

# Vienna Insurance Group

## Supplementary information on the Group Embedded Value results for 2006

### 1. Introduction

The Vienna Insurance Group (VIG) last published its Group Embedded Value (GEV) results in May 2006 for the full business year 2005. The disclosure included the European Embedded Value (EEV) for the Life and Health (L&H) business in Austria and Germany (A/ G), the Traditional Embedded Value (TEV) for the L&H business in the Central and Eastern Europe (CEE) region and the Adjusted Net Asset Value (ANAV) for the Property & Casualty (P&C) business. VIG has the target of continually improving its GEV reporting and has decided to additionally apply the EEV Principles, as published by the CFO Forum, to the L&H businesses in the Czech Republic and Slovakia. The 2005 results for these businesses have been restated using EEV methodology. The methodology in respect of the other businesses has not been changed.

In addition the TEV for Life business and the ANAV for the P&C business in Hungary has been calculated for the first time. They have been included in the GEV for the CEE region. Previously the GEV only included the book value of the participation in the Hungarian operation in the ANAV of VIG.

The restatement of the 2005 GEV results includes moving the life businesses in the Czech Republic and Slovakia from TEV to EEV methodology, and also the impact of the introduction of the minimum profit sharing rules for the Austrian life business.

VIG has chosen a bottom-up, market consistent methodology in setting the economic assumptions for the EEV calculations. The EEV calculations include an explicit allowance for the Cost of Non-Market Risks.

The directors of VIG acknowledge their responsibility for the preparation of the supplementary information. Deloitte & Touche LLP 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 includes the following components:

- ANAV – only this component is included for the P&C businesses
- Value of In-Force (VIF) after Time Value of Financial Options and Guarantees (FOG)
- Cost of Capital and Non-Market Risks (CoCNMR)

The FOG and the Cost of Non-Market Risks 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.

#### 2.1 Group Embedded Value

The following table shows the GEV results for the year ending December 31, 2006 and the restated GEV results for the year ending December 31, 2005.

Table 1

| € mn                     | Life & Health  |                | Property & Casualty |                | Total          |                | ± %         |
|--------------------------|----------------|----------------|---------------------|----------------|----------------|----------------|-------------|
|                          | 2006           | 2005           | 2006                | 2005           | 2006           | 2005           |             |
| <b>Austria / Germany</b> |                |                |                     |                |                |                |             |
| ANAV                     | 1,048.6        | 841.8          | 832.4               | 1,032.9        | 1,881.0        | 1,874.7        | 0.3         |
| VIF                      | 1,205.5        | 1,073.6        | n/a                 | n/a            | 1,205.5        | 1,073.6        | 12.3        |
| - FOG                    | -32.6          | -38.6          | n/a                 | n/a            | -32.6          | -38.6          | -15.5       |
| - CoCNMR                 | -62.4          | -52.3          | n/a                 | n/a            | -62.4          | -52.3          | 19.3        |
|                          | <b>2,159.1</b> | <b>1,824.5</b> | <b>832.4</b>        | <b>1,032.9</b> | <b>2,991.5</b> | <b>2,857.4</b> | <b>4.7</b>  |
| <b>CEE</b>               |                |                |                     |                |                |                |             |
| ANAV                     | 94.9           | 66.5           | 833.6               | 504.0          | 928.5          | 570.5          | 62.8        |
| VIF                      | 322.2          | 289.9          | n/a                 | n/a            | 322.2          | 289.9          | 11.3        |
| - FOG                    | -34.3          | -37.3          | n/a                 | n/a            | -34.3          | -37.3          | -8.0        |
| - CoCNMR                 | -13.0          | -10.6          | n/a                 | n/a            | -13.0          | -10.6          | 22.6        |
|                          | <b>369.8</b>   | <b>308.5</b>   | <b>833.6</b>        | <b>504.0</b>   | <b>1,203.4</b> | <b>812.5</b>   | <b>48.1</b> |
| <b>Total</b>             | <b>2,528.9</b> | <b>2,133.0</b> | <b>1,666.0</b>      | <b>1,536.9</b> | <b>4,194.9</b> | <b>3,669.9</b> | <b>14.3</b> |

