

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 development. 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

	2017	2016	Change in %
<i>in EUR millions</i>			
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

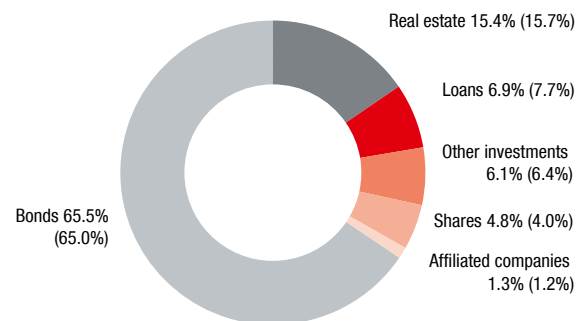
A brief presentation of the investments is included on page 134 of the notes to the consolidated financial statements.

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
<i>in EUR millions</i>				
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
<i>in EUR millions</i>				
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.

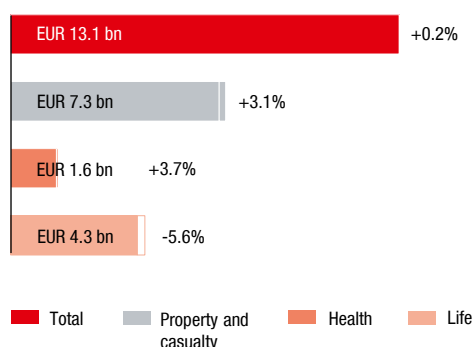
AUSTRIA

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

9M 2017 figures



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.

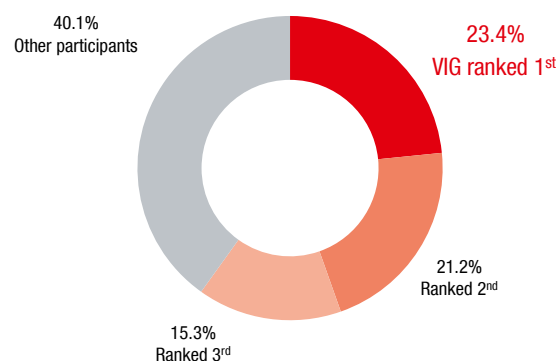
The ongoing low interest rate climate continues to have a negative effect on life insurance. Regular premiums fell 1.4%, and the single premium business fell 25.6%.

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

Per cent of total premium volume



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.

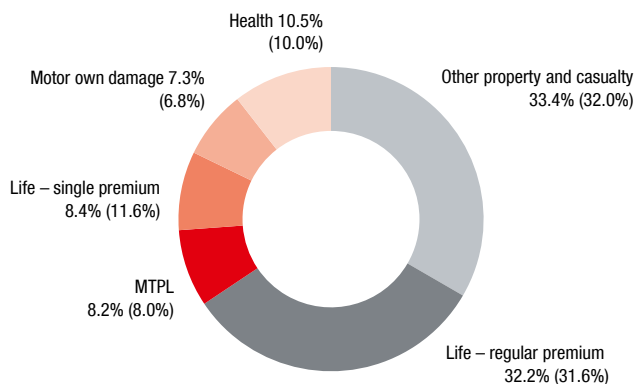
s Versicherung will be merged with Wiener Städtische in 2018, subject to approval by the boards of the Group companies and the authorities. The merger is aimed at pooling the strengths of the two insurance companies to promote the bank insurance business. The s Versicherung brand will remain unchanged 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

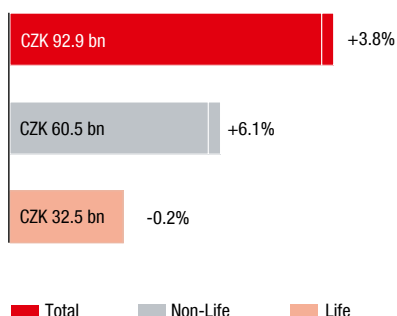
CZECH REPUBLIC

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.

