

# VIENNA INSURANCE GROUP WIENER STÄDTISCHE VERSICHERUNG AG

## Supplementary information on the Group Embedded Value results for 2008

### 1. Introduction

The VIENNA INSURANCE GROUP WIENER STÄDTISCHE Versicherung AG (VIG) last disclosed its Group Embedded Value (GEV) results in March 2008 for the year 2007. The disclosure included the European Embedded Value (EEV) or the Traditional Embedded Value (TEV) for the majority of the Life and Health (L&H) businesses, and the Adjusted Net Asset Value (ANAV) for the majority of Property & Casualty (P&C) businesses.

In accordance with VIG's goal of continually extending the scope of the GEV reporting, the EEV and ANAV for CPP in Czech Republic, the TEV and ANAV for BENEFIA, INTERRISK and TU PZM in Poland have been included in the GEV 2008 for the first time. In addition, the EEV (Austria) and TEV (Central and Eastern Europe) for the newly acquired insurance operations of ERSTE BANK are also included in the GEV 2008. These companies are shown in Table 1 in italics.

VIG has a successful track record of dynamic expansion in Central and Eastern Europe (CEE). The integration of the acquired businesses in VIG, and the resultant restructuring, is in some cases still ongoing. It has therefore not been possible to determine the EEV, TEV or ANAV for all the companies in CEE. These companies have been included in the GEV on the basis of the IFRS book values as shown in VIG's IFRS accounts. Table 1 below shows the companies for which the EEV, TEV or ANAV has been calculated and the corresponding valuation methodology. The EEV or TEV is determined for the L&H businesses and the ANAV for the P&C businesses.

Table 1

Country	Company	Valuation methodology
Austria	WSTV DONAU <i>S-VERS.</i>	EEV and ANAV EEV and ANAV <i>EEV</i>
Germany	INTERRISK INTERRISK LIFE	ANAV EEV and ANAV
Czech Republic	KOOPERATIVA CPP <i>PCS</i>	EEV and ANAV EEV and ANAV <i>TEV</i>
Slovakia	KOOPERATIVA <i>PSLSP</i>	EEV and ANAV <i>TEV</i>
Hungary	UNION <i>ERSTE</i>	TEV and ANAV <i>TEV</i>
Poland	COMPENSA COMPENSA LIFE BENEFIA BENEFIA LIFE TU PZM INTERRISK	ANAV TEV and ANAV ANAV TEV and ANAV ANAV ANAV
Romania	<i>BCR</i> <i>BCR LIFE</i>	<i>ANAV</i> <i>TEV and ANAV</i>
Croatia	<i>ERSTE</i>	<i>TEV</i>

The covered business includes all the L&H businesses within VIG on the basis of the EEV, TEV or IFRS book value. Where one part of the covered business has an interest in a business for which an EEV, TEV or ANAV has been determined, the ANAV of that business excludes the book value and any unrealized capital gains in respect of the dependent business.

A number of transactions during 2008 have had a significant impact on the development of VIG. A capital raising exercise involving the issue of additional shares and also a new emission of hybrid capital were carried out in May and June 2008. The proceeds were mainly used for the acquisition of the insurance operations of ERSTE BANK in Austria and CEE. Additionally VIG sold its holdings in BACA-Versicherung in Austria and UNITA in Romania.

VIG has chosen a bottom-up methodology in setting the economic assumptions for the EEV calculations. The European Insurance CFO Forum Market Consistent Embedded Value Principles<sup>1</sup> (“the Principles”) are mandatory for the reporting year 2009. VIG has amended its GEV methodology to already allow for some of the important aspects of the Principles; in particular explicit allowance has been made for Cost for Residual Non-Hedgeable Risks (CRNHR).

In December 2008 the CFO Forum concluded that the current market environment displays highly unusual characteristics including very high credit spreads on fixed income securities and also high interest rate and equity volatilities. In order to appropriately reflect the long term and relatively illiquid nature of the insurance liabilities, VIG applied a liquidity margin to the swap rates and used the average of the implied volatilities over 2008 for the GEV at December 31, 2008 as detailed in Section 4.1.

The directors of VIG acknowledge their responsibility for the preparation of the supplementary information. B&W Deloitte GmbH, Cologne, has been retained to review VIG’s GEV calculation. The scope and the results of its independent review are set out in the Appendix A.

The GEV disclosure should not be viewed as a substitute for VIG’s primary financial statements.

## **2. Summary of results**

The GEV is an estimate of the economic value of insurance business including future profits on existing business, but excluding any profits on future business. It corresponds to the total net of tax statutory profits distributable to the shareholders after allowance for the risks included in the covered business.

The GEV includes the following components:

- ANAV – for the P&C business only this component is included
- Value of In-Force (VIF) determined as
  - Present Value of Future Profits (PVFP) minus
  - Time Value of Financial Options and Guarantees (TVFOG) minus
  - Frictional Cost of Required Capital (FCRC) for the EEV or Cost of Capital (CoC) for the TEV minus
  - Cost of Residual Non-Hedgeable Risks (CRNHR)

The TVFOG and CRNHR have only been explicitly determined for the EEV businesses.

All the values shown in this disclosure are after tax and exclude minority interests unless otherwise stated. The results are generally shown separately for Austria and Germany (A/G) and CEE.

### **2.1 Group Embedded Value**

The following table shows the GEV results for the year ending December 31, 2008 and the restated and adjusted GEV results for the year ending December 31, 2007.