In addition to the ANAV shown above for the P&C companies, the VIF has been calculated for personal lines segments of Wiener Städtische AG and Donau Versicherung AG sold through VIG's employed sales force. Internal analyses shows that the development of the in force portfolio for the personal lines segments is reasonably predictable and can be compared to the run-off of an existing life insurance portfolio. This VIF, excluding any value arising from new business sold in the future to new policyholders, amounts to € 576.9 mn as at December 31, 2006 (€ 570.0 as at December 31, 2005). 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 has not been included in the GEV shown above.

## 2.2 Return on GEV by segment

The return on GEV shown in following table includes a € 224.1 mn transfer (arising from the capital increase carried out in December 2005) from P&C in A/G to P&C CEE to finance the new acquisitions.

Table 2

| € mn                            | Life & Health | Property & Casualty | Total   |
|---------------------------------|---------------|---------------------|---------|
| Austria / Germany               |               |                     |         |
| EV Dec 31, 2006                 | 2,159.1       | 832.4               | 2,991.5 |
| EV Dec 31, 2005 Reported        | 2,003.4       | 1,032.9             | 3,036.3 |
| EV Dec 31, 2005 Restated        | 1,824.5       | 1,032.9             | 2,857.4 |
| + Dividends and Other Transfers | 32.2          | 261.2               | 293.4   |
| Return on EV                    | 366.8         | 60.7                | 427.5   |
| CEE                             |               |                     |         |
| EV Dec 31, 2006                 | 369.8         | 833.6               | 1,203.4 |
| EV Dec 31, 2005 Reported        | 238.3         | 504.0               | 742.3   |
| EV Dec 31, 2005 Restated        | 308.5         | 504.0               | 812.5   |
| + Dividends and Other Transfers | 0.5           | -223.1              | -222.6  |
| Return on EV                    | 61.8          | 106.5               | 168.3   |
| Return on Total GEV             | 428.6         | 167.2               | 595.8   |

The high return on GEV in 2006 has been driven by the following economic and operating factors. High equity returns have resulted in a significant increase in unrealized capital gains, and this leads to a very positive development of the ANAV.

The impact of the higher unrealized gains on the Austrian Life business is less marked due to the introduction of new rules by the Austrian Supervisory Authority (FMA) regarding policyholder profit participation. These rules only apply to conventional business with profit participation (i.e. not for

unit linked business) and they require that a minimum of 85% of the gross surplus arising from this business has to be used for policyholder profit sharing.

Discussions are currently ongoing between the FMA and the Association of Austrian Insurance Companies regarding the possible introduction of minimum profit sharing rules for health insurance business. VIG, in common with other Austrian health insurers, strongly believes that such rules would not be appropriate for health insurance business. Furthermore, it is not clear how the ongoing discussions will be concluded. Therefore, no changes have been made to the methodology and the valuation makes no allowance for possible changes to the Minimum Profit Participation Rules.

The Surplus in Claims Reserves (SCR) for the P&C business has increased as additional data has allowed a more robust quantification of the best estimate reserves and also due to prudent reserves set up in respect of the profitable 2006 business. The increase in the reported combined ratio from 94.3% in 2005 to 96.9% in 2006 was caused by claims arising from severe snowfalls and floods during the first half of the year 2006, and this leads to a higher SCR due to VIG's conservative reserving policy. Further positive operating effects include the profitable L&H new business in both A/ G and CEE, and the expense reductions in CEE due to the ongoing efficiency program. Modelling changes, in particular further improvements to the model for the Health insurance business in Austria and the inclusion of a higher degree of specification in the models for CEE also had a positive impact. The Health business continues to produce excellent technical results due to the claims management system that was introduced in 2004/2005.

