Supplementary Information on the Group Embedded Value Results 2016

VIENNA INSURANCE GROUP

# YOU CAN COUNT ON US

17PG001/HE16 (17.03 – J20176441)

# Contents

# Introduction

The VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG) last disclosed its Group Embedded Value (GEV) results in April 2016 for the year 2015. The disclosure included the Market Consistent Embedded Value (MCEV) for the majority of the Life and Health (L&H) businesses and the Adjusted Net Asset Value (ANAV) for the majority of Property & Casualty (P&C) businesses.

VIG has a successful track record of dynamic expansion in Central and Eastern Europe (CEE). The integration of the acquired businesses in VIG, and the resultant restructuring, is in some cases still on-going. It is therefore not possible to determine the MCEV or ANAV for all the companies in CEE.

The chart below shows the companies for which the MCEV or ANAV is calculated and the corresponding valuation methodology. The MCEV is determined for the L&H businesses and constitutes the covered business. The ANAV is determined for the P&C businesses. The results are generally shown separately for Austria / Germany (companies shown in red below) and CEE (companies shown in grey below).

| | | |
|---|---|---|
| **Austria** | VIG Holding | ANAV |
| | Wiener Städtische | MCEV and ANAV |
| | Donau Versicherung | MCEV and ANAV |
| | s Versicherung | MCEV and ANAV |
| **Germany** | InterRisk Non-Life | ANAV |
| | InterRisk Life | MCEV |
| **Czech Republic** | Kooperativa | MCEV and ANAV |
| | ČPP | MCEV and ANAV |
| | PČS | MCEV |
| | VIG RE | MCEV and ANAV |
| **Slovakia** | Kooperativa | MCEV and ANAV |
| | Komunalna | MCEV and ANAV |
| | PSLSP | MCEV |
| **Hungary** | Union Biztosító | MCEV and ANAV |
| | Vienna Life Biztosító | MCEV |
| | Erste Biztosító | MCEV |
| **Poland** | Compensa Non-Life | ANAV |
| | Compensa Life | MCEV |
| | InterRisk | ANAV |
| | Vienna Life | MCEV |
| **Romania** | BCR Life | MCEV |
| **Croatia** | Erste osiguranje | MCEV |

The insurance companies for which MCEV or ANAV is not calculated are included in the GEV on the basis of the book value as shown in the respective parent company's audited local statutory accounts. The consolidation process ensures that where one of the businesses has an interest in another business, the value of the parent company excludes the book value and any unrecognized capital gains in respect of the dependent business.

VIG applies a bottom-up methodology in setting the economic assumptions for the MCEV calculations. The CFO Forum of European Insurers' Market Consistent Embedded Value Principles©[1] ("the Principles"), which were launched in June 2008 and last amended in April 2016, are applied.

In 2016, VIG has aligned the MCEV and Solvency 2 methodologies for the L&H businesses to be consistent. Further details are provided in the Methodology section.

In accordance with the April 2016 MCEV Principle 14 and to appropriately reflect the long-term and relatively illiquid nature of the insurance liabilities, VIG applies volatility adjustment to the swap rates for the GEV as at 31 December 2016 and 2015 as detailed in the Economic Assumptions section.

[1] Copyright © Stichting CFO Forum Foundation 2008

The directors of VIG acknowledge their responsibility for the preparation of the supplementary information and confirm the Group Embedded Value is prepared, in all material aspects, in accordance with the MCEV Principles.

KPMG Austria GmbH, reviews VIG's GEV methodology, assumptions and calculations. The scope and the results of its independent review are set out in the Appendix.

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

## GEV REPORTING

- Market Consistent Embedded Value for the L&H businesses and Adjusted Net Asset Value for the P&C businesses.
- CFO Forum's MCEV Principles applied.
- GEV reporting aligned with Solvency 2 methodology.
- Methodology, assumptions and calculations reviewed by KPMG Austria GmbH.

# Summary of Results

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

The GEV includes the following components which are described in the Methodology section:

- Adjusted Net Asset Value (ANAV) where for the P&C business only this component is included together with the surplus in claims and unearned premium reserves
- Value of In-Force (VIF) determined as
  Stochastic Present Value of Future Profits (SPVFP)
  minus Net Risk Margin (NRM)

All the values shown in this disclosure are net of tax and exclude minority interests.

## GROUP EMBEDDED VALUE

The following table shows the GEV results as at 31 December 2016 and 2015 after restatement.

| | L&H | | P&C | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015* | 2016 | 2015* | 2016 | 2015* |
| in EUR million | | | | | | |
| Austria / Germany | | | | | | |
| Free Surplus | 244.8 | 373.8 | | | | |
| Required Capital | 806.3 | 626.8 | | | | |
| **ANAV** | **1,051.1** | **1,000.6** | **362.1** | **333.5** | **1,413.2** | **1,334.1** |
| Stochastic PVFP | 1,810.7 | 1,777.0 | | | 1,810.7 | 1,777.0 |
| - Net Risk Margin | -645.3 | -708.2 | | | -645.3 | -708.2 |
| **VIF** | **1,165.4** | **1,068.7** | | | **1,165.4** | **1,068.7** |
| **Subtotal** | **2,216.5** | **2,069.3** | **362.1** | **333.5** | **2,578.6** | **2,402.8** |
| | | | | | | |
| CEE | | | | | | |
| Free Surplus | 744.8 | 731.5 | | | | |
| Required Capital | 27.2 | 26.5 | | | | |
| **ANAV** | **772.0** | **758.0** | **1,595.0** | **1,550.7** | **2,367.0** | **2,308.7** |
| Stochastic PVFP | 1,398.5 | 1,333.6 | | | 1,398.5 | 1,333.6 |
| - Net Risk Margin | -328.7 | -298.2 | | | -328.7 | -298.2 |
| **VIF** | **1,069.8** | **1,035.4** | | | **1,069.8** | **1,035.4** |
| **Subtotal** | **1,841.8** | **1,793.4** | **1,595.0** | **1,550.7** | **3,436.8** | **3,344.1** |
| | | | | | | |
| Total | | | | | | |
| Free Surplus | 989.6 | 1,105.3 | | | | |
| Required Capital | 833.5 | 653.3 | | | | |
| **ANAV** | **1,823.1** | **1,758.6** | **1,957.1** | **1,884.2** | **3,780.2** | **3,642.8** |
| Stochastic PVFP | 3,209.1 | 3,110.6 | | | 3,209.1 | 3,110.6 |
| - Net Risk Margin | -973.9 | -1,006.5 | | | -973.9 | -1,006.5 |
| **VIF** | **2,235.2** | **2,104.1** | | | **2,235.2** | **2,104.1** |
| **Total** | **4,058.3** | **3,862.7** | **1,957.1** | **1,884.2** | **6,015.4** | **5,746.9** |

* Results shown above are after restatement.

