



# WE EMBRACE **DIVERSITY**

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# Introduction

The VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG) last disclosed its Group Embedded Value (GEV) results in April 2017 for the year 2016. The disclosure included the Market Consistent Embedded Value (MCEV) for the majority of the Life and Health businesses.

This year, VIG reports the consolidated Embedded Value of its life and health businesses (Life and Health Embedded Value). The chart below shows the companies for which the Life and Health Embedded Value is calculated. The results are shown separately for Austria/Germany (companies shown in red below) and CEE (companies shown in grey below).

## COMPANIES FOR WHICH THE LIFE AND HEALTH EMBEDDED VALUE IS CALCULATED

Austria	Wiener Städtische	s Versicherung	Donau Versicherung	
Germany	InterRisk Life			
Czech Republic	Kooperativa	ČPP	PČS	VIG RE
Hungary	Union Biztosító	Vienna Life Biztosító	Erste Biztosító	
Romania	BCR Life			
Croatia	Erste Osiguranje			
Slovakia	Kooperativa	Komunálna	PSLSP	
Poland	Compensa Life	Vienna Life		

The insurance companies for which the Life and Health Embedded Value is not calculated are included in the consolidated results 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 Embedded Value calculations. The CFO Forum of European Insurers' Market Consistent Embedded Value Principles<sup>1)</sup> ("the Principles"), which were launched in June 2008 and last amended in April 2016, are applied.

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 basic risk free curve as detailed in the Economic Assumptions section.

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

KPMG Austria GmbH, reviews VIG's Embedded Value methodology, assumptions and calculations. The scope and the results are set out in the section about the independent review.

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# Summary of Results

The Life and Health Embedded Value 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 Life and Health Embedded Value includes the following components which are described in the Methodology section:

- Adjusted Net Asset Value (ANAV)
- Value of In-Force (VIF) determined as
  - Stochastic Present Value of Future Profits (SPVFP)
  - less Net Risk Margin

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

## LIFE AND HEALTH EMBEDDED VALUE

The following table shows the Life and Health Embedded Value results as at 31 December 2017 and 2016.

	2017	2016
<i>in EUR '000</i>		
<b>Austria/Germany</b>		
Free Surplus	770,136	244,803
Required Capital	291,097	806,332
<b>ANAV</b>	<b>1,061,233</b>	<b>1,051,135</b>
Stochastic PVFP	2,081,953	1,810,664
- Net Risk Margin	-603,250	-645,253
<b>VIF</b>	<b>1,478,703</b>	<b>1,165,411</b>
<b>Subtotal</b>	<b>2,539,936</b>	<b>2,216,546</b>
<b>CEE</b>		
Free Surplus	800,870	744,800
Required Capital	17,485	27,207
<b>ANAV</b>	<b>818,355</b>	<b>772,007</b>
Stochastic PVFP	1,507,904	1,398,475
- Net Risk Margin	-361,608	-328,683
<b>VIF</b>	<b>1,146,296</b>	<b>1,069,792</b>
<b>Subtotal</b>	<b>1,964,651</b>	<b>1,841,799</b>
<b>Total</b>		
Free Surplus	1,571,006	989,603
Required Capital	308,581	833,539
<b>ANAV</b>	<b>1,879,588</b>	<b>1,823,142</b>
Stochastic PVFP	3,589,857	3,209,139
- Net Risk Margin	-964,859	-973,936
<b>VIF</b>	<b>2,624,998</b>	<b>2,235,203</b>
<b>Total</b>	<b>4,504,586</b>	<b>4,058,345</b>

## VALUE OF NEW BUSINESS

The Value of New Business (VNB) is calculated only for the covered business and the following table shows 2017 and 2016 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.