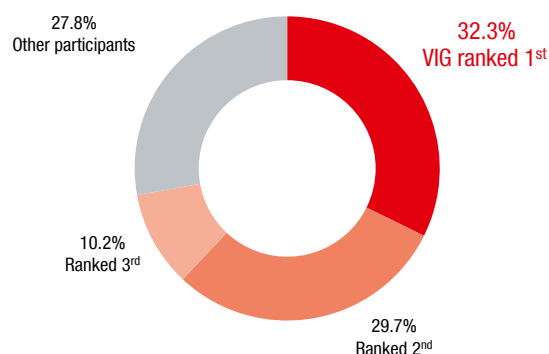
This increase was primarily due to the non-life sector, which recorded strong growth of 6.1% compared to the same period in the previous year. Motor premiums rose by 5.9% (motor third party liability +3.6%, motor own damage +8.9%). This was a continuation of the growth trend in this segment caused by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

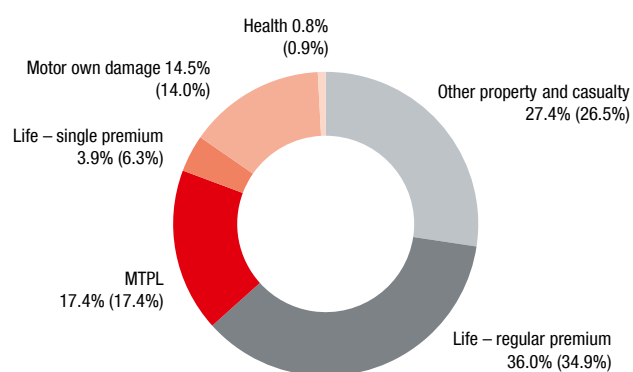
VIG plans to merge its Group companies Kooperativa and PČS as of 1 January 2019, subject to approval by the local authorities and the boards of the companies. The aim is to strengthen the bank insurance business by combining the expertise of the two companies.

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

	2017	2016	2015	2014
in EUR millions				
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

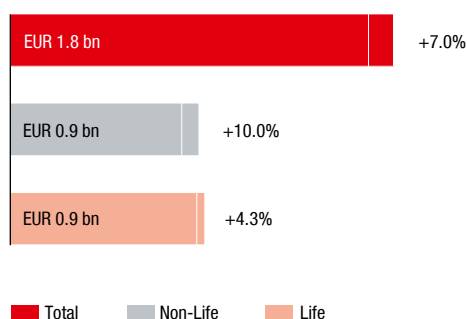
SLOVAKIA

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

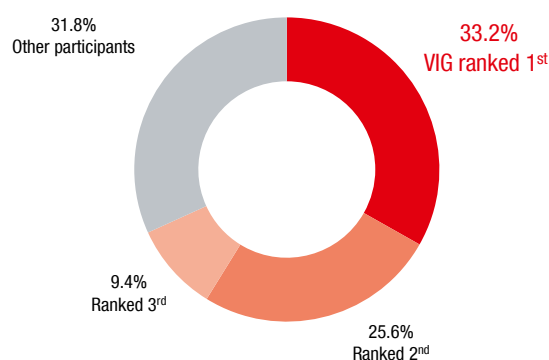
The Slovakian insurance market grew 7.0% in the 1st to 3rd quarter of 2017. Both the non-life and life sectors recorded a positive development.

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.

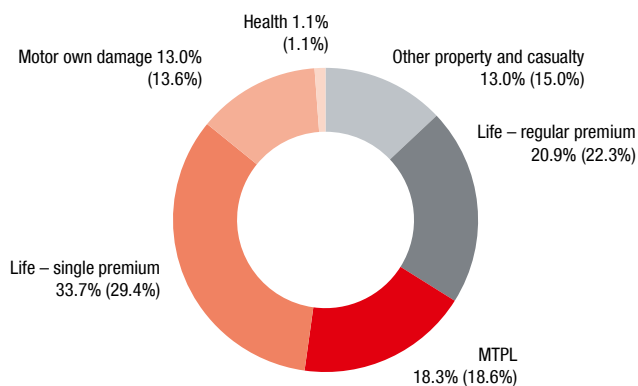
PSLSP will be merged with Kooperativa as of 1 April 2018. This step will promote the non-life business sales via the banks.