The results as at 31 December 2015 are restated. As outlined in the Methodology and the Economic Assumptions sections, the restatement includes:

- the impact of applying the Solvency 2 consistent economic assumptions;
- the impact of replacing Frictional Costs of Required Capital and Cost of Residual Non-Hedgeable Risks with the Net (of tax) Risk Margin consistently based on the Solvency 2 Risk Margin calculations.

The contribution of the P&C businesses to the GEV includes surpluses in claims and unearned premium reserves. The remaining non-covered insurance businesses are included in the GEV at book value.

## RETURN ON GROUP EMBEDDED VALUE

The return on GEV is split by the regions Austria / Germany and CEE, as well as between L&H and P&C segments. Transfers between these regions and segments are included in the opening adjustments shown below.

| | L&H | | P&C | | Total | |
|---|---|---|---|---|---|---|
| in EUR million | | | | | | |
| Austria / Germany | | | | | | |
| GEV 2015 Reported | 2,572.7 | | 333.5 | | 2,906.2 | |
| GEV 2015 Restated | 2,069.3 | | 333.5 | | 2,402.8 | |
| Opening Adjustments | -42.1 | | -28.2 | | -70.3 | |
| Thereof dividends | -42.1 | | 174.6 | | 132.5 | |
| GEV 2015 Adjusted | 2,027.2 | | 305.3 | | 2,332.5 | |
| Return on GEV | 189.3 | 9.3% | 56.8 | 18.6% | 246.1 | 10.6% |
| GEV 2016 | 2,216.5 | | 362.1 | | 2,578.6 | |
| | | | | | | |
| CEE | | | | | | |
| GEV 2015 Reported | 1,998.1 | | 1,550.7 | | 3,548.8 | |
| GEV 2015 Restated | 1,793.4 | | 1,550.7 | | 3,344.1 | |
| Opening Adjustments | -32.8 | | 15.4 | | -17.4 | |
| Thereof dividends | -89.6 | | -119.7 | | -209.3 | |
| GEV 2015 Adjusted | 1,760.5 | | 1,566.1 | | 3,326.6 | |
| Return on GEV | 81.3 | 4.6% | 28.9 | 1.8% | 110.1 | 3.3% |
| GEV 2016 | 1,841.8 | | 1,595.0 | | 3,436.8 | |
| | | | | | | |
| Total | | | | | | |
| GEV 2015 Reported | 4,570.9 | | 1,884.2 | | 6,455.1 | |
| GEV 2015 Restated | 3,862.7 | | 1,884.2 | | 5,746.9 | |
| Opening Adjustments | -74.9 | | -12.8 | | -87.7 | |
| Thereof dividends | -131.7 | | 54.9 | | -76.8 | |
| GEV 2015 Adjusted | 3,787.8 | | 1,871.4 | | 5,659.2 | |
| Return on GEV | 270.6 | 7.1% | 85.7 | 4.6% | 356.2 | 6.3% |
| GEV 2016 | 4,058.3 | | 1,957.1 | | 6,015.4 | |

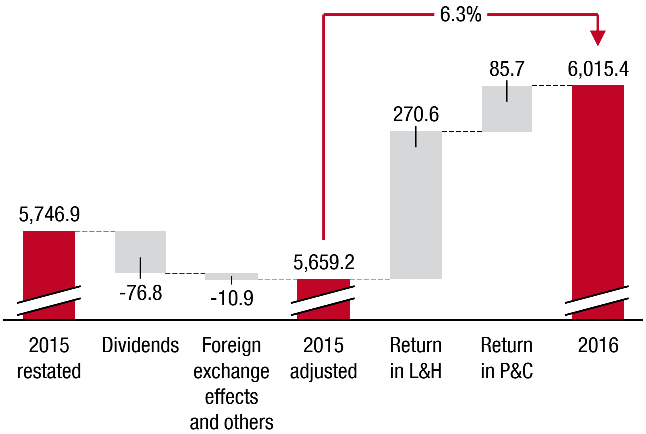
The total opening adjustments include:

- the dividend of EUR 76.8 million VIG distributed in 2016;
- the foreign exchange rate movements during the year.

The return on GEV in 2016 is mainly due to:

- the negative impact of the economic variance in Austria / Germany in L&H of EUR -340.0 million;
- the positive impact of the assumption changes in Austria / Germany in L&H of EUR 291.4 million;
- the positive impact of the experience variance in Austria / Germany in L&H of EUR 135.7 million;
- the contribution of new business in CEE L&H of EUR 90.9 million.

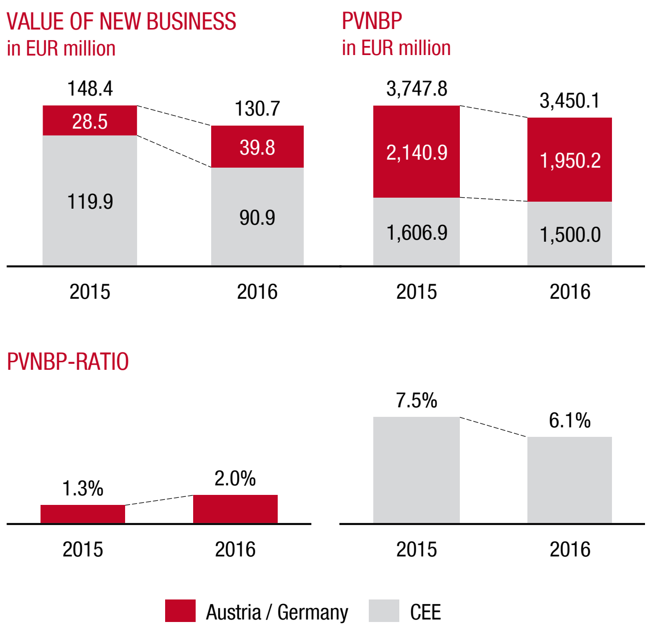
GROUP EMBEDDED VALUE DEVELOPMENT
in EUR million



## VALUE OF NEW BUSINESS

The Value of New Business (VNB) is calculated only for the covered business and the following table shows 2016 and 2015 results. Profitability is measured as a percentage of the Annual Premium Equivalent (APE) and the Present Value of New Business Premiums (PVNBP). The APE equals one tenth of the single premiums plus the annualized amount of regular premiums written during the year.

| in EUR million | 2016 | 2015 |
|---|---|---|
| **Austria / Germany** | | |
| Value of New Business | 39,8 | 28,5 |
| APE | 158,2 | 184,0 |
| **APE-Ratio** | **25,2%** | **15,5%** |
| PVNBP | 1.950,2 | 2.140,9 |
| **PVNBP-Ratio** | **2,0%** | **1,3%** |
| **CEE** | | |
| Value of New Business | 90,9 | 119,9 |
| APE | 218,3 | 228,1 |
| **APE-Ratio** | **41,6%** | **52,6%** |
| PVNBP | 1.500,0 | 1.606,9 |
| **PVNBP-Ratio** | **6,1%** | **7,5%** |
| **Total** | | |
| Value of New Business | 130,7 | 148,4 |
| APE | 376,5 | 412,1 |
| **APE-Ratio** | **34,7%** | **36,0%** |
| PVNBP | 3.450,1 | 3.747,8 |
| **PVNBP-Ratio** | **3,8%** | **4,0%** |




The VNB is calculated as the SPVFP for the new L&H business sold in 2016, less the new business strain and NRM. The L&H companies in Austria do not defer acquisition costs for the traditional life insurance business in the local statutory accounts. Therefore the new business strain for the Austrian business includes the shareholder's share of the total acquisition expenses net of tax.

