InterRisk	InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw
InterRisk Life	InterRisk Lebensversicherungs-AG Vienna Insurance Group, Wiesbaden
InterRisk Non-Life	InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden
Intersig	INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana
IRAO	International Insurance Company "IRAO" LTD, Tbilisi
Kaiserstraße 113	Kaiserstraße 113 GmbH, Vienna
Kniazha	PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev
Kniazha Life	PRIVATE JOINT-STOCK COMPANY "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev
Komunálna	KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group, Bratislava
Kooperativa (Slovakia)[1]	KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group, Bratislava
Kooperativa (Czech Republic)[1]	Kooperativa pojišťovna, a.s., Vienna Insurance Group, Prague

Abbreviation	Full company name
Health	Health insurance
Life	Life insurance
LVP Holding	LVP Holding GmbH, Vienna
Main Point Karlín II.	Main Point Karlín II., a.s., Prague
Makedonija Osiguruvanje	Stock Company for Insurance and Reinsurance Makedonija Skopje - Vienna Insurance Group, Skopje
Merkur Osiguranje	Merkur Osiguranje d.d., Sarajewo
Neue Heimat Oberösterreich GmbH	NEUE HEIMAT Oberösterreich Gemeinnützige Wohnungs- und SiedlungsgesmbH, Linz
Neuland GmbH	Neuland gemeinnützige Wohnbau-Gesellschaft m.b.H., Vienna
Nova	Insurance Company Nova Ins EAD, Sofia
Omniasig	OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest
OePR	Austrian Financial Reporting Enforcement Panel
Österreichisches Verkehrsbüro	Österreichisches Verkehrsbüro Aktiengesellschaft, Vienna (Consolidated Financial Statements)
Palais Hansen	Palais Hansen Immobilienentwicklung GmbH, Vienna
PČS	Pojišťovna České spořitelny, a.s.,Vienna Insurance Group, Pardubice
Polisa	"POLISA-ŻYCIE" Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw
Porzellangasse 4 Liegenschaftsverwaltung	Porzellangasse 4 Liegenschaftsverwaltung GmbH & Co KG, Vienna
Progress	PROGRESS Beteiligungsges.m.b.H., Vienna
PSLSP	Poisťovňa Slovenskej sporiteľne, a.s. Vienna Insurance Group, Bratislava
Rathstraße 8	Rathstraße 8 Liegenschaftsverwertungs GmbH, Vienna
Ray Sigorta	Ray Sigorta A.Ş., Istanbul
Sanatorium Astoria	Sanatorium Astoria, a.s., Karlsbad
S-budovy	S - budovy, a.s., Prague
S-správa nemovitostí	S-správa nemovitosti, a.s., Prague
s Versicherung	Sparkassen Versicherung AG Vienna Insurance Group, Vienna
Property/Casualty	Property and casualty insurance
Schulring 21 GmbH	Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH, Vienna
Schulring 21 KG	Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH & Co KG, Vienna
Schwarzatal GmbH	"Schwarzatal" Gemeinnützige Wohnungs- und Siedlungsanlagen-GmbH, Vienna
Seesam Insurance AS	Seesam Insurance AS, Talinn
Sigma	Sigma Interalbanian Vienna Insurance Group Sh.a, Tirana
S IMMO AG	Sparkassen Immobilien AG, Vienna
Sozialbau AG	SOZIALBAU gemeinnützige Wohnungsaktiengesellschaft, Vienna
SURPMO	SURPMO, a.s., Prague
twinformatics	twinformatics GmbH, Vienna
UBB	United Bulgarian Bank
UIG	Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev
UIG Consulting	Limited Liability Company "UIG Consulting", Kiev
Union Biztosító	UNION Vienna Insurance Group Biztosító Zrt., Budapest
Untere Donaulände 40 KG	Untere Donaulände 40 GmbH & Co KG, Vienna
Urbanbau GmbH	Urbanbau Gemeinnützige Bau-, Wohnungs- und Stadterneuerungsgesellschaft m.b.H., Vienna
VBV - Betriebliche Altersvorsorge AG	VBV - Betriebliche Altersvorsorge AG, Vienna (Consolidated Financial Statements)
Vienibas Investments	Vienibas Gatve Investments OÜ, Tallinn
Vienibas Properties	Vienibas Gatve Properties SIA, Riga
Vienna Insurance Group or VIG[2]	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna
VIG Holding[3]	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna
VIG Fund	VIG FUND, a.s., Prague (Consolidated Financial Statements)
Vienna-Life (Liechtenstein)[1]	Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern
Vienna Life (Poland)[1]	Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warsaw
Vienna Life (Hungary)[1]	Vienna Life Vienna Insurance Group Biztosító Zártkörüen Müködö Részvénytársaság, Budapest
VIG Re	VIG RE zajišťovna, a.s., Prague
Vienna International Underwriters or VIU	Vienna International Underwriters GmbH, Vienna
VIG Services Ukraine	VIG Services Ukraine, LLC, Kiev
VITEC GmbH	VITEC Vienna Information Technology Consulting GmbH, Vienna
WGPV Holding GmbH	WGPV Holding GmbH, Vienna