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

	2017	2016	2015	2014
in EUR millions				
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

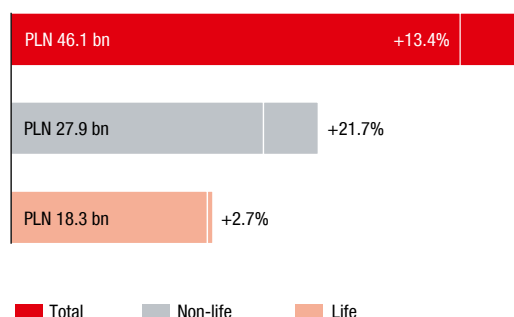
POLAND

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%

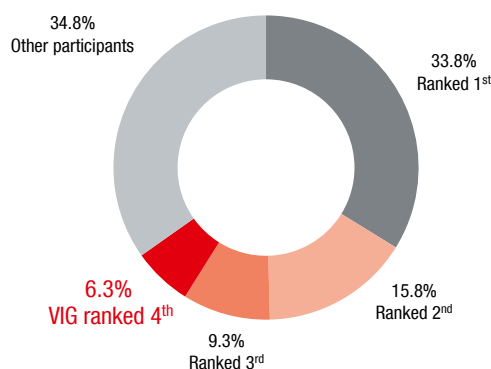
year-on-year. Regular premium life insurance remained almost unchanged with an increase of 0.3% compared to 2016, while unit-linked life insurance became attractive again (+10.2%).

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

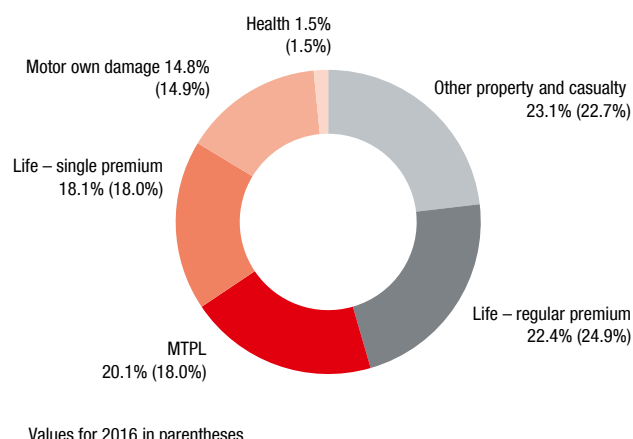
Five VIG insurance companies are operating on the Polish market: Compensa Life and Non-Life, InterRisk, Polisa and Vienna Life. Together they have a market share of 6.3%, which puts them in fourth place in the Polish insurance market. The Group is also ranked fourth in the non-life and life sectors.

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



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

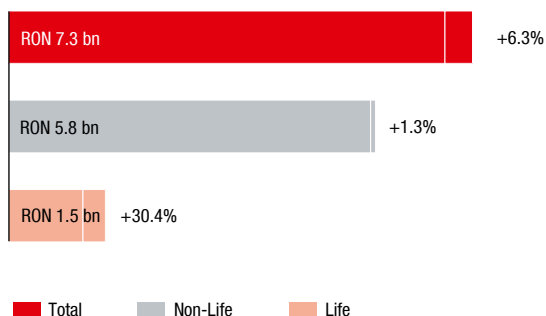
ROMANIA

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.

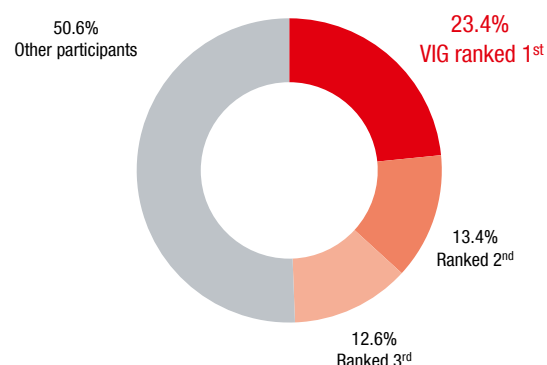
Premiums rose moderately by 1.3% in the non-life sector. After double-digit growth in the previous year, the dominant motor third party liability line of business recorded a drop of 5.3%, mainly due to a decrease in premium rates. A new law was enacted for this sector in May 2017 that led to mandatory 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.