### 2.3 Value of New Business (NBV)

The NBV is calculated as the VIF for the new business sold in 2006 less the new business strain, the cost of capital and, in case of the Austrian, German, Czech and Slovakian companies, the cost of non-market risks. The L&H companies in Austria do not defer acquisition costs in the local statutory accounts or in VIG's consolidated IFRS accounts and therefore the new business strain for the Austrian business also includes the acquisition expenses. Due to the new Minimum Profit Participation Rules in Austria 85% of the new business strain is now offset against the policyholders' share of gross surplus and this has a positive impact on the value of new business.

The NBV has only been calculated for the L&H businesses and the following table shows the results for 2006 and 2005.

Table 3

| € mn                     | 2006           | 2005         |
|--------------------------|----------------|--------------|
| <b>Austria / Germany</b> |                |              |
| NBV                      | 50.9           | 52.5         |
| APE                      | 225.1          | 215.9        |
| APE-Ratio                | 22.6%          | 24.3%        |
| PVNBP                    | 1,982.6        | n/a          |
| PVNBP-Ratio              | 2.6%           | n/a          |
| <b>CEE</b>               |                |              |
| NBV                      | 30.7           | 22.3         |
| APE                      | 45.4           | 38.8         |
| APE-Ratio                | 67.5%          | 57.5%        |
| PVNBP                    | 262.4          | n/a          |
| PVNBP-Ratio              | 11.7%          | n/a          |
| <b>NBV-Total</b>         | <b>81.6</b>    | <b>74.8</b>  |
| <b>APE-Total</b>         | <b>270.5</b>   | <b>254.7</b> |
| <b>APE-Ratio Total</b>   | <b>30.9%</b>   | <b>29.4%</b> |
| <b>PVNBP-Total</b>       | <b>2,245.0</b> | <b>n/a</b>   |
| <b>PVNBP-Ratio total</b> | <b>3.6%</b>    | <b>n/a</b>   |

### **3. Methodology**

The shareholders' interest in the covered business is represented by the GEV. The GEV is the total of the adjusted net asset value, the value of the covered in force business less the cost of capital and cost of non-market risks. 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 Covered business**

The GEV results cover:

- the life insurance, savings, pensions and annuity, disability and health insurance business written by VIG's L&H companies in Austria, Germany, the Czech Republic and Slovakia on an EEV basis;
- the life insurance, savings, pensions and annuity and disability business written by VIG's Life company in Hungary on a TEV basis;
- the SCR for the P&C companies in Austria, Germany, the Czech Republic, Slovakia and Hungary.

Where one part of the covered business has an interest in another part of the covered business, the ANAV of that business excludes the book value of the dependent business.

#### **3.2 Adjusted Net Asset Value**

The ANAV is defined as:

- the shareholders' funds under the local accounting bases including the profit for the reporting year 2006;
- plus the "untaxed reserves" after tax – these reserves are available to cover the solvency requirements and are not required 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;
- plus the Surplus in the Claims Reserves after tax (for P&C only);
- less intangible items (including goodwill) after tax in respect of the companies for which the EEV, TEV or surplus in the claims reserves has been calculated;
- less the difference between the market and nominal value of the subordinated debt.

VIG is a composite insurer and the assets are split between the operating segments (i.e. P&C, L&H) on the basis of the statutory balance sheets. The majority of VIG's insurance subsidiaries have been allocated to the P&C segment. Two insurance subsidiaries are still partially allocated to the Health segment as at December 31, 2006. None of the subsidiaries have been allocated to the Life segment.

The 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's profit participation. The balance has been included in the ANAV after allowing for the Minimum Profit Participation Rules. The unrealized capital gains for the Health segment have been divided between the ANAV and VIF at the rate of 75%:25%.

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 the Slovakia does not allow for VIG's share of the IBNR claims arising from motor liability portfolio of the former national monopoly insurer. In line with current company practice it has been assumed that it will be possible to include an additional loading in premiums to meet the costs of these claims.