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Table 2

	L&H		P&C		Total	
	2008	2007(*)	2008	2007(*)	2008	2007(*)
<b>Austria/Germany</b>						
Free Surplus	403.6	525.3				
Required Capital	320.5	325.9				
ANAV	724.1	851.2	151.4	426.6	875.5	1,277.8
PVFP	1,233.9	1,568.5	n/a	n/a	1,233.9	1,568.5
- TVFOG	- 172.3	- 56.8	n/a	n/a	- 172.3	- 56.8
- CoC/FCRC	- 43.5	- 48.7	n/a	n/a	- 43.5	- 48.7
- CRNHR	- 71.8	- 54.2	n/a	n/a	- 71.8	- 54.2
VIF	946.3	1,408.8			946.3	1,408.8
Subtotal A/G	<b>1,670.4</b>	<b>2,260.0</b>	<b>151.4</b>	<b>426.6</b>	<b>1,821.8</b>	<b>2,686.6</b>
<b>CEE</b>						
Free Surplus	306.6	266.5				
Required Capital	135.4	113.5				
ANAV	442.0	380.0	1,371.6	1,340.7	1,813.6	1,720.7
PVFP	610.1	539.0	n/a	n/a	610.1	539.0
- TVFOG	- 36.7	- 29.6	n/a	n/a	- 36.7	- 29.6
- CoC/FCRC	- 23.1	- 20.5	n/a	n/a	- 23.1	- 20.5
- CRNHR	- 23.3	- 21.1	n/a	n/a	- 23.3	- 21.1
VIF	527.0	467.8			527.0	467.8
Subtotal CEE	<b>969.0</b>	<b>847.8</b>	<b>1,371.6</b>	<b>1,340.7</b>	<b>2,340.6</b>	<b>2,188.5</b>
<b>Total</b>	<b>2,639.4</b>	<b>3,107.8</b>	<b>1,523.0</b>	<b>1,767.3</b>	<b>4,162.4</b>	<b>4,875.1</b>

(\*) The results shown above for 2007 are after restatement and opening adjustments.

The results as at December 31, 2007 have been restated and also include a number of opening adjustments. The restatement of the reported 2007 results includes:

- the impact of methodology change to allow for the explicit determination of the CRNHR instead of the cost of non-market risks;
- the change in the level of Required Capital for the EEV companies from 150% of the statutory solvency margin to 100%. Consistent with the Standard & Poors capital requirement for an A rating the 150% is used only for the WIENER STÄDTISCHE Versicherung AG (WSTV);
- the change to the reference rates being based on swap rates instead of government bond rates;
- the change in the scope of the companies for which an EEV, TEV or ANAV has been calculated, and the resultant elimination of the difference between the IFRS book value and the corresponding EEV, TEV or ANAV.

The opening adjustments include:

- the difference between the proceeds from the BACA-Versicherung and UNITA transactions and their EEV, or in the case of UNITA, the IFRS book value;
- the capital raising exercise;
- the acquisition of the insurance operations of ERSTE BANK;
- transfers of holdings in subsidiaries between segments (i.e. L&H and P&C in A/G or CEE)
- the dividends paid in 2008 for the reporting year 2007; and
- the impact of foreign exchange movements.

The total GEV as of December 31, 2008 includes a “thereof-position” for the newly acquired insurance operations of ERSTE BANK amounting to € 285.4 mn for A/G and € 232.6 mn for CEE, in total € 518.0 mn.

In addition to the ANAV shown above for the P&C companies, the VIF has been calculated for personal lines segments of WSTV and DONAU Versicherung AG (DONAU) sold through VIG’s employed sales force. Internal analyses show that the development of the in force portfolio for these personal lines segments is reasonably predictable and can be compared to the run-off of an existing life insurance portfolio. This VIF after the cost of capital, excluding any value arising from

new business sold in the future to new policyholders, amounts to € 616.0 mn as at December 31, 2008 (€ 602.3 mn as at December 31, 2007). The development of the VIF is one of the key performance indicators used internally to manage this business. Owing to the lack of comparable figures from peer companies, the VIF for the P&C business has been excluded from the GEV shown above.

## 2.2 Return on GEV by segment

The return on GEV split by the regions A&G and CEE, and the segments L&H and P&C allows for the transfers between segments and regions.

€ mn

Table 3

	L&H	P&C	Total
<b>Austria / Germany</b>			
EV Dec 31, 2008	1,670.3	151.4	1,821.7
EV Dec 31, 2007 Reported	2,012.7	617.5	2,630.2
EV Dec 31, 2007 Restated	2,037.4	570.7	2,608.1
EV Dec 31, 2007 Restated and Adjusted	2,260.0	426.6	2,686.6
+ Dividends	- 34.3	- 79.4	- 113.7
+/- Closing Transfers	- 281.7	286.5	4.8
<i>Return on EV</i>	- 871.4 -44.0%	11.3 1.6%	- 860.1 -32.0%
<b>CEE</b>			
EV Dec 31, 2008	969.1	1,371.6	2,340.7
EV Dec 31, 2007 Reported	546.7	1,374.2	1,920.9
EV Dec 31, 2007 Restated	569.4	1,197.1	1,766.5
EV Dec 31, 2007 Restated and Adjusted	847.8	1,340.7	2,188.5
+ Dividends	- 0.7	- 1.1	- 1.8
+/- Closing Transfers	- 46.8	42.0	- 4.8
<i>Return on EV</i>	74.5 9.3%	72.9 5.3%	147.4 6.8%
<b>Return on Total GEV</b>	- 796.9 -25.6%	84.2 4.8%	- 712.7 -14.6%

The return on GEV after restatement and adjustments in 2008 can be explained by the following factors.

The decrease in the ANAV for the P&C segment in Austria is primarily driven by a reduction in the unrealized capital gains due to a widening of credit spreads on fixed income assets and the fall in equity markets. Furthermore, the P&C segment made a transfer to the L&H segment in an inter-Group transaction. The negative impacts have been partially offset by the positive development of the surplus in the claims reserves and also the ongoing positive technical results.

The increase to the ANAV for the P&C segment in CEE is due to the positive development of the surplus in claims reserves and the increase in retained profits. The CEE companies invest mainly in government bonds and deposits, and therefore the ANAV is not significantly affected by the adverse capital market movements.

The EEV for the L&H segment in A/G has fallen significantly. The free surplus in the ANAV has been reduced due to lower unrealized capital gains. The VIF for the life business has fallen as a result of lower interest rates combined with higher interest rate and equity volatility. The VIF for the health business has remained stable. The operating result continues to be positive as a result of the value of new business and operating assumptions changes.