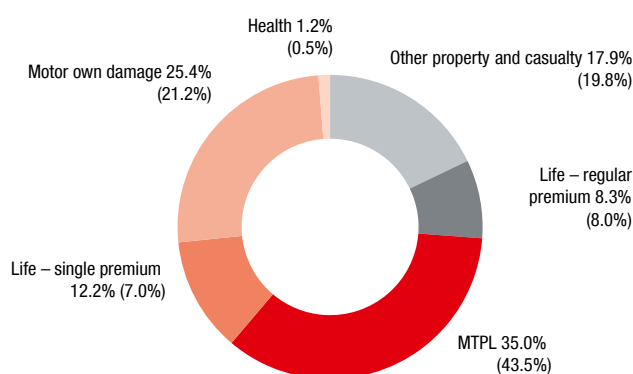
The Group's market share of 23.4% makes it number 1 of the leading Romanian insurance groups. Vienna Insurance Group also holds first place in the non-life sector, and second place in the life sector.

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

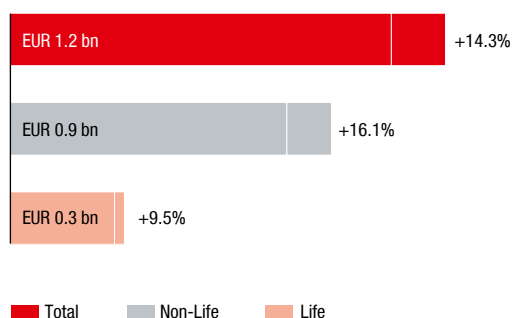
The Baltic states consist of the countries Estonia, Latvia and Lithuania.

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

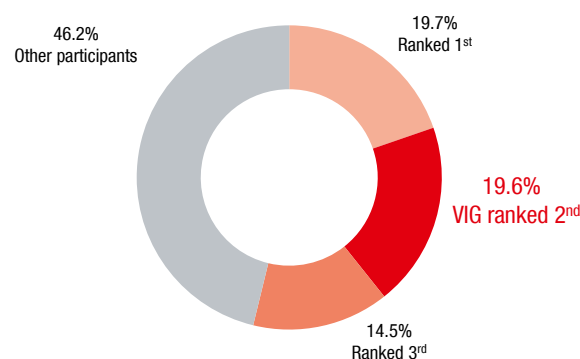
drivers of growth, increasing 27.9% compared to the same period in the previous year.

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

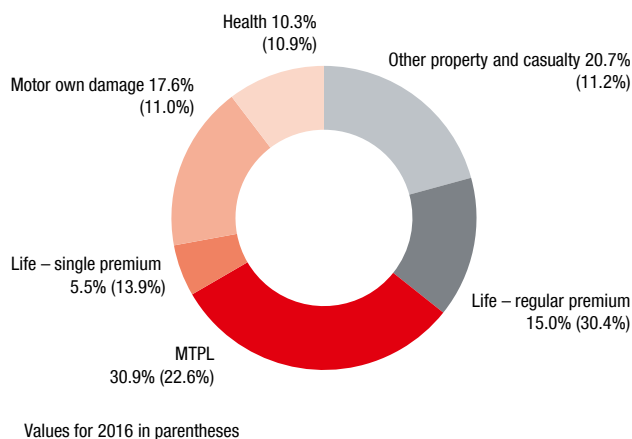
Non-Life in Lithuania. It also maintains branches in Latvia and Estonia.

