VIG
VIENNA INSURANCE GROUP

17PG001/VIGHE19 (20.03 – J20208098)

Annual Financial Statements 2019

Annual financial statements 2019

FOR VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG

Separate financial statements in accordance with the Austrian Commercial Code (UGB) and Austrian Insurance Supervision Act (VAG)

Table of contents

NOTE:

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, formulations such as him/her, etc. have been avoided. 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 47.

Company profile

OUR DIVERSITY IS UNIQUE

The VIG Insurance Group differs from other international groups in its use of a multi-brand strategy and local entrepreneurship.

As a result, VIG Holding's business strategy consciously takes into account local differences in individual markets and promotes diversity within the Group, allowing the individual strengths of the VIG insurance companies to be used in the best way possible.

ORGANISATION

Headquartered in Vienna the VIG Holding manages and assists around 50 insurance companies with more than 25,000 employees in 30 countries as leading insurance group in Austria and Central and Eastern Europe.

VIG Holding has around 285 employees in important management areas, such as the Actuarial department, Risk Management, Asset Management, Reinsurance and Planning and Controlling, who are working to continue the close to 200 years of success achieved by the Group.

They focus on working as partners with the 50 insurance companies and maintaining continuous contact to ensure that both the interests of the companies and the Group as a whole are safeguarded.

FOCUS ON PROFITABLE GROWTH

The VIG Insurance Group strategy is aimed at achieving sustainable profitable growth. The core of the strategy is the insurance business, with a regional focus on Austria and the growth region of Central and Eastern Europe. The Group also pursues a clear sustainability strategy based on the five areas of core business, customers, employees, society and the environment. The interaction of these strategies has paid off, allowing the Vienna Insurance Group to steadily improve its results in previous years. In 2019, premium volume increased to around EUR 10.4 billion, profit (before taxes) rose to around EUR 521.6 million and the combined ratio improved significantly to 95.4 %.

FINANCIAL STRENGTH AND TOP CREDIT RATING

Sustainable profitable growth is best realised with good capital resources. The insurance companies of the VIG Insurance Group are highly risk-conscious, as shown by the Group solvency ratio of 210 % at the end of 2019.

VIG Holding's A+ rating with a stable outlook from the internationally recognised rating agency Standard & Poor's (S&P) represents the best rating in the Austrian ATX equities index. Its large capital buffer can be used to invest in the organic growth of the VIG Insurance Group or to acquire other companies.

Management report 2019

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 2019 (and in the same period in 2018):

			2019			2018
	Direct business	Indirect business	Total	Direct business	Indirect business	Total
in EUR '000						
Premiums written	98,276	1,001,750	1,100,026	85,053	1,082,224	1,167,277
Net earned premiums	99,738	989,784	1,089,522	85,185	1,072,116	1,157,301
Expenses for claims and insurance benefits	86,664	616,490	703,154	61,089	727,762	788,851
Administrative expenses	11,196	345,389	356,585	12,399	335,817	348,216
Reinsurance balance	978	-16,710	-15,732	-6,392	-2,155	-8,547

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 1,100.03 million in 2019, representing a year-on-year decrease of 5.8 %. Direct premiums written (corporate business) increased 15.55 % year-on-year to EUR 98.28 million. Premium volume from indirect business (assumed reinsurance) was EUR 1,001.75 million, 7.4 % less than the previous year. VIG Holding retained EUR 1,042.81 million (2018: EUR 1,131.70 million) of the premiums written. EUR 57.21 million was ceded to reinsurers in 2019 (2018: EUR 35.58 million). Gross earned premiums were EUR 1,089.52 million (2018: EUR 1,157.30 million). Net earned premiums decreased EUR 87.87 million to EUR 1,033.25 million.

Expenses for claims and insurance benefits

Gross expenses for claims and insurance benefits were EUR 703.15 million in 2019 (2018: EUR 788.85 million). EUR 86.66 million of this amount was attributable to corporate business (2018: EUR 61.09 million), EUR 25.58 million more than the previous year.

The gross claims ratio for direct business rose from 69.8 % to 85.5 %, mainly due to the fire insurance line of business. Expenses for claims and insurance benefits for assumed reinsurance fell 15.3 % to EUR 616.49 million. The gross claims ratio for indirect business was 62.3 % (2018: 67.9 %). After deducting reinsurance of EUR 38.78 million (2018: EUR 26.11 million), expenses for claims and insurance benefits were EUR 664.37 million (2018: EUR 762.74 million).

Administrative expenses

Administrative expenses were EUR 356.59 million in 2019, or 2.4 % higher than the previous year (2018: EUR 348.22 million). This change was due to an increase in commissions for indirect business. EUR 11.20 million of the administrative expenses were for the corporate business and EUR 345.39 million for the reinsurance business. After reinsurance commissions for ceded reinsurance business, EUR 354.83 million in administrative expenses remained for VIG Holding. This was an increase of EUR 8.13 million compared to the previous year.

Combined ratio

VIG Holding's combined ratio was 98.8 % in 2019 (2018: 99.0 %), and 97.0 % for direct business (corporate business) (2018: 94.2 %).

This ratio is calculated as the sum of all underwriting expenses and income plus net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums for property and casualty insurance.

Financial result

VIG Holding had a financial result of EUR 186.20 million (2018: EUR 162.82 million).

Impairment of shares in affiliated companies was EUR 145.47 million (2018: EUR 112.15 million).