The ANAV (€1,143.5 mn at December 31, 2006 and € 908.3 mn at December 31, 2005) for the L&H companies is split into Required Capital (€ 462.9 mn at December 31, 2006 and € 337.9 mn at December 31, 2005) and Free Surplus (€ 680.5 mn at December 31, 2006 and € 570.4 mn at December 31, 2005). Consistent with the capital requirements determined by Standard & Poors for an A rating, the total Required Capital is defined as 150% of the statutory solvency margin for all companies that have applied EEV methodology and 100% of the statutory solvency margin for all the other companies. A part of the total Required Capital can be covered by subordinated debt. The Free Surplus is the ANAV in excess of the total Required Capital covered by the shareholders' funds.

### **3.3 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 distributable profits arising from the in force business. It does not include profits from future new business.

The VIF for the Austrian, German, Czech and Slovakian life 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 risk-free 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, i.e. some assumptions (e.g. the asset allocation) vary depending on the future economic conditions. The resulting statutory shareholder profits are discounted at the risk-free interest rates and this is defined as the "certainty equivalent" VIF. This value takes account of the intrinsic value of financial options and guarantees.

The VIF for the health insurance company – which does not have long-term interest guarantees or significant financial options in the products – and the Hungarian life company 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 a margin to cover aggregate risks (including the FOG).

The FOG are valued explicitly for the Austrian, German, Czech and Slovakian life businesses as the difference between the "stochastic" VIF and the "certainty equivalent" VIF. The "stochastic" VIF 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. The economic scenarios and the corresponding scenario-specific discount rates are market consistent, i.e. they are calibrated to the market prices of a range of capital market instruments at the valuation date.

### **3.4 Cost of Capital and Non-Market Risks**

The Required Capital for the Austrian, German, Czech and Slovakian life companies, that have determined the EEV, has been defined as 100% of the statutory solvency margin to cover the Cost of Capital and a further 50% of the statutory solvency margin to cover the Co-Market Risks. For the purpose of determining the CoCNMR it has, in line with statutory requirements, been assumed that

at least 50% of the statutory solvency margin is covered by shareholder funds. Consequentially the balance of the Required Capital is covered, where possible, by subordinated debt.

The CoCNMR for the EEV businesses has been calculated as the present value at the risk free interest rates of the frictional costs on the total Required Capital. The frictional costs on the proportion of the total Required Capital covered by the shareholders' funds have been defined as the corporation tax on the future investment returns and investment expenses. The frictional costs on the proportion of the total Required Capital covered by subordinated debt have been defined as the after tax difference between the coupon on the subordinated debt and the assumed future investment returns.

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

The same definitions for the Cost of Capital and the Cost of Non-Market Risks have been applied for the inforce business and also the Value of New Business.

### 3.5 Value of New Business

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 expected 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

#### Austria / Germany:

Table 4

| Yield curve |      |      |      |
|-------------|------|------|------|
|             |      | 2006 | 2005 |
| 1 year      | in % | 3.87 | 2.52 |
| 5 years     | in % | 3.91 | 3.14 |
| 10 years    | in % | 4.02 | 3.39 |
| 15 years    | in % | 4.10 | 3.55 |
| 20 years    | in % | 4.11 | 3.67 |
| 25 years    | in % | 4.11 | 3.73 |

The yields shown are risk-free euro-zone spot rates.

Table 5

| Austria / Germany            |      |       |       |
|------------------------------|------|-------|-------|
|                              |      | 2006  | 2005  |
| Interest rate volatility (*) | in % | 14.25 | 17.90 |
| Equity volatility            | in % | 22.31 | 22.37 |
| Medical inflation            | in % | 2.00  | 2.00  |
| Tax rate Austria             | in % | 25.00 | 25.00 |
| Tax rate Germany             | in % | 40.00 | 40.00 |