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



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

	2017	2016	2015	2014
in EUR millions				
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

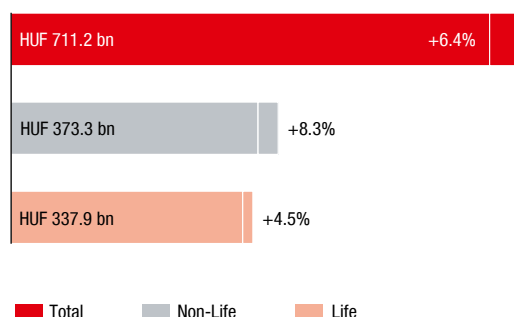
HUNGARY

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

9M 2017 figures



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%.

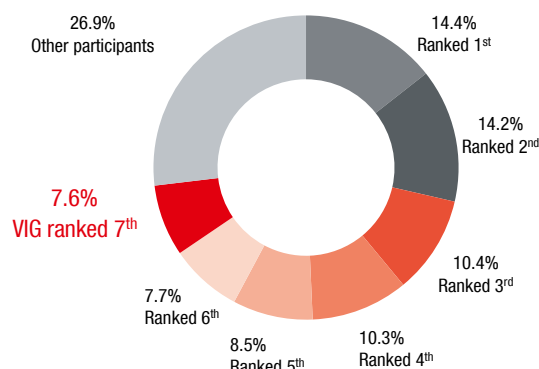
Life insurance premiums rose by 4.5%. Tax-privileged pension insurance continues to be popular and recorded a growth

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

Per cent of total premium volume



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.

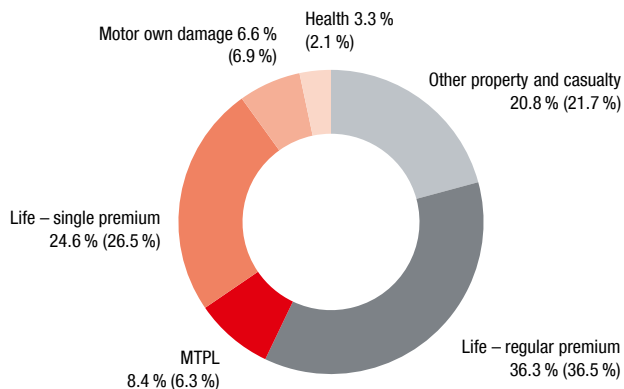
Vienna Insurance Group began the process of merging all three Hungarian insurance companies in 2017. The merger is expected to be concluded by the end of March 2018. After the merger, Vienna Insurance Group will only be represented by the insurance company Union Biztosító. The merger will give the Group 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

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

	2017	2016	2015	2014
in EUR millions				
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

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.

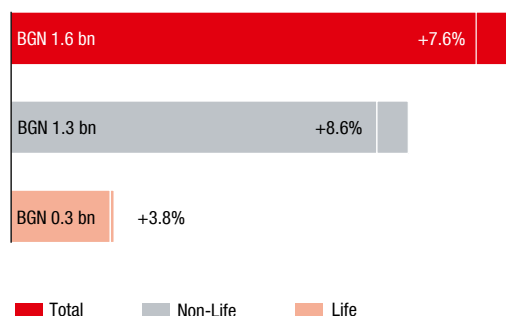
BULGARIA

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

9M 2017 figures



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.

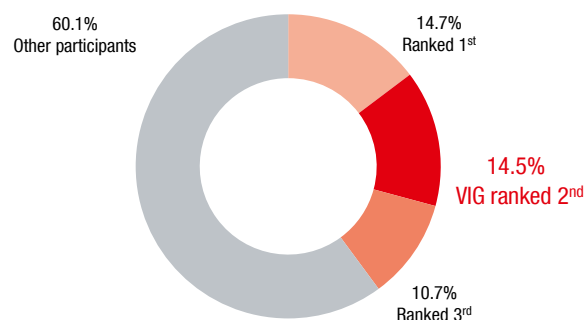
Most of the Bulgarian population has too little disposable income to invest in long-term savings products. Life insur-

ance 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

Per cent of total premium volume



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.