The 2015 total restated PVNBP-Ratio is 3.4%. The overall profitability increases to 3.8%.

### GEV 2016 HIGHLIGHTS

- GEV of EUR 6,015.4 million
- Return of 6.3% on GEV amounting to EUR 356.2 million
- High P&C return on GEV of 18.6% in Austria / Germany
- Increase of surpluses in claims and unearned premium reserves of EUR 31.1 million

# Methodology

The GEV represents shareholders' interests in the covered and non-covered business. Components of the GEV are described below. Calculations are performed separately for each business after allowing for both external and intra-group reinsurance.

## ADJUSTED NET ASSET VALUE

The ANAV is defined as:

- the shareholders' equity under the local GAAP bases;
- plus the shareholders' share of the unrecognized capital gains after tax, to the extent that these are not included in the calculation of the VIF for the L&H businesses;
- plus the surplus in claims and unearned premium reserves after tax (only for the P&C businesses);
- plus the equalization reserves after tax (only for the P&C businesses);
- less the intangible assets after tax;
- less the difference between the shareholder share of IFRS and local GAAP pension liabilities after tax;
- less the difference between the market and book value of the issued subordinated debt and hybrid capital after tax;
- less the charge of the bank tax compulsory for the insurance companies in Poland since 2015.

The Austrian operations are composite insurance companies and their assets are split between the operating segments (i.e. P&C and L&H) on the basis of the segment statutory balance sheets. The financial assets for the L&H operating segments are further split between the participating business, the non-participating business and the shareholder fund.

The majority of the holdings in VIG's insurance subsidiaries are directly held by VIG Holding. The main exceptions are s Versicherung, which is partially held by Wiener Städtische, and Donau Versicherung, which is partially held by s Versicherung.

The after tax unrecognized capital gains for the P&C segment are fully allocated to shareholders and included in the ANAV. For the L&H segment the unrecognized capital gains are included in the calculation of the VIF to the extent that they are covering technical reserves and allow for relevant minimum profit participation rules and the company's profit participation strategy. The balance net of tax is included in the ANAV.

For the P&C businesses, the surplus in claims reserves arising from insurance obligations to third parties is the amount net of tax by which the reserves in the local statutory balance sheets exceed a given actuarial best estimate of the insurance obligations. The best estimate claims reserve is defined as the mean of the eventual undiscounted payments that will be made in respect of outstanding claims from the in-force portfolio, whether currently reported or not. Carrying a reserve with a surplus in the local statutory balance sheet means that the 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 local statutory reserve.

For the P&C businesses, the surplus in unearned premiums reserves reflects the estimated surplus, after tax, on a best estimate basis emerging from the local statutory unearned premium reserve arising from insurance obligations to third parties.

The Required Capital for each L&H company or segment is determined as the Solvency Required Capital (SCR) under the Solvency 2 regime less the sum of subordinated debt eligible to cover the SCR and the VIF. The capital requirements for Standard & Poor's A rating are defined as 150% of the solvency margin for the L&H segment of VIG Re in Czech Republic and 100% of the solvency margin for all other companies.

The Free Surplus for each L&H company is the ANAV in excess of the Required Capital.

## STOCHASTIC PRESENT VALUE OF FUTURE PROFITS

The Stochastic Present Value of Future Profits (SPVFP) calculated for the L&H businesses is the value of the projected net of tax statutory distributable profits arising from the in-force business. It does not include profits from future new business.

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

The SPVFP is defined as the average – over a sufficient number of 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 and property returns and inflation. The other assumptions (including expenses, lapse rates, mortality and morbidity rates, profit participation rates and tax rates) are set on a best estimate basis that reflects each business' recent experience and expected future trends. Where appropriate, the projection models allow for management actions and policyholder behaviour, i.e. some assumptions (e.g. the asset allocation or lapse rates) vary depending on the future economic conditions.

## NET RISK MARGIN

The Net Risk Margin (NRM) allows for the non-financial (i.e. mortality, morbidity, lapse and expense) and operational risks on the basis of the cost of holding risk capital to cover these risks and is presented net of tax. The risk capital is based on Solvency 2 capital requirements as used to calculate the Solvency 2 Risk Margin. The risk capital is projected over the life time of the portfolio on the basis of appropriate risk drivers of the risk capital components consistently applied to in-force and new business.

## VALUE OF NEW BUSINESS

The VNB represents the value generated by new business sold during the reporting period. New business premiums are defined as premiums arising from new business. New business includes policies where a new contract is signed or underwriting is carried out. The value of premium increases on existing contracts during the period is included in the VIF.

## ECONOMIC ASSUMPTIONS

VIG's MCEV reference rates as at 31 December 2016 and 31 December 2015 are the official Solvency 2 basic risk-free rate curves as published by EIOPA. In 2015, the main difference between the Solvency 2 methodology and VIG's MCEV methodology was the omission of a credit risk adjustment to the market input for the yield curve. In 2016, the Solvency 2 and MCEV basic risk free curves are identical. Only the Austrian companies apply the Solvency 2 volatility adjustment of 0.22% in 2015 and 0.13% in 2016 to the basic risk free curve.