The EEV and TEV for the life businesses in CEE have increased significantly. The ANAV has increased due to retained profits and there is no significant adverse impact due to adverse capital market movements. The VIF has increased due to the high value of new business in 2008.

The closing transfers show the internal transfers from the P&C segments in A/G and CEE to the L&H segments.

## 2.3 New Business Value (NBV)

The NBV is calculated as the VIF for the new business sold in 2008 less the new business strain, the CoC for the TEV business or the TVFOG, FCRC and CRNHR for the EEV businesses. The L&H companies in Austria do not defer acquisition costs for the traditional life insurance business in the local statutory accounts or in VIG's consolidated IFRS accounts. Therefore the new business strain for the Austrian business also includes the acquisition expenses.

The NBV has only been calculated for the L&H business and the following table shows the results for 2008 and the restated and adjusted results for 2007. The restated and adjusted results allow for the changes in methodology. They include the companies acquired from the ERSTE BANK and the additional companies for which the TEV has been calculated for the first time and exclude the 2007 NBV for BACA-Versicherung.

€ mn Table 4

	2008	2007	+ / - %
<b>Austria / Germany</b>			
NBV	61.6	76.2	- 19.2%
APE	259.1	262.2	
<i>APE-Ratio</i>	23.8%	29.1%	
PVNBP	2,479.2	2,398.6	
<i>PVNBP-Ratio</i>	2.5%	3.2%	
<b>CEE</b>			
NBV	92.2	68.8	+ 34.0%
APE	211.1	213.8	
<i>APE-Ratio</i>	43.7%	32.2%	
PVNBP	1,311.5	1,121.1	
<i>PVNBP-Ratio</i>	7.0%	6.1%	
<b>NBV-Total</b>	<b>153.8</b>	<b>145.0</b>	<b>+ 6.1%</b>
<b>APE-Total</b>	<b>470.2</b>	<b>476.0</b>	
<b><i>APE-Ratio Total</i></b>	<b>32.7%</b>	<b>30.5%</b>	
<b>PVNBP-Total</b>	<b>3,790.7</b>	<b>3,519.7</b>	
<b><i>PVNBP-Ratio Total</i></b>	<b>4.1%</b>	<b>4.1%</b>	

The NBV in A/G has decreased due to lower margins on the participating life insurance business as a result of the lower interest rates and higher interest rate volatility. The value of the unit linked business has increased and the total new business volumes have not changed relative to the previous year. The total new business volumes in CEE as measured by PVNBP have increased. The NBV in CEE has increased due to higher new business margins in most countries.

## 3. Methodology

The shareholders' interest in the covered business is represented by the GEV. The components of the GEV are described below. Calculations are performed separately for each business and are based on the cash flows of that business after allowing for both external and intra-group reinsurance.

### 3.1 Adjusted Net Asset Value

The ANAV is defined as:

- the shareholders' funds under the local GAAP bases including the profit or loss for the reporting year prior to the valuation date;
- plus the "untaxed reserves" after tax – these reserves are available to cover the solvency requirements and are not required to cover the liabilities on the basis of best estimate assumptions;

- plus the shareholders' share of the unrealized capital gains after tax to the extent that these are not included in the calculation of the VIF for the L&H businesses;
- plus the surplus in claims reserves (SCR) after tax (only for the P&C businesses);
- less goodwill and other intangible items after tax in respect of the companies for which the EEV, TEV or surplus in claims reserves after tax (SCR) has been calculated;
- less the after tax difference between the IFRS and local GAAP pension liabilities;
- less the difference between the market and nominal value of the subordinated debt.

WSTV in Austria is a composite insurance company and its assets are split between the operating segments (i.e. P&C, Life and Health) on the basis of the statutory balance sheets. The assets for the L&H operating segments are further split between the participating business, non-participating business and shareholder fund. In Austria it is possible to transfer assets between the operating segments on the basis of their book values.

In 2007 all VIG's insurance subsidiaries were allocated to the P&C segment of WSTV with the exception of BACA-Versicherung and DONAU which were allocated to the shareholder fund of the Life segment. BACA-Versicherung was sold during 2008 and the newly acquired insurance operations have all been allocated to the P&C segment. The holding in INTERRISK in Germany has been reallocated to the shareholder fund of the Life segment.

The after tax unrealized capital gains for the P&C segment have been fully allocated to the shareholders and have been included in the ANAV. For the Life segment the unrealized capital gains have been included in the calculation of the VIF to the extent that they were required to support the policyholder profit participation. The balance has been included in the ANAV after allowing for the relevant minimum profit participation rules and the company's profit participation strategy. The unrealized capital gains for the Health segment have been divided 13%:87% between the ANAV and VIF.

For the P&C businesses, the SCR is the amount by which the claims reserves (including the claims equalization reserves) in the local statutory balance sheets exceed a given actuarial best estimate of the required reserve. The best estimate reserve has been defined as the mean of the eventual payments that will be made in respect of outstanding claims from the in force portfolio, whether currently reported or not. Carrying an accounted reserve with a surplus means that the accounted reserve includes a margin above the expected value of the eventual claims payments. This margin allows for a degree of adverse claims settlement outcome without exhausting the reserve. Future claims payments are not discounted in the calculation of the SCR.

The SCR in Slovakia allows for a part of VIG's expected future share of the IBNR claims arising from motor liability portfolio of the former national monopoly insurer. In accordance with local legislation, two-thirds of the "SKP" best estimate liability has to be included in the reserves starting from May 1, 2009. One third of "SKP" reserve was already recognized in the booked reserves at the end of 2008. Thus another one-third of the best estimate liability has been included in the estimation of the SCR at that date. It has been assumed that margins in future motor insurance premiums will be sufficient to finance the balance of the liability.

The ANAV (€ 1,166.1 mn at December 31, 2008 and € 1,231.2 mn at December 31, 2007) for the L&H companies is split into Required Capital (€ 455.9 mn at December 31, 2008 and € 439.4 mn at December 31, 2007) and Free Surplus (€ 710.2 mn at December 31, 2008 and € 791.8 mn at December 31, 2007).

