Annual Financial Statements **2016**

VIENNA INSURANCE GROUP

YOU CAN COUNT ON US

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Annual Financial Statements 2016

OF VIENNA INSURANCE GROUP AG

WIENER VERSICHERUNG GRUPPE

In accordance with the Austrian Commercial Code (UGB)

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NOTE:

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, we have not used phrasing such as "he/she", "his/her", etc. It should be understood that the text always refers to women and men equally without discrimination.

To improve readability, company names have been shortened in the text below. A list of full company names is provided on page 42.

Company profile

You can count on us

You can calculate many things precisely using numbers – however there are other values that cannot be measured in the classic sense, but still need to be taken into account. What good would insurance be without service, a customer orientation and reliability. Especially in times of dynamic change and transformational innovation, people need partners who can offer them security. In around 50 companies in 25 countries, we rely on local entrepreneurship and proximity to customers. Being regional is just as much a part of who we are as the many brands that make up Vienna Insurance Group (VIG). As an insurance group, we are a long-term partner on whom our customers can count. VIG is number 1 in Austria and Central and Eastern Europe (CEE). We stand for stability, a conservative investment approach and sustainability. We do not, however, close our eyes to the innovations brought by an increasingly digitised economy and society. Our commitment to our investors, customers and employees is that you can count on us!

Organisation

The foundation of our successful expansion into the CEE region was already created by the former company Wiener Städtische Versicherung AG in 1990. A Group holding company, VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, was formed in 2010 with its registered office in Vienna due to the strong expansion that Vienna Insurance Group had experienced in the previous two decades, since growth of the Group had significantly increased the amount of coordination that was needed. It had also become increasingly important to exchange information, learn from one another and develop a common understanding of terms and processes. The around 220 employees of the holding company work in important management areas, such as Group development & strategy, risk management, actuarial department, reinsurance, IT and planning and controlling. They work as partners with the Group companies and are in continuous contact to ensure that both the interests of the individual companies and those of the Group are safeguarded. The Group companies are responsible for their own business and results, and work together with VIG as partners. They are supervised by their supervisory boards, which also include members of the Managing Board of VIG Holding. VIG Holding's area of responsibility also includes cross-border corporate and international reinsurance business. In the area of reinsurance, VIG Holding manages and assists the Group companies with all matters concerned with reinsurance. Pooling different risks ensures an important balancing of risks at the Group level that in turn contributes to ensuring optimal external insurance protection for VIG as a whole. The primary objective is to create a safety net to provide continuous protection for all of the companies in the Group against the negative effects of individual large losses and negative changes in entire insurance portfolios. VIG Holding also bundles together and coordinates large customer business that extends outside the borders of Austria. This satisfies customer needs for their business to be handled by a broad-based international insurance provider that offers simple, centralised communications. Custom-tailored professional insurance solutions are particularly important for international corporate customers. For this reason, VIG Holding established a separate insurance platform, Vienna International Underwriters (VIU), especially for business customers. Its extensive network offers professional custom-tailored international customer support in this area by experts in Austria and the entire CEE region. Further development of this selective, profit-oriented underwriting approach involves more intensive risk management and increased risk diversification.

Shares

Vienna Insurance Group shares have been listed on the Vienna Stock Exchange since 1994 and the Prague Stock Exchange since 2008. VIG's majority shareholder is Wiener Städtische Versicherungsverein, which holds approximately 70% of VIG shares.

Standard & Poor's (S&P)

The international rating agency S&P reconfirmed its A+ rating with stable outlook in July 2016. VIG therefore continues to have the best rating of all listed companies in the ATX index. The experts at S&P assess the Group's business risk profile as "strong" and its financial risk profile as "excellent". With regard to the business risk profile, the rating report primarily mentions the Group's solid diversification across lines of business, well-established multi-channel distribution and its strong competitive position in Austria and the CEE region. The financial risk profile is based on an S&P capital model that provides an even better rating when taken on its own.

Management report 2016

VIG HOLDING BUSINESS DEVELOPMENT

Premiums written, net earned premiums, expenses for claims and insurance benefits, administrative expenses and reinsurance balance had the following breakdown for property and casualty insurance in 2016 (and in the same period in 2015):

			2016			2015
	Direct business	Indirect business	Total	Direct business	Indirect business	Total
in EUR '000						
Premiums written	79,116	888,284	967,400	86,144	829,101	915,245
Earned premiums	81,058	875,453	956,511	83,486	823,486	906,972
Expenses for claims and insurance benefits	67,384	591,254	658,638	61,864	549,692	611,556
Administrative expenses	10,297	266,421	276,718	9,923	247,572	257,495
Reinsurance balance	256	-3,755	-3,499	-9,261	-3,070	-12,331

The reinsurance balance is composed of net earned reinsurance premiums, effective reinsurance claims and reinsurance commissions.

FINANCIAL PERFORMANCE INDICATORS

Premium income

VIG Holding generated a total premium volume of EUR 967.40 million in 2016. This stable performance compared to the previous year (+5.7%) was primarily due to good growth in reinsurance premiums. Direct premiums written (corporate business) decreased 8.2% year-on-year to EUR 79.12 million. Premium income from indirect business (assumed reinsurance) was EUR 888.28 million, 7.1% higher than the previous year. VIG Holding retained EUR 931.04 million (2015: EUR 867.96 million) of the premiums written. EUR 36.37 million was ceded to reinsurers in 2016 (2015: EUR 47.28 million). Gross earned premiums were EUR 956.51 million (2015: EUR 906.97 million). Net earned premiums increased EUR 58.69 million to EUR 918.89 million.

Expenses for claims and insurance benefits

Gross expenses for claims and insurance benefits were EUR 658.64 million in 2016. EUR 67.38 million of this amount was attributable to corporate business (2015: EUR 61.86 million), EUR 5.52 million more than the previous year. As a result, the gross claims ratio for direct business rose from 72.8% to 81.8%, mainly due to fire insurance and other property and casualty insurance. Expenses for claims and insurance benefits for assumed reinsurance rose 7.6% to EUR 591.25 million. The gross claims ratio for indirect business was 67.5% (2015: 66.8%). After deducting reinsurance of EUR 30.66 million (2015: EUR 30.68 million), expenses for claims and insurance benefits was EUR 627.98 million (2015: EUR 580.88 million).

Administrative expenses

Administrative expenses were EUR 276.72 million in 2016, or 7.5% higher than the previous year (2015: EUR 257.50 million). This change was due to an increase in commissions for indirect business. EUR 10.30 million of the administrative expenses were for the corporate business and EUR 266.42 million for the reinsurance business. After reinsurance commissions for ceded reinsurance business, EUR 273.26 million in administrative expenses remained for VIG Holding, an increase of EUR 19.52 million compared to the previous year.

Combined Ratio

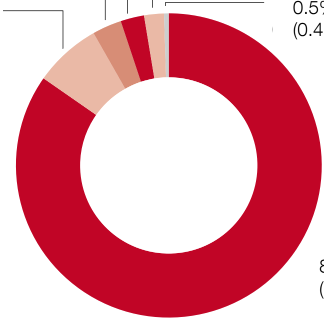
VIG Holding's combined ratio was 98.1% in 2016 (2015: 97.0%), and 94.8% for direct business (corporate business). This ratio is calculated as the sum of all underwriting expenses and income, and net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums in the property/casualty segment.

Financial result

VIG Holding had a financial result of EUR 45.18 million (2015: EUR 10.99 million). The increase in the financial result in 2016 was primarily due to the fact that there was little impairment of participations, and loan write-downs were not needed at all. Impairment of shares in affiliated companies was EUR 140.50 million (2015: EUR 170.80 million).

	2016	2015
in EUR '000		
Land and buildings	9,717	8,981
Investments in affiliated companies and participations	164,475	186,225
Other investments	32,797	-42,636
Total income (net)	**206,989**	**152,570**
Other investment and interest income	15,978	19,439
Expenses for asset management	-70,456	-61,031
Interest expenses	-98,942	-94,455
Other investment expenses	-8,385	-5,530
Investment profit according to income statement	**45,184**	**10,993**

BREAKDOWN OF INVESTMENTS



Result from ordinary activities

VIG Holding earned a result from ordinary activities of EUR 86.70 million in 2016 (2015: EUR 1.78 million). The increase was due to a higher financial result.

Solvency ratio

The solvency ratio of 389.9% is extremely high due to an outstanding endowment of capital resources combined with a low capital requirement, and also includes the holding company's function in the Group.

Investments

Investments, including liquid assets, were EUR 4,998.43 million as of 31 December 2016 (2015: EUR 4,885.13 million). Deposits on assumed reinsurance were EUR 1,026.73 million in 2016 (2015: EUR 987.26 million). 81.0% (2015: 81.4%) of the investments at the end of 2016 were participations, 9.0% (2015: 9.1%) were bonds (including bond funds), 2.6% (2015: 2.8%) were loans, 2.3% (2015: 2.4%) were land and buildings, 4.6% (2015: 3.9%) were bank balances and cash on hand, and 0.5% (2015: 0.4%) were equities.

After signing an agreement to acquire 100% of the shares of the Bulgarian bank insurance company UBB-AIG and receiving official approval at the beginning of January 2016, the transaction was concluded. The name of the company was changed to Insurance Company Nova Ins EAD, Sofia (Nova). VIG has acquired a majority interest in BTA Baltic Insurance Company AAS (BTA Baltic), which has its registered office in Latvia and branches in Lithuania and Estonia. The transaction was concluded on 24 August 2016 after final official approval was received for the sales agreement that was signed in December 2015. In July 2016, VIG signed a share purchase agreement To purchase shares of the Serbian non-life insurance company AXA Nezivotno Osiguranje a.d.o. Beograd (Axa Non-Life) and life insurance company AXA Zivotno Osiguranje a.d.o. Beograd (Axa Life). The acquisition was concluded on 30 November 2016 following receipt of official approvals.

Underwriting provisions
Underwriting provisions were EUR 1,085.15 million as of 31 December 2016. This corresponds to a year-on-year increase of 6.2% (2015: EUR 1,021.78 million), which was primarily due to provisions for outstanding claims arising from assumed reinsurance business. The reinsurers' share was EUR 74.87 million (2015: EUR 70.10 million).

NON-FINANCIAL PERFORMANCE INDICATORS

As a successful insurance company, VIG feels it has a responsibility to help bring about a future worth living. Satisfying economic goals while not neglecting social and employee concerns is an important responsibility for the Company. A few examples of the Company's own initiatives are presented below.

Social involvement – Example: Social Active Day
Employees send a powerful message for more solidarity on Social Active Day. Under this initiative, employees who want to become involved with a good cause or social organisation are allowed to spend one working day of their time on such activities. This initiative was brought to life in 2011 by VIG's principal shareholder, Wiener Städtische Versicherungsverein, and quickly became a success. The Group supports a wide range of projects and social organisations. Homeless shelters and initiatives, nursing homes, children's aid programmes, environmental protection programmes, refugee facilities and many more received active support. Group employees also gain new experience while doing good. VIG Holding employees also take part in this Group-wide initiative. 164 of them participated in 2016.

Cultural involvement –
Example: Gustav Mahler Youth Orchestra
As a place of learning for talented European orchestra musicians, Gustav Mahler Youth Orchestra helps young Austrian musicians play music with their colleagues from all over Europe, traditionally including many participants from the CEE region. It offers highly talented musicians up to the age of 26 the opportunity to work together with the great conductors and soloists of our time. This allows prospective professional musicians to gain experience that is critical for their musical development and future careers. VIG Holding feels that arts and culture make an important contribution to a society's quality of life and has therefore provided support to the Gustav Mahler Youth Orchestra for many years.