(\*) 5 into 5 implied swaption volatility

## Czech Republic / Slovakia:

Table 6

| Yield curve |      |                       |                       |                  |                  |
|-------------|------|-----------------------|-----------------------|------------------|------------------|
|             |      | 2006<br>Czech<br>Rep. | 2005<br>Czech<br>Rep. | 2006<br>Slovakia | 2005<br>Slovakia |
| 1 year      | in % | 2.94                  | 2.47                  | 4.88             | 3.30             |
| 5 years     | in % | 3.41                  | 3.20                  | 4.19             | 3.49             |
| 10 years    | in % | 3.87                  | 3.61                  | 4.19             | 3.69             |
| 15 years    | in % | 4.18                  | 4.03                  | 4.18             | 3.83             |
| 20 years    | in % | 4.24                  | 4.16                  | 4.18             | n/a              |
| 25 years    | in % | 4.33                  | 4.27                  | n/a              | n/a              |

The yields shown are risk-free spot rates.

Table 7

|                              |      | Czech Republic / Slovakia |       |
|------------------------------|------|---------------------------|-------|
|                              |      | 2006                      | 2005  |
| Interest rate volatility (*) | in % | 15.89                     | 20.56 |
| Equity volatility            | in % | 24.73                     | 22.96 |
| Tax rate Czech Rep.          | in % | 24.00                     | 26.00 |
| Tax rate Slovakia            | in % | 19.00                     | 19.00 |

(\*) 5 into 5 implied swaption volatility

## Hungary:

Table 8

|                           |      | Hungary |        |
|---------------------------|------|---------|--------|
|                           |      | 2006    | 2005   |
| Average reinvestment rate | in % | 7.55    | 6.52   |
| 10 year government bonds  | in % | 6.71    | 6.97   |
| Risk discount rates       | in % | 10.50   | 10.00  |
| Expense inflation         | in % | 3.90    | 3.60   |
| Tax rate                  | in % | 20.00   | 16.00  |
| Currency rate             | in % | 251.77  | 252.87 |

### 4.2 Operating assumptions

It has been assumed for the Austrian Life companies that the shareholders receive the risk surplus after deducting the cost of the current risk profit sharing and also the expense surplus for the unit linked, index linked and plain term insurance policies. For the conventional savings business it has been assumed that the total margin (i.e. the sum of interest, risk and expense surplus) for the shareholders after tax is 15% of the gross surplus in accordance with the new Minimum Profit Participation Rules.

The assumed profit sharing for the Austrian Health insurance company, in accordance with current practice, has been limited to the "no claims bonus". For the CEE countries the profit sharing has been set in accordance with current company practice taking into account the regulatory constraints.

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 Life, Health or P&C. The assumed expense and medical expense inflation rates 2006 are 2% for TEV-calculations. The stochastic calculations use inflation rates that are consistent with the capital market scenarios.

## 5. Analysis of change

The following table shows the analysis of change in the EEV and TEV for the L&H businesses.

Table 9

|  | <b>A / G EEV</b> | <b>CEE EEV/TEV</b> |
|--|------------------|--------------------|
| <b>Value as at Dec 31, 2005 reported</b>                   | <b>2,003.4</b>   | <b>238.2</b>       |
| Restatement – changes                                      | -178.9           | 70.3               |
| <b>Value as at Dec 31, 2005 restated</b>                   | <b>1,824.5</b>   | <b>308.5</b>       |
| Dividends paid   | -32.2            | -0.5               |
| Roll forward   | 77.9             | 14.3               |
| <b>Operating Returns</b>                                   |                  |                    |
| Changes in operating assumptions                           | -17.5            | -8.8               |
| Operating variance   | 10.8             | 10.4               |
| <b>Economic Returns</b>                                    |                  |                    |
| Investment performance and changes in economic assumptions | 167.1            | 24.3               |
| <b>Others</b>  | <b>77.6</b>      | <b>-9.1</b>        |
| <b>Value of New Business</b>                               | <b>50.9</b>      | <b>30.7</b>        |
| <b>EEV and TEV at Dec 31, 2006</b>                         | <b>2,159.1</b>   | <b>369.8</b>       |

The restatement changes in A / G mainly result from the impact of the newly introduced Minimum Profit Participation Rules for Life insurance in Austria. The restatement changes in CEE are caused mainly by the move from TEV to EEV methodology in the Czech Republic and Slovakia and the inclusion of the TEV instead of the book value for Hungarian Life insurance business.