The Required Capital for each L&H company or segment has been determined as the maximum of (i) the standalone capital requirements under VIG's internal risk capital model or (ii) consistent with the capital requirements determined by Standard & Poors for an A rating, 150% of the statutory solvency margin for the L&H segments of WSTV in Austria and 100% of the statutory solvency margin for all other companies. These requirements are reduced to allow for subordinated debt and the funds for future policyholder profit participation to the extent that these are available and can be used to cover the statutory solvency margin. The Free Surplus is the ANAV in excess of the total Required Capital covered by the shareholders' funds.

### **3.2 Value of In-Force and Financial Options and Guarantees**

The VIF calculated for the L&H companies is the value of the projected net of tax statutory distributable profits arising from the in force business. It does not include profits from future new business.

The EEV and the TEV for the life businesses allow for each company's profit participation strategy and also the local minimum legal requirements for profit sharing.

The PVFP for the EEV companies is determined by projecting cash flows under the assumption that the future investment returns on all assets are equal to the rates implied by the reference interest curve at the valuation date. The other assumptions (including expenses, surrender rates, mortality and morbidity rates, shareholder participation rates and tax rates) are set on a best estimate basis that reflects each business' recent experience and expected future trends. Where appropriate, the projection models allow for management actions and policyholder behavior, i.e. some assumptions (e.g. the asset allocation or surrender rates) vary depending on the future economic conditions. The resulting statutory shareholder profits are discounted at the reference interest rates and this is defined as the "certainty equivalent" PVFP. This value takes account of the intrinsic value of financial options and guarantees.

The PVFP for the TEV companies is determined by projecting cash flows using best estimate investment return assumptions. The resulting projected shareholder profits are discounted at risk discount rates that include an implicit margin to cover aggregate risks.

The TVFOG are valued explicitly for the EEV companies as the difference between the "stochastic" PVFP and the "certainty equivalent" PVFP. The "stochastic" PVFP is defined as the average – over one thousand economic scenarios – of the discounted value of the projected after-tax statutory shareholder profits. The economic scenarios represent possible future outcomes for capital market variables such as interest rates, equity returns and inflation.

### **3.3 Frictional Cost of Required Capital and Cost of Capital**

The FCRC for the EEV companies has been calculated as the present value at the reference interest rates of the frictional costs on the total Required Capital. The frictional costs on the Required Capital covered by the shareholders' funds have been defined as the sum of the corporation tax on the future investment returns and investment expenses.

The CoC for the TEV companies has been calculated as the present value of the difference between the risk discount rate and the after-tax investment return to shareholders applied to the proportion of the total Required Capital covered by the shareholders' funds.

The same definitions for the FCRC and CoC have been applied for the in force business and the new business.

### **3.4 Cost of Residual Non-Hedgeable Risks**

The CRNHR, that have only been determined for the EEV businesses, allow for the non-financial (i.e. mortality, morbidity, lapse and expense) and operational risks on the basis of the cost of holding risk capital to cover these risks. The risk capital is based on VIG's internal risk capital model and is equal to the stand alone risk capital at the 99.5% percentile. No allowance has been made for diversification between companies or between financial and non-financial or operating risks. The risk capital is projected over the life time of the portfolio on the basis of projected reserves, premiums or other relevant drivers. The same drivers are used to project the risk capital for in force and new business.

### 3.5 New Business Value

The NBV represents the value generated by new business sold during the reporting period. New business premiums are defined as premiums arising from sales of new contracts during the period and renewals on these contracts. New business includes policies where a new contract is signed or underwriting is carried out. Renewal premiums include contractual renewals and changes to health insurance premiums due to medical inflation.

## 4. Assumptions

### 4.1 Economic assumptions

The reference interest rates used for the EEV calculations at December 31, 2008 and 2007 are shown in Table 5 below. They are based on the corresponding swap rates and the values at December 31, 2008 include a liquidity spread of 0.50% for all terms. The Koruna in Slovakia was converted to Euro at January 1, 2009 and the valuation of the Slovakian companies is based on the Euro.

Table 5

Reference rate	EUR		CZK	
	2008	2007	2008	2007
1 year	3.18%	4.74%	4.83%	4.26%
2 year	3.32%	4.60%	3.78%	4.27%
5 years	3.76%	4.56%	3.40%	4.36%
10 years	4.30%	4.75%	3.79%	4.62%
20 years	4.40%	4.94%	3.89%	4.90%

The swaption implied volatilities and the equity option volatilities used to calibrate the economic scenario generator at December 31, 2008 are based on average volatilities over 2008. The swaption volatilities are shown in Table 6 and the equity option volatilities are shown in Table 7.

Table 6

Option Term	Interest rate volatility (*)			
	EUR		CZK	
	2008	2007	2008	2007
1 year	15.01%	14.85%	17.02%	13.94%
2 year	14.23%	14.34%	15.86%	13.39%
5 years	12.72%	12.73%	13.31%	11.79%
10 years	12.26%	11.10%	12.74%	10.37%
20 years	16.46%	10.36%	13.64%	9.32%

(\*) Volatilities implied in option on 10-year swaps at the money

Table 7

Term	Equity volatility			
	EUR		CZK	
	2008	2007	2008	2007
1 year	27.87%	27.06%	28.35%	24.04%
2 year	28.65%	26.97%	28.68%	24.22%
5 years	29.70%	26.96%	28.88%	24.44%
10 years	31.65%	27.32%	29.63%	25.04%
20 years	34.71%	28.27%	30.99%	26.33%

The correlation assumptions used to calibrate the economic scenarios are based on historic market data.

The weighted average new money investment return assumptions used for the TEV calculations are based on the corresponding 10 year government bond rates with positive or negative margins

for the non fixed income asset classes. Table 8 shows the weighted average new money investment returns and also the risk discount rates.