Abbreviation	Full company name
Wiener Städtische	WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna
Wiener Städtische Osiguranje (Montenegro)[1]	Akcionarsko društvo za životno osiguranje Wiener Städtische Podgorica a.d., Podgorica
Wiener Städtische Osiguranje (Serbia)[1]	WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje, Belgrade
Wiener Städtische Versicherungsverein	Wiener Städtische Wechselseitiger Versicherungsverein - Vermögensverwaltung - Vienna Insurance Group, Vienna
Wiener Osiguranje (Croatia)[1]	Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb
Wiener Osiguranje (Bosnia and Herzegowina)[1]	Wiener Osiguranje Vienna Insurance Group ad, Banja Luka
Winner Life	Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group, Skopje
Winner Non-Life	Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje
WOFIN GmbH	WOFIN Wohnungsfinanzierungs GmbH, Vienna
WNH Liegenschaftsbesitz GmbH	WNH Liegenschaftsbesitz GmbH, Vienna
WSBV Beteiligungsverwaltung GmbH & Co KG	WSBV Beteiligungsverwaltung GmbH & Co KG, Vienna
WWG Beteiligungen GmbH	WWG Beteiligungen GmbH, Vienna

[1] Country names in parentheses are added if there is more than one company with the same abbreviated name and it is not clear from the context which one is intended. The context is assumed to be clear, for example, if the name is used in a description of activities taking place within a country.

[2] Used when referring to VIG Group.

[3] Used when referring to the individual company.

Glossary

Acquisition and administrative expenses
Acquisition and administrative expenses for retained business are broken down into acquisition expenses, administrative expenses less reinsurance commissions and profit commissions for reinsurance cessions. Expenses for claims investigation, loss prevention and claims processing (claims handling expenses) or for making insurance payments (settlement costs) are shown in the expenses for insurance benefits item.

Affiliated companies
The parent company and its subsidiaries are considered to be affiliated companies if the parent company is able to exert control over the business policies of the subsidiary. Examples of this are where the parent company can affect variable returns from the subsidiary, a controlling agreement exists or it is possible to appoint the majority of the Members of the Managing Board or other executive bodies of the subsidiary.

Asset and liability management (ALM)
ALM refers to taking both assets and liabilities into account when implementing strategic decisions in order to achieve optimal company results and is therefore needed for determining and managing the risk capital required, matching assets and liabilities (duration, cash flow and income matching) and optimising investments and reinsurance.

Austrian Commercial Code (UGB)
Unternehmensgesetzbuch (UGB) as of 1 January 2007, Handelsgesetzbuch (HGB) until 31 December 2006.

Austrian Insurance Supervision Act (VAG)
The Austrian Insurance Supervision Act (Versicherungsaufsichtsgesetz) includes provisions governing the organization and supervision of insurance companies.

Cash flow
A key figure used in the analysis of shares and companies. It represents the inflow and outflow of liquid assets during a specific accounting period. Cash flow is essentially calculated by adding together the profit for the year, depreciation, changes in long-term provisions, and income taxes.

Cash flow statement
A presentation of the changes in cash and cash equivalents during a financial year, broken down into the three areas of ordinary activities, investing activities, and financing activities. The aim is to provide information on the financial strength of the company.

Ceded reinsurance premiums
Share of the premiums to which the reinsurer is entitled in return for reinsuring certain risks.

Central and Eastern Europe (CEE) or CEE markets
The Vienna Insurance Group defines the "CEE" region as all the growth markets in Central and Eastern Europe in which the Group operates. This includes Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Turkey and Ukraine. Note that differences may exist between this definition and the definition of CEE used by other companies, financial institutions (e.g. IMF, OECD, WIFO, IHS), etc.

Claims incurred but not reported
Losses that are reported in the current financial year but occurred in the previous year. Each year as of the balance sheet date, a reserve (= incurred but not reported reserve, IBNR) is formed for losses that relate to the financial statement year but are not reported until the following year.