The dividends paid show only the dividends paid from the L&H segment to shareholders.

The operating returns are driven by a change in the persistency assumptions and the prudence in the assumptions is reflected in the positive operating variances.

The high economic returns in 2006 are due to high returns on equity investments and the reduction in FOGs as a result of higher interest rates and lower interest rate volatilities. Exchange rate movements in CEE also had a positive impact.

The Value of New Business on an EEV basis in A / G has remained more or less stable, while the Value of New Business for the Czech Republic and Slovakia in 2006 has significantly increased relative to the 2005 value on a EEV basis.

The Others line the analysis of change for A / G can mainly be explained by a reduction in the consolidation adjustment because two insurance subsidiaries have been partially transferred from L&H to P&C.

## 6. Sensitivity Analyses

### 6.1 EEV

The following table shows the sensitivity of the EEV or the TEV as at December 31, 2006 to changing various assumptions.

Table 10

| € mn                              |                       | A / G   | As %<br>of Base | CEE<br>EEV/TEV | As %<br>of Base |       |
|-----------------------------------|-----------------------|---------|-----------------|----------------|-----------------|-------|
| <b>Base value</b>                 |                       | 2,159.1 |                 | 369.8          |                 |       |
| <b>Change in Yield Curve (*)</b>  | +1%                   | 2,180.8 | 101.0           | 396.3          | 107.3           |       |
|                                   | -1%                   | 2,070.3 | 95.9            | 317.3          | 85.8            |       |
| <b>Equity and Property Prices</b> | -10%                  | 2,077.4 | 96.2            | 368.1          | 99.5            |       |
| <b>Administration Expenses</b>    | -10%                  | 2,205.9 | 102.2           | 383.0          | 103.6           |       |
|                                   | +10%                  | 2,112.4 | 97.8            | 356.7          | 96.5            |       |
| <b>Lapses</b>                     | -10%                  | 2,172.0 | 100.6           | 380.8          | 103.0           |       |
|                                   | +10%                  | 2,145.0 | 99.4            | 359.6          | 97.2            |       |
| <b>Mortality</b>                  | <b>for assurances</b> | -5%     | 2,163.0         | 100.2          | 376.8           | 101.9 |
|                                   | <b>for annuities</b>  | -5%     | 2,158.0         | 99.9           | 369.4           | 99.9  |

(\*) The change in yield curve sensitivity has been calculated for all countries with the exception of Hungary.

The sensitivity results show that the change in the yield curve has a significant impact on the GEV. All the other sensitivities have a minor influence.

## 6.2 NBV

The following table shows the sensitivity of the Value of New Business for 2006 to changing various assumptions.

Table 11

| € mn                             |                       | A / G | As %<br>of Base | CEE<br>EEV/TEV | As %<br>of Base |       |
|----------------------------------|-----------------------|-------|-----------------|----------------|-----------------|-------|
| <b>Base value</b>                |                       | 50.9  |                 | 30.7           |                 |       |
| <b>Change in Yield Curve (*)</b> | +1%                   | 53.8  | 105.7           | 32.2           | 104.9           |       |
|                                  | -1%                   | 43.0  | 84.5            | 27.0           | 88.0            |       |
| <b>Administration Expenses</b>   | -10%                  | 54.7  | 107.5           | 32.2           | 104.6           |       |
|                                  | +10%                  | 47.1  | 92.5            | 29.2           | 95.1            |       |
| <b>Lapses</b>                    | -10%                  | 53.4  | 104.9           | 32.7           | 106.5           |       |
|                                  | +10%                  | 48.9  | 96.1            | 28.8           | 93.8            |       |
| <b>Mortality</b>                 | <b>for assurances</b> | -5%   | 51.7            | 101.6          | 31.4            | 102.4 |
|                                  | <b>for annuities</b>  | -5%   | 50.8            | 99.8           | 30.6            | 99.7  |

(\*) The change in yield curve sensitivity has been calculated for all countries with the exception of Hungary.