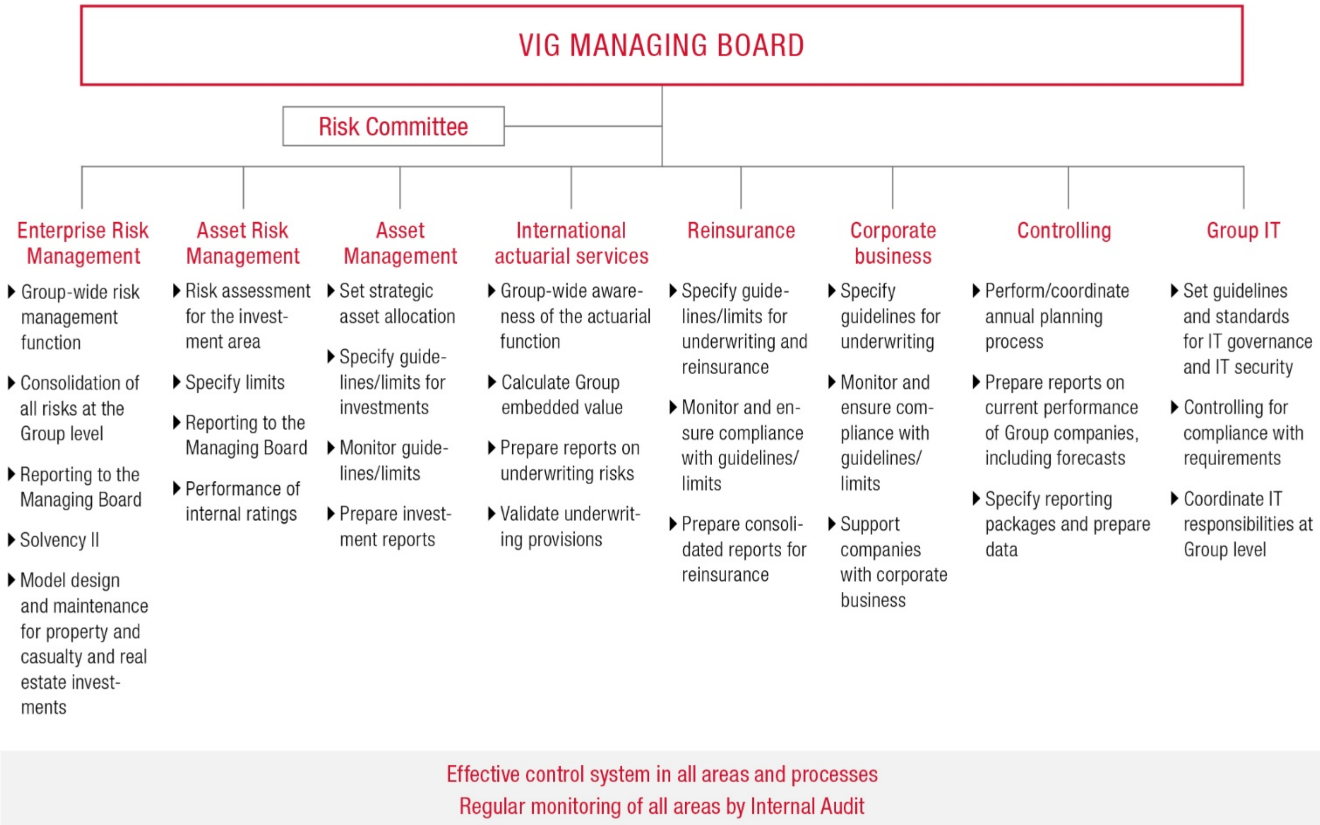
Employees
VIG Holding offers attractive prospects and development opportunities for its employees. It offers a broad range of training and advanced training courses, the opportunity to gather international experience by participating in mobility programs, and an attractive working environment. Expert careers offer employees another development opportunity. Experts were identified as a strategic target group while the VIG competence model was being developed, due to their particular importance to VIG for implementing strategy and achieving success. To give this target group greater visibility and appreciation, and create clear development prospects, an expert career profile was developed. Flexible working hours, a company cafeteria, company kindergarten and internal company healthcare services, such as physical treatments and other medical services, increase the attractiveness of the work environment. VIG Holding's presence at career events, Internet career webpages and its candidate management service once again received a top rating from Career's Best Recruiters. VIG Holding had an average of 228.5 employees in 2016, of which approximately 11% were part-time. Approximately 58% of the employees were women. Women held around 32% of the management positions directly below the Managing Board in 2016.

Research and development
VIG Holding and some subsidiaries make technical contributions to the further development of models in insurance-specific software.

Other information
VIG Holding has no branch offices. Please see the notes to the financial statements (I. Summary of significant accounting policies) for information on the financial instruments used.

RISK REPORT

In general, all Group companies are responsible for managing their own risks. The VIG Holding corporate risk management department provides framework guidelines in all major areas for these companies. The requirements set in the investments and reinsurance areas are particularly strict and are also applied in VIG Holding as a separate company. The Enterprise Risk Management (ERM) department is responsible for Group-wide risk management. ERM assists the Managing Board with improvements to the risk organisation and corporate risk management topics. ERM also creates a framework for Group-wide risk management that uses key principles and concepts, uniform terminology and clear instructions and support. The international actuarial department, corporate reinsurance department, corporate business, asset risk management, asset management, group controlling, internal audit and group IT departments are also involved in the ongoing process of risk monitoring and management.



VIG Holding's overall risk can be divided into the following risk categories:

Market risk: Market risk is the risk of losses due to changes in market prices. Changes in value occur, for example, due to changes in yield curves, share prices, exchange rates and the value of real estate and participations.

Credit risk: Credit risk quantifies the potential loss due to a deterioration of the situation of a counterparty, against which claims exist.

Liquidity risk: This category includes risks of Vienna Insurance Group not having sufficient assets that can be liquidated at short notice to satisfy its payment obligations.

Underwriting risks: Vienna Insurance Group's core business consists of the transfer of risk from policyholders to the insurance company. Underwriting risks in the areas of reinsurance and non-life insurance are primarily the result of changes in insurance-specific parameters, such as loss frequency, loss amount, lapse rates and lapse costs.

Reputation risks: Reputation risk is the risk of negative changes in business due to damage to a company's reputation.

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

Strategic risks: Strategic risks can arise due to changes in the economic environment, case law, or the regulatory environment. Established risk management processes are used to regularly identify, analyse, evaluate, report, control and monitor all the risks to which VIG is exposed. The risk control measures used are avoidance, reduction, diversification, transfer and acceptance of risks and opportunities. VIG Holding is primarily exposed to market risk due to its activities as an insurance holding company. A conservative investment policy is used to limit other market risk due to investments. Market risk is monitored using fair value measurement, value-at-risk (VaR) calculations, sensitivity analysis and stress tests. Market risk is by far VIG Holding's most important risk exposure, in particular the equity and currency risk resulting from its primary activity, holding participations in insurance companies.

VIG Holding is also exposed to underwriting risks as a result of its international corporate business and reinsurance business. Appropriate underwriting provisions are determined using recognised actuarial methods and assumptions and managed by means of guidelines concerning the assumption of insurance risks. VIG Holding also limits the potential liability from its insurance business/ active reinsurance business by ceding part of the risk it has assumed to the external reinsurance market through the Group reinsurance company VIG Re. With respect to credit risk, consideration is only given to those issuers or contracting parties whose credit quality or reliability can be assessed by VIG Holding, whether on the basis of an in-house analysis, credit assessments/ratings from recognised sources, provision of security or the possibility of recourse to reliable mechanisms for safeguarding investments.

Operational and strategic risks which might be caused by deficiencies or errors in business processes, controls and projects, or changes in the business environment, are also continuously monitored. Limits are used to keep concentrations within the desired margin of safety.

Investments

VIG Holding's investments consist primarily of participations and deposits. Additional investments are mainly made in fixed-interest securities (bonds, loans) and real estate, and only to a small extent in shares and other investments. VIG Holding aligns its investments to its liability profile and aims to achieve sustainable increases in value in accordance with Group investment guidelines, which are based on a long-term conservative investment policy.

Use of forward exchange transactions

VIG Holding uses forward exchange transactions and currency swaps to hedge expected dividend payments in the most important currencies, CZK and PLN, and planned distributions of Company earnings in the same currencies for the current financial year. The expected and planned amounts are checked regularly and used to make any needed adjustments to the hedge amounts.

Solvency II

The changes to the European insurance supervisory system, referred to as Solvency II, that are to be implemented by all member states of the EU present great challenges for insurance companies. Temporary uncertainty about the final details of Solvency II made it important for companies to provide a high deal of flexibility in their implementation plans. After years of preparation, Solvency II came into force fully at the beginning of 2016. At the same time, the new Austrian Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG) also came into effect.

VIG was well prepared to fulfil the extensive requirements placed on the Company by Solvency II starting in 2016 and the VAG amendment since the middle of 2014. The Group-wide project "Solvency II" was successfully completed after nearly 7 years. In the course of this project, which was managed centrally from Austria, legal developments were followed closely and necessary measures taken promptly so that all of the individual companies and the Group were adequately prepared for the introduction of Solvency II.

Standardised guidelines, calculation and reporting solutions, and advanced risk management processes were developed and implemented with the assistance of experts from the Group companies. The intensive work on the development and implementation of a partial internal model continued at both the Group and individual company levels as part of the Solvency II project.

The calculation procedures have been established in the individual companies and the required expertise is available there to allow consistent management parameters to be determined both at the Group and individual company levels. The parameters calculated by the model are used in corporate management. At the end of 2015, the supervisory authority responsible for the Group, the Austrian Financial Markets Supervisory Authority (Finanzmarktaufsicht – FMA) approved the partial internal model for use both at Group level and at individual company level in the most important core markets. With respect to qualitative risk management requirements, Vienna Insurance Group has established a uniform governance system appropriate for Solvency II that includes all necessary key functions and clearly defines responsibilities and processes. Uniform Group-wide standards and methods for risk inventories and ORSA were also developed and successfully implemented at the local and Group levels, thereby ensuring timely ORSA reporting to the supervisory authority at the end of 2016. A Group-wide unified internal control system helps to ensure compliance with the guidelines and requirements resulting from the risk management system. The focus in 2016 was on the first official solvency calculation, regulatory reporting and gradual automation of these processes. Ensuring adequate data quality and speeding up the reporting process were of key importance. Vienna Insurance Group fully satisfied all of its reporting requirements in timely fashion in 2016. Other focal areas included further development of the VIG internal model, and technical and organisational preparations for reporting in 2017, when a great deal of additional qualitative and qualitative information must be reported for the first time under Solvency II. VIG is monitoring and analysing developments in connection with Solvency II, in particular potential changes to the extrapolation of the riskless yield curve, which affects the size of underwriting provisions and, in turn, Vienna Insurance Group capital.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ACCOUNTING PROCESS

General structure and organisation

The internal control and risk management system (ICS) plays an important role in VIG and is firmly anchored in the organisational structural and process organisation of the Company. Responsibilities are clearly defined in the ICS by ICS Group guidelines and extend from the overall responsibility of the Managing Board to establish an effective control system and appropriate risk management, to the responsibility of middle management to ensure adequate risk control infrastructure in the various areas, all the way to the individual employees, who are expected to perform their work responsibly and pro-actively report and/or remedy potential risks, deficiencies and sources of errors.The ICS itself is comprised of all measures and control activities used to minimise risks – particularly for the areas of accounting and compliance, but also for other operational risks. It extends all the way from specially established processes, organisational units such as accounting and controlling, all the way to guidelines, regulations and individual controls within processes, such as automated audits or use of the “four-eyes” principle.

Important control elements in the accounting process

The documentation for the annual financial statement preparation process includes the important elements of the internal control and risk management system that are present in the accounting process. The controls documented there are used during the process to ensure that potential errors whose occurrence cannot be completely ruled out in spite of the many additional functional and technical controls in existing IT systems (e.g. SAP) are identified and corrected at an early stage in the reporting.

