# 2010 Annual Financial Statements

## of VIENNA INSURANCE GROUP AG
## Wiener Versicherung Gruppe

# EVERYTHING AT ONE GLANCE

## Management report to the separate financial statements



## Separate financial statements



## Service

# MANAGEMENT REPORT

## VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) business development

Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group holds a majority of the voting rights of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe. The international ratings agency Standard & Poor's confirmed the existing A+ rating with a stable outlook in 2010.

In August 2010, the insurance business operations of the Company were spun off to VERSA-Beteiligungs AG (now: WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, FN 333376i) with retroactive effect as of 1 January 2010 under a demerger and acquisition agreement of 10 May 2010, while taking advantage of the favourable reorganisation tax treatment provided for by Art. VI of the Reorganisation Tax Act (*Umgründungssteuergesetz*). The name of the Company was subsequently changed to VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

Since the prior-year values for 2009 come from the annual financial statements of VIENNA INSURANCE GROUP Wiener Städtische Versicherung AG, and the comparability of these values is extremely limited due to the completely different structure of the business, the management report does not discuss changes in values for financial year 2010 as compared to the previous year.

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe concentrates mainly on Group management responsibilities. It is, however, also active as an international reinsurer and in international corporate business.

In particular, the main management responsibilities of the Group holding company include the following:

- IT coordination
- Investment management
- Finance and accounting
- Planning and controlling
- International human resources development
- International actuarial department
- Risk management
- Group audit
- Investor relations
- Public relations

In addition, two organisational units were formed to deal with the specific question of how to ensure the long-term earnings power of the Group-wide personal and motor vehicle insurance businesses.

VIG Holding's reinsurance activities are aimed at improving the risk balance for the Group as a whole. The difference in size and risk-bearing capacity of the Austrian and foreign companies of the Vienna Insurance Group offer different initial situations and were accordingly bundled in VIG Holding. This created a broader basis for mutual risk offsetting and also made it easier to optimise the external reinsurance coverage needed. This is particularly important when the motor vehicle business, in particular motor vehicle liability business, is one of the major core markets of an insurance group.

VIG Holding bundles and coordinates large customer business that extends beyond the borders of Austria. This satisfies the increasing customer desire to deal with a broad-based international insurance provider that offers simple, centralised communications. It also allows more extensive risk management and improved risk diversification.

**Premium income**

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) generated a total premium volume of EUR 536.85 million in 2010. EUR 10.51 million of this amount was from corporate business and EUR 526.35 million from the reinsurance business. VIG retained EUR 525.70 million of the gross premiums written, and ceded EUR 11.16 million to reinsurers. Net earned premiums were EUR 444.50 million.

Details on the results for the individual classes and indirect business are provided in the notes to the financial statements.

### Expenses for claims and insurance benefits

Gross expenses for claims and insurance benefits were EUR 347.60 million in 2010, with EUR 3.74 million attributable to corporate business and EUR 343.87 million to the reinsurance business. EUR 1.06 million of the gross expenses were borne by reinsurers, leaving net expenses for claims and insurance benefits of EUR 346.54 million.

### Operating expenses

Gross administrative expenses were EUR 96.61 million in 2010, with net expenses of EUR 96.56 million remaining after reinsurance commissions. The gross expenses were divided into EUR 2.34 million from corporate business and EUR 94.27 million from the reinsurance business.

### Combined ratio

VIG Holding had a combined ratio of 99.7% in 2010. The combined ratio is calculated as the ratio of all underwriting income and expenses plus net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums in the property/casualty area.

### Financial result

VIG Holding had a financial result of EUR 143.27 million.

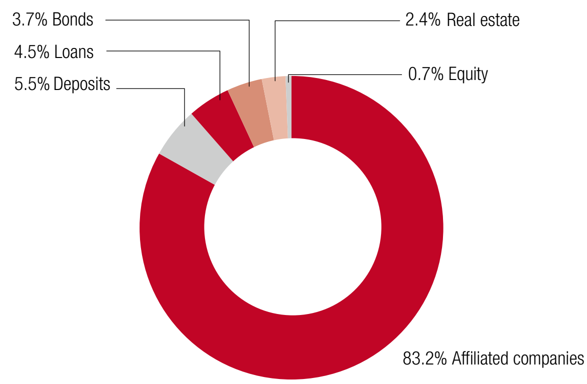
Total income (net) includes current income, realised gains and losses and write-downs for the following investment groups:

| | 2010 |
|---|---|
| in EUR ´000 | |
| Land and buildings | 5,793 |
| Participations | 211,422 |
| Other investments | 23,809 |
| **Total income (net)** | **241,024** |
| Other investment income | 11,594 |
| Expenses for asset management | -30,384 |
| Interest expenses | -74,170 |
| Other investment expenses | -4,796 |
| **Investment profit according to income statement** | **143,268** |

### Investments

Investments were EUR 4,647.66 million as of 31 December 2010. At the end of 2010, 83.2% of the investments were affiliated companies, 5.5% deposits on assumed reinsurance business, 4.5% loans, 3.7% bonds, 2.4% land and buildings, and 0.7% shares.

BREAKDOWN OF INVESTMENTS




### Result from ordinary activities

VIG Holding earned a result from ordinary activities of EUR 144.61 million in financial year 2010.

### Employees

VIG Holding had an average of 186 employees in 2010.

### Employee interests

The economic success of VIG Holding is due to the commitment and high qualifications of its employees. VIG Holding offers its employees personal development and career opportunities, and places a great importance on training. VIG Holding also provides a variety of fringe benefits to make conditions attractive for its employees. For example, VIG Holding employees receive subsidies for use of the company crèche and for lunch. In addition, VIG Holding employees in Vienna can obtain coupons for major Austrian retail chains. Many employees take advantage of this attractive offer.

**Events occurring after the balance sheet date**

On 2 February 2011, VIG Holding closed on its acquisition of an additional 10% interest in Ray Sigorta A.Ş. VIG Holding had entered into an agreement with Dogan Sirketler Grubu Holding S.A. for this acquisition in 2010. The transaction raised VIG Holding's interest in this Turkish non-life insurer to approximately 94.3%.

At the end of February 2011, the rating agency Standard & Poor's confirmed its existing rating of A+ with a stable outlook for VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

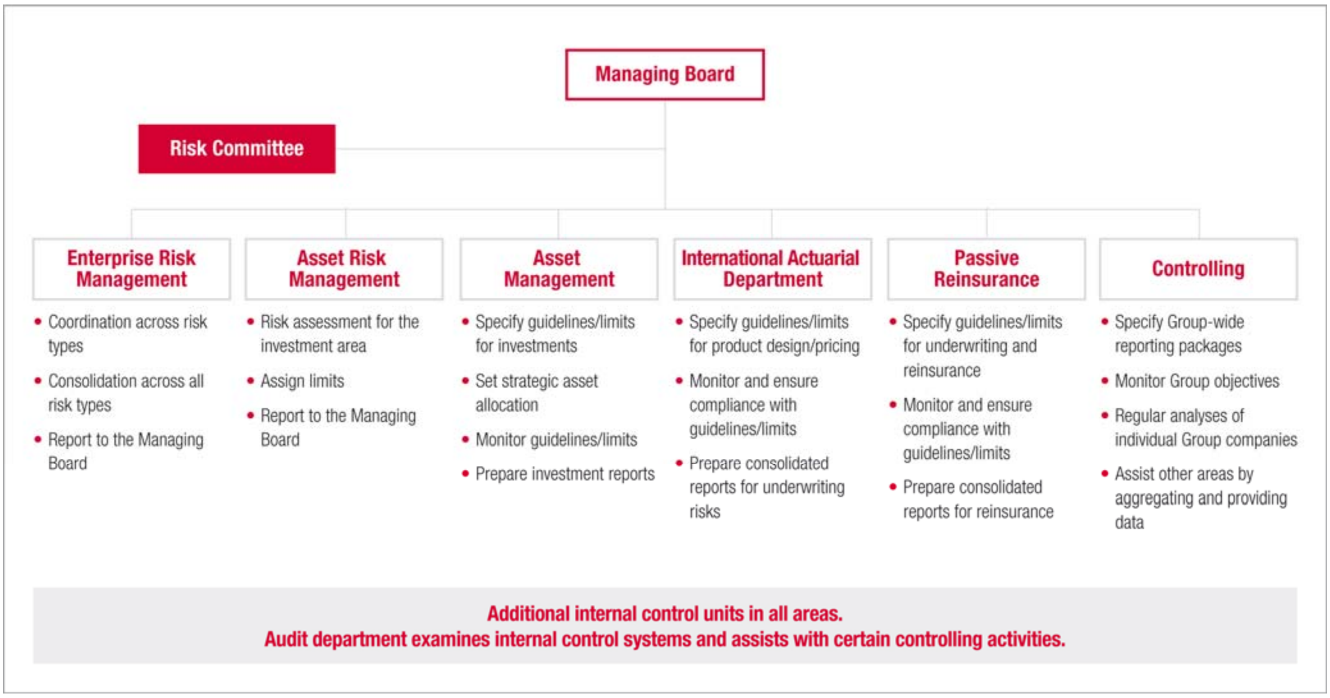
**Other information**

VIG Holding performs no research and development activities.