The NBV is very sensitive to changes in the yield curve.

## 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.

Table 12

| € mn                                       | 2006           | 2005           |
|--|----------------|----------------|
| <b>Consolidated IFRS equity</b>            | <b>2,283.2</b> | <b>2,059.3</b> |
| Minorities                                 | -70.8          | -57.8          |
| Intangible assets                          | -461.4         | -316.9         |
| <i>Sub Total</i>                           | <i>1,751.0</i> | <i>1,684.6</i> |
|  |                |                |
| Add back goodwill for non GEV companies    | 320.7          | 180.2          |
| Differences in capital consolidation       | 118.2          | 122.1          |
| Differences in valuation of capital assets | 224.5          | 121.2          |
| P&C Surplus in Claims Reserves             | 371.6          | 338.1          |
| Other differences                          | 23.5           | -1.0           |
| <i>Total differences</i>                   | <i>1,058.5</i> | <i>760.6</i>   |
|  |                |                |
| <b>Adjusted Net Asset Value</b>            | <b>2,809.5</b> | <b>2,445.2</b> |

The reconciliation shown above begins by deducting the minority interests from the consolidated IFRS equity. The deduction for intangible assets has increased from 2005 to 2006 due to the additional goodwill in respect of the companies acquired in 2006.

The ANAV, EEV or TEV have only been calculated for VIG's insurance businesses in Austria, Germany, the Czech Republic, Slovakia and Hungary. All the other companies in the Group have been included in the GEV on the basis of their IFRS equity and therefore their goodwill has to be added back to the ANAV.

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 also 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 impairment testing by the auditors of VIG.

VIG has adopted a prudent interpretation of IAS 39 and has chosen to value property assets and certain loans 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 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 greatest possible diligence 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.

24<sup>th</sup> April 2007

Wiener Städtische Wechselseitige Versicherungsanstalt Vermögensverwaltung  
Schottenring 30  
1010 Wien  
Austria

Wiener Städtische Allgemeine Versicherung AG  
Schottenring 30  
1010 Wien  
Austria

Dear Herr Dr. Geyer,

**Review of Group Embedded Value of Wiener Städtische Allgemeine  
Versicherung AG as at 31 December 2006**

We have reviewed the Statements of Group Embedded Value (the “Statements”) of Vienna Insurance Group (“VIG”) as set out in VIG’s “Group Embedded Value Reporting 2005”. These Statements comprise:

- the European Embedded Values of the life and health businesses in Austria, Germany, the Czech Republic and Slovakia as at 31st December 2005 and 31st December 2006 together with the value of new business generated and the analysis of movement in the embedded value during the year 2006;
- the Traditional Embedded Values of the life business in Hungary as at 31st December 2005 and 31st December 2006 together with the value of new business generated and the analysis of movement in the embedded value during the year 2006;
- the Surplus in Claims Reserves for the property 6 casualty companies in Austria, Germany, the Czech Republic, Slovakia and Hungary at 31st December 2006.

The scope of our review covered the methodology adopted together with the assumptions and calculations made by VIG in its Group Embedded Value. Certain smaller companies within VIG have been excluded from the scope of our review.

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 Austrian life and health businesses and the German, Czech and Slovakian life businesses, are compliant with the European Embedded Value Principles set out by the CFO Forum in May 2004 (the "CFO Forum Principles");
- the assumptions made by VIG are reasonable; and
- VIG's Group Embedded Value has been properly compiled on the basis of the methodology and assumptions chosen by VIG, and in respect of the Austrian, German, Czech and Slovakian life and health companies 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,

*Deloitte + Touche LLP*

Deloitte & Touche LLP