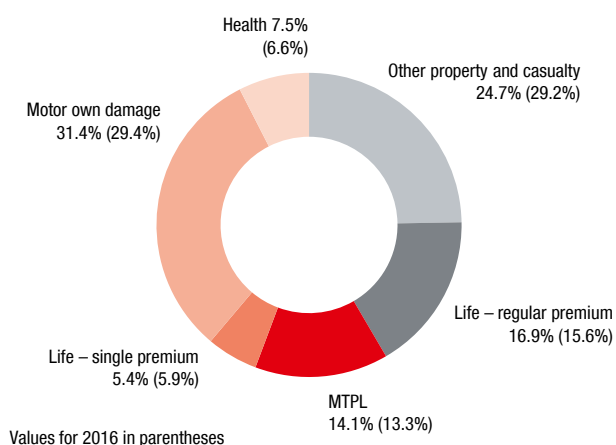
Vienna Insurance Group's market share of 14.5% puts it in second place in the Bulgarian insurance market. Vienna Insurance Group is in second place in the non-life sector, and is positioned as number one in life insurance. The largest pension fund, Doverie, also belongs to the Group.

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



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

	2017	2016	2015	2014
in EUR millions				
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.

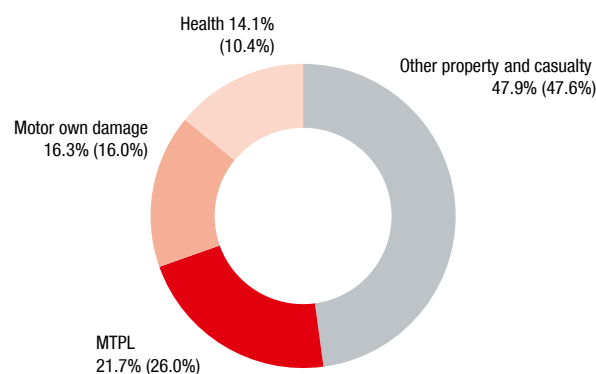
Vienna Insurance Group is represented by two companies in Georgia: GPIH and IRAO. Their combined market share of 30.0% puts them in second place in the Georgian insurance market. A total of 16 insurers operate in the market.

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

	2017	2016	2015	2014
<i>in EUR millions</i>				
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 in-

crease 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 Inter-Albanian and Intersig, in the non-life sector in Albania. Sigma Inter-Albanian 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 quar-

ters 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.

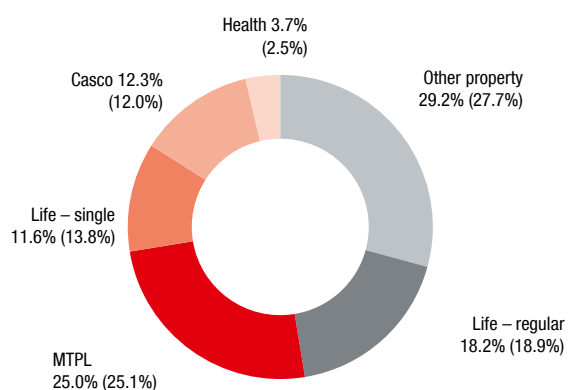
BUSINESS DEVELOPMENT IN THE REMAINING CEE SEGMENT IN 2017

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

	2017	2016	2015	2014
in EUR millions				
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.

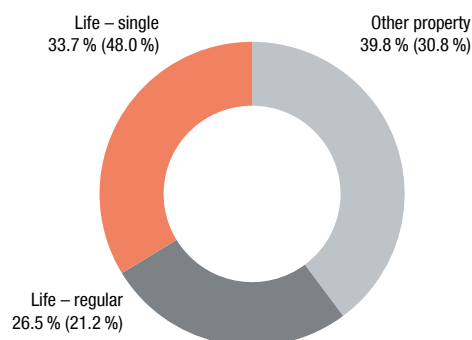
Expenses for claims and insurance benefits

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

	2017	2016	2015	2014
in EUR millions				
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. Eco-

nomic 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 macro-economic 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.