VIG Holding has no branch offices.

## Risk report

The Vienna Insurance Group's core competence is dealing professionally with risk. The VIG Enterprise Risk Management department (ERM) is responsible for Group-wide risk management and is located in VIG Holding. ERM assists the Managing Board with updating the corporate risk strategy, risk organisation and other corporate risk management topics and documents, and is responsible for implementation of the European solvency regulations (Solvency II). As a result of the demerger and establishment of a holding company, a cross-class, cross-country risk committee is being formed. The international actuarial department, corporate reinsurance department, asset risk management department, group controlling, internal audit and group IT departments are also involved in the ongoing process of risk monitoring and risk management.




**The overall risk of VIG Holding can be divided into the following risk categories:**

- **Underwriting risks:** The core business of an insurance company consists of the transfer of risk from policyholders to the company.
- **Credit risk:** This risk quantifies the potential loss due to deterioration of the situation of a counterparty against which claims exist.
- **Market risk:** Market risk is the risk of changes in the value of investments due to unforeseen fluctuations in interest rate curves, share prices and exchange rates, and the risk of changes in the market value of real estate and participations.
- **Strategic risks:** Strategic risks can arise due to changes in the economic environment, case law, or the regulatory environment.

- **Operational risks:** These may result from deficiencies or errors in business processes, controls or projects caused by technology, staff, organisation or external factors.

- **Liquidity risk:** Liquidity risk depends on the goodness of fit between the investment portfolio and insurance obligations.

- **Concentration risk:** Concentration risk is a single direct or indirect position, or a group of related positions, with the potential to significantly endanger the insurance company, its core business or key performance measures. Concentration risk is caused by an individual position, a collection of positions with common holders, guarantors or managers, or by sector concentrations.

VIG Holding is exposed to underwriting risks as a result of its international corporate business and reinsurance business. Appropriate underwriting provisions are determined using recognised actuarial methods and assumptions.

Fair value measurement, value-at-risk (VaR) calculations, sensitivity analysis and stress tests are used to monitor market risks. Liquidity risk is limited by matching the investment portfolio to insurance obligations. A risk management process is also used to identify, analyse, evaluate, report, control and monitor strategic and operational risks created by changes in the business environment and deficiencies or errors in business processes, controls and projects. Limits are used to keep concentrations within the desired margin of safety.

**Solvency II**

During financial year 2009, the VIG Managing Board established a Group-wide project managed centrally from Austria by VIG Holding to implement Solvency II at the individual company and Group levels.

Due to the split into Wiener Städtische and VIG Holding in 2010, extensive changes are needed in risk management. Group-specific aspects of risk management that Wiener Städtische was previously dealing with are being reintegrated into the Vienna Insurance Group holding company. A new Group-wide risk management system is currently being built. The Enterprise Risk Management (ERM) department was established at the beginning of 2010 for this purpose. Its main objectives are further standardisation of risk management structures and processes, and successful implementation of Solvency II in the Vienna Insurance Group. The applicable risk policy is being reviewed and rolled out across the Group. In addition, Group-wide communications with respect to risk management are moving ahead.

Intensive work on the development and implementation of a partial internal model is already taking place at both the Group and individual company levels as part of the Solvency II project. Care is being taken to ensure that the necessary calculation models and processes are set up in the Group companies, so that consistent values can be calculated at both the individual company level and Group level. A method paper was prepared as part of the Solvency II project that provides a detailed description, based on the technical specifications of the Financial Market Authority, of the calculation and valuation methods that must be applied across the Group to calculate the solvency requirement according to the standard Solvency II formula. The solvency requirement based on the standard Solvency II formula will be calculated in parallel with the results from the partial internal model being prepared by the Vienna Insurance Group for two years.

## Internal control and risk management system in the accounting process

The documentation of the process of preparing the annual financial statements was undertaken jointly with a consulting firm. In it, a summary of essential controls was made, as was a presentation of the linkage of the process and the controls to the risks identified as part of risk management.

The controls as thus documented are used during the process to ensure that potential reporting errors are avoided, or are identified and corrected.

The objectives of the annual financial statements process are:

- Completeness: all transactions in the reporting period are recorded in full.
- Existence: all balance sheet asset and liability items are present as of the balance sheet date.
- Accuracy: all transactions recorded in the financial statements relate to the same period as the financial statements.
- Measurement: all balance sheet asset and liability-side items, and income and expense items were recognised using the values they should be assigned based on accounting requirements.
- Ownership: proper disclosure of rights and obligations.
- Presentation: all financial statement items are correctly presented and disclosed.

The financial statement process comprises the compilation of all data from accounting and upstream processes to form the annual financial statements. The financial statements are submitted to the appropriate department head for review and further consultation with the Managing Board. The Managing Board provides final approval of the financial statements.

In addition, the auditor regularly assesses the functionality of the internal control system and reports its findings to the Supervisory Board audit committee.

## Outlook

### Economic growth

#### AUSTRIA

Two renowned Austrian economic research institutes, the Austrian Institute for Advanced Studies (IAS) and Austrian Institute of Economic Research (WIFO), are expecting real gross domestic product to rise by 2.1% and 2.2%, respectively, in 2011. This is almost the same as the growth in economic output of 1.9% and 2.0% that the institutes projected for 2010. The Austrian export industry, which benefited from the improvement in the global economic situation, played a particularly important role in upward trend in 2010.

Private household consumption will continue to have a stabilising effect on growth in 2011, but will show only scant momentum. Rising global market commodity prices and the increase in selected indirect taxes are likely to increase the inflation rate by 0.2 to 0.4 percentage points. The calculations also appear to indicate a further increase in employment. However, since the supply of labour is also increasing, the unemployment rate will fall only minimally at best.

#### THE CEE REGION

WIFO's economic outlook predicts subdued growth for the Eurozone in coming years, while stronger growth is expected for Central and Eastern Europe. IAS also expects economic growth to accelerate in the CEE region. For example, economic growth is expected to increase again or reach positive territory in Hungary, Romania, Bulgaria and Croatia in 2011.

In general, the economic convergence process can be expected to continue in the CEE region in coming years, although it is presumed that the pace will no longer be as dynamic as it was before 2008. Countries that were still feeling strong after-effects of the crisis in 2010 will gain momentum and the region will recover over the long term.

**Insurance market**

AUSTRIA

According to the preliminary results issued by the Austrian Association of Insurance Companies (*Versicherungsverband Österreich* – VVO), the insurance year 2010 was considerably more favourable than the year before. Total premium volume in the Austrian insurance industry went up by about 2%. A large portion of the growth is due to the good performance of individual classes in the property/casualty area as well as the strong interest in single-premium life insurance products. Indications are that premium growth for the property/casualty area in 2011 will be comparable to 2010, that is approximately 2%. Growth of 1.7% is expected for the industry as a whole in 2011.

THE CEE REGION

The CEE region is expected to record high growth rates in coming years, particularly in the life insurance area, although Swiss Re calculations also predict increases for the non-life business, with a growth rate of approximately 4% for 2011. The non-life segment offers strong growth opportunities in Central and Eastern European markets where the private insurance industry still has a short history and the level of prosperity is still very low. Motor vehicle insurance is the very first thing people need when they buy a car of their own. In addition, the companies in the region begin to insure themselves against the many risks involved in their business activities. Finally, as the standard of living increases people's desire for four walls of their own and protection for the property they acquire becomes more urgent.

In overall terms, higher growth rates can be expected to continue in the insurance markets of Central and Eastern Europe in the near future as compared to Western Europe. Convergence potential remains high for the entire region.

**Outlook for the Group**

The Vienna Insurance Group expects profit before taxes to increase by approximately 10% in 2011, with a small percentage increase in premium volume. VIG has also set itself a goal of reducing its combined ratio to approximately 97%. This assumes that there is no significant deterioration in general economic and legal conditions and no dramatic change in losses due to natural catastrophes. This profit outlook reconfirms the Vienna Insurance Group's goal of continued growth.

The Vienna Insurance Group has set itself a goal of consolidating or expanding the Group's market position in each country in the coming year. To this end, the Vienna Insurance Group will work on further strengthening distribution for the long term, building on its proven multi-brand strategy and the extensive distribution networks available to it in each market.

**Outlook for VIG Holding**

Economic growth forecasts hold out the promise of positive stimulus for VIG Holding's business in 2011. Taking advantage of this is one of VIG Holding's stated goals, and it is thus making efforts to expand its premium volume. The Group-specific aspects of risk management that Wiener Städtische previously dealt with were integrated into VIG Holding in 2010. To that end, an Enterprise Risk Management (ERM) department was set up at the beginning of 2010. Its main objectives are further standardisation of risk management structures and processes, and successful implementation of Solvency II in the Vienna Insurance Group. Work on establishing a new Group-wide risk management system will continue in 2011.