Combined ratio (net)
When the total of all items in the income statement that contribute to the profit before taxes, except for income from capital assets, other non-underwriting income and expenses and the value of gross earned premiums itself, is divided by gross earned premiums, the result is called the combined ratio. If this ratio is less than 100%, the company is earning a profit from the underwriting portion of the business. This ratio is only calculated for property and casualty insurance. Since the reinsurers' share is taken into account in the calculation, the result is a net combined ratio.

Consolidation
The financial statements of the parent company and those

of the subsidiaries are combined when the consolidated financial statements are prepared by the parent company. During this process, intragroup equity interests, interim results, receivables and payables and income and expenses are eliminated.

Deposits on assumed and ceded reinsurance business
A claim by the reinsuring company against the ceding company for deposits that it retains. When business is assumed, the reinsurer's share of premiums and claims are retained as security by the ceding insurance company. The deposits on ceded reinsurance item is analogous.

Derivative financial instruments (derivatives)
Financial contracts whose value depends on the price of an underlying asset. Derivatives can be classified systematically according to the nature of the underlying asset (interest rates, share prices, currency rates, or commodity prices). Options, futures, forwards and swaps are important examples of derivative financial instruments.

Direct business
Insurance business where an immediate legal relationship exists between the insurer and policyholder.

Earnings per share (undiluted/diluted)
The ratio of consolidated annual profit (less interest on hybrid capital) divided by the average number of shares outstanding. The diluted earnings per share include convertible securities that have been exercised, or are still available for exercise, in the calculation of the number of shares and net income. The convertible securities consist of convertible bonds and stock options.

Embedded value
The embedded value represents the economic value of the insurance business and is comprised of future profits from the insurance portfolio. Profits from future new business are not included. It therefore corresponds to the distributable profits after taxes and takes into account the risks contained in the business.

Enterprise Risk Management (ERM)
Risk and opportunity management. The responsibilities of ERM are identification, assessment, analysis and control of opportunities and risks.

Equity method
Shares in associated companies are recognised using this method. As a rule, the value recognised corresponds to the Group's proportional share of the equity in these companies. In the case of shares in companies that prepare their own consolidated financial statements, the consolidated equity is recognised instead. For current valuation, the value recognised is adjusted using a proportional share of changes to equity, with the shares in net income being allocated to consolidated net income and disbursed profit distributions deducted.

Erste Group
An abbreviated version of the company name of Erste Group Bank AG.

Expenses for claims and insurance benefits
These are comprised of the payments for insurance claims, payments for claims investigation, claims settlement, and claims prevention, and from the change in the associated reserves.

Fair value
Value of a security calculated using a theoretical pricing model that takes into account factors on which the price depends.

Financial instruments available for sale
Available-for-sale financial instruments include securities that were not acquired with the intention of being held to maturity, or for short-term trading purposes. They are recognised at market value as of the balance sheet date.

Financial result
Income and expenses for investments and interest. This includes, for example, income from securities, loans, real estate and participations, as well as bank interest and expenses incurred in the financial area, such as depreciation of owned real estate, write-downs of securities to listed market prices, bank fees, etc.

General Data Protection Regulation (GDPR)
Regulation (EU) 2016/679 on the protection of natural per-

sons with regard to the processing of personal data enters into force on 25 May 2018 and must therefore be immediately applied in the European Union. The GDPR standardises the provisions applicable to the processing of personal data by private-sector companies and public bodies in the entire EU. The main objectives of the GDPR are data security and strengthening the fundamental rights and freedoms of natural persons. Although the GDPR is immediately applicable across the EU, it nevertheless contains opening clauses that allow member states to enact their own national regulations. The GDPR was implemented in Austrian law by the Austrian Data Protection Amendment Act of 2018 (Datenschutz-Anpassungsgesetz 2018), which extensively amended the Austrian Data Protection Act of 2000 (Datenschutzgesetz 2000).

Gross domestic product (GDP)
A measure of a country's economic production. All goods and services produced or provided within a country (by citizens or foreigners) during a specified period, valued at current prices (market prices) or constant prices (prices in a certain base year). By using a constant price level in the calculations, price increases can be eliminated so that the figures presented over time are independent of inflation. GDP at constant prices is also known as real GDP.

Gross/Net
In insurance terminology, "gross/net" means before or after reinsurance has been deducted ("net" is also used to mean "for own account" or "retention"). In connection with income from participations, the term "net" is used when related expenses have already been deducted from income (e.g. write-offs and losses from disposals). Therefore, (net) income from participations equals the profit or loss from these interests.