This allows the following objectives of the annual financial statement process to be achieved:

- Completeness: all transactions during the reporting period are recorded in full.
- Existence: all reported assets and liabilities exist on the balance sheet date.
- Accuracy: all transactions recorded in the financial statements apply to the same period as the financial statements.
- Measurement: all asset, liability, income and expense items were recognized at fair value in accordance with accounting requirements.
- Ownership: proper presentation of rights and obligations.
- Presentation: all financial statement items are correctly presented and disclosed.

The financial statement process includes the aggregation of all data from accounting and upstream processes for the annual financial statements. The financial statements are submitted to the appropriate area head for review and further consultation with the Managing Board. The Managing Board provides final approval of the financial statements. The auditor takes the internal control system into account during the financial statement audit to the extent that it is relevant to preparation of the annual financial statements.

Effectiveness and controls

To ensure the effectiveness of the internal control system, VIG established an annual evaluation and documentation process for the ICS with the professional assistance of external auditors. This process identifies, analyses, assesses, documents and reports risks and controls existing for VIG Holding to the Managing Board, particularly those in the areas of accounting and compliance. Optimization measures are introduced into the control environment based on the findings and their implementation is also monitored and reported by the responsible units. The results of this process are also used later by the internal audit department as a basis for its subsequent audit of the accounting process and the control environment established there. In the first half of 2014 this ICS process was used to completely revise the documentation of risks and controls and confirm, among other things, that all significant in the accounting process are covered by effective controls in VIG Holding, so that the financial reporting risk (i.e. the remaining risk of incorrect reporting) can be categorized as low. In following years, the documentation was kept up-to-date and the risk inventory was reviewed each year.

DISCLOSURES IN ACCORDANCE WITH § 267(3A) IN COMBINATION WITH § 243A UGB

1. The Company has share capital of EUR 132,887,468.20. It is divided into 128,000,000 no-par value bearer shares with voting rights, each share representing an equal portion of share capital.

2. The Managing Board is not aware of any restrictions on voting rights or the transfer of shares.

3. Wiener Städtische Versicherungsverein holds (directly or indirectly) approximately 70% of the share capital.

4. No shares have special rights of control. See point 6 for information on the rights of the shareholder Wiener Städtische Versicherungsverein.

5. Employees who hold shares exercise their voting rights without a proxy during general meetings.

6. The Managing Board must have at least three and no more than seven members. The Supervisory Board has between three and ten members (shareholder representatives). The shareholder Wiener Städtische Versicherungsverein has the right to appoint up to one third of the members of the Supervisory Board if, and so long as, it holds 50% or less of the Company's voting shares. General meeting resolutions are adopted by a simple majority, unless a different majority is required by law or the articles of association.

7. a) The Managing Board is authorised to increase the Company's share capital by a nominal amount of EUR 66,443,734.10 by issuing 64,000,000 no-par value bearer or registered shares in one or more tranches on or before 2 May 2018 against cash or in-kind contributions. The terms of the shares, the exclusion of shareholder pre-emption rights, and other terms and conditions of the share issue are decided by the Managing Board, subject to Supervisory Board approval. Preferred shares without voting rights may also be issued, with rights equivalent to those of existing preferred shares. The issue prices of common and preferred shares may differ.

b) The general meeting of 3 May 2013 authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer convertible bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 2 May 2018, with or without exclusion of shareholder pre-emptive rights, and to grant the holders of convertible bonds conversion rights for up to 30,000,000 no-par value bearer shares with voting rights in accordance with the convertible bond terms set by the Managing Board.

c) The share capital has consequently been raised in accordance with § 159(2) no. 1 of the Austrian Stock Corporation Act (AktG) by a contingent capital increase of up to EUR 31,145,500.36, through the issue of up to 30,000,000 no-par value bearer shares with voting rights. The contingent capital increase will only be implemented to the extent that holders of convertible bonds issued on the basis of the general meeting resolution of 3 May 2013 exercise the subscription or exchange rights they were granted. The Managing Board has not adopted any resolutions to date concerning the issuance of convertible bonds based on the authorisation granted on 3 May 2013.

d) The general meeting of 3 May 2013 further authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer income bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 2 May 2018, with or without exclusion of shareholder pre-emptive rights. The Managing Board has not adopted any resolutions to date regarding the issuance of income bonds based on this authorisation.

As of 31 December 2016, no authorisation of the Managing Board under § 65 of the AktG (acquisition of own shares) was in effect, and the Company held none of its own shares as of 31 December 2016.

8. As of 31 December 2016, the Company was not party to any material agreements that would come into effect, change or terminate if control of the Company were to change due to a takeover bid, in particular, no agreements that would affect participations held in insurance companies.

Existing agreements that would come into effect if control of the Company were to change due to a takeover bid relate to participations held in other (non-insurance) companies.

9. No compensation agreements exist between the Company and its Managing Board members, Supervisory Board members or employees covering the case of a public takeover bid.

OUTLOOK

Austria

Since close to 70% of exports go to the EU, a slowdown in European growth will also have an adverse effect on the Austrian economy in the future. Although the rate of growth decreased in the EU in the year under review, Austria recorded an increase of 0.5 percentage points over the same period (total growth of +1.5% in 2016). The Austrian Institute of Economic Research (WIFO) is predicting that growth will remain constant over the next two years at +1.5% (2017) and +1.4% (2018).

Strong growth in domestic demand is the most significant positive factor for the coming year. This is offset, however, by a propensity to consume that is expected to decline due to rising inflation and high unemployment. Labour market pressure and further increases in unemployment are primarily due to the continued increase in workers and too little demand. The unemployment rate is expected to increase further from 9.1% to 9.3% in 2017.

Another factor is the price of oil, which is forecast to continue its slow recovery in future years, thereby decreasing the relief enjoyed by households and the transport industry in the form of lower expenses. Insufficient export demand is, however, putting pressure on domestic production. WIFO considers the government budget for 2017 as neutral for the economy, particularly since expansive tax measures are offset by a reduction in government expenditure. The effects of the tax reductions will continue to be felt in the first half of 2017, but new stimulus will be needed over the medium term. The increase in EU subsidies to Central and Eastern European countries could also have a positive effect on the Austrian economy, particularly since they support infrastructure projects with Austrian involvement and restrict the movement of workers. Since Austria's trade relations with the United Kingdom only represent around 3% of Austrian goods exports, Brexit will have a limited effect on Austria's economy. The potential indirect risk to Austria from a weakening of the German economy due to Brexit is significantly more important in the medium term.

Given a budget deficit of 1.5% in the current year and 1.1% in 2018, the Austrian national debt will remain at a high level and only slowly recover. Debt ratios of 83.7% of GDP (2017) and 82.3% (2018) are high by international comparison, but the problem is significantly reduced at the moment by relatively favourable funding terms. However, if the ECB continues to systematically purchase government bonds as expected in 2018, interest rates throughout Europe would be affected and a general increase of around a half a percentage point could be expected.

Although the reform of the Austrian banking sector is likely still incomplete, a number of concrete steps taken in the year just ended, such as the HETA resolution, have reduced the uncertainty for coming years. The Austrian Association of Insurance Companies (VVO) is predicting that Austrian premium volume will record another small increase of 0.3% to reach EUR 17.1 billion in 2017. An increase of 1.7% is forecast in the property and casualty area, while personal insurance is expected to decline by 0.9%. When single premium business is excluded, premiums are expected to increase by 1.4% in 2017.

CEE region

The macroeconomic forecasts by the WIIW for the next two years assume that the CEE region will continue to grow based on the global recovery. In the majority of countries, real GDP will even grow considerably faster than in the recent past. The large economic engines, for example, like Poland (2017: +3.5%) and the Czech Republic (2017: +2.4%), show rising rates of growth. Although recently limited by stagnation of the large Western European economies, their growth is now picking up and having a positive effect on the entire region of Central and Eastern Europe.

The only three countries where economic growth will be slower in 2017 than the previous year are Romania (2017: +3.5%), Turkey (2017: +3.0%) and Slovakia (2017: +3.1%), where gross domestic product was already at a high level in 2016, namely +4.7%, +3.3% and +3.2%, respectively.

In the smaller countries, there is a tendency for countries such as Bosnia (2017: +3.3%), Bulgaria (+3.0%), Croatia (+2.7%) and the Baltic States (average around +2.5%) to grow at a slower, but constant rate. After two somewhat challenging years, Hungary's economy (2017: +2.6%) is also likely to see a turnaround, with growth 0.6 percentage points higher than in the recent past. This is partly due to the fact that the start-up phase for the new structural and regional fund development programmes is over, and Hungary traditionally receives more benefit from these programmes than the European average. It remains difficult to reliably estimate the macroeconomic effects of the wave of migration on the countries of Central and Eastern Europe. Studies show that government spending to manage the flow of migration generally provides a short-term economic stimulus, but that scarcely any labour market in Europe currently has the capacity to absorb the flow in order to keep unemployment low. In addition to the potential interest rate turnaround by central banks, the possibility of the new US administration implementing a strict protectionist trade policy is another factor that could potentially have a significant effect on the global economy.

Outlook of the Group

With around 24,000 employees, Vienna Insurance Group is the clear market leader in its Austrian and CEE markets. It is therefore excellently positioned to take advantage of the long-term growth opportunities in a region with 180 million potential customers. In order to further exploit this potential, VIG will rely on its proven business strategy and four management principles. It will continue to follow its Group-wide principles of maintaining a diversified, decentralised market presence in Austria and Central and Eastern Europe, and focusing on the insurance business as its core competence. The Group aims to further increase its market share using its proven multi-brand strategy and multiple distribution channels developed to best suit the region. These gains will be achieved through organic growth by expanding existing business and through acquisitions that are economically attractive for VIG or can strategically supplement its existing portfolio. Vienna Insurance Group wants to increase its market share to a minimum of 10% in Poland, Hungary, Croatia, and Serbia over the medium term. VIG already achieved this goal of a 10% market share in Serbia in 2016 due to its acquisition of the AXA insurance companies. Market share was also further increased in Croatia and Hungary. Cost-efficiency will remain a priority in spite of this goal. Consolidation and pooling of processes and services is being examined to determine whether the potential synergies would outweigh the benefits of a diversified market presence in the long term. VIG has set itself a goal of continuously optimising profitability. The Group aims to generate healthy, properly considered growth and, based on this principle, will continue in the future to follow a growth policy focusing on earnings. We plan to steadily increase our Group premium volume to EUR 9.5 billion by 2019 and expect our profit before taxes to also grow steadily to EUR 450 to 470 million.

The Group will focus more strongly on its underwriting result in future years and endeavour to make improvements in both the claims and expenses areas that will improve the combined ratio in the direction of 95% over the medium term. Life insurance with biometric components and regular premiums will also be further promoted. These measures are aimed at compensating for the decrease in the ordinary financial result due to the current low interest rate environment. VIG will also continue to pursue its strategic initiatives for optimising its business model, ensuring future viability and organisation and cooperation. For example, VIG will focus on exploiting insurance potential in the health insurance segment and optimising the profitability of motor insurance. A new focus will also be placed on digitisation of products and services.

VIG would also like to further expand its bank insurance business in the future, as bank distribution has become more important in many markets in previous years. VIG recognised this trend early on and now benefits from a partnership with Erste Group, a leading banking group in Austria and the CEE region. Personal insurance typically dominates the range of insurance products sold through banks. VIG also sees a great deal of potential in sales of health and property and casualty insurance. A project group was formed with our bank insurance partner Erste Group for this purpose. The aim of the project is to optimise products, distribution and profits for the banks and insurance companies in all countries where Erste Group and VIG cooperate. The focus is on customer needs and requirements, easily understandable products and integration into the bank's digitisation initiative. This also includes organisational and structural considerations on the insurance side that will improve communications and service for customers and banking partners.