### RISK-FREE INTEREST RATES

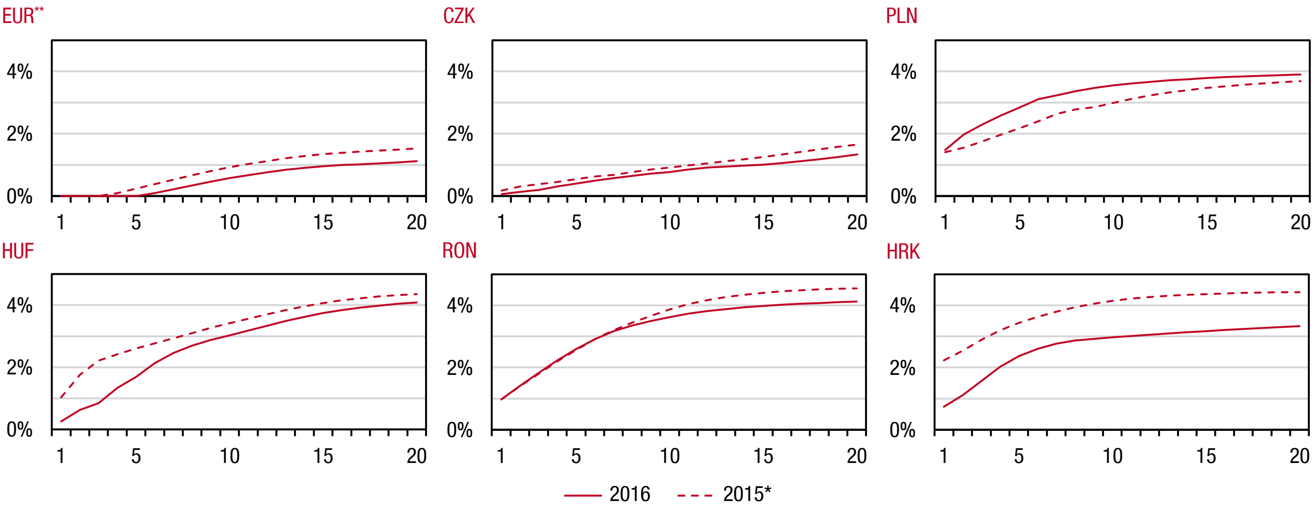
| | EUR | | CZK | | PLN | |
|---|---|---|---|---|---|---|
| | 2016 | 2015* | 2016 | 2015* | 2016 | 2015* |
| 1 year | -0.30% | -0.16% | 0.06% | 0.18% | 1.48% | 1.41% |
| 2 years | -0.26% | -0.13% | 0.14% | 0.31% | 1.97% | 1.55% |
| 5 years | -0.02% | 0.23% | 0.41% | 0.55% | 2.84% | 2.18% |
| 10 years | 0.57% | 0.92% | 0.77% | 0.92% | 3.55% | 2.99% |
| 20 years | 1.12% | 1.53% | 1.33% | 1.66% | 3.90% | 3.69% |

* Rates shown above are after restatement.

| | HUF | | RON | | HRK | |
|---|---|---|---|---|---|---|
| | 2016 | 2015* | 2016 | 2015* | 2016 | 2015* |
| 1 year | 0.26% | 1.03% | 0.97% | 0.97% | 0.74% | 2.23% |
| 2 years | 0.63% | 1.76% | 1.40% | 1.39% | 1.11% | 2.54% |
| 5 years | 1.69% | 2.61% | 2.59% | 2.57% | 2.37% | 3.44% |
| 10 years | 3.03% | 3.41% | 3.62% | 3.87% | 2.97% | 4.14% |
| 20 years | 4.09% | 4.36% | 4.12% | 4.55% | 3.33% | 4.43% |

* Rates shown above are after restatement.

### RISK-FREE INTEREST RATES




* Rates shown above are after restatement.

** EUR risk-free rates are presented with a floor of zero.

Bloomberg is the principal source for market data, the main software used – the Economic Scenario Generator (ESG) – is Moody's Analytics Scenario Generator. Negative interest rates of the basic risk-free rate curves are set to zero as input for the scenario creation process. The calibration methodology and validation criteria follow market practice and ensure that the economic scenarios provided are of consistent quality and comply with the Solvency 2 Technical Specifications. We calibrate the stochastic scenarios to the following market data:

- Nominal yield curves
- Real yield curves via inflation data
- Interest rate volatilities (swaptions)
- Equity implied volatility
- Initial equity dividend yield
- Data from VIG's partial internal model for property investments

The swaption implied volatilities and the equity volatilities from the ESG output are shown in the tables below.

## INTEREST RATE VOLATILITIES

| | EUR | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015* | | |
| Option/Swap Term | 5 years | 10 years | 15 years | 5 years | 10 years | 15 years |
| 5 years | 57.70% | 46.53% | 40.69% | 42.61% | 39.61% | 37.37% |
| 10 years | 38.28% | 31.74% | 28.14% | 37.23% | 34.73% | 31.67% |
| 15 years | 29.87% | 23.42% | 21.16% | 33.92% | 30.80% | 28.14% |

| | CZK | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015* | | |
| Option/Swap Term | 5 years | 10 years | 15 years | 5 years | 10 years | 15 years |
| 5 years | 69.84% | 61.50% | 49.79% | 51.31% | 44.34% | 38.02% |
| 10 years | 52.91% | 43.60% | 35.27% | 42.21% | 35.43% | 30.35% |
| 15 years | 39.11% | 31.02% | 25.65% | 34.97% | 31.13% | 27.58% |

| | PLN | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015* | | |
| Option/Swap Term | 5 years | 10 years | 15 years | 5 years | 10 years | 15 years |
| 5 years | 23.90% | 22.52% | 21.36% | 33.64% | 31.29% | 29.36% |
| 10 years | 19.75% | 18.69% | 17.78% | 28.89% | 26.85% | 25.01% |
| 15 years | 16.51% | 15.65% | 14.98% | 24.87% | 23.03% | 21.38% |

* Volatilities shown above are after restatement.

## EQUITY VOLATILITIES

| | EUR | | CZK | | PLN | |
|---|---|---|---|---|---|---|
| | 2016 | 2015* | 2016 | 2015* | 2016 | 2015* |
| 1 year | 21.95% | 19.15% | 14.98% | 16.22% | 19.70% | 18.85% |
| 5 years | 20.84% | 19.32% | 15.46% | 17.16% | 19.53% | 17.52% |
| 10 years | 20.38% | 18.47% | 16.22% | 18.05% | 19.72% | 17.76% |
| 15 years | 20.96% | 20.11% | 16.83% | 18.98% | 19.95% | 19.39% |

* Volatilities shown above are after restatement.

Correlations and other elements of the calibration are based on real world targets for the relevant quantity or long-term historic market data.

## FOREIGN CURRENCY EXCHANGE AND TAX RATES

The following table shows the foreign currency exchange rates against EUR and the nominal tax rates.

| | Exchange rate | | Tax rate | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Austria | | | 25.00% | 25.00% |
| Germany | | | 31.72% | 31.23% |
| Czech Republic | 27.02 | 27.02 | 19.00% | 19.00% |
| Croatia | 7.56 | 7.64 | 18.00% | 20.00% |
| Slovakia | | | 22.00% | 22.00% |
| Poland | 4.41 | 4.26 | 19.00% | 19.00% |
| Hungary | 309.83 | 315.98 | 9.00% | 10.00% |
| Romania | 4.54 | 4.52 | 16.00% | 16.00% |

## OTHER ECONOMIC ASSUMPTIONS

The price inflation assumptions are scenario dependent and are set in line with the assumed reference rates. The medical inflation rates assumed for the Austrian health insurance business are fixed at 2.0% p.a. for the calculations as at 31 December 2016 and 2015.