## PROPOSED DISTRIBUTION OF PROFITS

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe ended financial year 2010 with net retained profits of EUR 200,852,110.42. The following appropriation of profits will be proposed to the Annual General Meeting:

The 128 million shares are to receive a dividend of EUR 1.00 per share. The payment and ex-dividend dates for this dividend will be 16 May 2011.

A total of EUR 128,000,000.00 will therefore be distributed.

The net retained profits of EUR 72,852,110.42 remaining for financial year 2010 after distribution of the dividend are to be carried forward.

The Managing Board:

**Dr. Günter Geyer**

**Dr. Peter Hagen** **Dr. Martin Simhandl**

**Ing. Martin Diviš, MBA** **Franz Fuchs** **Mag. Peter Höfinger**

Vienna, 10 March 2011

# SEPARATE FINANCIAL STATEMENTS

## Balance sheet as of 31 December 2010

| Assets | 31.12.2010 | | 2009 |
|---|---|---|---|
| | in EUR | | in EUR ´000 |
| **A. Intangible Assets** | | | |
| I. Expenses for acquisition of an insurance portfolio | | 0.00 | 3,500 |
| II. Other intangible assets | | 9,251,171.25 | 18,537 |
| **Total intangible assets** | | **9,251,171.25** | **22,037** |
| **B. Investments** | | | |
| I. Land and buildings | | 113,370,468.91 | 434,583 |
| II. Investments in affiliated companies and participations | | | |
| 1. Shares in affiliated companies | 3,846,365,383.47 | | 4,220,289 |
| *thereof reorganisation surplus* | *8,883,755.76* | | *8,884* |
| 2. Bonds and other securities of affiliated companies and loans to affiliated companies | 202,115,110.19 | | 596,562 |
| 3. Participations | 18,777,206.71 | | 286,782 |
| *thereof reorganisation surplus* | *0.00* | | *8,957* |
| 4. Bonds and other securities of and loans to companies in which an ownership interest is held | 0.00 | 4,067,257,700.37 | 37,448 |
| III. Other investments | | | |
| 1. Shares and other non-fixed-interest securities | 83,372,629.15 | | 2,818,632 |
| 2. Bonds and other fixed-interest securities | 121,944,109.00 | | 3,767,945 |
| 3. Shares in joint investments | 0.00 | | 50,334 |
| 4. Mortgage receivables | 0.00 | | 301,472 |
| 5. Policy prepayments | 0.00 | | 19,216 |
| 6. Other loans | 8,000,000.00 | | 330,136 |
| 7. Bank balances | 0.00 | 213,316,738.15 | 69,180 |
| IV. Deposits on assumed reinsurance business | | 253,718,985.57 | 19,077 |
| **Total investments** | | **4,647,663,893.00** | **12,951,656** |
| **C. Investments for unit-linked and index-linked life insurance** | | **0.00** | **1,681,469** |
| **D. Receivables** | | | |
| I. Receivables from direct insurance business | | | |
| 1. with policyholders | 2,494,270.60 | | 113,490 |
| 2. with insurance intermediaries | 13.33 | | 78,993 |
| 3. with insurance companies | 0.00 | 2,494,283.93 | 21,129 |
| II. Receivables from reinsurance business | | 12,882,029.29 | 103,247 |
| III. Other receivables | | 39,769,241.45 | 186,937 |
| **Total receivables** | | **55,145,554.67** | **503,796** |
| **E. Pro rata interest** | | **9,125,552.95** | **110,351** |
| **F. Other assets** | | | |
| I. Tangible assets (not incl. land and buildings) and inventories | | 188,590.40 | 16,679 |
| II. Current bank balances and cash on hand | | 1,073,378.00 | 72,573 |
| III. Other assets | | 45.51 | 138,566 |
| **Total other assets** | | **1,262,013.91** | **227,818** |
| **G. Deferred charges** | | | |
| I. Deferred tax assets | | 5,672,112.21 | 86,622 |
| II. Other deferred charges | | 959,507.04 | 88,137 |
| **Total deferred charges** | | **6,631,619.25** | **174,759** |
| **Total assets** | | **4,729,079,805.03** | **15,671,886** |

## Balance sheet as of 31 December 2010

| Liabilities and shareholders' equity | 31.12.2010 | | 2009 |
|---|---|---|---|
| | in EUR | | in EUR ´000 |
| **A. Shareholders' equity** | | | |
| I. Share capital | | | |
| 1. Par value | | 132,887,468.20 | 132,887 |
| II. Capital reserves | | | |
| 1. Committed reserves | | 2,267,232,422.07 | 2,267,233 |
| III. Retained earnings | | | |
| 1. Free reserves | | 270,823,488.93 | 224,970 |
| IV. Risk reserve as per § 73a VAG, taxed portion | | 2,666,984.00 | 45,853 |
| V. Net retained profits | | 200,852,110.42 | 164,738 |
| *of which brought forward* | | *49,537,716.77* | *18,253* |
| **Total shareholders' equity** | | **2,874,462,473.62** | **2,835,681** |
| **B. Tax-exempt reserves** | | | |
| I. Risk reserve as per § 73a VAG | | 0.00 | 43,441 |
| II. Valuation reserve for impairment losses | | 34,897,564.44 | 144,921 |
| **Total reserves** | | **34,897,564.44** | **188,362** |
| **C. Subordinated liabilities** | | | |
| I. Hybrid bond | | 500,000,000.00 | 500,000 |
| II. Supplementary capital bond | | 300,000,000.00 | 400,000 |
| **Total subordinated liabilities** | | **800,000,000.00** | **900,000** |
| **D. Underwriting provisions, retention** | | | |
| I. Unearned premiums | | | |
| 1. Gross | 72,983,990.65 | | 152,509 |
| 2. Reinsurers' share | 0.00 | 72,983,990.65 | –18,659 |
| II. Mathematical reserve | | | |
| 1. Gross | 0.00 | | 7,075,613 |
| 2. Reinsurers' share | 0.00 | 0.00 | –94,709 |
| III. Provision for outstanding claims | | | |
| 1. Gross | 181,469,919.95 | | 1,132,273 |
| 2. Reinsurers' share | –1,062,055.50 | 180,407,864.45 | –288,434 |
| IV. Provision for profit-unrelated premium refunds | | | |
| 1. Gross | 0.00 | | 32,162 |
| 2. Reinsurers' share | 0.00 | 0.00 | –2,844 |
| V. Reserve for profit-related premium refunds and policyholder profit participation | | | |
| 1. Gross | 0.00 | | 61,274 |
| 2. Reinsurers' share | 0.00 | 0.00 | 0 |
| VI. Equalisation provision | | 0.00 | 164,633 |
| VII. Other underwriting provisions | | | |
| 1. Gross | 0.00 | | 12,963 |
| 2. Reinsurers' share | 0.00 | 0.00 | –1,720 |
| **Total underwriting provisions** | | **253,391,855.10** | **8,225,061** |
| **E. Underwriting provisions for unit-linked and index-linked life insurance** | | **0.00** | **1,611,521** |
| **Amount carried forward** | | **3,962,751,893.16** | **13,760,625** |

## Balance sheet as of 31 December 2010

| Liabilities and shareholders' equity | 31.12.2010 | | 2009 |
|---|---|---|---|
| | | in EUR | in EUR ´000 |
| **Amount carried forward** | | **3,962,751,893.16** | **13,760,625** |
| | | | |
| **F. Non-underwriting provisions** | | | |
| I. Provisions for severance pay | | 2,327,289.16 | 22,190 |
| II. Provisions for pensions | | 11,981,449.00 | 102,112 |
| III. Tax provisions | | 0.00 | 71,751 |
| IV. Other provisions | | 13,920,005.88 | 85,437 |
| **Total other provisions** | | **28,228,744.04** | **281,490** |
| **G. Deposits from ceded reinsurance business** | | **0.00** | **100,926** |
| **H. Other liabilities** | | | |
| I. Liabilities from direct insurance business | | | |
| 1. with policyholders | 47,175.00 | | 200,314 |
| 2. with insurance intermediaries | 0.29 | | 20,902 |
| 3. with insurance companies | 1,611,871.28 | 1,659,046.57 | 16,285 |
| II. Liabilities from reinsurance business | | 4,181,088.78 | 26,238 |
| III. Liabilities to financial institutions | | 45,469,643.85 | 106,038 |
| IV. Other liabilities | | 680,327,406.54 | 1,058,025 |
| **Total liabilities** | | **731,637,185.74** | **1,427,802** |
| **I. Deferred income** | | **6,461,982.09** | **101,043** |
| **Total liabilities and shareholders' equity** | | **4,729,079,805.03** | **15,671,886** |