	2017	2016
<b>in EUR '000</b>		
<b>Austria/Germany</b>		
Value of New Business	40,223	39,805
APE	126,456	158,210
<b>APE-Ratio</b>	<b>31.81%</b>	<b>25.16%</b>
PVNBP	1,686,530	1,950,169
<b>PVNBP-Ratio</b>	<b>2.38%</b>	<b>2.04%</b>
<b>CEE</b>		
Value of New Business	112,742	90,891
APE	211,343	218,274
<b>APE-Ratio</b>	<b>53.35%</b>	<b>41.64%</b>
PVNBP	1,504,454	1,499,950
<b>PVNBP-Ratio</b>	<b>7.49%</b>	<b>6.06%</b>
<b>Total</b>		
Value of New Business	152,965	130,696
APE	337,799	376,484
<b>APE-Ratio</b>	<b>45.28%</b>	<b>34.71%</b>
PVNBP	3,190,984	3,450,120
<b>PVNBP-Ratio</b>	<b>4.79%</b>	<b>3.79%</b>

The VNB is calculated as the SPVFP for the new life and health business sold in 2017, less the new business strain and Net Risk Margin. The life and health 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 2017 total PVNBP-Ratio is 4.79%. The 2017 total VNB increased by 17.04%.

# Methodology

The Life and Health Embedded Value represents shareholders' interests in the business. Components of the Life and Health Embedded Value 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;
- 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.

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.

The Required Capital for each company or segment is determined as the Solvency Required Capital (SCR) under the Solvency II 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 of VIG Re in Czech Republic and 100% of the solvency margin for all other companies.

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

## STOCHASTIC PRESENT VALUE OF FUTURE PROFITS

The Stochastic Present Value of Future Profits (SPVFP) 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 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 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 II capital requirements as used to calculate the Solvency II 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.



# Assumptions

## ECONOMIC ASSUMPTIONS

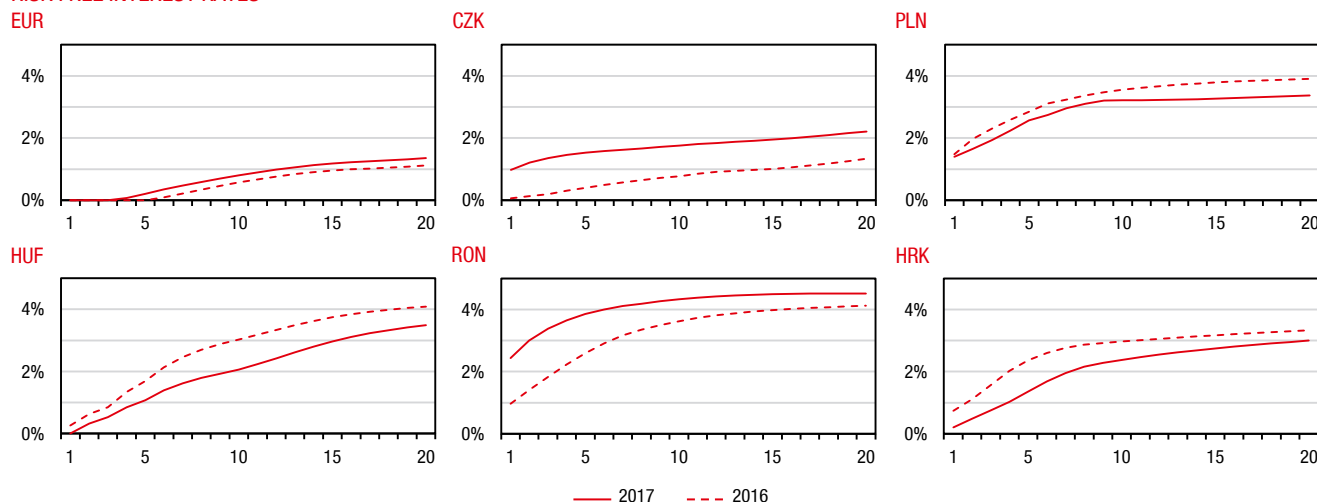
### Risk Free Interest Rates

VIG's reference rates as at 31 December 2017 and 31 December 2016 are the official Solvency II basic risk free rate curves as published by EIOPA. Only the Austrian companies apply the Solvency II volatility adjustment of 0.04% in 2017 and 0.13% in 2016 to the basic risk free curve.