The best estimate assumptions used in the calculation of the Implied Discount Rate and Internal Rate of Return are the reference rates for bonds and cash. For equities, properties and alternative investments risk premiums of 3%, 1% and 2% respectively, are added to the reference rates.

## OPERATING ASSUMPTIONS

Shareholder returns for participating business are determined in accordance with local legal minimum profit participation rules, local supervisory requirements and are consistent with each company's practice. The assumed profit sharing for the Austrian health insurance business, in accordance with current practice, is limited to the "no claims bonus". It does not allow for the minimum profit participation rules that were introduced by the Austrian Supervisory Authority (FMA) in 2007, because these rules are applicable for a non-material part of the Wiener Städtische health business as at 31 December 2016 and 2015.

Other actuarial assumptions such as mortality and morbidity rates, lapse, paid-up, and annuity take-up rates are included on a best estimate basis. These assumptions are regularly reviewed and adjusted to reflect historical experience and expected trends. Expense assumptions for the covered businesses are based on the companies' recent experience. No expenses are excluded as one-off expenses and all the expenses within VIG are allocated to the operating segments of L&H or P&C.

# Analysis of Change

The following tables show the analysis of change in the MCEV separately consolidated for Austria / Germany, for CEE and for the L&H business in total.

| Austria / Germany | Free Surplus | Required Capital | VIF | MCEV |
|---|---|---|---|---|
| in EUR million | | | | |
| Value 2015 reported | 304.6 | 696.0 | 1,572.1 | 2,572.7 |
| Value 2015 restated | 373.8 | 626.8 | 1,068.7 | 2,069.3 |
| Capital and dividend flows | -42.1 | 0.0 | 0.0 | -42.1 |
| Foreign exchange variance | 0.0 | 0.0 | 0.0 | 0.0 |
| Acquired/divested businesses | 0.0 | 0.0 | 0.0 | 0.0 |
| Value 2015 adjusted | 331.7 | 626.8 | 1,068.7 | 2,027.2 |
| Value of New Business | -34.8 | -8.6 | 83.1 | 39.8 |
| Roll forward reference rate | 0.0 | 0.0 | 21.3 | 21.3 |
| Roll forward excess rate | 1.5 | 0.0 | 19.8 | 21.2 |
| Transfers from VIF and required capital to free surplus | 147.9 | -76.5 | -71.4 | 0.0 |
| Experience variance | 26.4 | -1.5 | 110.8 | 135.7 |
| Assumptions changes | -1.5 | 1.5 | 291.4 | 291.4 |
| Other operating variance | -166.4 | 180.5 | -15.3 | -1.2 |
| Operating MCEV earnings | -26.9 | 95.4 | 439.7 | 508.2 |
| Economic variance | -76.5 | 97.0 | -360.4 | -340.0 |
| Other non-operating variance | 16.5 | -12.8 | 17.4 | 21.1 |
| Total MCEV earnings | -86.9 | 179.5 | 96.7 | 189.3 |
| Value 2016 | 244.8 | 806.3 | 1,165.4 | 2,216.5 |

| CEE | Free Surplus | Required Capital | VIF | MCEV |
|---|---|---|---|---|
| in EUR million | | | | |
| Value 2015 reported | 716.3 | 41.7 | 1,240.2 | 1,998.1 |
| Value 2015 restated | 731.5 | 26.5 | 1,035.4 | 1,793.4 |
| Capital and dividend flows | -74.3 | 0.0 | 0.0 | -74.3 |
| Foreign exchange variance | -2.1 | 0.0 | -2.5 | -4.6 |
| Acquired/divested businesses | 46.0 | 0.0 | 0.0 | 46.0 |
| Value 2015 adjusted | 701.1 | 26.5 | 1,032.9 | 1,760.5 |
| Value of New Business | -41.1 | 1.7 | 130.3 | 90.9 |
| Roll forward reference rate | 1.7 | 0.0 | 11.9 | 13.6 |
| Roll forward excess rate | 4.2 | 0.0 | 3.1 | 7.3 |
| Transfers from VIF and required capital to free surplus | 129.0 | 4.7 | -133.6 | 0.0 |
| Experience variance | -22.9 | -7.4 | 55.9 | 25.6 |
| Assumptions changes | 0.1 | -0.1 | -12.1 | -12.1 |
| Other operating variance | 2.2 | -1.5 | 0.4 | 1.1 |
| Operating MCEV earnings | 73.1 | -2.7 | 55.9 | 126.3 |
| Economic variance | -24.6 | 3.4 | -23.6 | -44.8 |
| Other non-operating variance | -4.8 | 0.0 | 4.7 | -0.2 |
| Total MCEV earnings | 43.7 | 0.7 | 36.9 | 81.3 |
| Value 2016 | 744.8 | 27.2 | 1,069.8 | 1,841.8 |

| Total L&H business | Free Surplus | Required Capital | VIF | MCEV |
|---|---|---|---|---|
| in EUR million | | | | |
| Value 2015 reported | 1,020.9 | 737.7 | 2,812.3 | 4,570.9 |
| Value 2015 restated | 1,105.3 | 653.3 | 2,104.1 | 3,862.7 |
| Capital and dividend flows | -116.3 | 0.0 | 0.0 | -116.3 |
| Foreign exchange variance | -2.1 | 0.0 | -2.5 | -4.6 |
| Acquired/divested businesses | 46.0 | 0.0 | 0.0 | 46.0 |
| Value 2015 adjusted | 1,032.8 | 653.3 | 2,101.6 | 3,787.8 |
| Value of New Business | -75.9 | -6.8 | 213.4 | 130.7 |
| Roll forward reference rate | 1.7 | 0.0 | 33.2 | 34.9 |
| Roll forward excess rate | 5.6 | 0.0 | 22.9 | 28.5 |
| Transfers from VIF and required capital to free surplus | 276.8 | -71.8 | -205.0 | 0.0 |
| Experience variance | 3.5 | -8.9 | 166.7 | 161.3 |
| Assumptions changes | -1.4 | 1.4 | 279.3 | 279.3 |
| Other operating variance | -164.2 | 178.9 | -14.9 | -0.2 |
| Operating MCEV earnings | 46.2 | 92.7 | 495.6 | 634.5 |
| Economic variance | -101.1 | 100.3 | -384.0 | -384.8 |
| Other non-operating variance | 11.7 | -12.8 | 22.0 | 20.9 |
| Total MCEV earnings | -43.2 | 180.2 | 133.6 | 270.6 |
| Value 2016 | 989.6 | 833.5 | 2,235.2 | 4,058.3 |

The opening adjustments of EUR -74.9 million to the L&H MCEV include:

- the dividends paid to shareholders from the consolidated L&H segments in 2016;
- the impact of exchange rate movements;
- transfers between the L&H and P&C segments in Austria / Germany and CEE in 2016.