Outlook for VIG Holding

VIG Holding has set itself a goal of increasing its premium volume from international reinsurance and cross-border corporate business. In addition, as part of its management responsibilities the holding company will continue to focus on coordinating and initiating measures aimed in particular at optimisation in the areas of process organisation and earning power. It also aims to satisfy the conditions needed to be viewed as a more attractive and outstanding employer with an international background. VIG Holding wants to challenge and develop its employees as best possible, strengthen their long-term loyalty and be the employer of first choice for experts and young talented employees.

Vienna, 19 April 2017

The Managing Board:

Elisabeth Stadler
General Manager,
Chair of the Managing Board

Franz Fuchs
Member of the Managing Board

Roland Gröll
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

Separate financial statements

BALANCE SHEET AS OF 31 DECEMBER 2016

Assets	31.12.2016	31.12.2015
	in EUR '000	in EUR '000
A. Intangible assets	**25,757,037.15**	**26,564**
Other intangible assets	25,757,037.15	26,564
B. Investments	**5,797,396,048.60**	**5,684,399**
I. Land and buildings	115,297,076.43	117,179
II. Investments in affiliated companies and participations	4,322,603,813.23	4,255,832
1. Shares in affiliated companies	4,049,016,249.61	3,977,188
2. Bonds and other securities of affiliated companies and loans to affiliated companies	273,346,000.00	278,402
3. Participations	241,563.62	242
III. Other investments	332,762,431.77	324,130
1. Shares and other non-fixed-interest securities	241,899,498.67	233,913
2. Bonds and other fixed-interest securities	80,564,544.00	80,638
3. Mortgage receivables	170,000.00	306
4. Other loans	10,128,389.10	9,273
IV. Deposits on assumed reinsurance business	1,026,732,727.17	987,258
C. Receivables	**210,763,082.98**	**279,518**
I. Receivables from direct insurance business	19,244,079.86	14,067
1. from policyholders	250,178.85	1,269
2. from insurance intermediaries	41,270.64	39
3. from insurance companies	18,952,630.37	12,759
II. Receivables from reinsurance business	22,299,362.23	21,145
III. Other receivables	169,219,640.89	244,306
D. Pro rata interest	**2,439,090.03**	**2,475**
E. Other assets	**539,469,418.07**	**499,823**
I. Tangible assets (not incl. land and buildings)	1,176,876.00	1,310
II. Current bank balances and cash on hand	227,773,709.20	187,992
III. Other assets	310,518,832.87	310,521
F. Deferred income	**1,225,091.89**	**2,413**
G. Deferred tax assets	**3,379,688.70**	**3,196**
Total Assets	**6,580,429,457.42**	**6,498,388**

BALANCE SHEET AS OF 31 DECEMBER 2016

Liabilities and shareholders' equity	31.12.2016	31.12.2015
	in EUR '000	in EUR '000
A. Shareholders' equity	**3,203,467,557.37**	**3,178,274**
I. Share capital		
1. Par value	132,887,468.20	132,887
II. Capital reserves		
1. Committed reserves	2,267,232,422.07	2,267,232
III. Retained earnings		
1. Free reserves	629,715,354.17	629,716
IV. Risk reserve as per § 73a VAG, taxed portion	34,026,327.00	28,513
V. Net retained profits	139,605,985.93	119,926
of which brought forward	43,126,396.56	101,342
B. Subordinated liabilities	**1,656,634,500.00**	**1,656,635**
I. Hybrid bond	500,000,000.00	500,000
II. Supplementary capital bond	1,156,634,500.00	1,156,635
C. Underwriting provisions – retention	**1,085,146,921.03**	**1,021,784**
I. Unearned premiums	73,973,352.42	76,616
1. Gross	75,965,799.84	79,905
2. Reinsurers' share	-1,992,447.42	-3,289
II. Provision for outstanding claims	1,002,071,176.61	942,333
1. Gross	1,074,950,533.01	1,009,139
2. Reinsurers' share	-72,879,356.40	-66,806
III. Equalisation provision	8,293,542.00	2,307
IV. Other underwriting provisions	808,850.00	528
1. Gross	808,850.00	528
D. Non-underwriting provisions	**91,717,437.16**	**88,238**
I. Provision for severance pay	1,029,294.00	1,637
II. Provision for pensions	30,950,575.00	24,397
III. Tax provisions	1,996,071.43	1,376
IV. Other provisions	57,741,496.73	60,828
E. Other liabilities	**538,211,570.62**	**552,095**
I. Liabilities from direct insurance business	35,803,548.19	34,289
1. to policyholders	22,386,881.98	15,743
2. to insurance intermediaries	661,341.83	797
3. to insurance companies	12,755,324.38	17,749
II. Liabilities from reinsurance business	14,131,828.37	19,859
III. Liabilities to financial institutions	6,507,388.63	40,289
IV. Other liabilities	481,768,805.43	457,658
F. Deferred income	**5,251,471.24**	**1,362**
Total Liabilities and shareholders' equity	**6,580,429,457.42**	**6,498,388**

INCOME STATEMENT FOR THE FINANCIAL YEAR FROMA 1 JANUARY 2016 TO 31 DECEMBER 2016

Underwriting account:	2016	2015
	in EUR '000	in EUR '000
1. Net earned premiums	**918,893,555.12**	**860,202**
Premiums written	931,035,120.74	867,964
Gross	967,400,334.43	915,245
Ceded reinsurance premiums	-36,365,213.69	-47,281
Change in unearned premiums	-12,141,565.62	-7,762
Gross	-10,889,540.01	-8,273
Reinsurers' share	-1,252,025.61	511
2. Investment income from underwriting business	**8,074,103.58**	10,596
3. Other underwriting income	**137,236.34**	51
4. Expenses for claims and insurance benefits	**-627,976,228.80**	**-580,876**
Payments for claims and insurance benefits	-563,541,048.53	-505,333
Gross	-588,554,177.37	-519,482
Reinsurers' share	25,013,128.84	14,149
Change in provision for outstanding claims	-64,435,180.27	-75,543
Gross	-70,083,722.54	-92,074
Reinsurers' share	5,648,542.27	16,531
5. Increase in underwriting provisions	**-281,125.00**	**0**
Other underwriting provisions	-281,125.00	0
Gross	-281,125.00	0
6. Decrease in underwriting provisions	**0.00**	**239**
Other underwriting provisions	0.00	239
Gross	0.00	239
7. Administrative expenses	**-273,261,039.24**	**-253,737**
Acquisition expenses	-275,896,369.91	-256,720
Other administrative expenses	-821,341.67	-775
Reinsurance commissions and profit commissions from reinsurance cessions	3,456,672.34	3,758
8. Other underwriting expenses	**-219,447.95**	-314
9. Change in the equalisation provision	**-5,986,282.00**	-2,245
Underwriting result (amount carried forward)	**19,380,772.05**	**33,916**

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

	2016	2015
	in EUR '000	in EUR '000
Underwriting result (amount carried forward)	**19,380,772.05**	33,916
Non-underwriting account:		
1. Income from investments and interest income	**368,471,367.06**	418,403
Income from participations	293,913,181.20	341,219
Income from land and buildings	14,088,319.28	13,558
Income from other investments	27,480,492.95	25,201
Income from appreciations	15,068,472.41	15,800
Income from the disposal of investments	1,942,821.07	3,186
Other investment and interest income	15,978,080.15	19,439
2. Expenses for investments and interest expenses	**-323,287,632.37**	-407,410
Expenses for asset management	-70,455,780.72	-61,031
Depreciation of investments	-145,169,394.11	-243,341
Interest expenses	-98,942,421.64	-94,455
Losses from the disposal of investments	-335,493.63	-3,053
Other investment expenses	-8,384,542.27	-5,530
3. Investment income transferred to the underwriting account	**-8,074,103.58**	**-10,596**
4. Other non-underwriting income	**35,629,352.14**	**6,944**
5. Other non-underwriting expenses	**-5,424,649.05**	**-39,481**
6. Result from ordinary activities	**86,695,106.25**	**1,776**
7. Taxes on income	**15,297,844.12**	**21,070**
8. Profit for the period	**101,992,950.37**	**22,846**
9. Release of reserves	**0.00**	**899**
Release of valuation reserve for impairment losses	0.00	899
10. Transfer to reserves	**-5,513,361.00**	-5,161
Transfer to risk reserve	-5,513,361.00	-5,161
11. Profit for the year	**96,479,589.37**	**18,584**
12. Retained profits brought forward	**43,126,396.56**	**101,342**
Net retained profits	**139,605,985.93**	**119,926**

NOTES TO THE FINANCIAL STATEMENTS FOR 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements as of 31 December 2016 were prepared in accordance with the accounting provisions of the Austrian Commercial Code (UGB) and the special provisions of the Austrian Insurance Supervision Act (VAG), as amended, and **in accordance with Austrian generally accepted accounting principles** and the general standard of presenting a true and fair view of the net assets, financial position and results of operations of the Company. Measurement was performed assuming the Company would continue as a going concern.

The previous measurement methods were maintained, with the exception of changes due to first-time application of the Austrian Changes in Accounting Practices Act 2014 (RÄG 2014). These changes apply in particular to write-ups, which are now generally performed when the reasons for a write-down no longer exist or impairment is reversed, with a write-up being permitted up to a maximum of amortised cost or cost less depreciation. In accordance with § 124b no. 270 of the Austrian Income Tax Act (EStG), a provision was formed for write-ups that had not been performed up to 31 December 2015. The provision was recognised as a deferred income item in accordance with § 906(32) UGB and will be released in accordance with these tax provisions.

Previous year amounts were adjusted with respect to balance sheet classification based on the change in requirements under RÄG 2014. This consisted of a reclassification of valuation reserves as equity capital after deducting deferred taxes.

The **precautionary principle** was satisfied in that only profits that had been realised as of the balance sheet date were reported and all identifiable risks and impending losses were recorded in the balance sheet.

Figures are generally shown in thousands of euros (EUR '000). Figures from the previous year are indicated as such or shown in brackets.

Intangible assets were reported at cost less amortisation over three to ten years.

Land is measured at cost, **buildings** at cost less depreciation and any write-downs. As a rule, repair costs for residential buildings are spread over 15 years (10 years) starting as of 2016.

Equities and other non-fixed interest **securities** and **shares in affiliated companies** are valued according to the strict lower-of-cost-or-market principle (*strenges Niederstwertprinzip*). Bonds, other fixed-income securities and **participations** are valued using the less strict lower-of-cost-or-market principle (*gemildertes Niederstwertprinzip*) provided for in § 149(2) VAG.

Valuation using the less strict lower-of-cost-or-market principle resulted in write-downs of EUR 0 (EUR 72,000) not being performed.

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

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

As a rule, investments are generally low-risk. The strategic investment committee decides on potential high-risk investments based on the inherent risk of each individual investment after performing a full analysis of all related risks and liquidity at risk, and considering all assets currently in the portfolio and the effects of the individual investments on the overall risk position. All known financial risks are assessed regularly and specific limits or reserves are used to limit exposure.

Security price risk is reviewed periodically using value-at-risk and stress tests. Default risk is measured using both internal and external rating systems.

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

Two forward exchange transactions in PLN with terms limited to 15 May 2017 existed as of the 31 December 2016 balance sheet date. The transactions are being used to hedge future dividends in foreign currency. Since the market value of the forward exchange transactions was negative as of the reporting date, a provision for expected losses was formed in the amount of EUR 130,000 (EUR 537,000).

An interest rate swap running until 12 January 2017 with a notional amount of EUR 120 million was entered into for the supplementary capital bond issued on 12 January 2005 that became a variable supplementary capital bond after the first year (AT0000342704). The interest rate swap had a market value of EUR -131,000 as of 31 December 2016 (EUR -3,660,000). Since the interest rate swap was entered into as a hedge for coupon risk and is considered a valuation unit as defined in the AFRAC position paper, no provision for expected losses is required as of the balance sheet date.