	EUR		CZK		PLN	
	2017	2016	2017	2016	2017	2016
in %						
1 year	-0.36	-0.30	0.98	0.06	1.40	1.48
2 years	-0.25	-0.26	1.22	0.14	1.66	1.97
5 years	0.21	-0.02	1.53	0.41	2.57	2.84
10 years	0.80	0.57	1.76	0.77	3.21	3.55
20 years	1.36	1.12	2.21	1.33	3.37	3.90

	HUF		RON		HRK	
	2017	2016	2017	2016	2017	2016
in %						
1 year	0.01	0.26	2.43	0.97	0.20	0.74
2 years	0.32	0.63	3.00	1.40	0.48	1.11
5 years	1.08	1.69	3.86	2.59	1.36	2.37
10 years	2.06	3.03	4.33	3.62	2.38	2.97
20 years	3.49	4.09	4.52	4.12	3.00	3.33

### RISK FREE INTEREST RATES



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 II 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

Option/Swap Term	EUR					
	2017			2016		
	5 years	10 years	15 years	5 years	10 years	15 years
in %						
5 years	44.82	37.20	33.23	57.70	46.53	40.69
10 years	33.50	28.49	25.67	38.28	31.74	28.14
15 years	28.70	22.96	20.89	29.87	23.42	21.16

Option/Swap Term	CZK					
	2017			2016		
	5 years	10 years	15 years	5 years	10 years	15 years
in %						
5 years	33.45	30.82	26.43	69.84	61.50	49.79
10 years	29.12	25.95	22.23	52.91	43.60	35.27
15 years	25.48	21.72	18.69	39.11	31.02	25.65

Option/Swap Term	PLN					
	2017			2016		
	5 years	10 years	15 years	5 years	10 years	15 years
in %						
5 years	34.12	31.75	29.57	23.90	22.52	21.36
10 years	24.84	23.10	21.65	19.75	18.69	17.78
15 years	20.49	19.57	18.53	16.51	15.65	14.98

## Equity Volatilities

	EUR		CZK		PLN	
	2017	2016	2017	2016	2017	2016
in %						
1 year	17.35	21.95	12.53	14.98	9.56	19.70
5 years	16.44	20.84	12.82	15.46	9.83	19.53
10 years	16.13	20.38	13.10	16.22	10.82	19.72
15 years	16.84	20.96	13.34	16.83	11.56	19.95

## 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	
	2017	2016	2017	2016
	1 EUR $\triangleq$	1 EUR $\triangleq$	in %	in %
Austria			25.00	25.00
Germany			31.72	31.72
Czech Republic	25.54	27.02	19.00	19.00
Croatia	7.44	7.56	18.00	18.00
Slovakia			21.00	22.00
Poland	4.18	4.41	19.00	19.00
Hungary	310.33	309.83	9.00	9.00
Romania	4.66	4.54	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 2.00% p.a. for the calculations as at 31 December 2017 and 2016.

## 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 2017 and 2016.

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 corresponding operating segments.

# Analysis of Change

The following tables show the analysis of change in the Life and Health Embedded Value separately consolidated for Austria/Germany, for CEE, and for the life and health business in total.