Table 8

Country	2008			2007		
	Risk discount rate	10 year govt bond	Weighted average new money return	Risk discount rate	10 year govt bond	Weighted average new money return
Czech Republic	8.16%	4.16%	4.37%	8.77%	4.77%	5.03%
Slovakia	8.70%	4.70%	4.82%	7.70%	4.70%	4.81%
Croatia	10.46%	6.46%	6.56%	8.58%	5.58%	6.25%
Poland	9.36%	5.36%	5.36%	9.93%	5.93%	6.01%
Hungary	12.28%	8.28%	8.58%	10.08%	7.08%	7.08%
Romania	15.90%	11.90%	12.36%	9.75%	6.75%	7.32%

The price inflation assumptions for the EEV businesses are scenario dependent and are set with regard to the assumed reference rates. The price inflation assumptions for the TEV businesses are set with regard to the 10 year government bond rates. The medical inflation rates assumed for the Austrian health insurance business were 2.0% reducing to 1.0% over 10 years as at December 31, 2008 and a constant 2.0% as at December 31, 2007.

The capital charge assumed for the CRNHR is 2% p.a. on the projected risk capital for both 2008 and 2007.

Table 9 shows the foreign currency exchange rates against EUR and also the assumed tax rates.

Table 9

	Exchange rate		Tax rate	
	2008	2007	2008	2007
Austria	-	-	25.00%	25.00%
Germany	-	-	30.00%	40.00%
Czech Republic	26.88	26.63	21% (2008) 20% (2009) 19% (2010+)	24.00%
Croatia	7.36	7.33	20.00%	20.00%
Slovakia	30.13	33.58	19.00%	19.00%
Poland	4.15	3.59	19.00%	19.00%
Hungary	266.70	253.73	20.00%	20.00%
Romania	4.02	3.61	41.00%	38.00%

#### 4.2 Operating assumptions

Shareholder returns for with-profit business are determined in accordance with local legal minimum profit participation rules and are consistent with company practice.

The assumed profit sharing for the Austrian Health insurance business, in accordance with current practice, has been limited to the "no claims bonus". It does not allow for the minimum profit sharing rules that were introduced by the Austrian Supervisory Authority (FMA) in 2007 because these rules are not applicable to WSTV's health insurance portfolio as at December 31, 2008.

Other actuarial assumptions such as mortality and morbidity rates, surrender and annuity take-up rates have been included on a best estimate basis. These assumptions are reviewed regularly and adjusted to reflect historical experience and expected trends.

Expense assumptions have been based on the companies' recent experience without anticipating future expense improvements. No expenses have been excluded as one-off expenses and all the

expenses within VIG, including corporate center expenses, have been allocated to the operating segments L&H or P&C.

## 5. Analysis of change

The following tables show the analysis of change in the EEV and TEV for the L&H business in total and also separately for A/G and CEE.

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Table 10

	VIG		EEV	
	Free Surplus	Required Capital	VIF	EEV
<b>Value as at Dec 31, 2007 reported</b>	<b>398.8</b>	<b>484.8</b>	<b>1,675.8</b>	<b>2,559.4</b>
<b>Value as at Dec 31, 2007 restated</b>	<b>484.4</b>	<b>436.7</b>	<b>1,685.7</b>	<b>2,606.8</b>
Capital and Dividend Flows	- 35.0	0.0	0.0	- 35.0
Foreign Exchange Variances	- 0.7	- 0.1	5.1	4.4
Acquired/Divested Businesses	343.0	2.8	185.9	531.7
<b>Value as at Dec 31, 2007 restated and adjusted</b>	<b>791.8</b>	<b>439.4</b>	<b>1,876.7</b>	<b>3,107.8</b>
<b>New Business Value</b>	<b>- 146.6</b>	<b>50.7</b>	<b>249.8</b>	<b>153.8</b>
Roll forward reference rate	26.9	10.0	85.1	122.0
Roll forward excess rate	11.6	2.3	17.8	31.7
Transfers from VIF and required capital to free surplus	259.8	- 32.0	- 227.9	0.0
Experience Variance	14.0	- 8.9	- 23.4	- 18.4
Assumptions changes	4.5	- 4.6	48.9	48.8
Other operating variance	- 0.8	0.8	17.0	17.0
<b>Operating EEV earnings</b>	<b>169.5</b>	<b>18.3</b>	<b>167.2</b>	<b>355.0</b>
Economic Variance	- 576.9	- 3.7	- 571.3	-1,151.8
Other non operating variance	0.0	0.0	0.0	0.0
<b>Total EEV earnings</b>	<b>- 407.5</b>	<b>14.6</b>	<b>- 404.0</b>	<b>- 797.0</b>
Closing adjustments	325.9	1.9	0.7	328.5
<b>Value as at Dec 31, 2008</b>	<b>710.2</b>	<b>455.9</b>	<b>1,473.3</b>	<b>2,639.4</b>

€ mn

Table 11

	A / G		EEV	
	Free Surplus	Required Capital	VIF	EEV
<b>Value as at Dec 31, 2007 reported</b>	<b>329.1</b>	<b>406.3</b>	<b>1,277.3</b>	<b>2,012.7</b>
<b>Value as at Dec 31, 2007 restated</b>	<b>366.7</b>	<b>368.8</b>	<b>1,301.9</b>	<b>2,037.4</b>
Capital and Dividend Flows	- 34.3	0.0	0.0	- 34.3
Foreign Exchange Variances	0.0	0.0	0.0	0.0
Acquired/Divested Businesses	192.9	- 42.9	107.0	257.0
<b>Value as at Dec 31, 2007 restated and adjusted</b>	<b>525.3</b>	<b>325.9</b>	<b>1,408.9</b>	<b>2,260.0</b>
<b>New Business Value</b>	<b>- 95.6</b>	<b>27.6</b>	<b>129.6</b>	<b>61.6</b>
Roll forward reference rate	21.5	7.6	61.0	90.1
Roll forward excess rate	10.3	1.1	13.7	25.1
Transfers from VIF and required capital to free surplus	193.1	- 28.2	- 165.0	0.0
Experience Variance	11.6	- 5.8	- 17.6	- 11.8
Assumptions changes	4.6	- 4.5	28.2	28.3
Other operating variance	0.0	0.0	2.4	2.4
<b>Operating EEV earnings</b>	<b>145.6</b>	<b>- 2.2</b>	<b>52.2</b>	<b>195.7</b>
Economic Variance	- 549.0	- 3.2	- 514.9	-1,067.1
Other non operating variance	0.0	0.0	0.0	0.0
<b>Total EEV earnings</b>	<b>- 403.4</b>	<b>- 5.4</b>	<b>- 462.6</b>	<b>- 871.5</b>
Closing adjustments	281.7	0.0	0.0	281.7
<b>Value as at Dec 31, 2008</b>	<b>403.6</b>	<b>320.5</b>	<b>946.2</b>	<b>1,670.3</b>