	2019	2018
in EUR '000		
Land and buildings	8,483	9,780
Investments in affiliated companies and participations	295,970	312,011
Other investments	26,322	15,381
Total income (net)	330,775	337,172
Other investment and interest income	18,442	13,053
Expenses for asset management	-92,057	-86,076
Interest expenses	-70,061	-80,513
Other investment expenses	-899	-20,819
Investment profit according to income statement	186,200	162,817

Result from ordinary activities

VIG Holding earned a result from ordinary activities of EUR 202.52 million in 2019 (2018: EUR 188.25 million). The increase was due to an increase in the underwriting result and a higher financial result.

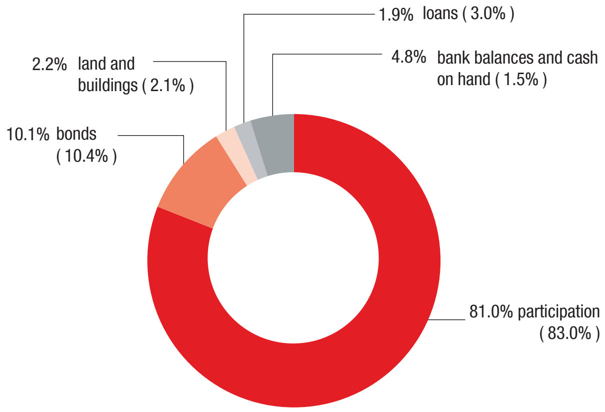
Investments

Investments, including liquid assets, were EUR 5,364.37 million as of 31 December 2019 (2018: EUR 5,231.78 million).

Deposits were EUR 1,114.33 million in 2019 (2018: EUR 1,116.05 million). 81.0 % (2018: 83.0 %) of the investments at the end of 2019 were participations, 10.1 % (2018: 10.4 %) were bonds (including bond funds), 1.9 % (2018: 3.0 %) were loans, 2.2 % (2018: 2.1 %) were land and buildings, and 4.8 % (2018: 1.5 %) were bank balances and cash on hand.

Detailed information is provided on pages 24 and 25 of the annual financial statements.

BREAKDOWN OF INVESTMENTS IN 2019



2018 values in parentheses

Underwriting provisions

Underwriting provisions were EUR 1,244.14 million as of 31 December 2019 (2018: EUR 1,238.29 million). This corresponds to a year-on-year increase of 0.5 %, which was primarily due to provisions for outstanding claims arising from assumed reinsurance business. The reinsurers' share was EUR 80.36 million (2018: EUR 80.46 million).

Solvency ratio

VIG Holding's solvency ratio of 391 % is high due to an outstanding endowment of capital resources combined with a low capital requirement, and also includes its function as a holding company in the Group.

NON-FINANCIAL PERFORMANCE INDICATORS

For the 2019 reporting year, VIG Holding is publishing its third sustainability report that addresses the corporate social responsibility (CSR) strategy for the Vienna Insurance Group. This strategy and much more information on CSR in the VIG insurance companies can be read in this report, which is available for download free of charge at www.vig.com/Nachhaltigkeitsberichte. A few examples of the VIG Holding's own initiatives are presented below.

Social involvement –
Example: Social Active Day
Since 2011, VIG Insurance Group employees have been allowed to use one day per year to volunteer for a good cause. The Social Active Day initiative was brought to life by VIG Holding's principal shareholder Wiener Städtische Versicherungsverein. A wide variety of activities are performed, ranging from renovation work in social aid organisations and nursing care facilities, collecting food, serving soup, helping in social supermarkets, working with socially disadvantaged people and people in need, all the way to accompanying elderly people on trips. VIG Holding employees also take part in this Group-wide initiative. 169 of them participated in 2019.

Cultural involvement –
Example: Gustav Mahler Youth Orchestra
The Group considers art and culture as an important contribution to the quality of life in a society and wants to give artists greater freedom to develop artistically. VIG Holding has therefore provided support for the Gustav Mahler Youth Orchestra for many years. It is considered the best youth orchestra in the world and is a place of learning that helps talented young Austrian musicians play music with their colleagues from all over the world, traditionally including many participants from the CEE region. It stands for music without borders, dedication and enthusiasm, and 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 promotes cross-border cultural exchange, mutual understanding and equal opportunity.

The VIG Insurance Group promotes peace –
projects focusing on children and youth
VIG Kids Camp took place for the tenth time in the summer of 2019 at the initiative of Wiener Städtische Versicherungsverein. Around 500 children of VIG company employees from 23 European countries took part. In order to visit VIG Kids Camp, the children have to win a group-wide contest. In 2019, the contest was once again held under the motto "Photograph a picture of peace".

In addition to being rewarded with an invitation to the 2019 VIG Kids Camp, the most creative submissions from children of VIG Insurance Group employees were also entered in the 2019 Alfred Fried photography award for children (Children Peace Image of the Year), which once again received support from VIG Holding.

Twelve of the around 500 submissions in 2019 made it onto the short list for the "Alfred Fried photography award for children", which is endowed with EUR 1,000 in prize money.

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 are another development opportunity offered to employees. In addition, a new diversity concept was developed in 2017 that focuses on the criteria of gender, internationality and generations.

This concept is discussed in more detail in the VIG Group Annual Report 2019 (as part of the corporate governance report).

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 an award in the BEST RECRUITERS study for 2019. This is the third time in a row that VIG Holding has been awarded the gold certificate. According to the annual "Forbes" magazine ranking, VIG Holding is also of the world's 500 best employers and one of just two Austrian companies to make it onto this list of top global companies.