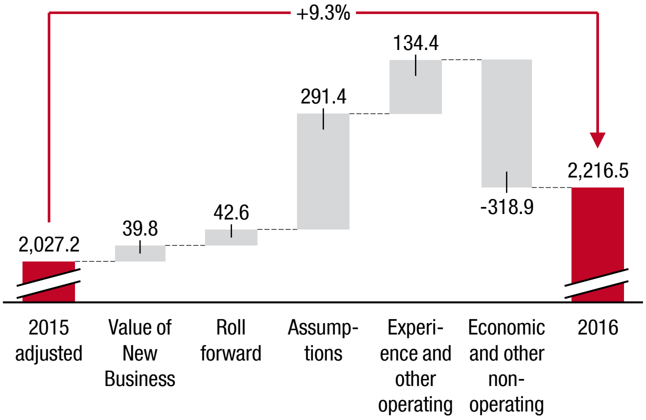
The VNB for Austria / Germany is EUR 39.8 million. The decrease in the free surplus is due to the non-deferral of acquisition expenses for the conventional business in Austria and this is compensated by a higher VIF. The VNB for CEE is EUR 90.9 million.

The expected existing business contribution on the basis of the reference rates for Austria / Germany is EUR 21.3 million. This represents the unwinding at the reference rates of all the MCEV components with the exception of the free surplus which increases at the reference rates after tax. The corresponding result for CEE is EUR 13.6 million.

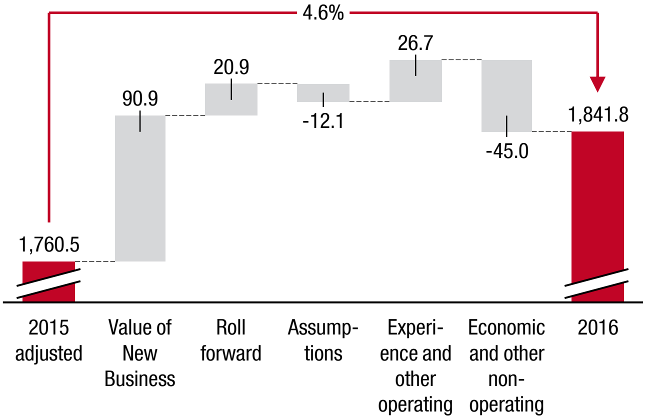
The expected existing business contribution in excess of the reference rates reflects the differences in 2016 between management's best estimates for the investment returns on financial assets and the reference rates. The total impact is EUR 28.5 million.

The experience variance is EUR 135.7 million for Austria / Germany and EUR 25.6 million for CEE. These

MCEV AUSTRIA / GERMANY
in EUR million




MCEV CEE
in EUR million



amounts include a number of positive and negative variances. The main impacts in Austria / Germany are positive health business contribution and other positive developments in life business.

The impact of the assumption changes is EUR 291.4 million for Austria / Germany and EUR -12.1 million for CEE. The main effect in Austria / Germany is due to more favourable expense and mortality assumptions, especially in health business.

The other operating variances are EUR -1.2 million in Austria / Germany and EUR 1.1 million in CEE.

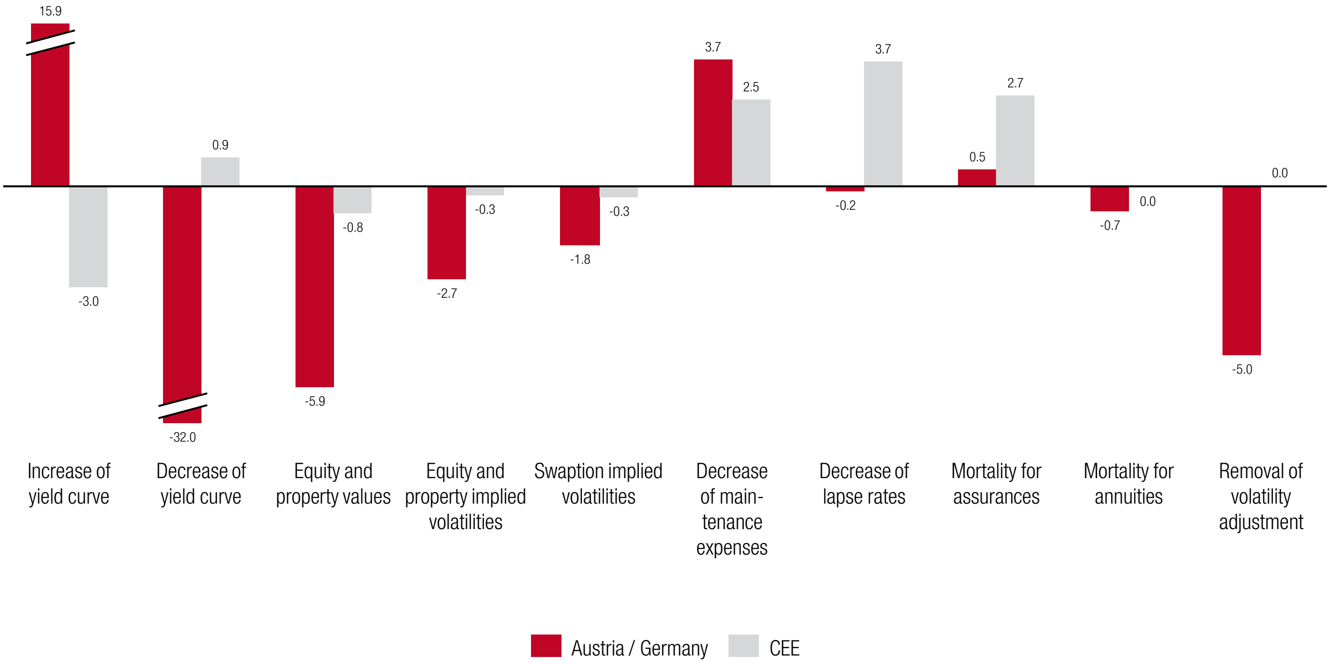
The economic variance in Austria / Germany amounts to EUR -340.0 million, which is mainly the impact of decreased level of the reference rates. The economic variance in CEE was EUR -44.8 million.

# Sensitivity Analysis

The following tables show the sensitivities to various assumption changes of the MCEV and the VNB as at 31 December 2016.