	CEE EEV / TEV			
	Free Surplus	Required Capital	VIF	EEV / TEV
<b>Value as at Dec 31, 2007 reported</b>	<b>69.7</b>	<b>78.5</b>	<b>398.5</b>	<b>546.7</b>
<b>Value as at Dec 31, 2007 restated</b>	<b>117.7</b>	<b>67.9</b>	<b>383.8</b>	<b>569.4</b>
Capital and Dividend Flows	- 0.7	0.0	0.0	- 0.7
Foreign Exchange Variances	- 0.7	- 0.1	5.1	4.4
Acquired/Divested Businesses	150.1	45.7	78.9	274.7
<b>Value as at Dec 31, 2007 restated and adjusted</b>	<b>266.5</b>	<b>113.5</b>	<b>467.8</b>	<b>847.8</b>
<b>New Business Value</b>	<b>- 51.0</b>	<b>23.1</b>	<b>120.2</b>	<b>92.2</b>
Roll forward reference rate	5.4	2.4	24.1	31.9
Roll forward excess rate	1.3	1.2	4.1	6.6
Transfers from VIF and required capital to free surplus	66.7	- 3.8	- 62.9	0.0
Experience Variance	2.4	- 3.1	- 5.8	- 6.6
Assumptions changes	- 0.1	- 0.1	20.7	20.5
Other operating variance	- 0.8	0.8	14.6	14.6
<b>Operating EEV earnings</b>	<b>23.9</b>	<b>20.5</b>	<b>115.0</b>	<b>159.3</b>
Economic Variance	- 27.9	- 0.5	- 56.4	- 84.7
Other non operating variance	0.0	0.0	0.0	0.0
<b>Total EEV earnings</b>	<b>- 4.1</b>	<b>20.0</b>	<b>58.6</b>	<b>74.5</b>
Closing adjustments	44.2	1.9	0.7	46.8
<b>Value as at Dec 31, 2008</b>	<b>306.6</b>	<b>135.4</b>	<b>527.1</b>	<b>969.1</b>

The total impact of the restatement to the 2007 reported results is € 47.4 mn resulting from the changes in methodology, and the change in the scope of the companies included in the EEV/TEV reporting.

The opening adjustments of € 501.0 mn include:

- the transfer of holdings between the L&H and P&C segments in A/G and CEE at book or market value;
- the net impact of the sale of BACA-Versicherung and the acquisition of the Erste Bank insurance companies;
- the dividends paid to shareholders from L&H segment in 2008;
- the impact of exchange rate movements.

The VNB at the point of sale for A/G is € 61.6 mn. The significant decrease to the free surplus is due of the non-deferral of the acquisition expenses for the conventional business in Austria and this is compensated by the high VIF. The VNB for CEE is € 92.2 mn.

The expected existing business contribution on the basis of the reference rate for A/G is € 90.1 mn. This represents the unwind at the reference rate of all the components of the EEV with the exception of the free surplus which increases at the reference rate after tax. This unwind also includes a release of the TVFOG for one year. The corresponding result for CEE is € 31.9 mn. The unwind for the TEV businesses is also on the basis of the reference rates.

The expected existing business contribution in excess of the reference rates reflects the differences between management's best estimates for the investment returns on assets and the reference rates for the EEV companies, and the differences between the risk discount rates and the reference rates for the TEV companies. The total impact is € 31.7 mn.

The experience variance is € -11.8 mn for A/G and € -6.6 mn for CEE. These amounts include a number of positive and negative variances. The main items are the creation of an additional reserve following a loss recognition event, a change in the reserving basis and lower than expected tax payments.

The impact of the assumption changes is € 28.3 mn for A/G and € 20.5 mn for CEE. These amounts also arise from a number of different assumption changes. The main items in A/G are the fund management rebates have been increased in 2008, the surrender rates for health business

have been reduced to reflect actual experience and expense assumptions have been increased. The assumption changes in CEE include lower expenses and lower mortality.

The other operating variance of € 2.4 mn in A/G and € 14.6 mn in CEE arise from changes to the management actions for profit sharing.

The economic variance of € -1,067.2 mn in A/G is clearly the most important element of the analysis of change. The free surplus has reduced due to a reduction in unrealised capital gains for most asset classes. The reduction in the VIF is due to lower interest rates which lead to a lower PVFP. Additionally, the TVFOG have increased significantly due to lower interest rates (the guarantees are closer to the money) and higher interest and equity volatility. The economic variance in CEE of € -84.8 mn is also negative but less significant than the impact in A/G.

The closing adjustments of € 281.7 mn in A/G and € 46.8 mn in CEE reflect transfers made during 2008 from the P&C segments.

## 6. Sensitivity Analysis

The sensitivities for the EEV results assume the same management actions and policyholder behaviour as for the base case. The TEV sensitivities assume that other directly related parameters are changed (e.g. the risk discount rate is also adjusted for the change in yield curve sensitivity). The sensitivities are generally correlated so that the impact of two events occurring simultaneously will probably not be the same as sum of the individual sensitivities.

Due to the fact that the 2008 sensitivities start from a significantly lower financial market level and higher volatilities than in 2007, a direct comparison would be devoid of relevant information.

- **Increase/decrease of 100 bps to reference rates**

This sensitivity shows the impact of a sudden parallel shift in reference rate, accompanied by a corresponding change in the other economic assumptions including discount rates, equity and property returns, and the market values of fixed income assets.