The current human resources strategy has three main objectives: VIG Holding should be seen as a diverse, innovative, learning organisation, empowering managers to create a positive working environment and support employees with future challenges, and an appropriate feedback culture should exist. These objectives are pursued using strategic HR partnerships, a value-driven working environment, and management and employees who are fit for the future.

There were an average of 285 employees in the VIG Holding in 2019. Women held 50.0 % of the positions in the Managing Board and 24.0 % of the management positions directly below the Managing Board.

Research and development

Although the VIG companies do not perform any research activities as defined in § 243 (3)(2) UGB, they contribute their expertise to the development of insurance-specific software models. The Vienna Insurance Group also cooperates with Digital Impact Labs Leipzig (formerly Insurance Innovation Lab) and Plug & Play to identify technological developments in the market more quickly and internalise them if necessary. VIG Holding also established the Group's own start-up viesure for this purpose.

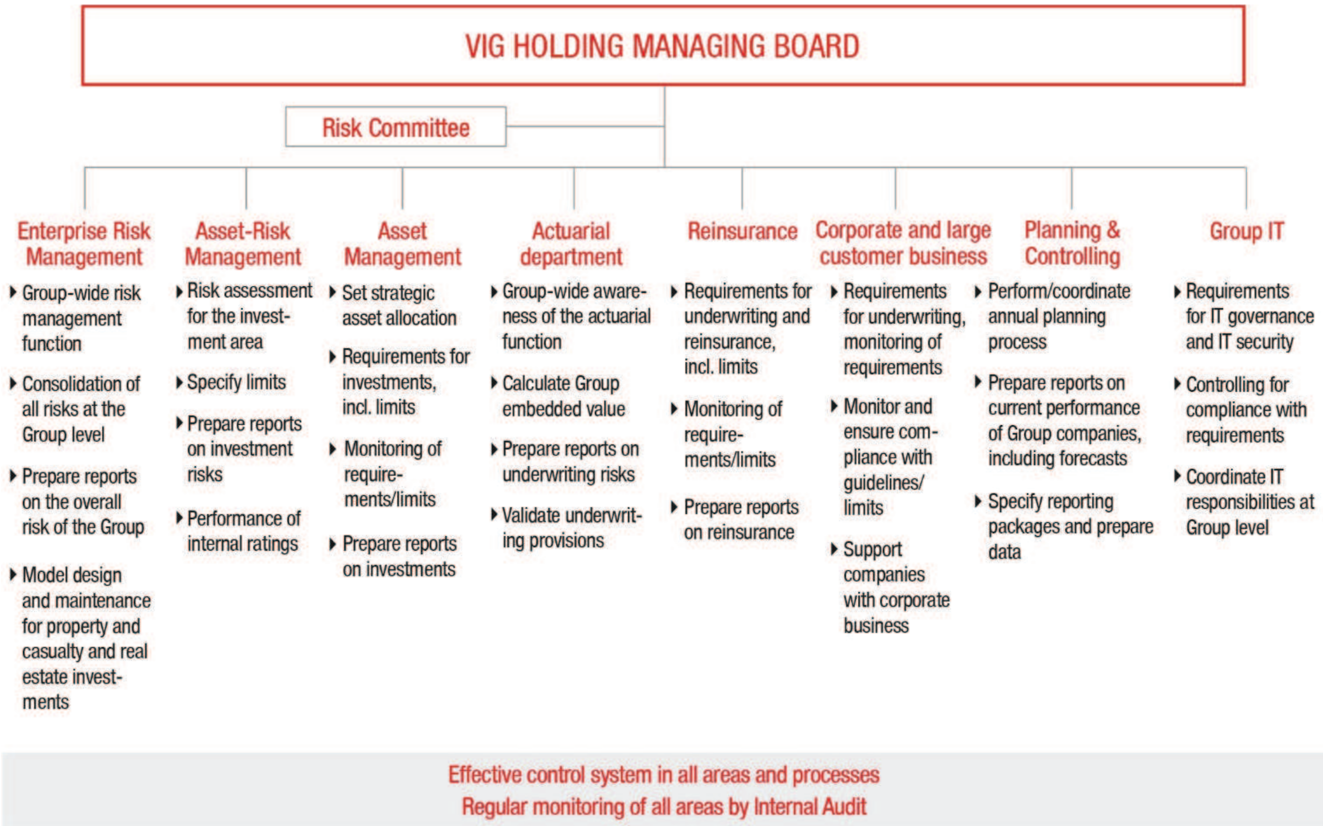
Other information

VIG Holding established three branch offices in financial year 2019, extending the business operations of the VIG Insurance Group into Northern Europe. The Group now operates branches located in Copenhagen, Oslo and Stockholm.

Please see the notes to the financial statements (I. Summary of significant accounting policies) for information on the financial instruments used.

RISK REPORT

Risk management is well integrated into VIG Holding's organisational structure. The chart below shows part of the organisational structure, including the Enterprise Risk Management and Asset-Risk Management departments.



MANAGING BOARD

The Managing Board as a whole was responsible for Enterprise Risk Management until 31/12/2019. Enterprise Risk Management and Asset-Risk Management have been the responsibility of Managing Board member Liane Hirner since the beginning of 2020.