Amounts denominated in **foreign currencies** are translated to euros using the appropriate mean rate of exchange.

As a rule, **mortgage receivables and other loans**, including those to affiliated companies and companies in which a participation is held, are measured at the nominal value of the outstanding receivables. Discounts deducted from loan principal are spread over the term of the loan and shown under deferred income.

Specific valuation allowances of adequate size are formed for doubtful **receivables** and deducted from their nominal values.

Tangible assets (not including land and buildings) are measured at cost less accumulated depreciation. Low-cost assets are fully written off in the year of purchase.

The EUR 250,000,000 nominal value of the hybrid bond that was repurchased by the Company on 13 August 2013 was recognised under “other assets” in the balance sheet. A nominal amount of EUR 51,983,000, with a value of EUR 60,518,608.60, was repurchased in March 2015. No netting was performed with the liabilities side, as the bond has not been cancelled yet.

Unearned premiums were essentially calculated by prorating over time after applying a deduction for expenses (15%) of EUR 1,322,000 (EUR 1,664,000).

The **provision for outstanding claims** for direct business is calculated for claims reported by the balance sheet date by individually assessing claims that have not yet been settled and adding lump-sum safety margins for large unexpected losses. Lump-sum provisions based on past experience are formed for claims incurred but not reported. Recourse claims of EUR 9,313,000 (EUR 11,677,000) were included.

In **indirect business**, provisions for outstanding claims are primarily based on reports from ceding companies as of the 31 December 2016 balance sheet date. The reported amounts were increased where this was considered necessary in light of past experience.

The **underwriting items for assumed reinsurance business** and associated retrocessions are included immediately in the annual financial statements. The equalisation provision is calculated in accordance with the directive of the Austrian Federal Minister of Finance, BGBl. (Federal Gazette) No. 315/2015. The calculation has been performed for direct and indirect business combined since financial year 2016 (separate calculations up to and incl. 2015). The new calculation based on the combined analysis is EUR 4,938,000, which results in a difference of EUR 2,631,000 to the provision reported as of 31 December 2015.

The **provisions for severance pay, pensions, and anniversary bonuses** are based on the pension insurance calculation principles of the Actuarial Association of Austria (AVÖ), AVÖ 2008-P (Employees), assuming a wage growth rate of 1.8% and a discount rate of 2.52% (2.25%) p.a. for the severance provision, 3.30% (2.25%) for the pension provision and 2.76% (2.25%) for the anniversary bonus provision. The discount rate used was based on the 7-year average interest rate as published by the German Bundesbank. The severance pay, pension and anniversary bonus obligations were valued using the projected unit credit method (2015: entry age normal method). The retirement age used to calculate the provisions for anniversary bonuses and severance pay is the statutory minimum retirement age as stipulated in the Austrian General Social Security Act (ASVG) (2004 reform), subject to a maximum age of 62 years. The retirement age used to calculate the provision for pensions is based on each individual agreement, or the statutory minimum retirement age as stipulated in the Austrian General Social Security Act (ASVG) (2004 reform). The following percentages were used for employee turnover based on age: <31 4.0%, 31–35 2.0%, 36–40 2.0%, 41–50 1.5%, 51–55 0.5% and 56–65 0%. The severance entitlement used to calculate the provision for severance obligations is based on each individual agreement or on the collective agreement. The following percentages were used for employee turnover based on age: <30 5.5%, 30–34 2.0%, 35–39 2.0%, 40–50 1.5%, 51–59 1.0% and 60–65 0.5%. EUR 2,715,000 (EUR 2,004,000) in provisions have been formed for direct benefit obligations. A portion of the direct benefit obligations equal to EUR 237,000 (EUR 225,000) will be administered as an occupational group insurance plan after an insurance contract has been concluded in accordance with §§ 93-98 VAG, so that the provision will equal the overall obligation less the outsourced plan assets. The severance pay provision required under Austrian commercial law for 2016 was EUR 3,882,000 (EUR 4,942,000). The amount earmarked for satisfying the outsourced severance pay obligations that was held by the outside insurance company was EUR 3,028,000 (EUR 3,656,000). The difference of EUR 855,000 (EUR 1,431,000) between the size of the severance pay provisions to be formed under Austrian commercial law and the deposit held by the outside insurance company is reported under provisions for severance pay in the balance sheet.

II. NOTES TO THE BALANCE SHEET

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

in EUR '000	Intangible assets	Land and buildings	Shares in affiliated companies	Bonds and other securities of affiliated companies and loans to affiliated companies	Participations
As of 31 December 2015	**26,564**	**117,179**	**3,977,187**	**278,402**	**241**
Additions	4,103	2,489	208,659	0	241
Disposals	0	0	7,392	5,056	241
Appreciation	0	0	11,100	0	0
Depreciation	4,910	4,371	140,538	0	0
As of 31 December 2016	**25,757**	**115,297**	**4,049,016**	**273,346**	**241**

The value of **developed and undeveloped properties** was EUR 35,642,000 (EUR 35,642,000) as of 31 December 2016.

The **carrying amount of self-used property** was EUR 19,708,000 (EUR 18,506,000).

The investments have the following carrying amounts and fair values:

Items under § 144 Abs. 2 VAG	Book value 2016	Fair value 2016	Book value 2015	Fair value 2015
in EUR '000				
Land and buildings	115,297	463,035	117,179	429,855
thereof appraisal reports 2010	0	0	655	3,910
thereof appraisal reports 2012	42,776	65,260	79,928	223,585
thereof appraisal reports 2013	20,560	38,550	23,334	74,410
thereof appraisal reports 2014	11,147	100,630	13,262	127,950
thereof appraisal reports 2015	40,814	258,595	0	0
Shares in affiliated companies	4,049,016	8,996,533	3,977,187	10,032,535
Bonds and other securities of affiliated companies and loans to affiliated companies	273,346	300,569	278,402	304,153
Participations	241	241	241	241
Shares and other non-fixed-interest securities	241,899	252,638	233,913	243,183
Bonds and other fixed-interest securities	80,565	88,116	80,638	87,361
Mortgage receivables	170	172	306	312
Other loans	10,128	10,195	9,273	9,387
Deposits receivables	1,026,733	1,026,733	987,259	987,259
Total	**5,797,395**	**11,138,232**	**5,684,398**	**12,094,286**

Hidden reserves fell by EUR 1,069,052 to a total of EUR 5,340,835 (EUR 6,409,887,000).

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

The fair value of **shares in affiliated companies** and shares in companies in which a participation is held is equal to the stock exchange value or other available market value (up-to-date internal valuations or appraisal reports). If no stock exchange value or other available market value exists, the purchase price is used as the fair value, if necessary reduced by any write-downs or a proportionate share of the publicly reported equity capital, whichever is greater.

For equities and other securities, stock exchange values or book values (purchase price, reduced by write-downs if necessary) are used as fair value. The remaining investments were valued at their nominal values, reduced by write-downs where necessary.

Recognised mathematical models (discounted cash flows) were used to calculate the market values of mortgage loans and other loans.

The **other loans** not secured by insurance contracts are loans of EUR 858,000 (EUR 0) to the Republic of Austria and loans of EUR 9,271,000 (EUR 9,273,000) to other borrowers.

The subordinated liabilities item on the balance sheet consists of the bonds listed in the table below, which were issued in the form of securities.

Name	2016	2015
in EUR '000		
Hybrid bond 2008	500,000	500,000
Supplementary capital bond 2005 - 2022	136,635	136,635
Supplementary capital bond 2005	120,000	120,000
Bond 2013 - 2043	500,000	500,000
Supplementary capital bond 2015 - 2046	400,000	400,000
Total	**1,656,635**	**1,656,635**

The following balance sheet items are attributable to affiliated companies and companies in which a participation is held:

	Affiliated companies		Companies in which a participation is held	
	2016	2015	2016	2015
in EUR '000				
Mortgage receivables	170	306	0	0
Deposits receivables	1,026,733	987,258	0	0
Receivables from direct insurance business	16,787	11,784	0	0
Receivables from reinsurance business	14,962	15,732	0	0
Other receivables	154,739	232,364	0	16
Liabilities from direct insurance business	233	1,364	0	0
Liabilities from reinsurance business	9,690	4,951	0	0
Other liabilities	443,292	441,437	0	0

The following disclosures are provided for off-balance sheet contingent liabilities: Letters of comfort and liability undertakings totaling EUR 44,103,000 (EUR 44,103,000) have been issued for affiliated companies in connection with borrowing.

The other provisions of EUR 57,742,000 (EUR 60,828,000) mainly consist of provisions for anniversary bonuses of EUR 742,000 (EUR 585,000), provision for unused vacation time of EUR 1,980,000 (EUR 2,332,000), provisions for customer support and marketing of EUR 690,000 (EUR 1,154,000) and IT provisions of EUR 47,324,000 (EUR 47,170,000).

The change in the personnel provision was recognised in personnel expenses. The interest expenses for personnel provisions of EUR 5,367,000 (EUR 2,963,000) are reported under investment and interest expenses.

The amount shown under **other liabilities** includes EUR 2,000 (EUR 9,873,000) in tax liabilities and EUR 332,000 (EUR 324,000) in social security liabilities.

Liabilities arising from the use of off-balance sheet tangible assets were EUR 2,020,000 (EUR 1,921,000) for the following financial year and EUR 10,725,000 (EUR 10,198,000) for the following five years.

Events occurring after the balance sheet date

On 5 December 2016, VIG decided to call the two supplementary capital bonds issued on 12 January 2005 effective 12 January 2017 for early repayment at their redemption amount of 100% of nominal value plus all accrued interest up to (but not including) the repayment date.

Subordinate bond placement

The subordinated bond of EUR 200 million has been priced on 6 April 2017 in the form of a private placement with international institutional investors. The subordinated bond can be called for the first time after 10 years by VIG and satisfies the tier 2 requirements of Solvency II. The subordinated bond will be included in the Third Market of the Vienna Stock Exchange on 13 April 2017.

III. NOTES TO THE INCOME STATEMENT

Premiums written, net earned premiums, expenses for insurance claims and benefits, administrative expenses and reinsur-ance balance had the following breakdown for property and casualty insurance in 2016:

Gross	Premiums written	Net earned premiums	Expenses for claims and insurance benefits	Administrative expenses	Reinsurance balance
in EUR '000					
Direct business					
Fire and fire business interruption insurance	60,394	61,929	53,507	7,418	4,010
Liability insurance	2,229	2,122	1,163	266	-744
Marine, aviation and transport insurance	1,282	1,476	1,086	777	-365
Other non-life insurance	15,211	15,531	11,628	1,836	-2,645
Total direct business	**79,116**	**81,058**	**67,384**	**10,297**	**256**
(Previous year values)	(86,144)	(83,486)	(61,864)	(9,923)	(-9,261)
Indirect business					
Marine, aviation and transport insurance	310	310	68	108	-134
Other insurance	887,974	875,143	591,186	266,313	-3,621
Total indirect business	**888,284**	**875,453**	**591,254**	**266,421**	**-3,755**
(Previous year values)	(829,101)	(823,486)	(549,692)	(247,572)	(-3,070)
Total direct and indirect business	**967,400**	**956,511**	**658,638**	**276,718**	**-3,499**
(Previous year values)	(915,245)	(906,972)	(611,556)	(257,495)	(-12,331)

The reinsurance balance is composed of net earned reinsurance premiums, effective reinsurance claims and reinsurance commissions.

The result from indirect business was EUR 25,852,000 (EUR 36,818,000). The net earned premiums of EUR 875,453,000 (EUR 823,486,000) from indirect business were included immediately in the income statement.