For A/G the -100 bps sensitivity is more significant than the +100 bps sensitivity because it leads to more of the interest guarantees on the participating business coming into the money. The losses in this situation can only partly be met by reducing future policyholder profit participation.. The higher surplus for the +100 bps sensitivity has to be shared with policyholders. The NBV sensitivity is higher because there is no compensating impact from the existing fixed income assets. The sensitivities for CEE are lower because the higher proportion of unit linked and non-participating business means that the impact of a change in the yield curve is partly offset by the change in the risk discount rate.

- **10% decrease in the equity/property values at the valuation date**

This sensitivity is not significant for either A/G or CEE.

- **25% increase to the swaption volatilities**

The assumed volatilities increase by 25%.

The overall impact on A/G is reduced because the premiums for the Austrian health business can be amended to allow for changes in interest rates. The TVFOG for the life business increase by about 25%. The impact of this sensitivity in CEE is not significant.

- **10% increase in maintenance expenses**

These sensitivities have increased relative to 2007 because the level of policyholder buffers are lower in A/G and the proportion of unit linked and non-participating business has increased in CEE.

- **Required capital equal to local solvency capital**

The impact of this sensitivity is nil in CEE because the Required Capital is set equal to the local solvency capital. The Required Capital for the WSTV in A/G is 150% of the local solvency capital. The sensitivity for A/G is nonetheless nil because the additional 50% Required Capital is covered by subordinated debt.

- **10% increase in lapse rates**

The lapse rate sensitivities for both A/G and CEE are consistent with the results for last year.

## 6.1 EEV

The following table shows the sensitivity of the EEV or the TEV as at December 31, 2008 to changing various assumptions.

€ mn

Table 13

		A / G	As % of Base	CEE EEV/TEV	As % of Base	Total	As % of Base	
<b>Base value</b>		<b>1,670.3</b>	<b>100.0%</b>	<b>969.1</b>	<b>100.0%</b>	<b>2,639.4</b>	<b>100.0%</b>	
<b>Change in Yield Curve</b>	1%	1,824.5	109.2%	977.6	100.9%	2,802.0	106.2%	
	-1%	1,321.7	79.1%	934.0	96.4%	2,255.7	85.5%	
<b>Liquidity Premium (*)</b>	-0.5%	1,402.7	84.0%	922.1	95.1%	2,324.8	88.1%	
	+0.5%	1,861.2	111.4%	1,004.2	103.6%	2,865.4	108.6%	
<b>Equity and Property Values</b>	-10%	1,603.7	96.0%	964.8	99.6%	2,568.5	97.3%	
<b>Equity and Property Implied Volatilities (*)</b>	25%	1,646.8	98.6%	962.8	99.4%	2,609.7	98.9%	
<b>Swaption Implied Volatilities (*)</b>	25%	1,635.6	97.9%	964.4	99.5%	2,600.0	98.5%	
<b>Maintenance Expenses</b>	10%	1,597.0	95.6%	940.7	97.1%	2,537.8	96.1%	
	-10%	1,744.0	104.4%	997.4	102.9%	2,741.5	103.9%	
<b>Lapse Rates</b>	-10%	1,685.3	100.9%	992.0	102.4%	2,677.4	101.4%	
	10%	1,654.0	99.0%	948.4	97.9%	2,602.4	98.6%	
<b>Mortality</b>	<b>for assurances</b>	-5%	1,677.3	100.4%	984.7	101.6%	2,662.0	100.9%
	<b>for annuities</b>	-5%	1,667.0	99.8%	968.5	99.9%	2,635.5	99.9%
<b>Required Capital set at the level of solvency capital</b>	100%	1,670.3	100.0%	969.1	100.0%	2,639.4	100.0%	

(\*) These sensitivities have not been calculated for the TEV.

## 6.2 NBV

The following table shows the sensitivity of the New Business Value for 2008 to changing various assumptions.

€ mn

Table 14

		A / G	As % of Base	CEE EEV/TEV	As % of Base	Total	As % of Base	
<b>Base value</b>		<b>61.6</b>	<b>100.0%</b>	<b>92.2</b>	<b>100.0%</b>	<b>153.9</b>	<b>100.0%</b>	
<b>Change in Yield Curve</b>	1%	69.9	113.5%	89.6	97.1%	159.5	103.7%	
	-1%	33.8	54.9%	93.6	101.5%	127.4	82.8%	
<b>Liquidity Premium (*)</b>	-0.5%	38.5	62.4%	91.9	99.6%	130.4	84.7%	
	+0.5%	70.5	114.4%	92.2	99.9%	162.6	105.7%	
<b>Equity and Property Values</b>	10%	61.6	100.0%	92.2	100.0%	153.9	100.0%	
<b>Equity and Property Implied Volatilities (*)</b>	25%	59.5	96.5%	92.2	99.9%	151.6	98.6%	
<b>Swaption Implied Volatilities (*)</b>	25%	59.0	95.7%	92.1	99.8%	151.0	98.2%	
<b>Maintenance Expenses</b>	10%	55.2	89.6%	87.3	94.7%	142.5	92.6%	
	-10%	67.5	109.5%	97.3	105.4%	164.7	107.1%	
<b>Lapse Rates</b>	-10%	64.6	104.9%	97.7	106.0%	162.4	105.5%	
	10%	58.0	94.1%	87.7	95.1%	145.7	94.7%	
<b>Mortality</b>	<b>for assurances</b>	-5%	62.7	101.8%	96.3	104.4%	159.0	103.4%
	<b>for annuities</b>	-5%	61.5	99.8%	92.2	100.0%	153.7	99.9%
<b>Required Capital set at the level of solvency capital</b>	100%	61.6	100.0%	92.2	100.0%	153.9	100.0%	

(\*) These sensitivities have not been calculated for the TEV.

## 7. Reconciliation of IFRS equity to the Adjusted Net Asset Value

The following table shows the reconciliation of the IFRS equity to the ANAV as shown in the GEV.