The Managing Board as a whole is responsible for the following areas related to risk management:

- Set up and promote risk management
- Define and communicate the risk strategy, including risk tolerances and risk appetite
- Approve corporate risk management guidelines
- Take the risk situation into account in strategic decisions

RISK COMMITTEE

The VIG Holding Managing Board established the Risk Committee to ensure regular discussions of current matters relating to risk management across functional areas within the organisation. Further it ensures an exchange of information on the risk situation between the members of the committee (representatives of the units involved in risk management and the Compliance function) and the Managing Board. The Risk Committee meetings take place at least quarterly and are chaired by responsibly member of Managing Board. The Risk Committee reports to the Managing Board after its meetings.

ENTERPRISE RISK MANAGEMENT (ERM)

The head of this department performs the Risk Management function. The Managing Board as a whole was responsible for the Enterprise Risk Management department until the end of the financial year. The department has been the responsibility of Managing Board member Liane Hirner since the beginning of 2020.

The main responsibilities of the ERM department include determining the overall risk profile of the Group and VIG Holding and calculating solvency. The department provides a Group-wide risk aggregation solution for this purpose with extensive reporting and partial modelling approaches.

Calculation of the solvency capital requirement during the year, analysis of risk-bearing capacity using proprietary analysis tools and reviewing the internal control system are other activities performed by the department.

The department also assists the Managing Board with updating the corporate risk strategy, improvements to the risk organisation and further corporate risk management topics.

ASSET-RISK MANAGEMENT (ARM)

Until the end of the year, Managing Board member Judit Havasi was responsible for the ARM department. The department has been the responsibility of Managing Board member Liane Hirner since the beginning of 2020.

The primary responsibility of the department is to analyse, assess and monitor risks associated with investments, in particular with respect to Vienna Insurance Group solvency and financial results. For this purpose, the department specifies Group-wide requirements for risk assessment and implements a central system for investment management and risk monitoring. The department is also responsible for maintaining an internal rating approach for banks.

ASSET MANAGEMENT

The Asset Management department was in responsibility of Chairwomen Elisabeth Stadler until the end of the financial year. The department has been the responsibility of Managing Board member Gerhard Lahner since the beginning of 2020.

One of the key responsibilities of the department is to define a strategic orientation for the investments of each insurance company in the Group and for the Vienna Insurance Group as a whole, and to specify an investment strategy and investment process aimed at ensuring that current income is as high as possible, but also as secure as possible, while simultaneously taking advantage of opportunities to increase the value of investments.

Guidelines and limits are used to manage investments. Regular reports are also provided for investments, limits and income.

ACTUARIAL DEPARTMENT

The Actuarial department was the responsibility of the Managing Board as a whole until the end of the financial year and Franz Fuchs was the contact person in the Managing Board. The department has been the responsibility of Managing Board member Gabor Lehel since the beginning of 2020.

The head of the department performs the Actuarial function required by Solvency II. The department is therefore responsible, in particular, for the duties related to the Actuarial function. In addition, the Actuarial department calculates the embedded value for the life and health insurance businesses and prepares profitability analyses and company valuations. The department assists actuarial collaboration and functional networking.

REINSURANCE

The Reinsurance department reports to Managing Board member Peter Höfinger. The department coordinates and assists all companies in the Vienna Insurance Group and their reinsurance departments with reinsurance matters in the non-life business (property and casualty, third party liability and accident insurance) by preparing and applying guidelines. The department also administers Group-wide reinsurance programmes in the non-life lines of business. 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 catastrophes, individual large losses and negative changes in entire insurance portfolios.

CORPORATE AND LARGE CUSTOMER BUSINESS

The Corporate and Large Customer Business department reports to Managing Board member Peter Höfinger and underwrites insurance contracts for large Austrian and international customers. The department also assists subsidiaries with resources and know-how. The aim is to achieve a uniform underwriting philosophy and approach in all Vienna Insurance Group companies that perform such business.

PLANNING AND CONTROLLING

The Planning and Controlling department is an important part of the integrated risk management approach and reported to Managing Board member Judit Havasi until the end of the financial year. The department has been the responsibility of Chairwoman Elisabeth Stadler since the beginning of 2020. The department coordinates business planning over a 3-year horizon. The standardised reports include key figure and variance analyses for planning, forecasts and ongoing performance of VIG Holding and other insurance companies. Regular monthly premium reports, quarterly reports for each company (aggregated at the country and VIG Insurance Group level) and cost reports are prepared.

INTERNAL AUDIT

The Internal Audit department reports to the Managing Board. Managing Board Chairwoman Elisabeth Stadler is the contact person in the Managing Board. The Internal Audit department systematically monitors operating and business processes, the internal control system of all operational business areas, including compliance with legal requirements, and the functionality and adequacy of risk management. The Internal Audit department operates continuously and reports directly to the Managing Board. The head of the department performs the Internal Audit function required by Solvency II.

GROUP IT

The Group IT department reported to Managing Board member Judit Havasi until the end of the financial year. The department has been the responsibility of Managing Board member Peter Thirring since the beginning of 2020.

The department is responsible for IT management at the VIG Insurance Group level (IT strategy, IT governance, IT security, IT Group projects, etc.), for assisting Vienna Insurance Group companies with large IT projects, and for developing Group-wide guidelines and common standards. The Austrian business organisation assists Group IT with this by providing outside IT and telephony services.

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 the Vienna Insurance Group not being able to satisfy its payment obligations by liquidating assets at short notice.

Underwriting risks: The core business of the Vienna Insurance Group 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 Holding is exposed.