Austria/Germany	Free Surplus	Required Capital	VIF	Life and Health Embedded Value	Return
<b>in EUR '000</b>					
<b>Value 2016</b>	<b>244,803</b>	<b>806,332</b>	<b>1,165,411</b>	<b>2,216,546</b>	
Capital and dividend flows	-50,807	0	0	-50,807	
Foreign exchange variance	0	0	0	0	
Acquired/divested businesses	0	0	0	0	
<b>Value 2016 adjusted</b>	<b>193,996</b>	<b>806,332</b>	<b>1,165,411</b>	<b>2,165,739</b>	
<b>Value of New Business</b>	<b>-40,852</b>	<b>-8,272</b>	<b>89,347</b>	<b>40,223</b>	
Roll forward	-89	0	28,300	28,210	
Transfers from VIF and required capital to free surplus	138,669	-67,881	-70,787	0	
Experience variance	280,773	-278,192	138,201	140,782	
Assumptions changes	-80,609	80,609	-55,323	-55,323	
Other operating variance	-24,466	30,588	114,206	120,328	
<b>Operating earnings</b>	<b>273,425</b>	<b>-243,148</b>	<b>243,944</b>	<b>274,220</b>	
Economic variance	304,321	-272,087	69,348	101,583	
Other non-operating variance	-1,607	0	0	-1,607	
<b>Total earnings</b>	<b>576,140</b>	<b>-515,235</b>	<b>313,292</b>	<b>374,197</b>	<b>17.28%</b>
<b>Value 2017</b>	<b>770,136</b>	<b>291,097</b>	<b>1,478,703</b>	<b>2,539,936</b>	

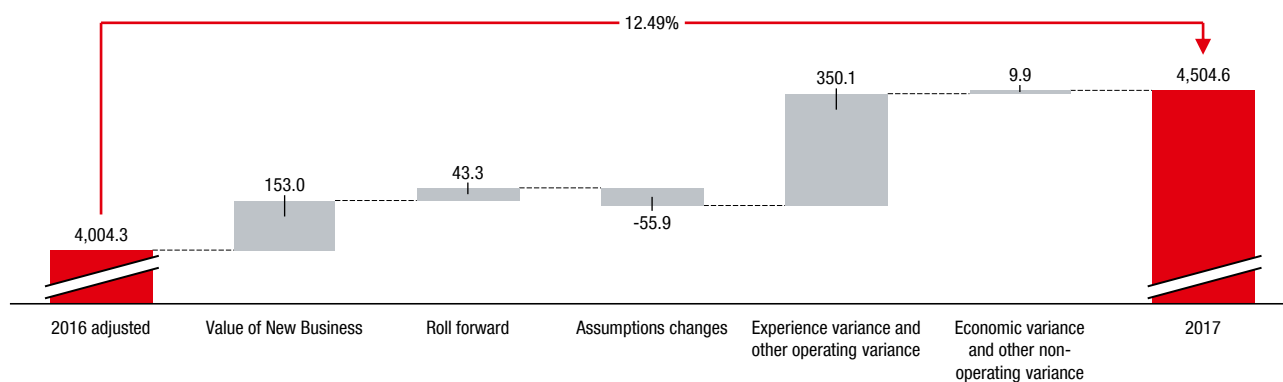
CEE	Free Surplus	Required Capital	VIF	Life and Health Embedded Value	Return
<b>in EUR '000</b>					
<b>Value 2016</b>	<b>744,800</b>	<b>27,207</b>	<b>1,069,792</b>	<b>1,841,799</b>	
Capital and dividend flows	-76,937	0	0	-76,937	
Foreign exchange variance	19,422	-183	49,647	68,886	
Acquired/divested businesses	4,571	39	164	4,774	
<b>Value 2016 adjusted</b>	<b>691,855</b>	<b>27,063</b>	<b>1,119,603</b>	<b>1,838,522</b>	
<b>Value of New Business</b>	<b>-66,491</b>	<b>9,457</b>	<b>169,776</b>	<b>112,742</b>	
Roll forward	2,362	0	12,701	15,062	
Transfers from VIF and required capital to free surplus	150,660	-13,101	-137,559	0	
Experience variance	53,438	-3,442	59,628	109,624	
Assumptions changes	1,120	-1,120	-593	-593	
Other operating variance	-245	176	-20,602	-20,671	
<b>Operating earnings</b>	<b>140,844</b>	<b>-8,030</b>	<b>83,351</b>	<b>216,165</b>	
Economic variance	-19,610	1,505	-45,292	-63,397	
Other non-operating variance	-12,219	-3,053	-11,367	-26,639	
<b>Total earnings</b>	<b>109,015</b>	<b>-9,578</b>	<b>26,692</b>	<b>126,129</b>	<b>6.86%</b>
<b>Value 2017</b>	<b>800,870</b>	<b>17,485</b>	<b>1,146,296</b>	<b>1,964,651</b>	