## Income statement for the financial year from 1 January 2010 to 31 December 2010

| | 2010 | | 2009 |
|---|---|---|---|
| | in EUR | | in EUR ´000 |
| **Underwriting account:** | | | |
| **1. Net earned premiums** | | | |
| Premiums written | | | |
| Gross | 536,852,989.61 | | 2,334,871 |
| Ceded reinsurance premiums | –11,156,704.35 | 525,696,285.26 | –356,452 |
| Change in unearned premiums | | | |
| Gross | –81,198,888.83 | | 770 |
| Reinsurers’ share | 0.00 | –81,198,888.83 | 2,624 |
| **Total premiums** | | **444,497,396.43** | **1,981,813** |
| **2. Investment income from underwriting business** | | **2,387,498.11** | **233,513** |
| **3. Unrealised gains on investments shown under balance sheet asset item C** | | **0.00** | **211,260** |
| **4. Other underwriting income** | | **109,473.05** | **6,576** |
| **5. Expenses for claims and insurance benefits** | | | |
| Payments for claims and insurance benefits | | | |
| Gross | 166,133,830.93 | | 1,637,298 |
| Reinsurers’ share | 0.00 | 166,133,830.93 | –237,370 |
| Change in provision for outstanding claims | | | |
| Gross | 181,469,919.95 | | –29,614 |
| Reinsurers’ share | –1,062,055.50 | 180,407,864.45 | 25,496 |
| **Total for claims and insurance benefits** | | **–346,541,695.38** | **–1,395,810** |
| **6. Increase in underwriting provisions** | | | |
| Mathematical reserve | | | |
| Gross | 0.00 | | 547,980 |
| Reinsurers’ share | 0.00 | 0.00 | –4,961 |
| Other underwriting provisions | | | |
| Gross | 0.00 | | 965 |
| Reinsurers’ share | 0.00 | 0.00 | 28 |
| **Total increase in underwriting provisions** | | **0.00** | **–544,012** |
| **7. Expenses for profit-unrelated premium refunds** | | | |
| Gross | 0.00 | | 21,870 |
| Reinsurers’ share | 0.00 | 0.00 | –2,769 |
| **Total expenses for profit-unrelated premium refunds** | | **0.00** | **–19,101** |
| **8. Expenses for profit-unrelated premium refunds and policyholder profit participation** | | | |
| Gross | 0.00 | | 205 |
| Reinsurers’ share | 0.00 | | 0 |
| **Total profit participation** | | **0.00** | **–205** |
| **9. Administrative expenses** | | | |
| Acquisition expenses | | 91,320,125.78 | 331,218 |
| Other administrative expenses | | 5,289,308.02 | 103,121 |
| Reinsurance commissions and profit shares from reinsurance cessions | | –52,962.72 | –47,525 |
| **Total operating expenses** | | **–96,556,471.08** | **–386,814** |
| **10. Unrealised losses on investments shown under balance sheet asset item C** | | **0.00** | **–11,711** |
| **11. Other underwriting expenses** | | **–110,160.72** | **–23,908** |
| **12. Change in the equalisation provision** | | **0.00** | **15,529** |
| **Underwriting result (amount carried forward)** | | **3,786,040.41** | **67,130** |

## Income statement for the financial year from 1 January 2010 to 31 December 2010

| | 2010 | 2009 |
|---|---|---|
| | in EUR | in EUR ´000 |
| **Underwriting result (amount carried forward)** | **3,786,040.41** | **67,130** |
| **Non-underwriting account:** | | |
| **1. Investment and interest income** | | |
| Income from participations | 211,377,777.12 | 108,838 |
| Income from land and buildings | 10,319,602.07 | 28,722 |
| Income from other investments | 23,690,221.73 | 321,104 |
| Income from appreciations | 0.00 | 689 |
| Income from the disposal of investments | 395,186.96 | 176,237 |
| Other investment and interest income | 11,594,423.23 | 27,398 |
| **Total investment income** | **257,377,211.11** | **662,988** |
| **2. Investment and interest expenses** | | |
| Expenses for asset management | 30,384,329.25 | 26,655 |
| Depreciation of investments | 4,526,958.86 | 186,813 |
| Interest expenses | 74,169,855.12 | 83,304 |
| Losses from disposal of investments | 231,902.57 | 13,221 |
| Other investment expenses | 4,795,527.37 | 17,346 |
| **Total investment expenses** | **–114,108,573.17** | **–327,339** |
| **3. Investment income transferred to the underwriting account** | **–2,387,498.11** | **–233,513** |
| **4. Other non-underwriting income** | **72,844.08** | **1,261** |
| **5. Other non-underwriting expenses** | **–132,210.82** | **–551** |
| **6. Result from ordinary activities** | **144,607,813.50** | **169,976** |
| **7. Taxes on income** | **8,362,671.55** | **–26,790** |
| **8. Profit for the period** | **152,970,485.05** | **143,186** |
| **9. Release of reserves** | | |
| Release of valuation reserve for impairment losses | 1,010,892.60 | 3,299 |
| **Total release of reserves** | **1,010,892.60** | **3,299** |
| **10. Transfer to reserves** | | |
| Transfer to risk reserve as per § 73a VAG | 2,666,984.00 | 0 |
| **Total transfer to reserves** | **–2,666,984.00** | **0** |
| **11. Profit for the year** | **151,314,393.65** | **146,485** |
| **12. Retained profits brought forward** | **49,537,716.77** | **18,253** |
| **Net retained profits** | **200,852,110.42** | **164,738** |

# NOTES TO THE FINANCIAL STATEMENTS

The insurance business operations of VIENNA INSURANCE GROUP Wiener Städtische Versicherung AG (now: VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, FN 75687f) was spun off to VERSA-Beteiligungs AG (now: WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, FN 333376i) with retroactive effect as of 1 January 2010 under a demerger and acquisition agreement of 10 May 2010, making use of the favourable reorganisation tax treatment provided for in Art. VI of the Reorganisation Tax Act (*Umgründungssteuergesetz*). The General Meeting resolution was adopted on 29 June 2010 and the demerger of the insurance business operations from the holding company acquired legal force on 3 August 2010 after approval by the Austrian Financial Market Authority (FMA).

WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group therefore continues to be the largest individual company in the Group and continues to operate the property/casualty, life and health insurance business in Austria. VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe is a listed Group holding company that focuses on management responsibilities. It is, however, also active as an international reinsurer and in the international corporate business.

Due to a completely different business structure, the figures in the balance sheet and income statement of the acquired company, VIENNA INSURANCE GROUP Wiener Städtische Versicherung AG, as of 31 December 2009 have limited comparability and informational value.

## I. General disclosures regarding accounting policies

The annual financial statements were prepared in accordance with Austrian generally accepted accounting principles and the general standard of presenting a fair and true view of the net assets, financial position and results of operations.

The precautionary principle was satisfied in that only profits that had been realised as at the balance sheet date were reported and all identifiable risks and impending losses are recorded in the balance sheet, with the exception of the less strict measurement of bonds and other fixed interest securities as provided for in § 81h(1) VAG and use of the measurement options provided for in § 81h(2a) VAG for units of special funds. As a rule, figures are shown in thousands of Euros (EUR '000). Figures from the previous year are indicated as such or shown in parentheses.

## II. Accounting principles

Land is valued at cost, buildings at cost less depreciation and any write-downs. As a rule, repair costs for residential buildings are spread over ten years.

Shares and other non-fixed-interest securities (with the exception of units of special funds that exclusively or predominantly hold bonds or other fixed-interest securities), and shares in affiliated companies are valued according to the strict lower-of-cost-or-market principle (*strenges Niederstwertprinzip*). Starting in 2008, bonds and other fixed-interest securities have been measured using the less strict lower-of-cost-or-market principle (*gemildertes Niederstwertprinzip*) provided for in § 81h(1) VAG. Valuation using the less strict lower-of-cost-or-market principle resulted in EUR 421,000 of write-downs not being performed.

The valuation options provided for in § 81h(2a) VAG were used to value units in special funds that exclusively or predominantly hold bonds or other fixed-interest securities.

The Company makes its investments in fixed-interest securities, real estate, participations, shares, and structured investment products, taking into account the overall risk position of the Company and the investment strategy provided for this purpose. The risk inherent in the categories specified and market risks were taken into account when determining exposure volumes and limits.

The investment strategy is laid down in the form of investment guidelines that are continuously monitored for compliance by the corporate risk management and internal audit departments. The corporate risk management department reports regularly to the tactical and strategic investment committee. The internal audit department reports regularly to the Managing Board.

As a rule, investments are largely low-risk. The strategic investment committee decides on possible high-risk investments based on the inherent risk of each individual investment after performing a full analysis of all related risks and liquidity at risk and considering all assets currently in the portfolio and the effects of the individual investments on the overall risk position.

All known financial risks are assessed regularly and specific limits or reserves are used to limit exposure. Security price risk is reviewed periodically using value-at-risk and stress tests. Default risk is measured using both internal and external rating systems.