The risk control measures used are avoidance, reduction, diversification, transfer and acceptance of risks and opportunities. A Group-wide unified internal control system also helps to ensure compliance with the guidelines and requirements resulting from risk management. 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 VIG Insurance 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 VIG Insurance 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.

Current risks in connection with the coronavirus pandemic

The coronavirus pandemic that began at the beginning of 2020 has affected the business world worldwide. It has also exposed the VIG Insurance Group to a number of risks that are being addressed and handled as part of our sustainable risk management.

In addition to operational risks, mainly due to the possibility of employees becoming ill and subsequent quarantine measures, it is also having a negative impact on our insurance business and associated investments whose effects cannot yet be estimated at this time.

The high level of volatility exhibited by all financial asset classes and the downward potential that still exists in the interest rate environment are working hand-in-hand with the underwriting risks due to the pandemic to adversely affect our solvency and thus also on the investment values of VIG Holding. Due to the simultaneous effects on the capital requirement no significant effect on the overall solvency of the VIG Holding is expected, but we are closely monitoring financial market developments so that we can implement the measures needed in accordance with our risk-bearing capacity and established limits.

The VIG Insurance Group has initiated preventative measures at both the Holding level and the level of its subsidiaries in order to mitigate significant risks affecting our ability to maintain our business operations.

In addition to clear communication of hygiene and conduct measures, emergency plans for maintaining business operations in the event of a loss of employees or location closures were tested and preliminary IT and organisational measures have been introduced.

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 Holding 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 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 process.

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 recognised 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 Holding 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.

Optimisation 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.

DISCLOSURES IN ACCORDANCE WITH § 243A AND § 243(3)(3) UGB

Detailed information on the disclosures in accordance with § 243a and § 243(3)(3) UGB is available in the notes to the financial statements on page 31.

DISCLOSURES ON OUTSOURCING IN ACCORDANCE WITH § 156(1)(1) IN CONJUNCTION WITH § 109 VAG

A resolution was adopted allowing Group-internal and external service providers to provide IT services for VIG Holding. Outsourcing agreements that had been approved by the supervisory authority existed in 2019 with IBM Austria (Internationale Büromaschinen Ges. m.b.H.) and the internal Group IT system provider twinformatics GmbH, both headquartered in Austria. twinformatics GmbH has also assumed full responsibility for all IT services for the Austrian VIG insurance companies and concludes any sub-outsourcing required for this purpose while observing statutory and regulatory requirements and after consulting with the VIG insurance companies. In addition to these outsourcing agreements, VIG Holding has not outsourced any critical or important functions or business activities.

OUTLOOK

Austria

Due to the outbreak of the coronavirus pandemic at the beginning of 2020 and in particular its spread outside China, the eurozone is expected to grow around -0.5 % in 2020.

For Austria the Erste Group research department also expects further slowing of real GDP growth to 0.9 % in 2020, before a potential recovery in 2021. Overall, export demand is expected to remain weak, so that domestic demand continues to be the main driver of growth, even though a slowdown in the labour market could become apparent.

Inflation is expected to remain below the European Central Bank (ECB) target and reach 1.4 % for Austria and 0.9 % for the eurozone as a whole in 2020.

CEE region

The Erste Group analysts also see the development of growth in Central and Eastern Europe as significantly affected by the coronavirus pandemic.

Whereas political uncertainties and the tendency towards weaker export markets and domestic demand had previously led to an expected slowdown, this slowdown has only been compounded by the coronavirus pandemic. At an expected unemployment rate of 4.9 % in 2020 (2019: 4.6 %, 2018 still 5.2 %), real GDP growth should then average only 0.8 % for the region. Hungary and Poland should continue to show relatively good growth by regional standards, surpassed only by Romania and Serbia with real GDP growth of 1.8 % and 1.5 % respectively in 2020.

A key factor for economic development, under the current influence of the virus and beyond, should be government support measures. EU funding in upcoming budget periods should also contribute to the growth of the region.

Outlook for the VIG Insurance Group

As a market leader in Austria and the CEE region, VIG Insurance Group with its more than 25,000 employees is in an excellent position to take advantage of the opportunities available in this region and the long-term growth options they offer. It remains committed to its proven business strategy of profitable growth.

Based on the values of diversity, customer proximity and responsibility, VIG insurance companies want to use their successful management principles to strengthen and further increase their market shares. This includes both organic growth and growth by acquisitions, particularly if an opportunity arises to strategically expand the existing portfolio or to take advantage of economies of scale. The goal is to increase market share to a minimum of 10 % in Poland, Hungary, Croatia and Serbia in the medium term. This goal was already achieved in one of these countries, Serbia, in 2016. The acquisition of Gothaer TU in 2019 – which was subsequently renamed Wiener TU – increased the market share to around 8 % in Poland.

The strategic measures and initiatives set by the Agenda 2020 work programme – business model optimisation, ensuring future viability and organisation and cooperation – helped accelerate the development of the Group in 2019.

The focus continues to be on efficiency improvements, making use of synergies and the systematic reduction of both losses and expenses to improve the combined ratio. In life insurance, efforts will also be made to further promote biometric risk coverage and the regular premium business.

Under its dividend policy which foresees a distribution in the range of 30 to 50 % of Group net profits, the dividend per share will continue to be aligned with the Company's performance.

Due to the coronavirus pandemic dominating the news at the time of the editorial deadline, VIG Insurance Group has taken all appropriate measures to protect its employees and ensure that business operations can continue. These measures will be continuously adjusted as the situation changes. We are also continuously monitoring capital market developments.