Total	Free Surplus	Required Capital	VIF	Life and Health Embedded Value	Return
<i>in EUR '000</i>					
Value 2016	989,603	833,539	2,235,203	4,058,345	
Capital and dividend flows	-127,744	0	0	-127,744	
Foreign exchange variance	19,422	-183	49,647	68,886	
Acquired/divested businesses	4,571	39	164	4,774	
Value 2016 adjusted	885,852	833,395	2,285,014	4,004,261	
Value of New Business	-107,343	1,184	259,124	152,965	
Roll forward	2,273	0	41,000	43,273	
Transfers from VIF and required capital to free surplus	289,329	-80,982	-208,347	0	
Experience variance	334,211	-281,634	197,829	250,406	
Assumptions changes	-79,488	79,488	-55,916	-55,916	
Other operating variance	-24,711	30,765	93,604	99,657	
Operating earnings	414,269	-251,178	327,295	490,385	
Economic variance	284,712	-270,583	24,056	38,186	
Other non-operating variance	-13,826	-3,053	-11,367	-28,245	
Total earnings	685,155	-524,814	339,984	500,325	12.49%
Value 2017	1,571,006	308,581	2,624,998	4,504,586	

The opening adjustments of TEUR -54,084 include:

- the dividends paid to shareholders from the consolidated L&H segments in 2017;
- the impact of exchange rate movements;
- transfers between regions and segments in 2017.

**Total L&H business**  
*in EUR million*



The VNB for Austria/Germany is TEUR 40,223. 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 TEUR 112,742.

The roll forward of TEUR 28,210 is the expected existing business contribution on the basis of the reference rates for Austria/Germany. This represents the unwinding at the reference rates of all the Life and Health Embedded Value

components with the exception of the free surplus which increases at the reference rates after tax. The corresponding result for CEE is TEUR 15,062.

The experience variance is TEUR 140,782 for Austria/Germany and TEUR 109,624 for CEE. These amounts include a number of positive and negative variances. The main impacts in Austria/Germany are a better than expected contribution of the health business and positive effects of prudent reserving in the life business.

The impact of the assumption changes is TEUR -55,323 for Austria/Germany and TEUR -593 for CEE. The main effect in Austria/Germany is due to less favourable expense and lapse assumptions.

The other operating variances are TEUR 120,328 in Austria/Germany and TEUR -20,671 in CEE.

The economic variance in Austria/Germany amounts to TEUR 101,583, which is mainly the impact of increased level of the reference rates. The economic variance in CEE was TEUR -63,397.

The 2017 the total Life and Health Embedded Value Return is 12.49% of the 2016 adjusted value.

# Sensitivity Analysis

The following tables show the sensitivities to various assumption changes of the Life and Health Embedded Value and the VNB as at 31 December 2017.

Life and Health Embedded Value		Austria/Germany	% change	CEE	% change	Total	% change
<b>in EUR '000</b>							
Base value		2,539,936		1,964,651		4,504,586	
Change in yield curve	+1%	285,281	11.23%	-70,254	-3.58%	215,027	4.77%
Change in yield curve	-1%	-563,677	-22.19%	61,473	3.13%	-502,204	-11.15%
Equity and property values	-10%	-140,897	-5.55%	-17,006	-0.87%	-157,903	-3.51%
Equity and property implied volatilities	+25%	-91,041	-3.58%	-1,214	-0.06%	-92,255	-2.05%
Swaption implied volatilities	+25%	-32,407	-1.28%	-1,056	-0.05%	-33,463	-0.74%
Maintenance expenses	-10%	87,208	3.43%	55,261	2.81%	142,469	3.16%
Lapse rates	-10%	-236	-0.01%	73,054	3.72%	72,818	1.62%
Mortality for assurances	-5%	13,426	0.53%	53,385	2.72%	66,811	1.48%
Mortality for annuities	-5%	-12,215	-0.48%	-372	-0.02%	-12,587	-0.28%
Removal of volatility adjustment		-36,802	-1.45%	0	0.00%	-36,802	-0.82%