IAS
International Accounting Standards.

Income from investments and interest income
Income from investments and other interest income is comprised of income from participations (of which affiliated companies), income from land and buildings, income from other investments, income from write-ups, gains from the disposal of investments, and other income from investments and interest income.

Indirect business
Insurance business where the company acts as a reinsurer.

Insurance density
Annual per capita insurance premiums, used as an indicator for the state of development of a country's insurance sector.

Insurance Distribution Directive (IDD)
Directive (EU) 2016/97 on insurance distribution must be applied by 1 October 2018 at the latest in the European Union. The IDD affects all aspects of the insurance business, including the recruiting of insurance distributors entailing training and advanced training, product development, the advisory process including wide-ranging duties to provide information, the distribution of standardised information sheets, the handling of conflicts of interest and remuneration.

Insurance payments (net)
Expenses (after deducting reinsurance) for insurance claims.

Insurance supervisory authority
The Austrian insurance supervisory authority is a part of the Austrian Financial Market Authority (FMA) that was established as an independent authority in April 2002. Its supervision extends to private-sector insurance companies with registered offices in Austria.

International Financial Reporting Standards (IFRS)
The IFRS are international financial reporting standards. Since 2002, the designation IFRS has stood for the overall framework of all standards adopted by the International Accounting Standards Board. Standards that were previously adopted, however, are still cited as IAS.

Loss reserve
A reserve for losses that have already been incurred but have not yet been settled. Claims and claims settlement expenses can be divided into two categories: reserves for reported but not yet settled claims ("RBNS"), and reserves for claims that have been incurred but have not yet been reported, or the correct amount has not been reported ("IBNR", "IBNER").

Market capitalisation
Stock exchange value or market capitalisation means the value of a stock corporation calculated by multiplying the current stock exchange price by the total number of shares issued.

Market value
The value of an asset on the balance sheet that can be realised by selling it in the market to a third party.

Mathematical reserve
A reserve calculated according to mathematical principles for future insurance payments in the life and health insurance balance sheet units. In the health insurance balance sheet unit, this is also referred to as an ageing reserve.

Net earned premiums
The portion of premiums written that is allocated to the current financial year.

Non-life
Non-life insurance includes the property and casualty insurance and health insurance segments.

Options
Derivative financial instruments which entitle, but do not obligate the buyer to purchase (call option) or sell (put option) an underlying asset at a future point in time for a specified price. In contrast, the seller of the option is obligated to deliver or purchase the asset and receives a premium for providing the option.

Organic growth
Organic growth means the growth of a company resulting from the company's own financial strength. Such growth is therefore not the result of purchasing other companies.

Own Risk and Solvency Assessment (ORSA)
Under Article 45 of Directive 2009/138/EC, every insurance company must perform the Own Risk and Solvency Assessment (ORSA) as part of its risk management system.

Packaged Retail and Insurance-based Investment Products (PRIIPs)
Regulation (EU) No. 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation) must be applied in the European Union starting as of 1 January 2018. The aim of this regulation is to allow consumers to compare banking, insurance and investment products based on standardised, pre-contractual, non-personalised information sheets. The member states must define its scope at the local product level based on general European criteria.

Personal insurance
Comprised of life, health and casualty insurance.

Premium
Agreed fee paid in exchange for assumption of risk by an insurance company.

Premiums written
Direct business premiums written are comprised of set premiums, not including insurance or fire service taxes, plus policyholder collateral payments, reduced by premiums cancelled during the financial year. In indirect business, the premiums written correspond to the premiums that the ceding insurer has indicated for offset. In co-insurance business, the premiums written by each co-insurer correspond to the share of premiums allotted to it.

Present value
Current value of a cash amount to be received in the future, calculated by discounting with a known discount rate.

Price-earnings ratio (PE ratio)
A financial ratio for evaluating shares. The price-earnings ratio is the ratio of the share price to the earnings per share in a reference period, or to the expected earnings per share in a future period. If the reference period is defined as one year, the price-earnings ratio is the end-of-year price divided by the earnings per share in that year.

Profit participation
See profit-related premium refunds.

Profit-related premium refunds
The policyholder's profit participation in the profit of the insurance class in question (mandatory for traditional life insurance).

Profit-unrelated premium refunds
Contractually accorded refund of premiums to the policyholder.