The far-reaching measures implemented around the world to prevent further spread and the associated uncertainty concerning its progression will lead to a slowdown in economic growth. At the current time, the effects on the business development of the insurance group cannot yet be estimated.

Outlook for VIG Holding

VIG Holding will continue to pursue its fundamental goal of strengthening the international reinsurance business and cross-border corporate business and further increasing premium volume in 2020.

In addition to the operational functions, VIG Holding strives to use its management responsibilities to optimise process organisation and earnings power. To this end, it focuses on initiating and coordinating measures that promote this optimisation.

Establishing itself as an outstanding employer is another important objective for VIG Holding. It aims to challenge and develop all employees in the best way possible and satisfy all the requirements needed to enable VIG Holding to take a top position at the international level and become the number one choice for young talented employees and experts.

Vienna, 23 March 2020

The Managing Board:

Elisabeth Stadler
General Manager, Chairwoman of the Managing Board

Franz Fuchs
Deputy General Manager, Member of the Managing Board

Liane Hirner
CFO, Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Gerhard Lahner
Member of the Managing Board

Gábor Lehel
Member of the Managing Board

Harald Riener
Member of the Managing Board

Peter Thirring
Member of the Managing Board

Separate financial statements

BALANCE SHEET AS OF 31 DECEMBER 2019

Assets	31.12.2019	31.12.2018
	in EUR	in EUR '000
A. Intangible assets	17,438,475.96	22,241
I. Other intangible assets	17,438,475.96	22,241
B. Investments	6,275,709,165.32	6,269,808
I. Land and buildings	117,122,227.07	110,817
II. Investments in affiliated companies and participations	4,795,027,615.40	4,848,394
1. Shares in affiliated companies	4,318,955,352.95	4,316,974
2. Bonds and other securities of affiliated companies and loans to affiliated companies	451,856,191.26	507,204
3. Participations	24,216,071.19	24,216
III. Other investments	249,233,273.33	194,552
1. Shares and other non-fixed-interest securities	120,378,292.70	119,967
2. Bonds and other fixed-interest securities	70,700,171.00	71,371
4. Mortgage receivables	2,252,000.01	2,322
3. Other loans	902,809.62	892
4. Bank deposits	55,000,000.00	0
IV. Deposits on assumed reinsurance business	1,114,326,049.52	1,116,045
C. Receivables	196,987,211.00	170,233
I. Receivables from direct insurance business	7,741,566.56	18,038
1. from policyholders	2,926,971.11	429
2. from insurance intermediaries	81,784.60	85
3. from insurance companies	4,732,810.85	17,524
II. Receivables from reinsurance business	55,958,026.95	17,023
III. Other receivables	133,287,617.49	135,172
D. Pro rata interest	7,213,403.92	7,442
E. Other assets	204,341,106.99	79,115
I. Tangible assets (not incl. land and buildings)	1,351,716.50	1,096
II. Current bank balances and cash on hand	202,988,889.96	78,019
III. Other assets	500.53	0
F. Deferred charges	1,239,371.46	1,438
G. Deferred tax assets	0.00	4,387
Total ASSETS	6,702,928,734.65	6,554,664

BALANCE SHEET AS OF 31 DECEMBER 2019

Liabilities and shareholders' equity	31.12.2019	31.12.2018
	in EUR	in EUR '000
A. Shareholders' equity	3,502,630,785.08	3,407,798
I. Share capital		
Par value	132,887,468.20	132,887
II. Capital reserves		
Committed reserves	2,267,232,422.07	2,267,232
III. Retained earnings		
Free reserves	756,715,354.17	729,716
IV. Risk reserve	44,845,010.00	44,846
V. Net retained profits	300,950,530.64	233,117
of which brought forward	105,117,387.05	41,928
B. Subordinated liabilities	1,100,000,000.00	1,100,000
I. Supplementary capital bond	1,100,000,000.00	1,100,000
C. Underwriting provisions – retention	1,244,140,237.12	1,238,290
I. Unearned premiums	100,447,329.74	95,214
1. Gross	102,607,383.52	96,429
2. Reinsurers' share	-2,160,053.78	-1,215
II. Provision for outstanding claims	1,129,040,538.38	1,125,705
1. Gross	1,207,239,447.10	1,204,949
2. Reinsurers' share	-78,198,908.72	-79,244
VI. Equalisation provision	12,745,494.00	15,896
III. Other underwriting provisions	1,906,875.00	1,475
1. Gross	1,906,875.00	1,475
D. Non-underwriting provisions	183,908,950.84	193,399
I. Provision for severance pay	667,136.00	792
II. Provision for pensions	52,129,418.00	45,278
III. Tax provisions	3,500,357.14	3,500
IV. Other provisions	127,612,039.70	143,829
E. Other liabilities	671,545,410.89	614,616
I. Liabilities from direct insurance business	54,111,168.21	36,675
1. to policyholders	22,389,039.44	20,834
2. to insurance intermediaries	495,060.64	611
3. to insurance companies	31,227,068.13	15,230
II. Liabilities from reinsurance business	6,709,590.72	26,407
III. Liabilities to financial institutions	75,101,082.51	76,353
IV. Other liabilities	535,623,569.45	475,181
F. Deferred income	703,350.72	561
Total LIABILITIES AND SHAREHOLDERS' EQUITY	6,702,928,734.65	6,554,664