Of the income from participations, other investments, and land and buildings, as well as depreciation of investments shown in the income statement, affiliated companies accounted for the following amounts:

	2016	2015
in EUR '000		
Income from participations	293,587	340,901
Income from appreciation	11,100	15,800
Income from other investments	15,251	14,973
Income from land and buildings	1,175	1,244
Write-down of participations	140,538	170,794
Write-down of loans	0	60,000

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

Losses on disposals of investments were EUR 335,000 (EUR 3,053,000) in financial year 2016.

The expenses for insurance claims and benefits, administrative expenses, other underwriting expenses and investment ex-penses include:

	2016	2015
in EUR '000		
Wages and salaries	18,882	19,090
Expenses for severance benefits and payments to company pension plans	720	262
Expenses for retirement provisions	1,380	756
Expenses for statutory social contributions and income-related contribution and mandatory contributions	4,239	3,883
Other social security expenses	169	207

Commissions of EUR 8,510,000 (EUR 8,224,000) were incurred for direct business in financial year 2016.

A summary of **auditing fees** is provided in the notes to the consolidated financial statements of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna.

Deferred profit taxes of EUR 3,380,000 (EUR 3,196,000) were recognised due to temporary differences between earnings under commercial law and taxable earnings. A tax rate of 22.5% was chosen for deferred taxes based on the provisions of the tax allocation agreement with the parent company.

Deferred taxes

	31.12.2016	31.12.2015
	in EUR '000	in EUR '000
Shares in affiliated companies	22,767	14,297
Investments	-1,155	399
Tangible assets (not incl. land and buildings) and inventories	18	26
Valuation reserve	-26,140	-26,955
Subordinated liabilities	5,447	5,815
Underwriting provision - retention	64,433	57,799
Long-term personnel provisions	17,793	13,895
Other provisions	13,541	3,757
Temporary differences	96,704	69,033
Not subject to tax	-81,684	-54,827
Total differences	15,020	14,206
Resulting deferred taxes as at 31 December (22.5%)	3,380	3,196
Deferred taxes changed as follows		
As of 1 January	3,196	
Changes recognised in the income statement	184	
As of 31 December	**3,380**	

IV. SIGNIFICANT PARTICIPATIONS

Company	Direct interest in capital (%)	Equity capital in EUR '000	Share of capital in EUR '000	Result for the year in EUR '000	Share of profit for the year in EUR '000	Last annual financial statements
Affiliated companies						
"Baltikums Vienna Insurance Group" AAS, Riga	100.00	6,036	6,036	-1,478	-1,478	2016
"POLISA-ZYCIE" Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	99.43	13,523	13,446	1,677	1,667	2016
ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest	86.45	98,526	85,176	1,888	1,632	2016
ATBIH N.V., Amsterdam	68.97	181,677	125,302	-33,934	-23,404	2016
AXA Nezivotno Osiguranje akcionarsko drustvo za osiguranje Beograd, Belgrade	100.00	5,372	5,372	-3,704	-3,704	2015
AXA Zivotno Osiguranje akcionarsko drustvo za osiguranje Beograd, Belgrade	100.00	4,039	4,039	-425	-425	2015
BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest	93.98	34,130	32,075	5,558	5,224	2016
BTA Baltic Insurance Company AAS, Riga	90.00	34,053	30,648	1,932	1,739	2016
Business Insurance Application Consulting GmbH, Vienna	100.00	1,275	1,275	291	291	2016
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chrisinau	99.99	3,285	3,285	274	274	2016
COMPENSA Holding GmbH, Wiesbaden	100.00	58,055	58,055	3,533	3,533	2016
Compensa Life Vienna Insurance Group SE, Tallinn	100.00	34,625	34,625	2,220	2,220	2016
Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw	78.85	42,794	33,743	-3,699	-2,916	2016
Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	70.67	72,218	51,037	571	403	2016
Compensa Vienna Insurance Group, akcine draudimo bendrove, Vilnius	100.00	24,298	24,298	-8,371	-8,371	2016
DONAU Versicherung AG Vienna Insurance Group, Vienna	3.97	84,538	3,356	4,515	179	2016
ELVP Beteiligungen GmbH, Vienna	100.00	25,060	25,060	1,739	1,739	2016
ERSTE Vienna Insurance Group Biztosító Zrt., Budapest	90.00	7,853	7,068	1,929	1,736	2016
Erste osiguranje Vienna Insurance Group d.d., Zagreb	90.00	14,339	12,905	1,731	1,558	2016
Foreign limited liability company "InterInvestUchastie", Minsk	99.95	276	276	11	11	2015
GLOBAL ASSISTANCE SERVICES s.r.o., Prague	100.00	235	235	3	3	2015
GLOBAL ASSISTANCE SLOVAKIA s.r.o., Bratislava	40.00	156	63	124	50	2015
GLOBAL ASSISTANCE, a.s., Prague	60.00	3,783	2,270	1,934	1,160	2016
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia	14.20	32,857	4,666	3,200	454	2016
INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana	89.98	3,396	3,056	311	280	2016
Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group, Skopje	94.26	23,698	22,338	2,177	2,052	2016
InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warschau	99.98	76,055	76,040	5,069	5,068	2016
InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden	100.00	48,400	48,400	14,100	14,100	2016
Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group Skopje, Skopje	100.00	5,241	5,241	678	678	2015
KOMUNÁLNA poistovna, a.s. Vienna Insurance Group, Bratislava	18.86	55,176	10,406	7,101	1,339	2016
KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group, Bratislava	94.23	308,380	290,587	31,064	29,272	2016
KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company, Minsk	52.34	4,104	2,148	1,074	562	2015
Kooperativa, pojist'ovna, a.s. Vienna Insurance Group, Prague	96.32	461,828	444,833	64,428	62,057	2016
LVP Holding GmbH, Vienna	100.00	522,208	522,208	-29,809	-29,809	2016
Limited Liability Company "UIG Consulting", Kiew	63.47	5,306	3,368	9	6	2016

Company	Direct interest in capital (%)	Equity capital in EUR '000	Share of capital in EUR '000	Result for the year in EUR '000	Share of profit for the year in EUR '000	Last annual financial statements
OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest	99.50	153,096	152,331	155	155	2016
Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiew	9.19	9,329	857	1,123	103	2016
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiew	90.01	4,634	4,171	-507	-456	2016
Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiew	97.80	1,693	1,656	34	33	2016
Poist'ovna Slovenskej sporitel'ne, a.s. Vienna Insurance Group, Bratislava	90.00	49,683	44,715	9,378	8,440	2016
Pojist'ovna Ceské sporitelny, a.s. Vienna Insurance Group, Pardubice	90.00	142,411	128,169	38,121	34,309	2016
RISK CONSULT Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H., Vienna	41.00	684	281	477	196	2015
Ray Sigorta Anonim Sirketi, Istanbul	12.67	34,077	4,318	9,836	1,246	2016
SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A., Tirana	89.05	11,670	10,392	150	133	2016
TBI BULGARIA EAD, Sofia	100.00	40,778	40,778	-267	-267	2016
UNION Vienna Insurance Group Biztosító Zrt., Budapest	100.00	32,767	32,767	1,151	1,151	2016
VIG Asset Management investicni spolecnost, a.s., Prag	100.00	502	502	5	5	2015
VIG Properties Bulgaria AD, Sofia	99.97	3,854	3,853	8	8	2016
VIG RE zajist'ovna, a.s., Prague	70.00	138,794	97,156	13,740	9,618	2016
VIG Real Estate GmbH, Vienna	90.00	92,209	82,988	0	0	2016
VIG Services Ukraine, LLC, Kiew	21.27	75	16	-189	-40	2016
Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	69.87	6,339	4,429	7	5	2015
Vienna International Underwriters GmbH, Vienna	100.00	197	197	32	32	2015
Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warschau	100.00	3,807	3,807	-28,993	-28,993	2016
Vienna Life Vienna Insurance Group Biztosító Zártkörüen Müködö Részvénytársaság, Budapest	100.00	14,555	14,555	1,266	1,266	2016
Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern	100.00	13,255	13,255	74	74	2016
WIENER RE akcionarsko društvo za reosiguranje, Beograd, Belgrade	0.70	7,059	49	516	4	2016
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	99.90	986,607	985,621	137,648	137,510	2016
Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje	100.00	5,542	5,542	685	685	2016
Wiener Osiguranje Vienna Insurance Group ad, Banja Luka	100.00	6,646	6,646	-2,906	-2,906	2016
WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje, Beograd, Belgrade	100.00	31,697	31,697	2,237	2,237	2016
Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group, Podgorica	100.00	3,030	3,030	85	85	2015
Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb	99.47	74,861	74,465	3,464	3,446	2016
Erste Asset Management GmbH, Vienna	1.16	140,511	1,630	15,693	182	2015

V. OTHER DISCLOSURES

The Company has share capital of EUR 132,887,468.20. It is divided into 128,000,000 no-par value bearer shares with voting rights, each share representing an equal portion of share capital.

The Managing Board is authorised to increase the Company's share capital by a nominal amount of EUR 66,443,734.10 by issuing 64,000,000 no-par value bearer or registered shares in one or more tranches on or before 2 May 2018 against cash or in-kind contributions. The terms of the shares, the exclusion of shareholder pre-emption rights, and other terms and conditions of the share issue are decided by the Managing Board, subject to Supervisory Board approval. Preferred shares without voting rights may also be issued, with rights equivalent to those of existing preferred shares. The issue prices of common and preferred shares may differ.

The general meeting of 3 May 2013 authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer convertible bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 2 May 2018, with or without exclusion of shareholder pre-emptive rights, and to grant the holders of convertible bonds conversion rights for up to 30,000,000 no-par value bearer shares with voting rights in accordance with the convertible bond terms set by the Managing Board. The share capital has consequently been raised in accordance with § 159(2) no. 1 of the Austrian Stock Corporation Act (AktG) by a contingent capital increase of up to EUR 31,145,500.36, through the issue of up to 30,000,000 no-par value bearer shares with voting rights. The contingent capital increase will only be implemented to the extent that holders of convertible bonds issued on the basis of the general meeting resolution of 3 May 2013 exercise the subscription or exchange rights they were granted. The Managing Board has not adopted any resolutions to date concerning the issuance of convertible bonds based on the authorisation granted on 3 May 2013.

The general meeting of 3 May 2013 further authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer income bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 2 May 2018, with or without exclusion of shareholder pre-emptive rights. The Managing Board has not adopted any resolutions to date regarding the issuance of income bonds based on this authorisation.

The Company held no own shares as of 31 December 2016.

Income bonds with a total nominal value of EUR 250.000.000.00, (Tranche 1) were issued on 12 June 2008 and income bonds with a total nominal value of EUR 250.000.000.00, (Tranche 2) were issued on 22 April 2009 based on the authorisation granted by the general meeting of 16 April 2008. The Company repurchased Tranche 2 in August 2013. The Company repurchased EUR 51,983,000 of the nominal value of Tranche 1 in March 2016. The income bonds are traded on the Vienna Stock Exchange. The interest rate is 8% p.a. until 12 September 2018 (fixed interest rate), after which the income bonds pay variable interest. The Company has the right to call the bonds each quarter after the start of the variable interest period.

On 12 January 2005, the Company issued supplementary capital bond 2005–2022 with a total nominal value of EUR 180,000,000.00 in accordance with § 73c (2) VAG. The bond pays interest at 4.625% p.a. on its nominal value during the first 12 years of its term (fixed interest rate period), after which the bond pays variable interest. The Company can call the bond in full for the first time after 12 years and on each following coupon date. The Company repurchased EUR 7,543,000.00 of the nominal value in June 2014 and EUR 35,822,500.00 of the nominal value in March 2015.