An important goal of investment and liquidity planning is to maintain adequate amounts of liquid, value-protected financial investments. Liquidity planning therefore takes into account the trend in insurance payments and the majority of investment income is generally reinvested.

Forward exchange transactions in the currencies CZK, RON and PLN were entered into in 2010.

As a rule, mortgage receivables and other loans, including those to affiliated companies and companies in which an ownership interest is held, are valued at the nominal value of the outstanding receivables. Discounts deducted from loan principal are spread over the term of the loan and shown under deferred income on the liabilities side of the balance sheet.

Valuation allowances of adequate size are formed for doubtful receivables and deducted from their nominal values. Tangible assets (not including land and buildings) are valued at cost less depreciation. Low-cost assets are written off in full in the year of acquisition.

Unearned premiums are essentially calculated by prorating over time after applying a cost deduction of EUR 0 (EUR 18,113,000).

The provision for outstanding claims for direct business is calculated for losses reported by the balance sheet date by individually evaluating claims that have not yet been settled and adding lump-sum safety margins for large unascertainable losses.

In indirect business, provisions for outstanding claims are primarily based on reports from ceding companies as of the 31 December 2010 balance sheet dates. The reported amounts were supplemented by additional amounts if considered necessary in light of past experience.

The equalisation provision is calculated in accordance with the directive of the Austrian Federal Finance Minister, BGBl. (Federal Gazette) No. 545/1991 in the version contained in BGBl. II No. 66/1997.

The provisions for severance pay, pensions, and anniversary bonuses are based on the pension insurance calculation principles of the Actuarial Association of Austria (AVÖ), AVÖ 2008-P (Employees), using a discount rate of 4%. Company pension plan obligations are measured using the actuarial entry age normal method (*Teilwertverfahren*). The retirement age used to calculate the provisions for anniversary bonuses and severance pay is the statutory minimum retirement age as stipulated in the Austrian General Social Security Act (ASVG) (2004 reform) for the provision for anniversary bonuses, subject to a maximum age of 62 years. The retirement age used to calculate the retirement age for the provision for pensions depends on each individual agreement. The following percentages were used for employee turnover based on age: <31 – 7.5%, 31 - 35 3.5%, 36 - 40 2.5%, 41 - 50 1.5%, 51 - 55 0.5% and 56 - 65 0%. The severance entitlement used to calculate the provision for severance obligations depends on each individual agreement. The following percentages were used for employee turnover based on age: <30 – 7.5%, 30 - 34 3.5%, 35 - 39 2.5%, 40 - 50 1.5%, 50 - 59 1.0% and 60 - 65 0%. The interest expenses for personnel provisions of EUR 522,000

(EUR 4,694,000) are reported under investment and interest expenses. A portion of the direct pension obligations, in the amount of EUR 2,088,000 (EUR 265,845,000), is being administered as an occupational group insurance plan under an insurance policy concluded in accordance with § 18f to 18j VAG. As permitted under the Austrian Federal Ministry of Finance decree of 3 August 2001, an amount of EUR 0 (EUR 35,674,000) was transferred to an external insurance company to outsource severance pay obligations. The severance pay provision required under Austrian corporate law for 2010 was EUR 4,694,000 (EUR 79,297,000). The amount earmarked for satisfaction of the outsourced severance pay obligations and held by the external insurance company was EUR 2,608,000 (EUR 63,244,000). The difference of EUR 2,177,000 (EUR 23,127,000) between the size of the severance pay provisions to be formed under Austrian corporate law and the deposit held by the external insurance company is reported in the provisions for severance pay in the balance sheet.

Amounts denominated in foreign currencies are converted into euros at the relevant mean rate of exchange.

The underwriting items for assumed reinsurance business and associated retrocessions are included immediately in the annual financial statements.

The following disclosures are provided for off-balance sheet liabilities: Letters of comfort and liability undertakings totalling EUR 19,042,000 (EUR 48,742,000) have been issued in connection with a real estate purchase and borrowing. Liability undertakings totalling EUR 0 (EUR 94,000) have been issued in connection with loan repayments.

A total of EUR 0 (EUR 29,149,000) relates to letters of comfort with affiliated companies.

## III. Notes to the balance sheet

The value of developed and unimproved properties was EUR 33,092,000 (EUR 105,666,000) as of 31 December 2010.

The book value of self-used property was EUR 18,417,000 (EUR 74,180,000).

Other loans not secured by insurance contracts were comprised of the following: loans to the Republic of Austria in the amount of EUR 0 (EUR 52,339,000), loan receivables from other public bodies in the amount of EUR 0 (EUR 35,372,000) and loan receivables from other borrowers in the amount of EUR with 8,000,000 (EUR 242,425,000).

**The fair values of investments are:**

| Items under § 81c (2) VAG | Fair value on 31.12.2010 | Fair value on 31.12.2009 |
|---|---|---|
| in EUR ´000 | | |
| Land and buildings | 283,223 | 697,377 |
| Shares in affiliated companies | 5,556,223 | 5,881,990 |
| Bonds and other securities of and loans to affiliated companies | 202,115 | 596,943 |
| Participations | 18,798 | 311,324 |
| Bonds and other securities of and loans to companies in which an ownership interest is held | 0 | 37,448 |
| Shares and other non-fixed-interest securities | 92,615 | 2,944,176 |
| Bonds and other fixed-interest securities | 129,281 | 3,894,037 |
| Shares in joint investments | 0 | 50,334 |
| Mortgage receivables | 0 | 301,472 |
| Policy prepayments | 0 | 19,216 |
| Other loans | 8,000 | 330,136 |
| Bank balances | 0 | 69,180 |
| Deposits on assumed reinsurance business | 253,719 | 19,077 |
| | **6,543,974** | **15,152,710** |

Hidden reserves fell by EUR 304,744,000 during the reporting year to a total of EUR 1,896,310,000 (EUR 2,201,054,000). The fair value of the shares in affiliated companies and shares in companies in which an ownership interest is held is equal to the stock market value or other available market value (up-to-date internal valuations or appraisal reports). If no stock market or other available market value exists, the purchase price is used as the fair value, if necessary reduced by any write-downs or a proportionate share of the publicly reported equity capital, whichever is greater. For shares and other securities, stock market values or book values (purchase price, reduced by write-downs if necessary) are used as the fair value. The remaining investments were valued at their nominal values, where necessary reduced by write-downs.

The fair values of land and buildings were determined in accordance with the recommendations of the Austrian Association of Insurance Companies. All properties are individually valued during a 5-year period.

The fair value of EUR 283,223,000 for land and buildings is comprised of market value appraisals for the years 2007 to 2010 as follows: 2010: EUR 71,275,000, 2009: EUR 25,020,000, 2008: EUR 129,363,000, 2007: EUR 57,565,000.

The amount shown under other liabilities includes EUR 1,122,000 in tax liabilities and EUR 196,000 in social security liabilities.

**The following balance sheet items are attributable to affiliated companies and companies in which an ownership interest is held:**

| | Affiliated companies | | Companies in which an ownership interest is held | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| in EUR ´000 | | | | |
| Mortgage receivables | 0 | 42,372 | 0 | 4,368 |
| Deposit receivables | 253,719 | 1,454 | 0 | 0 |
| Receivables from direct insurance business | 0 | 3,741 | 0 | 1,419 |
| Receivables from reinsurance business | 9,970 | 28,666 | 0 | 107 |
| Other receivables | 24,483 | 127,571 | 6,335 | 6,115 |
| Deposit liabilities | 0 | 84,969 | 0 | 0 |
| Liabilities from direct insurance business | 1,612 | 751 | 0 | 71 |
| Liabilities from reinsurance business | 3,734 | 12,136 | 0 | 2 |
| Other liabilities | 664,565 | 1,001,182 | 0 | 0 |

Liabilities arising from the use of off-balance sheet tangible assets were EUR 1,364,000 (EUR 23,191,000) for the following financial year, and EUR 7,243,000 (EUR 141,403,000) for the following five years.