Provision for unearned premiums
The portion of premiums written that were specified for the period following the balance sheet date and are therefore not included in the income for the financial year. These premiums are used to cover obligations arising after the balance sheet date.

Rating
A rating is an evaluation of the creditworthiness of a debtor (countries, companies and so on) often carried out by a specialised rating agency. The evaluation is expressed as a kind of grading. It is very similar to a school grading system. The rating systems of the agencies use different grading schemes and their own symbols.

Reinsurance
Reinsurance is when an insurance company insures a portion of its risk with another insurance company.

Retained earnings
Retained earnings are the profits generated by the company that have not been distributed as dividends.

Return on equity (RoE)
Profit before taxes divided by average shareholders' equity (less revaluation reserve), calculated using values at the beginning and end of the year.

Securities held to maturity
Held-to-maturity securities comprise debt securities that are intended to be held to maturity, and can be held to maturity. They are measured at cost on the date of initial recognition and are subsequently measured at amortised cost. A write-down is recognised in profit or loss in the case of permanent impairment.

Segment reporting
Presentation of the consolidated financial statements using segments defined in accordance with IFRS 8. For VIG, these are countries.

Single premium
A special type of premium payment used for life insurance. A (high) amount is paid as a single premium at the start of the policy.

Solvency II
Solvency II is a fundamental reform of insurance supervisory law in Europe, particularly solvency regulations relating to the capital adequacy of insurance companies. Solvency II is intended to create methods for the risk-based management of the total solvency of insurance companies. The current static system for determining capital adequacy is replaced by a risk-based system, which goes beyond the current capital adequacy provisions of the Austrian Insurance Supervision Act, in particular to also take qualitative factors (e.g. internal risk management) into account.

Standard & Poor's (S&P)
S&P is an internationally recognised rating agency. It analyses and evaluates companies, countries and bonds, among other things. It uses its own rating scale, which ranges from AAA for the highest category to CC for the lowest when rating the financial strength of insurance companies. The ratings can be modified by adding a plus or minus sign.

Stress test
Stress tests are a special form of scenario analysis. The objective is to arrive at a quantitative assessment of the potential losses incurred by portfolios in the event of extreme market fluctuations.

Underwriter
Underwriters are responsible for evaluating risks in the insurance industry, and have the authority to underwrite risks. An underwriter estimates the probability and size of a loss as precisely as possible, calculates insurance premiums and establishes policy terms.

Underwriting provisions
These consist of the provision for outstanding claims, mathematical reserve, unearned premiums, provisions for profit-related and profit-unrelated premium refunds, the equalisation provision and other underwriting provisions.