On 12 January 2005, the Company also issued supplementary capital bond 2005, with a total nominal value of EUR 120,000,000.00 in accordance with § 73c (2) VAG. This bond does not have a fixed term. The Company can call the bond in full for the first time after 12 years and on each following coupon date. The bond paid interest at 4.25% p.a. on its nominal value during the first year of its term, after which the bond pays variable interest. Interest was paid at 2.0% p.a. on the bond's nominal value during the period from 12 January 2016 to 11 January 2017.

On 5 December 2016, Vienna Insurance Group decided to call the two supplementary capital bonds issued on 12 January 2005 effective 12 January 2017 for early repayment at their redemption amount of 100% of nominal value plus all accrued interest up to (but not including) the repayment date.

On 9 October 2013, the Company issued a subordinated bond with a nominal value of EUR 500,000,000.00 and a term of 30 years. The Company can call the bond in full for the first time on 9 October 2023 and on each following coupon date. The subordinated bond bears interest at a fixed rate of 5.5% p.a. during the first ten years of its term and variable interest after that. The subordinate bond satisfies the tier 2 requirements of Solvency II. The bonds are traded on the Vienna Stock Exchange. On 2 March 2015 the Company issued a subordinated bond with a nominal value of EUR 400,000,000.00 and a maturity of 31 years. The Company can call the bond in full for the first time on 2 March 2026 and on each following coupon date. The subordinated bond bears interest at a fixed rate of 3.75% p.a. during the first eleven years of its term and variable interest after that. The subordinate bond satisfies the tier 2 requirements of Solvency II. The bond is listed on the Luxembourg Stock Exchange.

The Supervisory Board had the following members in financial year 2016:

Chair:
Günter Geyer

1st Deputy Chair (until 30 April 2017)
Karl Skyba

2nd Deputy Chair (since 6 September 2016)
Maria Kubitschek

Members:
Bernhard Backovsky
Martina Dobringer
Rudolf Ertl
Reinhard Ortner †
Heinz Öhler
Georg Riedl
Gertrude Tumpel-Gugerell

THE MANAGING BOARD HAD THE FOLLOWING MEMBERS DURING THE FINANCIAL YEAR:

Chair
Elisabeth Stadler

Members:
Franz Fuchs
Roland Gröll
Judit Havasi
Peter Höfinger
Martin Simhandl

The **average number of employees** was 229 (225). These employees were employed in the insurance business and resulted in personnel expenses of EUR 25,390,000 (EUR 24,199,000).

There were no loans **outstanding to members of the Managing Board or members of the Supervisory Board** as of 31 December 2016 (EUR 0).

No guarantees were outstanding for members of the Managing Board or Supervisory Board as of 31 December 2016.

In 2016, the total expenses for severance pay and pensions of EUR 2,100,000 (EUR 1,019,000) included severance pay and pension expenses of EUR 1,348,000 (EUR 79,000) for members of the Managing Board and senior management in accordance with Section 80(1) of the Austrian Stock Corporation Act (AktG).

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

The members of the Managing Board received EUR 3,942,000 (EUR 3,459,000) in remuneration for their services to the Company during the reporting period. Members of the Managing Board are provided a company car for both business and personal use. The members of the Managing Board received EUR 267,000 (EUR 42,000) from affiliated companies for their operational services for the Company, or as a manager or employee of an affiliated company:

Former **members of the Managing Board** received EUR 2,771,000 (EUR 490,000). Former members of the Managing Board received EUR 350,000 (EUR 350,000) from affiliated companies for their services to the Company, or as a manager or employee of an affiliated company:

The **members of the Supervisory Board** received EUR 429,000 (EUR 414,000) in remuneration for their services to the Company in 2016.

The Company is a group member within the meaning of § 9 of the Austrian Corporate Income Tax Act (KStG) of the Wiener Städtische Versicherungsverein, Vienna, group of companies. The taxable earnings of group members are attributed to the parent company. The parent company has entered into agreements with each group member governing the allocation of positive and negative tax amounts for the purpose of allocating corporate income tax charges according to origin. A receivable of EUR 72,371,000 (EUR 74,483,000) is owed by the parent company.

The Company is included in the consolidated financial statements prepared by Wiener Städtische Versicherungsverein, which has its registered office in Vienna.

The consolidated financial statements have been disclosed and are available for inspection at the business premises of this company located at Schottenring 30, 1010 Vienna.

PROPOSED APPROPRIATION OF PROFITS

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) ended financial year 2016 with net retained profits of EUR 139,605,985.93. The following appropriation of profits will be proposed in the Annual General Meeting:

The 128 million shares shall receive a dividend of EUR 0.80 per share. The payment date for this dividend will be 19 May 2017, the record date 18 May 2017, and the ex-dividend date 17 May 2017.

A total of EUR 102,400,000.00 will therefore be distributed. The net retained profits of EUR 37,205,985.93 remaining for financial year 2016 after distribution of the dividend is to be carried forward.

Vienna, 19 April 2017

The Managing Board:

Elisabeth Stadler
General Manager,
Chair of the Managing Board

Franz Fuchs
Member of the Managing Board

Roland Gröll
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Audit opinion
We have audited the annual financial statements of

VIENNA INSURANCE GROUP AG
Wiener Versicherung Gruppe, Vienna,
that comprise the statement of financial position as of 31 December 2016, the income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2016, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements for insurance companies.

Basis for our opinion
We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the Company within the meaning of Austrian commercial law and professional regulations, and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Recoverability of investments in affiliated companies
Refer to notes pages 23, 27f

Risk for the financial statements
Investments in affiliated companies represent a significant part of Vienna Insurance Group AG assets.

In previous years certain investments in affiliated companies were written down due to sustained impairments. For the financial year it has to be verified whether any changes in market, economic or legal conditions require a reversal of impairments or additional write downs.

An assessment of the recoverability is performed at year end. The impairment test of investments in affiliated companies is complex and based on discretionary factors. Those factors include in particular the expected future cash flows of the subsidiary, which are primarily based on past experience as well as on the management's assessment of the expected market environment. Other factors are the assumed long-term growth rate as well as the underlying region-specific costs of capital.

From the financial year 2016 onwards pure costs of equity capital are used instead of weighted average costs of capital.

Our response
In cooperation with our valuation experts, we have assessed the appropriateness of key assumptions, of discretionary decisions and of the valuation method applied for investments in affiliated companies. We have reconciled the expected future cash flows used in the calculation with the strategic business planning approved by the management. We have discussed the assumptions regarding market development with those responsible for planning and reconciled these assumptions with general and sector-specific market expectations. We have analyzed the consistency of planning data using information from prior periods.

Given that minor changes in the applied costs of capital rate significantly impact the recoverable amount, we have compared the applied costs of capital with discount rates used by a group of comparable companies (Peer-Group). Further we analyzed alternative scenarios, taking into account forecast uncertainties, as well as possible changes in costs of capital and long-term growth rates.

By means of our own sensitivity analysis we have determined whether the tested book values are still sufficiently covered by the recoverable amounts in case of possible changes in the assumptions within realistic spreads.

Management's Responsibility and Responsibility of the Supervisory Board / Audit Committee for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements for insurance companies and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Company's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Company or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for the oversight of the financial reporting process of the Company.

Auditors responsibility

Our aim is to obtain reasonable assurance about whether the financial statements taken as a whole, are free of material – intentional or unintentional– misstatements and to issue an audit report containing our audit opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if they could, individually or as a whole, be expected to influence the economic decisions of users based on the financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements – intentional or unintentional – in the financial statements, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.
- We consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We assess the overall presentation, structure and content of the financial statements including the notes as well as whether the financial statements give a true and fair view of the underlying business transactions and events.

- We communicate to the audit committee the scope and timing of our audit as well as significant findings including significant deficiencies in internal control that we identify in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.
- Report on Other Legal Requirements

REPORT ON THE MANAGEMENT REPORT

MANAGEMENT REPORT

In accordance with the Austrian Commercial Code the management report is to be audited as to whether it is consistent with the financial statements and as to whether it has been prepared in accordance with legal requirements. The legal representatives of the Company are responsible for the preparation of the management report in accordance with the Austrian Commercial Code and other legal or regulatory requirements for insurance companies.

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

OPINION

In our opinion, the management report has been prepared in accordance with legal requirements and is consistent with the financial statements. The disclosures pursuant to Section 243a UGB are appropriate.

STATEMENT

Based on our knowledge gained in the course of the audit of the financial statements and the understanding of the Company and its environment, we did not note any material misstatements in the management report.

OTHER INFORMATION

The legal representatives of the Company are responsible for the other information. Other information comprises all information provided in the annual report, with the exception of the financial statements, the management report, and the auditor's report thereon.

Our opinion on the financial statements does not cover other information, and we will not provide any assurance on it.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether it contains any material inconsistencies with the financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact. If on the basis of our work performed, we conclude that there is a material misstatement of fact in the other information, we must report that fact. We have nothing to report with this regard.

ENGAGEMENT PARTNER

The engagement partner is Mr. Michael Schlenk.

Vienna, 19 April 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Michael Schlenk
Auditor

DECLARATION BY THE MANAGING BOARD

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

Vienna, 19 April 2017

The Managing Board:

Elisabeth Stadler
General Manager,
Chair of the Managing Board

Franz Fuchs
Member of the Managing Board

Roland Gröll
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

Managing Board areas of responsibility:

Elisabeth Stadler: Management of the VIG Group, strategic issues, European issues, corporate communications and marketing, sponsorship, people management, group development and strategy; Country responsibilities: Austria, Czech Republic

Franz Fuchs: Performance management personal insurance, performance management motor insurance, asset risk management; Country responsibilities: Baltic States, Moldova, Poland, Ukraine

Roland Gröll: Group IT/SAP, international processes and methods; Country responsibilities: Bosnia-Herzegovina, Croatia, Macedonia, Romania

Judit Havasi: Solvency II, planning and controlling, legal; Country responsibilities: Slovakia

Peter Höfinger: Corporate and large customer business, Vienna International Underwriters (VIU), reinsurance, Group development and strategy; Country responsibilities: Albania (incl. Kosovo), Bulgaria, Montenegro, Serbia, Hungary, Belarus

Martin Simhandl: Asset management, subsidiaries department, finance and accounting, treasury/capital market; Country responsibilities: Germany, Georgia, Liechtenstein, Turkey

SUPERVISORY BOARD REPORT

The Supervisory Board reports that it has taken the opportunity to comprehensively monitor the management activities of the Company, both acting as a whole and periodically by means of its committees, Chairman and Deputy Chairman. Detailed presentations and discussions during meetings of the Supervisory Board and its committees were used for this purpose, as were thorough and, in some cases, in-depth discussions with the members of the Managing Board, who provided detailed explanations and supporting documentation relating to the management and financial position of the Company and the Group. Strategy, business development (overall and in individual regions), risk management, the internal control system, internal audit activities and the IT strategy of the Company were also discussed at these meetings.

In accordance with the Solvency II rules, from 2016, non-financial aspects will be part of the performance expectations for variable remuneration of members of the Managing Board. VIG is committed to social responsibility and the importance of having employees drive forward performance, innovation and expertise, and in 2016 it included non-financial criteria, as well as financial criteria, in the evaluation of the fulfilment of goals for Managing Board members.

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

One Annual General Meeting and five Supervisory Board meetings distributed across the financial year were held in 2016. Five meetings of the Audit Committee were also held. The financial statement and consolidated financial statement auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG), attended four Audit Committee meetings and the Supervisory Board meeting in 2016 that dealt with the auditing of the 2015 annual financial statements and 2015 consolidated financial statements and formal approval of the 2015 annual financial statements, and also attended the Annual General Meeting. The Committee for Urgent Matters was contacted in writing on two occasions. Two meetings of the Committee for Managing Board Matters were held in 2016. The Strategy Committee did not hold any meetings in 2016; strategic matters were handled by the Supervisory Board as a whole.