**The book values of intangible assets, land and buildings, and investments in affiliated companies and participations have changed as follows:**

| in EUR ´000 | Intangible assets | Land and buildings | Shares in affiliated companies | Bonds and other securities of and loans to affiliated companies | Participations | Bonds and other securities of and loans to companies in which an ownership interest is held |
|---|---|---|---|---|---|---|
| **As of 31 December 2009** | **22,037** | **434,583** | **4,220,289** | **596,562** | **286,783** | **37,448** |
| Disposal due to demerger | 17,181 | 317,838 | 620,892 | 345,511 | 268,006 | 37,448 |
| Additions | 4,859 | 1,152 | 812,343 | 182,000 | 0 | 0 |
| Disposals | 0 | 0 | 565,375 | 238,936 | 0 | 0 |
| Depreciation | 464 | 4,527 | 0 | 0 | 0 | 0 |
| Change due to value adjustments | 0 | 0 | 0 | 8,000 | 0 | 0 |
| **As of 31 December 2010** | **9,251** | **113,370** | **3,846,365** | **202,115** | **18,777** | **0** |

## IV. Notes to the income statement

**The premiums written, earned premiums, expenses for insurance claims, administrative expenses and reinsurance balance in property/casualty insurance in 2010 are broken down as follows:**

| Gross<br>in EUR ´000 | Premiums written | Net earned premiums | Expenses for claims and insurance benefits | Administrative expenses | Reinsurance balance |
|---|---|---|---|---|---|
| **Direct business** | | | | | |
| Fire and fire business interruption insurance | 10,433 | 10,433 | 3,732 | 2,332 | –6,552 |
| Other non-life insurance | 74 | 74 | 7 | 3 | –71 |
| | **10,507** | **10,507** | **3,739** | **2,335** | **–6,623** |
| (Previous year values) | (1,044,949) | (1,039,654) | (677,446) | (235,998) | (–76,197) |
| **Indirect business** | | | | | |
| Other insurance | 526,346 | 445,147 | 343,865 | 94,274 | –3,418 |
| | **526,346** | **445,147** | **343,865** | **94,274** | **–3,418** |
| (Previous year values) | (31,162) | (33,692) | (30,345) | (990) | (-4,895) |
| **Total direct and indirect business** | **536,853** | **455,654** | **347,604** | **96,609** | **–10,041** |
| (Previous year values) | (1,076,111) | (1,073,346) | (707,791) | (236,988) | (–81,092) |

The result from indirect business was EUR 9,395,000. The earned premiums from indirect business of EUR 445,147,000 were immediately included in the income statement.

**Of the income from participations, income from other investments and income from land and buildings shown in the income statement, affiliated companies account for the following amounts:**

| | 2010 | 2009 |
|---|---|---|
| in EUR ´000 | | |
| **Income from participations** | | |
| Property/casualty insurance | 211,309 | 67,328 |
| Health insurance | 0 | 102 |
| Life insurance | 0 | 23,476 |
| **Total** | **211,309** | **90,906** |
| **Income from other investments** | | |
| Property/casualty insurance | 18,035 | 317 |
| Health insurance | 0 | 2,748 |
| Life insurance | 0 | 17,072 |
| **Total** | **18,035** | **20,137** |
| **Income from land and buildings** | | |
| Property/casualty insurance | 41 | 6 |
| Health insurance | 0 | 52 |
| Life insurance | 0 | 299 |
| **Total** | **41** | **357** |

The deposit interest income for indirect business was transferred to the underwriting account.

**The expenses for insurance claims, expenses for administrative expenses, other underwriting expenses and investment expense items contain:**

| | 2010 | 2009 |
|---|---|---|
| in EUR ´000 | | |
| Wages and salaries | 13,766 | 123,963 |
| Expenses for severance benefits and payments to company pension plans | 41 | 11,994 |
| Expenses for retirement provisions | 1,463 | 23,308 |
| Expenses for statutory social contributions and income-related contribution and mandatory contributions | 2,882 | 43,983 |
| Other social security expenses | 120 | 2,312 |

Commissions of EUR 1,776,000 (EUR 172,492,000) were incurred for indirect business in 2010.

Losses on disposals of investments were EUR 232,000 (EUR 13,221,000) in financial year 2010.

**The valuation reserve shown on the balance sheet as at 31 December 2010 and releases over the fiscal year are broken down by asset item as follows:**

| | As of 31.12.2009 | Disposal due to demerger | Release | As of 31.12.2010 |
|---|---|---|---|---|
| in EUR ´000 | | | | |
| Land and buildings | 111,501 | 81,502 | 1,011 | 28,988 |
| Shares in affiliated companies | 6,135 | 226 | 0 | 5,909 |
| Shares and other non-fixed-interest securities | 26,456 | 26,456 | 0 | 0 |
| Intangible assets | 829 | 829 | 0 | 0 |
| | **144,921** | **109,013** | **1,011** | **34,897** |

The formation and release of untaxed reserves resulted in an increase in income tax expenses of EUR 253,000 (EUR 825,000) during the financial year.

## V. Significant participations

### VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe affiliated companies and participations – as of 31.12.2010

| Name, location | Direct interest in capital (%) | Capital (EUR '000) | Net income/loss (EUR '000) | Last annual financial statements |
|---|---|---|---|---|
| **Direct interests in affiliated companies** | | | | |
| "WIENER STÄDTISCHE OSIGURANJE" akcionarsko društvo za osiguranje, Belgrade | 99.89 | 11,901 | 1,708 | 2010 |
| Akcionarsko društvo za životno osiguranje Wiener Städtische Podgorica, Podgorica | 100.00 | | | established in 2010 |
| ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest | 85.97 | 71,264 | 8,873 | 2010 |
| BENEFIA Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warsaw | 100.00 | 21,249 | 1,336 | 2010 |
| BENEFIA Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, Warsaw | 100.00 | 16,739 | –1,702 | 2010 |
| Bulgarski Imoti Non-Life Insurance Company AD, Sofia | 99.92 | –1,362 | –8,707 | 2010 |
| Business Insurance Application Consulting GmbH, Vienna | 100.00 | 2,175 | 169 | 2010 |
| COMPENSA Holding GmbH, Wiesbaden | 100.00 | 19,629 | –6 | 2010 |
| Compensa Life Vienna Insurance Group SE, Tallinn | 100.00 | 7,026 | 748 | 2010 |
| Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna Vienna Insurance Group, Warsaw | 63.33 | 47,501 | –6,976 | 2010 |
| Compensa Towarzystwo Ubezpieczeń Na Życie Spolka Akcyjna Vienna Insurance Group, Warsaw | 71.13 | 41,748 | 5,915 | 2010 |
| DONAU Versicherung AG Vienna Insurance Group, Vienna | 3.97 | 153,288 | 39,196 | 2010 |
| Erste osiguranje Vienna Insurance Group d.d., Zagreb | 90.00 | 7,477 | 793 | 2010 |
| ERSTE Vienna Insurance Group Biztosító Zrt., Budapest | 90.00 | 5,286 | –2 | 2010 |
| HELIOS Vienna Insurance Group d.d., Zagreb | 100.00 | 22,234 | 1,372 | 2010 |
| IC Globus, Kiev | 80.00 | 5,479 | 1 | 2010 |
| Interalbanian Sh.a., Tirana | 75.00 | 3,677 | 469 | 2009 |
| InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw | 99.98 | 63,627 | 10,241 | 2010 |
| InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden | 100.00 | 39,740 | 13,520 | 2010 |
| Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje | 100.00 | 2,931 | 208 | 2010 |
| Komunálna poistovna, a.s. Vienna Insurance Group, Bratislava | 18.86 | 34,946 | 2,142 | 2010 |
| KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group, Bratislava | 94.23 | 239,221 | 23,820 | 2010 |
| Kooperativa, pojist'ovna, a.s. Vienna Insurance Group, Prague | 96.32 | 539,473 | 137,530 | 2010 |
| Kvarner Vienna Insurance Group dionicko drustvo za osiguranje, Rijeka | 98.62 | 13,104 | –686 | 2010 |
| LVP Holding GmbH, Vienna | 100.00 | 563,900 | 3,177 | 2010 |
| OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest | 99.10 | 114,262 | 9,451 | 2010 |
| Poist'ovna Slovenskej sporitel'ne, a.s. Vienna Insurance Group, Bratislava | 90.00 | 24,251 | 2,636 | 2010 |
| Pojišt'ovna České spořitelny, a.s. Vienna Insurance Group, Pardubice | 90.00 | 109,576 | 23,853 | 2010 |
| Polski Zwiazek Motorowy Towarzystwo Ubezpieczeń Spolka Akcyjna Vienna Insurance Group, Warsaw | 86.79 | 11,393 | –4,952 | 2010 |
| PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev | 99.99 | 10,858 | 54 | 2010 |
| Private Joint-Stock Company "JUPITER LIFE INSURANCE VIENNA INSURANCE GROUP", Kiev | 95.55 | 1,999 | –330 | 2010 |
| Private Joint-stock company "VAB Life", Kiev | 100.00 | 1,450 | 201 | 2009 |
| S.C. BCR Asigurări de Viaţă Vienna Insurance Group S.A., Bucharest | 91.31 | 18,114 | 6,385 | 2010 |

| Name, location | Direct interest in capital (%) | Capital (EUR '000) | Net income/loss (EUR '000) | Last annual financial statements |
|---|---|---|---|---|
| S.C. BCR Asigurări Vienna Insurance Group S.A., Bucharest | 95.92 | 15,443 | –11,909 | 2010 |
| SIGURIA E MAHDE VIENNA INSURANCE GROUP Sh.A., Tirana | 87.01 | 11,667 | 1,811 | 2010 |
| TBI BULGARIA EAD, Sofia | 100.00 | 26,134 | –50 | 2010 |
| TBIH Financial Services Group N.V., Amsterdam | 100.00 | 133,595 | –6,581 | 2010 |
| UNION Vienna Insurance Group Biztositó Zrt., Budapest | 100.00 | 34,466 | 925 | 2010 |
| Vienna-Life Lebensversicherung AG, Bendern | 100.00 | 12,030 | 495 | 2010 |
| VIG RE zajist'ovna, a.s., Prague | 70.00 | 116,022 | 15,569 | 2010 |
| WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna | 100.00 | 881,708 | 135,603 | 2010 |
| RISK CONSULT Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H., Vienna | 41.00 | 482 | 340 | 2009 |
| Versicherungsaktiengesellschaft "Kupala", Minsk | 52.34 | 1,092 | 45 | 2009 |
| Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw | 64.30 | 6,673 | 5 | 2009 |
| Vienna International Underwriters GmbH, Vienna | 100.00 | 68 | 7 | 2009 |
| **More than 20% ownership, where a direct ownership interest exists** | | | | |
| Central Point Insurance IT-Solutions GmbH, Vienna | 38.00 | 111 | 0 | 2009 |
| Geschlossene Aktiengesellschaft "Strachowaja kompanija "MSK- Life", Moscow | 25.00 | 7,798 | 4,640 | 2009 |
| students4excellence GmbH, Vienna | 20.00 | 41 | 5 | 2009 |