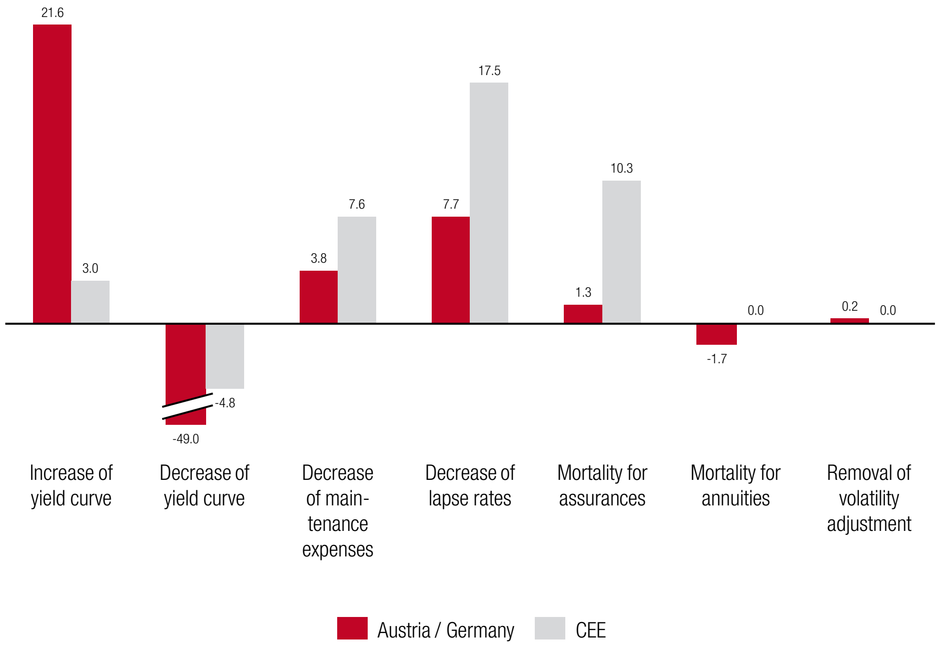
| MCEV | | Austria / Germany | % change | CEE | % change | Total | % change |
|---|---|---|---|---|---|---|---|
| in EUR million | | | | | | | |
| Base value | | 2,216.5 | | 1,841.8 | | 4,058.3 | |
| Change in yield curve | +1% | 353.2 | 15.9% | -54.9 | -3.0% | 298.3 | 7.4% |
| Change in yield curve | -1% | -710.0 | -32.0% | 16.0 | 0.9% | -694.0 | -17.1% |
| Equity and property values | -10% | -130.8 | -5.9% | -14.7 | -0.8% | -145.5 | -3.6% |
| Equity and property implied volatilities | +25% | -60.1 | -2.7% | -4.7 | -0.3% | -64.8 | -1.6% |
| Swaption implied volatilities | +25% | -39.0 | -1.8% | -5.6 | -0.3% | -44.6 | -1.1% |
| Maintenance expenses | -10% | 82.5 | 3.7% | 46.7 | 2.5% | 129.2 | 3.2% |
| Lapse rates | -10% | -3.5 | -0.2% | 67.6 | 3.7% | 64.1 | 1.6% |
| Mortality for assurances | -5% | 10.8 | 0.5% | 49.0 | 2.7% | 59.8 | 1.5% |
| Mortality for annuities | -5% | -15.8 | -0.7% | -0.7 | 0.0% | -16.5 | -0.4% |
| Removal of volatility adjustment | | -110.1 | -5.0% | 0.0 | 0.0% | -110.1 | -2.7% |

MCEV SENSITIVITIES
in % of the base value



| Value of New Business | | Austria / Germany | % change | CEE | % change | Total | % change |
|---|---|---|---|---|---|---|---|
| in EUR million | | | | | | | |
| Base value | | 39.8 | | 90.9 | | 130.7 | |
| Change in yield curve | +1% | 8.6 | 21.6% | 2.7 | 3.0% | 11.3 | 8.7% |
| Change in yield curve | -1% | -19.5 | -49.0% | -4.3 | -4.8% | -23.8 | -18.2% |
| Maintenance expenses | -10% | 1.5 | 3.8% | 6.9 | 7.6% | 8.4 | 6.5% |
| Lapse rates | -10% | 3.1 | 7.7% | 15.9 | 17.5% | 18.9 | 14.5% |
| Mortality for assurances | -5% | 0.5 | 1.3% | 9.4 | 10.3% | 9.9 | 7.5% |
| Mortality for annuities | -5% | -0.7 | -1.7% | 0.0 | 0.0% | -0.7 | -0.5% |
| Removal of volatility adjustment | | 0.1 | 0.2% | 0.0 | 0.0% | 0.1 | 0.1% |

VALUE OF NEW BUSINESS SENSITIVITIES
in % of the base value




The sensitivities for the MCEV results for the L&H business assume the same management actions and policyholder behaviour as for the base case. Each of the sensitivities is shown separately. If two events occur simultaneously the impact will probably not be the same as sum of the individual sensitivities.

- **Increase/decrease of 100 bps to reference rates**
  These sensitivities show the impact of a sudden parallel shift in reference rates until the last liquid point. From the last liquid point, the reference rates are extrapolated to the ultimate forward rate, which remains unchanged. There are corresponding changes in the other economic assumptions including discount rates, equity and property returns, and the market values of fixed income assets.

  For Austria / Germany the -100 bps sensitivity is more significant than the +100 bps sensitivity because it leads to more interest guarantees on the participating business coming into the money. The losses in this situation are partly compensated by reducing future policyholder profit participation. The higher surplus for the +100 bps sensitivity has to be shared with policyholders.

The impact of these sensitivities for CEE are lower than for Austria / Germany because the higher proportion of unit-linked and non-participating business means that the impact of a change in the yield curve is partly offset by the change in the discount rate. In addition, the CEE new business helps mitigate interest rate risk in total.

- **10% decrease in the equity and property values at the valuation date**
  The impact of this sensitivity is higher in Austria / Germany than in CEE, where it is not significant.

- **25% increase to the equity and property volatilities**
  The impact of this sensitivity is higher in Austria / Germany than in CEE, where it is not significant.

- **25% increase to the swaption volatilities**
  The impact of this sensitivity is higher in Austria / Germany than in CEE, where it is not significant.

- **10% decrease in maintenance expenses**
  The impact of this sensitivity is significant in both regions.

- **10% decrease in lapse rates**
  The impact of this sensitivity is more significant in CEE.

- **5% decrease in mortality rates for assurances**
  The impact of this sensitivity is more significant in CEE.

- **5% decrease in mortality rates for annuities**
  The impact of this sensitivity is higher in Austria / Germany than in CEE, where it is not significant.

- **Removal of volatility adjustment**
  The removal of volatility adjustment sensitivity does not have any compensating impact on the market value of the assets at the valuation date. Therefore the impact of removing the volatility adjustment is proportionally higher than the effect of the -100 bps yield curve sensitivity for Austria / Germany.