No agenda items were discussed in Supervisory Board meetings in 2016 without the participation of members of the Managing Board.

No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings. In order to ensure effectiveness and efficiency of its activities and procedures, the Supervisory Board performed a self-evaluation of its procedures. The Supervisory Board's evaluation of its activities found that the practices followed satisfied the requirements of the Austrian Stock Corporation Act and the Code of Corporate Governance, and that its organisational structure and procedures were satisfactory in terms of efficiency. During the meeting of the Audit Committee, the members of the committee consulted with the (consolidated) financial statements auditor concerning the specification of two-way communications.

Acting upon the proposal and motion of the Supervisory Board, the general meeting selected KPMG (FN 269873y) on 29 May 2015 to be the financial statements auditor and consolidated financial statements auditor for financial year 2016, and KPMG consequently performed these duties in financial year 2016.

By inspecting relevant documents, meeting with the Managing Board and holding discussions with the (consolidated) financial statements auditor, the Supervisory Board Audit Committee was able to form a satisfactory view of the accounting process and the procedure used for auditing the financial statements and consolidated financial statements, and found no reasons for objection. The Supervisory Board Audit Committee also monitored the independence of the auditor of the financial statements and consolidated financial statements, and after reviewing suitable documents and supporting records submitted to the Committee, particularly with respect to the appropriateness of the fee and the additional services provided to the Company, was satisfied of the auditor's independence. The auditor supervisory authority has not published any reports to date in accordance with § 4(2) no. 12 APAG (Austrian Auditor Supervision Act). The Audit Committee also considered permitted non-audit services and approved them in accordance with

Art. 5(4) AP-VO (EU Audit Regulation) after detailed discussion and examination of potential threats to the independence of the (Group) financial statement auditor.

The Audit Committee also reviewed effectiveness of the internal control system, the internal auditing system and the risk management system by obtaining verbal and written descriptions of the processes and organisation of these systems from the Managing Board, the (consolidated) financial statements auditor and the individuals directly responsible for these areas. The Audit Committee reported on these monitoring activities to the Supervisory Board and stated that no deficiencies had been identified. The Supervisory Board was also given the opportunity during Supervisory Board meetings to verify the functional adequacy of the existing control and auditing systems. In addition, the audit plan and the quarterly reports prepared by the internal audit department were debated by the Audit Committee and Supervisory Board and discussed with the head of the internal audit department and the Group internal audit department. The Supervisory Board found no grounds for objection. In order to prepare the Supervisory Board proposal for selection of the financial statements and consolidated financial statements auditor for financial year 2017, the Audit Committee obtained a list from KPMG of the fees received by the company broken down by service category, and documents concerning its licence to audit a stock corporation. It was determined that there were no grounds for exclusion or circumstances that could give rise to concerns about impartiality, and that sufficient protective measures had been taken to ensure an independent and impartial audit. The Audit Committee also considered the appropriateness of the fee of the financial statements and consolidated financial statements auditor. It was also ensured that KPMG was included in a statutory quality assurance system. The Audit Committee reported to the Supervisory Board on the findings of these investigations and proposed to the Supervisory Board, which subsequently proposed to the General Meeting that KPMG (FN 269873y) be selected as auditor of the financial statements and consolidated financial statements for 2017. The general meeting selected KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (FN 269873y) as auditor of the financial statements and consolidated financial statements for 2017.

In addition, the Supervisory Board Audit Committee received the 2016 annual financial statements, management report and corporate governance report from the Managing Board, and reviewed and carefully examined them. The Managing Board's proposal for appropriation of profits was also debated and discussed with respect to capital adequacy and its effects on the solvency and financial position of the Company during the course of this examination. The Supervisory Board Audit Committee also carefully examined the 2016 consolidated financial statements, Group management report and the solvency and financial condition report (SFCR). As a result of this examination and discussion, a unanimous resolution was adopted to recommend to the Supervisory Board that they be accepted without qualification. The committee chairman informed the Supervisory Board of the discussion and the resolutions adopted by the committee. The 2016 annual financial statements together with the management report and corporate governance report, the 2016 consolidated financial statements together with the Group management report, and the Managing Board's proposal for appropriation of profits were subsequently taken up, thoroughly discussed, and examined by the Supervisory Board. When making the decision on appropriation of profits, particular attention was paid to whether it could be justified with respect to coverage of capital requirements.

In addition, the auditor's reports prepared by the (consolidated) financial statements auditor KPMG for the 2016 annual financial statements and management report and the 2016 consolidated financial statements and Group management report were reviewed by the Audit Committee and by the Supervisory Board, and debated and discussed with KPMG. KPMG's audit of the 2016 annual financial statements and management report and the 2016 consolidated financial statements and Group management report did not lead to any reservations. KPMG determined that the annual financial statements comply with statutory requirements and give a true and fair view of the net assets and financial position of the Company as of 31 December 2016, and of the results of operations of the Company for financial year 2016 in accordance with Austrian generally accepted accounting principles. The management report is consistent with the annual financial statements. The disclosures pursuant to § 243a UGB (Austrian Commercial Code) are appropriate. KPMG further determined that the consolidated financial statements also comply with statutory requirements and give a true and fair view of the net assets and financial position of the Group as of 31 December 2016, and of the results of operations and cash flows of the Group for financial year 2016 in accordance with IFRS and § 138 VAG (Austrian Insurance Supervision Act) in combination with § 245a UGB. The Group management report is consistent with the consolidated financial statements.

The final results of the review by the Audit Committee and the Supervisory Board also provided no basis for reservations. The Supervisory Board stated that it had nothing to add to the auditor's reports for the financial statements and consolidated financial statements.

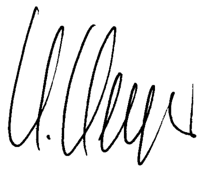
After a thorough examination, the Supervisory Board therefore adopted a unanimous resolution to approve the annual financial statements prepared by the Managing Board, to raise no objections to the management report, consolidated financial statements and Group management report, and to declare its agreement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

The 2016 annual financial statements have therefore been approved in accordance with § 96(4) AktG (Austrian Stock Corporation Act). The Supervisory Board proposes to the General Meeting that it approve the Managing Board's proposal for appropriation of profits and formally approves the actions of the Managing Board and Supervisory Board.

Karl Skyba has resigned from his position as 1st Deputy Chairman of the Supervisory Board effective the end of April. In a meeting of 6 April 2017, the Supervisory Board appointed Rudolf Ertl to take his place as 1st Deputy Chairman of the Supervisory Board. On behalf of the Supervisory Board, I would like to thank Karl Skyba for his many years of good service working in close collaboration with his colleagues in the Executive Committee.

Vienna, April 2017

The Supervisory Board:



Günter Geyer
(Chairman)

CONTACT INFORMATION

VIG General Secretariat
Sabine Stiller
Phone: +43 (0) 50 390-21062
Email: sabine.stiller@vig.com

VIG Group Controlling
Thomas Schmee
Phone: +43 (0) 50 390-21900
Email: thomas.schmee@vig.com

VIG Enterprise Risk Management/ Solvency II Project
Ronald Laszlo
Phone: +43 (0) 50 390-25475
Email: ronald.laszlo@vig.com

VIG Actuarial Department
Werner Matula
Phone: +43 (0) 50 390-21999
Email: werner.matula@vig.com

VIG Investor Relations
Nina Higatzberger-Schwarz
Phone: +43 (0) 50 390-21920
Email: nina.higatzberger@vig.com

VIG Group Communication & Marketing
Wolfgang Haas
Phone: +43 (0) 50 390-21029
Email: wolfgang.haas@vig.com

VIG Group Sponsoring
Barbara Grötschnig
Phone: +43 (0) 50 390-21027
Email: barbara.groetschnig@vig.com

VIG Law
Edeltraud Fichtenbauer
Phone: +43 (0) 50 390-20188
Email: edeltraud.fichtenbauer@vig.com

VIG Group Compliance
Natalia Čadek
Phone: +43 (0) 50 390-22925
Email: natalia.cadek@vig.com

VIG People Management
Birgit Moosmann
Phone: +43 (0) 50 390-21314
Email: birgit.moosmann@vig.com

VIG Corporate and Large Customer Business
Vienna International Underwriters
Wolfgang Petschko
(Underwriting policy issues and organisation)
Phone: +43 (0) 50 390-21406
Email: wolfgang.petschko@vig.com
Josef Aigner
(Claims policy issues and risk management)
Phone: +43 (0) 50 390-26112
Email: josef.aigner@vig.com

VIG Reinsurance
Gerald Klemensich
(Reinsurance coordination and policy issues)
Phone: +43 (0) 50 390-21161
Email: gerald.klemensich@vig.com
Eva-Maria Stackl
(Reinsurance Network and Organisation)
Phone: +43 (0) 50 390-21144
Email: eva.stackl@vig.com

VIG Internal Audit
Herbert Allram
Phone: +43 (0) 50 390-21070
Email: herbert.allram@vig.com

VIG Group IT/SAP Smile Solutions
Ryszard Dyszkiewicz
Phone: +43 (0) 50 390-21365
Email: ryszard.dyszkiewicz@vig.com

VIG International Processes and Methods
Christian Walter
Phone: +43 (0) 50 390-26246
Email: christian.walter@vig.com

VIG Asset Management
Gerald Weber
Chief Investment Officer
Phone: +43 (0) 50 390-22914
Email: gerald.weber@vig.com

VIG Asset Risk Management
Bernhard Reisecker
Phone: +43 (0) 50 390-25439
Email: bernhard.reisecker@vig.com

VIG Subsidiaries Department
Sonja Raus
Phone: +43 (0) 50 390-21953
Email: sonja.raus@vig.com

VIG Finance and Accounting
Roland Goldsteiner
Phone: +43 (0) 50 390-21865
Email: roland.goldsteiner@vig.com

VIG Treasury/Capital Market
Hannes Gruber
Phone: +43 (0) 50 390-21174
Email: hannes.gruber@vig.com

VIG European Matters
Dieter Pscheidl
Phone: +43 (0) 50 390-20079
Email: dieter.pscheidl@vig.com

VIG Group Development and Strategy
Klaus Mühleder
Phone: +43 (0) 50 390-21363
Email: Klaus.Mühleder@vig.com

ABBREVIATIONS USED IN THE TEXT

Abbreviation	Full company name
Vienna Insurance Group or VIG[1]	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna
Vienna International Underwriters or VIU	Vienna International Underwriters GmbH, Vienna
VIG Holding or Vienna Insurance Group AG[2)]	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna
VIG Re	VIG Re zajišťovna, a.s., Prague
Wiener Städtische Versicherungsverein	Wiener Städtische Wechselseitiger Versicherungsverein - Vermögensverwaltung - Vienna Insurance Group, Vienna

1) Used when referring to Vienna Insurance Group as a group of companies

2) Used when referring to the company itself.

NOTICE

This annual report includes forward-looking statements based on current assumptions and estimates that were made by the management of Vienna Insurance Group AG to the best of its knowledge. Disclosures using the words "expected", "target" or similar formulations are an indication of such forward-looking statements. Forecasts related to the future development of the Company are estimates made on the basis of information available as of the date this report went to press. Actual results may differ from the forecasts if the assumptions underlying the forecast prove to be wrong or if unexpectedly high risks occur.

ADDRESS:

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

GENERAL INFORMATION:

Editor and media owner:
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe
Commercial register: 75687 f
Data Processing Register No. (DVR): 0016705

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Calculation differences may arise when rounded amounts and percentages are summed automatically.

The annual report was prepared with great care to ensure that all information was complete and accurate. The possibility of rounding, type-setting or printing errors, however, cannot be ruled out completely.

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, we have not used phrasing such as "he/she", "his/her", etc. It should be understood that the text always refers to women and men equally without discrimination.

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In case of doubt, the German version is authoritative.