The exception provision in § 241 (2) and (3) of the Austrian Corporate Code (*Unternehmensgesetzbuch* – UGB) was applied.

## VI. Other disclosures

The Company's share capital is equal to EUR 132,887,468.20, divided into 128,000,000 no-par value ordinary bearer shares with voting rights, with each share participating equally in the share capital.

The Managing Board is authorised to increase the Company's share capital by a nominal amount of EUR 66,443,734.10 in one or more tranches on or before 28 June 2015 by issuing 64,000,000 no-par value ordinary bearer or registered shares against cash contributions or contributions in kind. The terms of the share rights, the exclusion of shareholder pre-emption rights, and the other terms and conditions of the share issue are decided by the Managing Board, subject to Supervisory Board approval. Preference shares without voting rights may also be issued, with rights equivalent to those of existing preference shares. The issue prices of ordinary and preference shares may differ.

The General Meeting of 29 June 2010 authorised the Management Board to issue, subject to the approval of the Supervisory Board, one or more tranches of bearer convertible bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 28 June 2015, including the authorisation to exclude shareholder pre-emptive rights, and to grant the holders of convertible bonds conversion rights to up to 30,000,000 no-par value ordinary bearer shares with voting rights in conformity with the convertible bond terms established by the Management Board. The share capital has consequently been raised pursuant to § 159 (2) no. 1 of the Austrian Stock Corporation Act (*Aktiengesetz* – AktG) by a contingent capital increase of up to EUR 31,145,500.36, through the issuance of up to 30,000,000 no-par value ordinary bearer shares with voting rights. The contingent capital increase will only be implemented to the extent that holders of convertible bonds issued on the basis of the General Meeting resolution of 29 June 2010 exercise the subscription or exchange rights they were granted. The Managing Board has not adopted any resolutions to date regarding the issuance of convertible bonds based on the authorisation granted on 29 June 2010.

The General Meeting of 29 June 2010 further authorised the Management Board to issue, subject to Supervisory Board approval, one or more tranches of bearer income bonds with a total nominal value of up to EUR 2,000,000,000.00, including authorisation to exclude shareholder pre-emption rights. The Managing Board has not adopted any resolutions to date regarding the issuance of income bonds based on this authorisation.

The General Meeting of 24 April 2009 authorised the Managing Board to acquire the Company's own no-par value bearer shares pursuant to § 65(1) no. 4 and 8 AktG to the maximum extent permissible by law during a period of 30 months following the date the General Meeting resolution was adopted. The amount payable upon repurchase of the Company's own shares may not be more than a maximum of 50% below, or more than a maximum of 10% above, the average unweighted stock exchange closing price on the 10 stock exchange trading days preceding repurchase. The Managing Board may decide to make the purchase via the stock exchange, through a public offer or in any other legally permissible and expedient manner. The Managing Board has made no use of this authorisation to date. The Company held no treasury shares as of 31 December 2010.

Income bonds with a total nominal value of EUR 250,000,000.00 (Tranche 1) were issued on 12 June 2008 and income bonds with a total nominal value of EUR 250,000,000.00 (Tranche 2) were issued on 23 April 2009 based on the authorisation granted by the General Meeting of 16 April 2008. The income bonds are traded on the Vienna Stock Exchange. The interest rate is 8% p.a. until 12 September 2018 (fixed interest rate), after which the income bonds pay variable interest. The Company has the right to call the bonds each quarter after the start of the variable interest period.

On 12 January 2005, the Company issued supplementary capital bond 2005-2022, with a total nominal value of EUR 180,000,000.00, pursuant to § 73c(2) VAG. The interest rate during the first 12 years of the bond's term is 4.625% of its nominal value (fixed interest rate period), after which the bond pays variable interest.

On 12 January 2005, the Company also issued supplementary capital bond 2005, with a total nominal value of EUR 120,000,000.00 million pursuant to § 73c(2) VAG. This bond does not have a fixed term. The interest rate during the first year of the bond's term is 4.25% p.a. of its nominal value, after which the bond pays variable interest.

The auditor has verified legality as required under § 73b(2) no. 4 VAG.

**The Supervisory Board had the following members in financial year 2010:**

**Chairman:**
Präsident Komm.-Rat Dkfm. Klaus Stadler
(until 29 June 2010)
Präsident Komm.-Rat Dr. Wolfgang Ruttenstorfer
(starting 29 June 2010)

**Deputy Chairman:**
Komm.-Rat Dr. Karl Skyba

**Members:**
Abbot Primate Provost Bernhard Backovsky
Mag. Alois Hochegger
Dipl.-Ing. Guido Klestil
Senator Prof. Komm.-Rat Walter Nettig
(until 29 June 2010)
Hofrat Dkfm. Heinz Öhler
Mag. Reinhard Ortner
Dr. Martin Roman (starting 29 June 2010)
Dr. Johann Sereinig
Mag. Dr. Friedrich Stara

**Employee representatives (until effective date of the demerger on 3 August 2010):**
Peter Grimm
Brigitta Kinast-Pötsch
Franz Urban
Gerd Wiehart
Peter Winkler

**The Managing Board had the following members in financial year 2010:**

**Chairman:**
Dr. Günter Geyer

**Members:**
Ing. Martin Divis
Dr. Christine Dornaus (until 3 August 2010)
Franz Fuchs
Dr. Hans-Peter Hagen
Dr. Judit Havasi (until 3 August 2010)
Mag. Peter Höfinger
Mag. Robert Lasshofer (until 3 August 2010)
Erich Leiss (until 3 August 2010)
Dr. Martin Simhandl

The average number of employees (including cleaning staff) was 186 (3,933 before the demerger). The average number of salaried employees was 186 (3,846 before the demerger; not including cleaning staff), of which 0 (2,096 before the demerger) were in sales, leading to personnel expenses of EUR 0 (EUR 94,235,000 before the demerger), and 186 (1,750 before the demerger) in operations, leading to personnel expenses of EUR 18,272,000 (EUR 111,325,000 before the demerger).

No loans were outstanding to members of the Managing Board on 31 December 2010 (EUR 0).

Supervisory Board members received no loans in 2010.

No guarantees were outstanding for members of the Managing Board or Supervisory Board as of 31 December 2010.

In 2010, the total expenses for severance pay and pensions of EUR 1,504,000 (EUR 35,302,000 before the demerger) included severance pay and pension expenses of EUR 1,178,000 (EUR 8,010,000 before the demerger) for members of the Managing Board and senior management in accordance with § 80(1) AktG.

The Managing Board of the Company manages the Vienna Insurance Group. In some cases, responsibility is also assumed for additional duties in affiliated or related companies.

The members of the Managing Board received compensation of EUR 2,425,000 (2009: EUR 2,592,000 for the same members; EUR 3,769,000 including Managing Board members of the current Wiener Städtische Versicherung AG Vienna Insurance Group, before the demerger) for their services in 2010. Of this amount, EUR 436,000 (EUR 0) was compensation from affiliated companies.

Supervisory Board members received EUR 351,000 for their services to the Company in 2010.

A summary of auditing fees is provided in the notes to the consolidated financial statements.

The Company is a group member within the meaning of § 9 of the Corporation Tax Act (*Körperschaftssteuergesetz* – KStG) of Wiener Städtische Wechselseitige Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group, Vienna.

The taxable earnings of the group members are attributed to the parent company. The parent company has entered into agreements with each group member governing the allocation of positive and negative tax amounts for the purpose of allocating corporate income tax charges according to their origin. A claim of EUR 3,304,000 (liability of EUR 17,838,000) exists against the parent company for tax allocations. Use was made of the election to capitalise deferred profit taxes due to temporary differences between earnings under corporate law and taxable earnings. The tax rate chosen for deferred taxes is 25%.