# VIF Maturity Profile and IDR/IRR

## VIF MATURITY PROFILE

The following table shows the discounted profits expected to emerge from the in-force covered business as at 31 December 2016 over future years. The VIF is split into five maturity bands.

| in EUR million | VIF maturity profile | % of VIF |
|---|---|---|
| 1 to 5 years | 845.4 | 37.8% |
| 6 to 10 years | 520.8 | 23.3% |
| 11 to 15 years | 268.8 | 12.0% |
| 16 to 20 years | 134.2 | 6.0% |
| more than 20 years | 466.1 | 20.9% |
| Total | 2,235.2 | |

The VIF maturity profile indicates that 61.1% of the VIF emerges during the first 10 years.

## IMPLIED DISCOUNT RATE AND INTERNAL RATE OF RETURN

The Implied Discount Rate (IDR) represents the single risk discount rate under a Traditional Embedded Value methodology, which results in the same VIF as calculated under an MCEV approach.

The following table shows the IDRs for the in-force and new business.

| | New Business Implied Discount Rate | | In-force Business Implied Discount Rate | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Austria / Germany | 3.3% | 3.6% | 5.2% | 3.6% |
| CEE | 5.4% | 2.9% | 5.9% | 3.5% |

The Internal Rate of Return (IRR) represents the single risk discount rate under a Traditional Embedded Value methodology, which results in zero VNB.

| | New Business Internal Rate of Return | |
|---|---|---|
| | 2016 | 2015 |
| Austria / Germany | 6.4% | 6.5% |
| CEE | 34.6% | 32.7% |

# Reconciliation of IFRS Equity to ANAV

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

| in EUR million | 2016 | 2015* |
|---|---|---|
| **Consolidated IFRS equity** | 5,711.3 | 4,414.5 |
| Minorities | -1,147.0 | -112.0 |
| Hybrid capital | -193.6 | -193.6 |
| Intangible assets | -2,054.5 | -1,989.4 |
| **Subtotal** | **2,316.1** | **2,119.5** |
| Goodwill, other intangible assets and capital consolidation adjustments | 453.6 | 995.2 |
| Differences in valuation of financial assets | 60.8 | 130.1 |
| Differences in valuation basis of technical reserves (IFRS vs. local GAAP) | -27.2 | -30.2 |
| Property/Casualty surplus in claims and unearned premium reserves | 510.6 | 479.5 |
| Other differences | 466.3 | -51.3 |
| ANAV | 3,780.2 | 3,642.8 |

* Results shown above are after restatement of the IFRS financial statement 2015.

The results as at 31 December 2015 reflect the restatement of the consolidated IFRS accounts as outlined in VIG's IFRS Group Report 2016.

The minority interests, the hybrid capital issued and the intangible assets are deducted from the consolidated IFRS equity.

The ANAV or MCEV is not calculated for all the insurance companies within VIG. All the other companies in the Group are included in the GEV at book value and therefore goodwill and other intangible assets have to be added back to the ANAV. Prior to moving to IFRS at 1 January 2004, under Austrian GAAP VIG used to write-off goodwill against shareholder equity. All the companies for which the goodwill had been eliminated were recognised under IFRS on the basis of their reduced book values. The “goodwill, other intangible assets and capital consolidation adjustments” add back the goodwill that had been eliminated in the past. The values of the intangible assets recognized in the IFRS Group accounts are subject to regular impairment testing.

The differences in shareholders’ share of unrecognized gains of financial assets between the consolidated IFRS accounts and the ANAV are captured in differences in valuation of financial assets.

The liabilities of the insurance operations purchased from the Erste Bank in 2008 are revaluated under IFRS. The impact of this revaluation on the IFRS equity is included in the “differences in valuation basis of technical reserves (IFRS vs. local GAAP)”.

For P&C businesses, the difference between the accounted statutory reserves and the best estimate reserves is shown in the “Property/Casualty surplus in claims and unearned premium reserves”.

The “Other differences” include differences due to foreign exchange reserves and differences in the scope of consolidation.

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

# Appendix: Independent Review

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe
Schottenring 30
1010 Wien
Austria

19th April 2017

**Report on the Review of Group Embedded Value**

**Introduction**

We have reviewed the accompanying Supplementary Information on the Group Embedded Value Results 2016 (the "Group Embedded Value") of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe ("VIG"), Vienna for the period from 31 December 2015 to 31 December 2016. The Group Embedded Value comprises:

- the Market Consistent Embedded Values ("MCEV") of the majority of the life and health businesses as at 31 December 2016 together with the value of new business generated, the sensitivities and the analysis of movement in the MCEV during the year 2016;
- the Adjusted Net Asset Value ("ANAV") including the Surplus in Claims and Unearned Premium Reserves for the majority of the P&C businesses at 31 December 2016.

Some insurance companies are excluded from the scope of our review. These companies are included in the Group Embedded Value on the basis of book value as shown in the respective parent company's audited local statutory accounts, the MCEV or the ANAV.

The scope of our review covered the methodology adopted together with the assumptions and calculations made by VIG in its Group Embedded Value. The Group Embedded Value and the underlying assumptions are the sole responsibility of the Board of Directors of VIG. They are prepared by VIG on the basis of VIG's methodology as described in the Supplementary Information on the Group Embedded Value Results.

**Auditor's responsibility**

Our responsibility is to express an opinion on the Group Embedded Value based on our review. Our liability towards the Company and towards third parties is limited in accordance with the stipulations of § 275 par. 2 of the Austrian Commercial Code (UGB).

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements" as well as with the International Standards on Review Engagements (ISRE) 2400/2410 and the stipulations in the MCEV Principles published by the CFO forum in June 2008 and amended in October 2009 and in April 2016 ("MCEV Principles").

A review is limited primarily to making inquiries, primarily of Company personnel, responsible for actuarial, financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Therefore, we do not express an audit opinion.

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 accuracy as we considered necessary to provide reasonable assurance that the Group Embedded Value is 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 consolidated IFRS accounts of VIG and the subsidiaries of VIG.

The calculation of the Group Embedded Value 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 Group Embedded Value results and any such variations may be material. Deviations from assumed experience are normal and are to be expected. The 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.

Due to the fact that this report was prepared solely by order and on behalf of VIG, its contents should not be relied upon by any third party and do not provide a basis for any claims by third parties.

**Opinion**

Based on our review, nothing has come to our attention that causes us to believe that the Group Embedded Value has not been prepared in all material respects in accordance with the MCEV Principles.

Without qualifying our opinion we refer to the fact that the Group Embedded Value as at 31 December 2015 was reviewed by another reviewer who has issued an unqualified opinion as of 04 April 2016.

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Michael Schlenk

## DISCLAIMER

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

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

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

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

## ADDRESS

VIENNA INSURANCE GROUP AG
Wiener Versicherung Gruppe
Schottenring 30
A-1010 Vienna
Internet: www.vig.com
Phone: +43 (0) 50 390 22000