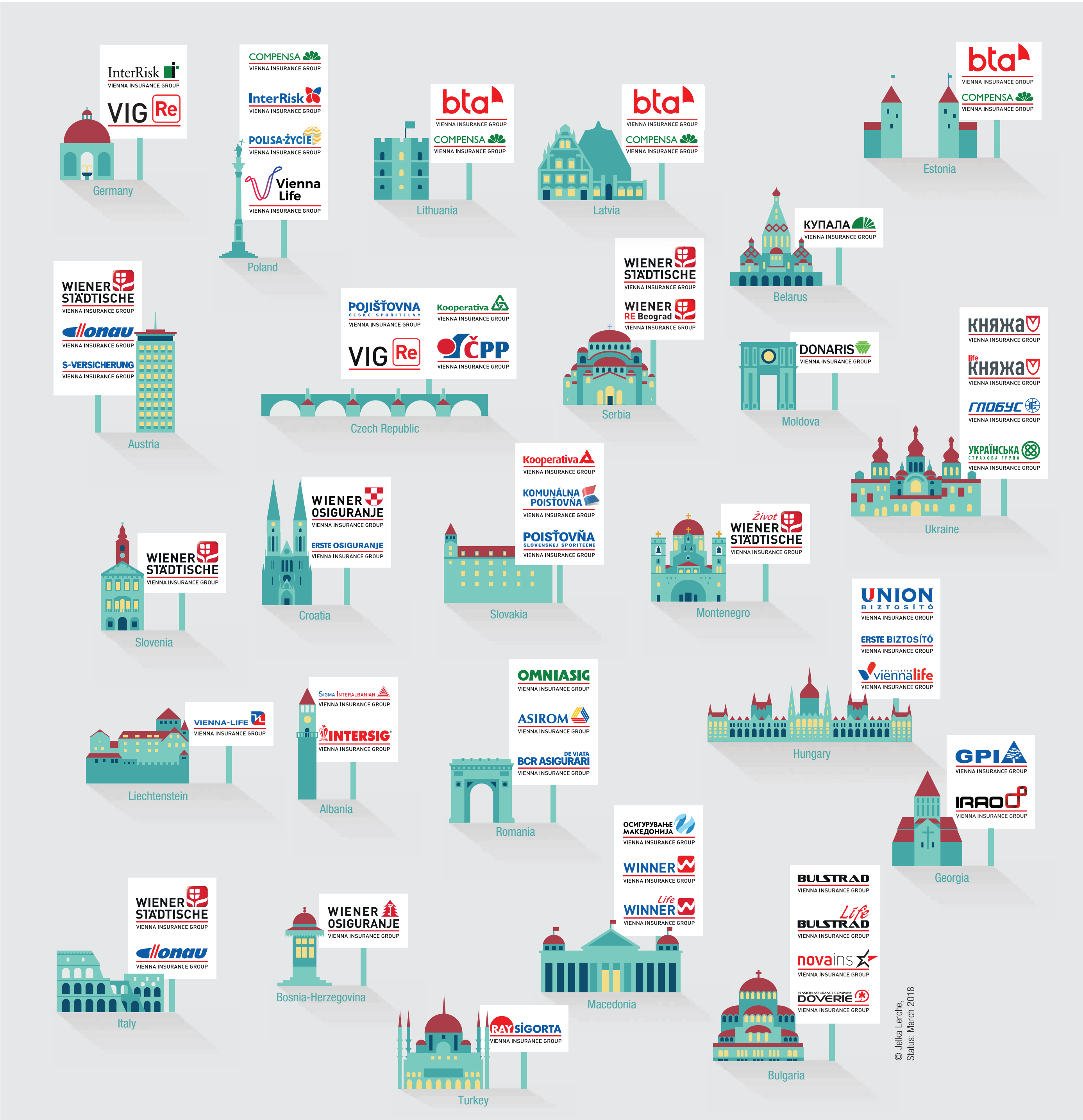
Unit-linked and index-linked life insurance
Insurance policies where the investment is made at the policyholder's risk. The investments in this area are valued at fair value, with the underwriting reserves shown at the value of the investments.

Value of new business
The value of new business is the value generated by the new business sold during the financial year.

Value-at-risk (VaR)
The value-at-risk concept is a procedure used to calculate potential losses arising from changes in the price of a trading position. This loss potential is expressed using a specific confidence limit (e.g. 98%), and is calculated based on market-related price changes.

Vienna Insurance Group (VIG)
VIG generally refers to the Group as a whole. Vienna Insurance Group and VIG are used as synonyms. If a statement refers only to the activities of the Group holding company, the word "Holding" is added at the end of the name.

Volatility
Fluctuations in security prices, currency rates and interest rates.



More than 25,000 employees in around 50 Group companies in 25 countries are working together towards our common success.

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Address · Notes · General Information

NOTICE

This annual report includes forward-looking statements based on current assumptions and estimates that were made by the management of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe to the best of its knowledge. Disclosures using the words “expected”, “target” or similar formulations are an indication of such forward-looking statements. Forecasts related to the future development of the Company are estimates made on the basis of information available as of the date this report went to press. Actual results may differ from the forecasts if the assumptions underlying the forecast prove to be wrong or if unexpectedly large risks occur.

Calculation differences may arise when rounded amounts and percentages are summed automatically.

The annual report was prepared with great care to ensure that all information is complete and accurate. The possibility of rounding, type-setting or printing errors, however, cannot be ruled out completely.

Our goal was to make the Annual Report as easy to read and as clear as possible. For this reason we have not used phrasing such as “he/she”, “his/her”, etc. It should be understood that the text always refers to women and men equally without discrimination.

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WEBSITE – ONLINE REPORT

The annual report is available in German and English on our Internet website (www.vig.com) under Investor Relations and can also be downloaded in both languages as a PDF file.

Service tip **Online annual report**

The Vienna Insurance Group website provides an online version of the annual report that is optimised for both the Internet and mobile devices. All sections may be downloaded in PDF form. You can also download the most important tables as Excel files. Other features, such as links within the report and a comparison with the previous year create transparency and take you directly to the information being sought. The online version of the report also allows you to perform a full-text search quickly and easily. The search results are presented on an overview page, sorted by relevance. The term being searched for is highlighted in colour on this page and on the page in the report.

In case of doubt, the German version is authoritative.

Editorial deadline: 23 March 2018

GENERAL INFORMATION

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