Value of New Business		Austria/Germany	% change	CEE	% change	Total	% change
<b>in EUR '000</b>							
Base value		40,223		112,742		152,965	
Change in yield curve	+1%	4,175	10.38%	-2,476	-2.20%	1,699	1.11%
Change in yield curve	-1%	-14,349	-35.67%	4,650	4.12%	-9,699	-6.34%
Maintenance expenses	-10%	1,982	4.93%	7,036	6.24%	9,018	5.90%
Lapse rates	-10%	4,217	10.48%	13,514	11.99%	17,731	11.59%
Mortality for assurances	-5%	1,570	3.90%	8,739	7.75%	10,309	6.74%
Mortality for annuities	-5%	445	1.11%	666	0.59%	1,110	0.73%
Removal of volatility adjustment		-819	-2.04%	0	0.00%	-819	-0.54%

The sensitivities 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 usually not be the same as the sum of the individual sensitivities.

- **Change in Yield Curve**

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.

- **Decrease in the equity and property values at the valuation date**

This sensitivity is higher in Austria/Germany than in CEE, where it is not significant.

- **Increase to the equity and property volatilities**

This sensitivity is higher in Austria/Germany than in CEE, where it is not significant.

- **Increase to the swaption volatilities**

This sensitivity is higher in Austria/Germany than in CEE, where it is not significant.

- **Decrease in maintenance expenses**

This sensitivity is significant in both regions.

- **Decrease in lapse rates**

This sensitivity is more significant in CEE.

- **Decrease in mortality rates for assurances**

This sensitivity is more significant in CEE.

- **Decrease in mortality rates for annuities**

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.



# Maturity Profile

The following table shows the discounted profits expected to emerge from the in-force covered business as at 31 December 2017 over future years. The VIF is split into five maturity bands.

	VIF maturity profile	% of VIF
	in EUR '000	
1 to 5 years	898,010	34.21%
6 to 10 years	484,488	18.46%
11 to 15 years	289,748	11.04%
16 to 20 years	202,849	7.73%
more than 20 years	749,903	28.57%
<b>Total</b>	<b>2,624,998</b>	

The maturity profile indicates that 52.67% of the VIF emerges during the first 10 years.

# Appendix: Independent Review

VIENNA INSURANCE GROUP AG  
Wiener Versicherung Gruppe  
Schottenring 30  
1010 Vienna, Austria

Vienna, 4<sup>th</sup> April 2018

## **Report on the Review of Life and Health Embedded Value 2017**

### **Introduction**

We have reviewed the accompanying Supplementary Information on the Life & Health Embedded Value Results (the “Life and Health Embedded Value”) of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (“VIG”), Vienna for the period from 1st January 2017 to 31st December 2017.

The Life and Health Embedded Value comprises the Market Consistent Embedded Values (“MCEV”) of the majority of the life and health businesses as at 31st December 2017 together with the value of new business generated, the sensitivities and the analysis of movement in the MCEV during the year 2017.

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

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

### **Auditor’s responsibility**

Our responsibility is to express an opinion on this Life and Health 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 Life and Health 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 Life and Health 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 embedded value results and any such variations may be material. Deviations from assumed experience are normal and are to be expected. The Life and Health 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 Life and Health Embedded Value has not been prepared in all material respects in accordance with the MCEV Principles.

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



Michael Schlenk

## DISCLAIMER

This supplementary disclosure of the Life and Health Embedded Value 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

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