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe is included in the consolidated financial statements prepared by the company Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group, with registered office in Vienna. These consolidated financial statements have been disclosed and are available for inspection at the business premises of this company at Schottenring 30, 1010 Vienna.

The Managing Board:

**Dr. Günter Geyer**

**Dr. Peter Hagen** **Dr. Martin Simhandl**

**Ing. Martin Diviš, MBA** **Franz Fuchs** **Mag. Peter Höfinger**

Vienna, 10 March 2011

## AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements, including the accounting system, of VIENNA INSURANCE-GROUP AG Wiener Versicherung Gruppe (formerly VIENNA INSURANCE GROUP Wiener Städtische Versicherung AG), Vienna, for the fiscal year from January 1 to December 31, 2010. These financial statements comprise the balance sheet as of December 31, 2010, the income statement for the fiscal year ended December 31, 2010, and the notes.

**Management's Responsibility for the Financial Statements and for the Accounting System**

The Company's management is responsible for the accounting system and for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and the provisions of the Insurance Supervision Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility and Description of Type and Scope of the Statutory Audit**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

**Opinion**

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of December 31, 2010 and of its financial performance for the fiscal year from January 1 to December 31, 2010 in accordance with Austrian Generally Accepted Accounting Principles.

## Comments on the Management report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 10 March 2011

PwC INTER-TREUHAND GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Günter Wiltschek
Austrian Certified Public Accountant

Disclosure, publication and duplication of the financial statements together with the auditor's report according to Section 281 (2) UGB in a form not in accordance with statutory requirements and differing from the version audited by us is not permitted. Reference to our audit may not be made without prior written permission from us.

## DECLARATION BY THE MANAGING BOARD

We declare to the best of our knowledge that the annual financial statements of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe prepared in accordance with the requirements of Austrian corporate law and the Austrian Insurance Supervision Act give a true and fair view of the Company's net assets, financial position and results of operations, the management report presents the business development, performance and position of the Company so as to give a true and fair view of its net assets, financial position and results of operations, and the management report provides a description of the principal risks and uncertainties to which the Company is exposed.

The Managing Board:

**Dr. Günter Geyer**
General Manager, CEO
Chairman of the Managing Board

**Dr. Peter Hagen**
Deputy General Manager,
Member of the Managing Board

**Dr. Martin Simhandl**
CFO
Member of the Managing Board

**Ing. Martin Diviš, MBA**
Member of the Managing Board

**Franz Fuchs**
Member of the Managing Board

**Mag. Peter Höfinger**
Member of the Managing Board

Vienna, 10 March 2011

**Managing Board areas of responsibility:**

Dr. Günter Geyer: Group management, strategic planning, public relations, marketing, sponsoring, legal matters, human resources;
Country responsibilities: Austria (including branch offices in Italy and Slovenia), Slovakia

Dr. Peter Hagen: Group cost structure, Group IT/Back Office, SAP Smile Solutions, VIG RE, internal capital model project (Solvency II project)

Dr. Martin Simhandl: asset management, asset risk management, equity investment management, finance and accounting;
Country responsibilities: Germany, Liechtenstein, Turkey

Ing. Martin Diviš, MBA: performance management motor vehicle insurance; Country responsibilities: Georgia, Czech Republic, Ukraine

Franz Fuchs: performance management personal insurance; Country responsibilities: Baltic states, Poland, Romania

Mag. Peter Höfinger: international corporate and large customer business, Vienna International Underwriters (VIU), reinsurance;
Country responsibilities: Bulgaria, Montenegro, Russia, Serbia, Hungary, Belarus

## SUPERVISORY BOARD REPORT

The Supervisory Board reports that it has taken the opportunity to comprehensively review the management of the Company, both acting as a whole and also regularly through its committees, Chairman and Deputy Chairman. Detailed presentations and discussions during meetings of the Supervisory Board and its committees were used for this purpose, as were recurring meetings with the members of the Managing Board, who provided detailed explanations and supporting documentation relating to the management and financial position of the Company and the Group. The strategy, business development, risk management, internal control system and activities of the internal audit department of the Company were also discussed in these meetings.

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

One ordinary General Meeting and five Supervisory Board meetings were held in 2010. Three meetings of the Audit Committee were also held. The Committee for Urgent Matters held one meeting and was also contacted in writing with regard to six matters. The Supervisory Board was informed of any resolutions passed by the committees at the next Supervisory Board meeting. The auditor of the financial statements and consolidated financial statements, PwC INTER-TREUHAND GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, attended three Audit Committee meetings and three Supervisory Board meetings, including the meeting dealing with the auditing of the annual financial statements and consolidated financial statements and the formal approval of the annual financial statements, as well as the General Meeting. In addition, two meetings of the Committee for Managing Board matters were also held in 2010.

No agenda items were discussed in the Supervisory Board and committee meetings without the participation of members of the Managing Board. No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings.

By inspection of appropriate documents, meetings with the Managing Board and discussions with the auditor, the Supervisory Board Audit Committee was able to form a satisfactory view of the accounting process and found no reasons for objection.

The Audit Committee also reviewed the effectiveness of the internal control system, the internal auditing system and the risk management system by requesting descriptions of the processes and organisation of these systems from the Managing Board, the auditor and the individuals directly responsible for these areas. The Audit Committee reported on these monitoring activities to the Supervisory Board and stated that no deficiencies had been identified.

In order to prepare the Supervisory Board's proposal for selection of the auditor of the financial statements and consolidated financial statements, the Audit Committee requested that PwC INTER-TREUHAND GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (PwC) submit documents relating to its license to audit. A written report was prepared stating that there were no grounds for exclusion or circumstances that could provide cause for concern regarding partiality. In addition, a list grouped by category of services showing the total revenues received by PwC from the Company in the previous financial year was requested and reviewed, and it was verified that PwC was included in a statutory quality assurance system. The Audit Committee reported to the Supervisory Board on the knowledge gained from these investigations and proposed to the Supervisory Board that PwC INTER-TREUHAND GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft be selected, following the General Meeting, as auditor of the financial statements and consolidated financial statements.

In addition, the Supervisory Board Audit Committee received the 2010 annual financial statements, management report and corporate governance report from the Managing Board, and reviewed and carefully examined them. The Supervisory Board Audit Committee also subjected the 2010 consolidated financial statements and Group management report to a careful examination. The Managing Board's proposal for distribution of profits was also debated and discussed during the course of this examination.

As a result of this examination and discussion, a unanimous resolution was adopted to recommend unqualified acceptance thereof to the Supervisory Board. The committee chairman informed the Supervisory Board of the resolutions adopted by the committee.

The 2010 annual financial statements together with the management report and corporate governance report, the 2010 consolidated financial statements together with the Group management report, and the Managing Board's proposal for distribution of profits were subsequently addressed, thoroughly discussed, and examined by the Supervisory Board. In addition, the auditor's reports prepared by PwC INTER-TREUHAND GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft for the 2010 annual financial statements and management report and the 2010 consolidated financial statements and Group management report were reviewed by the Audit Committee and by the Supervisory Board as a whole, and debated and discussed in detail with PwC INTER-TREUHAND GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The final findings of the examination provided no reason for objections. The Supervisory Board stated that it had nothing to add to the auditor's reports on the financial statements and consolidated financial statements.

After a thorough examination, the Supervisory Board therefore adopted a unanimous resolution to approve the annual financial statements prepared by the Managing Board, to raise no objection to the management report, consolidated financial statements and Group management report, and to state its agreement with the Managing Board's proposal for appropriation of profits.

The 2010 annual financial statements have therefore been approved in accordance with § 96(4) AktG.

The Supervisory Board proposes to the General Meeting that it approve the distribution of profits proposed by the Managing Board and formally approve the actions of the Managing Board and Supervisory Board.

Vienna, March 2011

The Supervisory Board:

Komm.-Rat Dr. Wolfgang RUTTENSTORFER
(Chairman)

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## NOTES

This annual report also includes forward-looking statements based on current assumptions and estimates made by the Management of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe to the best of its knowledge. Information provided using the words "expectation" or "target" or similar formulations indicate such forward-looking statements. Forecasts related to the future development of the Company represent estimates that were made on the basis of the information available as of the date on which this annual report went to press. Actual results may differ from the forecasts if the assumptions underlying the forecast fail to materialise or if risks arise at a level that was not anticipated.

Calculation differences may arise when rounded amounts and percentages are added together.

The annual report was prepared with the greatest possible care in order to ensure that the information provided in all parts is accurate and complete. Rounding, type-setting and printing errors can nevertheless not be completely ruled out.

Our aim was to make the annual report easy to read, with a flowing style. For this reason, we have dispensed with formulations such as "he/she", "his/her", etc. It should be understood that the text always refers to women and men equally without discrimination.

In the event of doubt, the German version is authoritative

Editorial deadline: 28 February 2011

GENERAL INFORMATION:

**Publisher and media owner:**
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