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

Underwriting account	2019	2018
	in EUR	in EUR '000
1. Net earned premiums	1,033,253,334.33	1,121,125
Premiums written	1,042,813,038.97	1,131,700
Gross	1,100,025,990.71	1,167,277
Ceded reinsurance premiums	-57,212,951.74	-35,577
Change in unearned premiums	-9,559,704.64	-10,575
Gross	-10,504,424.02	-9,976
Reinsurers' share	944,719.38	-599
2. Investment income from underwriting business	18,046,859.19	13,024
3. Other underwriting income	66,572.99	34
4. Expenses for claims and insurance benefits	-664,372,323.32	-762,737
Payments for claims and insurance benefits	-646,149,931.03	-637,446
Gross	-686,058,024.35	-665,954
Reinsurers' share	39,908,093.32	28,508
Change in provision for outstanding claims	-18,222,392.29	-125,291
Gross	-17,095,833.24	-122,896
Reinsurers' share	-1,126,559.05	-2,395
5. Increase in underwriting provisions	-431,775.00	-210
Other underwriting provisions	-431,775.00	-210
Gross	-431,775.00	-210
6. Administrative expenses	-354,831,168.79	-346,700
Acquisition expenses	-355,332,848.65	-347,289
Other administrative expenses	-1,252,444.04	-927
Reinsurance commissions and profit commissions from reinsurance cessions	1,754,123.90	1,516
7. Other underwriting expenses	-850,718.40	-1,687
8. Change in the equalisation provision	3,150,658.00	6,522
Underwriting result	34,031,439.00	29,371

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

	2019	2018
	in EUR	in EUR '000
Underwriting result	34,031,439.00	29,371
Non-underwriting account:		
1. Income from investments and interest income	501,586,330.60	487,748
Income from participations	304,084,958.79	297,229
Income from land and buildings	12,574,900.03	13,420
Income from other investments	27,024,122.01	28,614
Income from appreciations	72,408,051.62	129,649
Income from the disposal of investments	67,052,238.01	5,783
Other investment and interest income	18,442,060.14	13,053
2. Expenses for investments and interest expenses	-315,386,607.72	-324,931
Expenses for asset management	-92,057,075.49	-86,076
Depreciation of investments	-149,559,616.63	-136,988
Interest expenses	-70,061,329.38	-80,513
Losses from the disposal of investments	-2,809,288.17	-535
Other investment expenses	-899,298.05	-20,819
3. Investment income transferred to the underwriting account	-18,046,859.19	-13,024
4. Other non-underwriting income	6,268,682.69	14,197
5. Other non-underwriting expenses	-5,936,472.88	-5,113
6. Result from ordinary activities	202,516,512.50	188,248
7. Taxes on income	20,316,631.09	18,525
8. Increase of net assets through absorption due to de-merger	0.00	90,704
9. Profit for the period	222,833,143.59	297,477
10. Transfer to reserves	-27,000,000.00	-106,288
Transfer to free reserves	-27,000,000.00	-100,000
Transfer to risk reserve	0.00	-6,288
11. Profit for the year	195,833,143.59	191,189
12. Retained profits brought forward	105,117,387.05	41,928
Net retained profits	300,950,530.64	233,117

NOTES TO THE FINANCIAL STATEMENTS FOR 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements as of 31 December 2019 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 measurement methods that were previously used were also used in financial year 2019.

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 based on a useful life of 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 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 Niederstwert-prinzip*). 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(1) VAG.

Valuation using the less strict lower-of-cost-or-market principle resulted in write-downs of EUR 0 (EUR 1,116) 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.

Eight forward exchange transactions in the CZK and PLN currencies with terms limited to 12/05/2020 existed as of the 31 December 2019 balance sheet date. The transactions are being used to hedge future dividends in foreign currency. A provision for expected losses in the amount of EUR 613,000 (EUR 451,000) was formed for the six forward exchange transactions whose market values were negative as of the reporting date.

The remaining two forward exchange transactions had a positive market value of EUR 26,000 on the reporting date (EUR 3,000).

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.

Unearned premiums were essentially calculated by prorating over time after applying a deduction for expenses (15 %) of EUR 969,000 (EUR 1,227,000).

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 9,322,000 (EUR 8,250,000) were included.

In indirect business, provisions for outstanding claims are primarily based on reports from ceding companies as of the 31 December 2019 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 provisions for severance pay, pensions, and anniversary bonuses are based on the pension insurance calculation principles of the Actuarial Association of Austria (AVÖ), AVÖ 2018-P (Employees), assuming a wage growth rate of 2.00 % (2.00 %) and a discount rate of 1.28 % (1.66 %) p.a. for the severance provision, 2.06 % (2.42 %) for the pension provision and 1.51 % (1.85 %) 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. 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 %, 30–39 2.0 %, 40–50 1.5 %, 51–59 1.0 % and 60–65 0.5 %.

EUR 3,211,000 (EUR 3,136,000) in provisions have been formed for direct pension obligations. A portion of the direct benefits equal to EUR 250,000 (EUR 244,000) 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 2019 was EUR 2,432,000 (EUR 2,418,000).

The amount earmarked for satisfying the outsourced severance pay obligations that was held by the outside insurance company was EUR 1,765,000 (EUR 1,627,000).