€ mn	Table 15	
	<b>2008</b>	<b>2007</b>
<b>Consolidated IFRS equity</b>	<b>4,138.8</b>	<b>2,615.6</b>
Minorities	- 266.9	- 277.5
Hybridcapital	- 245.6	
Intangible assets	-1,648.9	- 513.2
<i>Sub Total</i>	<i>1,977.3</i>	<i>1,824.9</i>
Add back goodwill for businesses included on the basis of IFRS book value	317.5	399.1
Differences in capital consolidation	111.1	- 13.6
Differences in valuation of capital assets	- 83.5	248.0
Differences in valuation basis of technical reserves (IFRS vs.local GAAP)	- 75.1	0.0
P&C Surplus in Claims Reserves	441.7	416.9
Other differences	0.0	0.0
<i>Total differences</i>	<i>711.7</i>	<i>1,050.4</i>
<b>Adjusted Net Asset Value</b>	<b>2,689.0</b>	<b>2,875.3</b>

The minority interests and the hybrid capital issued in 2008 are deducted from the consolidated IFRS equity. The main reason for the increase in the adjustment for the intangible assets is the goodwill in respect of the ERSTE BANK insurance operations that were acquired in 2008.

The ANAV, EEV or TEV have not been calculated for all the insurance companies within VIG. All the other companies in the Group have been included in the GEV on the basis of their IFRS book values and therefore their goodwill and other intangible assets have to be added back to the ANAV. The reduction relative to 2007 reflects the increase in the scope of companies for which the ANAV, EEV or TEV has been calculated.

Prior to moving to IFRS at January 1, 2004, under Austrian GAAP VIG used to write-off goodwill against shareholder equity. All the companies for which the goodwill had been eliminated were recognised under IFRS on the basis of their reduced book values. The "differences in capital consolidation" adds back the goodwill that had been eliminated in the past. The goodwill values are subject to regular impairment testing.

Under IAS 39 VIG has chosen to value certain assets on the basis of the adjusted purchase price instead of the market value. The differences between the market values and the values shown in consolidated IFRS balance sheet are included in the "differences in valuation of capital assets".

The liabilities of the insurance operations purchased from the ERSTE BANK have been revalued under IFRS. The impact of this revaluation on the IFRS equity is shown under this adjustment.

The P&C reserves in the consolidated IFRS balance sheet are the same as the statutory reserves. The difference between the accounted reserves and the best estimate reserves is shown as the Surplus in Claims Reserves.

All values within this reconciliation are shown net of deferred tax in respect of all segments, and also net of deferred profit participation in respect of the Life segment.

The difference between the IAS 19 reserves in respect of the defined benefit pension schemes and the statutory reserves, as shown in the notes to the IFRS accounts, has not been added back to the ANAV (i.e. the ANAV allows for the pension scheme deficit on the basis of IAS 19).

## **8. Disclaimer - Cautionary statement regarding forward-looking information**

This supplementary disclosure of the GEV results contains forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, and it might not be possible to achieve the predictions, forecasts, projections and other outcomes described or implied in forward-looking statements. A number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in these forward-looking statements.

These forward-looking statements will not be updated except as required by applicable laws.

This document was prepared with the due care in order to ensure that the information provided in all parts is correct and complete. Rounding, type-setting and printing errors can nevertheless not be completely ruled out.

Vienna Insurance Group  
Wiener Städtische Versicherung AG  
Schottenring 30  
1010 Wien  
**Austria**

30th March 2009

Dear Dr. Geyer,

**Review of Group Embedded Value of Vienna Insurance Group Wiener Städtische Versicherung AG as at 31 December 2008**

We have reviewed the Statements of Group Embedded Value (the “Statements”) of Vienna Insurance Group Wiener Städtische Versicherung AG (“VIG”) as set out in VIG’s “Group Embedded Value Reporting 2008”. These Statements comprise:

- the European Embedded Values or the Traditional Embedded Values of the majority of the life and health businesses as at 31 December 2007 and 31 December 2008 together with the value of new business generated, the sensitivities and the analysis of movement in the embedded value during the year 2008;
- the Surplus in Claims Reserves for the majority of the P&C businesses at 31 December 2007 and 31 December 2008.

Some companies have been excluded from the scope of our review. These companies have been included in the Group Embedded Value on the basis of the IFRS book values as shown in VIG’s IFRS accounts .

The scope of our review covered the methodology adopted together with the assumptions and calculations made by VIG in its Group Embedded Value.

These Statements of Group Embedded Value and the assumptions underlying them are the sole responsibility of the Board of Directors of VIG. They have been prepared by VIG on the basis of VIG’s methodology as described in the Statements.

Our review was conducted in accordance with generally accepted actuarial practices and processes. It comprised a combination of such reasonableness checks, analytical review and checks of clerical accuracy as we considered necessary to provide reasonable assurance that the Statements have been compiled free of significant error. However, we have relied without verification upon the completeness and accuracy of data and information supplied by VIG, including the value of net assets as disclosed in the audited local statutory accounts and the IFRS accounts of VIG and the subsidiaries of VIG.

The calculation of the Group Embedded Values necessarily makes numerous assumptions with respect to economic conditions, operating conditions, taxes, and other matters, many of which are beyond VIG's control. Although the assumptions used represent estimates which the Directors believe are together reasonable, actual experience in future may vary from that assumed in the calculation of the embedded value results and any such variations may be material. Deviations from assumed experience are normal and are to be expected. Group Embedded Value does not purport to be a market valuation and should not be interpreted in that manner since it does not purport to encompass all of the many factors that may bear upon a market value.

In our opinion,

- the methodology and assumptions used are appropriate, and in respect of the businesses that have determined an EEV are compliant with the European Embedded Value Principles set out by the CFO Forum in May 2004 (the "CFO Forum Principles") and the additional guidance on disclosure published in November 2005;
- the assumptions made by VIG are reasonable; and
- VIG's Group Embedded Value been properly compiled on the basis of the methodology and assumptions chosen by VIG, and in respect of the life and health insurance companies that have determined an EEV are compliant with the CFO Forum Principles.

This report is made solely to VIG's Directors as a body. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than VIG's Directors as a body for our work in respect of this report or for the conclusions that we have reached.

Yours sincerely,



B&W Deloitte GmbH