The difference of EUR 667,000 (EUR 792,000) 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 2018	22,241	110,817	4,316,974	507,204	24,216
Additions	228	10,397	98,070	11,988	0
Disposals	0	0	21,423	67,948	0
Appreciation	0	0	70,802	612	0
Depreciation	5,031	4,092	145,468	0	0
As of 31 December 2019	17,438	117,122	4,318,955	451,856	24,216

Intangible assets with a value of EUR 20,000 (EUR 2,826,000) were acquired from affiliated companies during the financial year.

The value of developed and undeveloped properties was EUR 29,895,000 (EUR 29,895,000) as of 31 December 2019. The carrying amount of self-used property was EUR 19,677,000 (EUR 19,897,000).

The investments have the following carrying amounts and fair values:

Items under § 144 Abs. 2 VAG	Book Value	Fair value	Book Value	Fair value
	2019	2019	2018	2018
in EUR '000				
Land and buildings	117,122	543,850	110,817	495,575
thereof appraisal reports 2016	1,888	2,890	46,464	231,255
thereof appraisal reports 2017	49,750	116,970	50,871	116,970
thereof appraisal reports 2018	13,886	147,350	13,482	147,350
thereof appraisal reports 2019	51,598	276,640	0	0
Shares in affiliated companies	4,318,955	9,055,970	4,316,974	9,477,956
Bonds and other securities of affiliated companies and loans to affiliated companies	451,856	565,040	507,204	583,316
Participations	24,216	27,340	24,216	28,247
Shares and other non-fixed-interest securities	120,378	127,586	119,967	119,967
Bonds and other fixed-interest securities	70,700	80,025	71,371	76,576
Mortgage receivables	2,252	2,445	2,322	2,956
Other loans	903	1,142	892	855
Bank balances	55,000	55,000	0	0
Deposits receivables	1,114,326	1,114,326	1,116,045	1,116,045
Total	6,275,708	11,572,724	6,269,808	11,901,493

Hidden reserves fell by EUR 334,669,000 to a total of EUR 5,297,016,000 (EUR 5,631,685,000).

The fair values of land and buildings were determined in accordance with the recommendations of the Austrian Association of Insurance Companies. The values are based on appraisal reports.

The fair values of shares in affiliated companies and shares in companies in which a participation is held correspond to available market values. If no such 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.

To test for impairment, the individual book values are first compared with the fair value or a proportionate share of the equity capital of the affiliated company. The fair values of shares in affiliated companies are either based on valuation reports obtained from external parties or internal valuations.

Stock exchange values were used as far as possible for the fair value of shares and other non-fixed interest securities, and of bonds and other fixed interest securities (including those from affiliated companies). The Company uses purchased software to calculate the fair value of securities that do not have public market or stock market values based on discounted cash flows.

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 898,000 (EUR 885,000) to the Republic of Austria and loans of EUR 5,000 (EUR 7,000) to other borrowers. The other loans do not include any loans (EUR 0) with remaining terms of up to one year.

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

Name	2019	2018
in TEUR		
Supplementary capital bond 2013 - 2043	500,000	500,000
Supplementary capital bond 2015 - 2046	400,000	400,000
Supplementary capital bond 2017 - 2047	200,000	200,000
Total	1,100,000	1,100,000

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

	Affiliated companies		Companies in which an ownership interest is held	
	2019	2018	2019	2018
in EUR '000				
Mortgage receivables	2,252	2,322	0	0
Deposits receivables	1,114,326	1,116,045	0	0
Receivables from direct insurance business	2,820	16,142	0	0
Receivables from reinsurance business	33,664	7,607	0	0
Other receivables	118,958	124,703	0	0
Liabilities from direct insurance business	1,443	620	0	0
Liabilities from reinsurance business	2,141	23,192	0	0
Other liabilities	498,310	436,727	0	0

The change in the **personnel provision** was recognised in personnel expenses. The interest expenses for personnel provisions of EUR 4,663,000 (EUR 5,043,000) are reported under investment and interest expenses.

The **other provisions** of EUR 127,612,000 (EUR 143,829,000) mainly consist of IT provisions of EUR 93,792,000 (EUR 120,503,000), provisions for unused vacation time of EUR 1,861,000 (EUR 1,773,000), provisions for customer support and marketing of EUR 874,000 (EUR 822,000) and provisions for anniversary bonuses of EUR 929,000 (EUR 813,000).

The amount shown under **other liabilities** includes EUR 5,000 (EUR 1,052,000) in tax liabilities and EUR 485,000 (EUR 391,000) in social security liabilities.

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

VIG Holding issued a guarantee to its subsidiary Wiener Städtische in December 2019 that obligates it to subscribe to up to EUR 350,000,000 in deeply subordinated bonds upon demand by Wiener Städtische. The guarantee has a term of 10 years.

Liabilities arising from the use of off-balance sheet tangible assets were EUR 2,057,000 (EUR 1,908,000) for the following financial year and EUR 10,919,000 (EUR 10,129,000) for the following five years.

III. NOTES TO THE INCOME STATEMENT

Premiums written, net earned premiums, expenses for insurance claims and benefits, administrative expenses and reinsurance balance had the following breakdown for property and casualty insurance in 2019:

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	84,440	85,893	83,647	9,658	3,769
Liability insurance	1,142	1,158	343	166	-442
Marine, aviation and transport insurance	842	848	936	152	-156
Other non-life insurance	11,852	11,839	1,738	1,220	-2,193
Total direct business	**98,276**	**99,738**	**86,664**	**11,196**	**978**
(Previous year values)	85,053	85,185	61,089	12,399	-6,392
Indirect business					
Marine, aviation and transport insurance	0	0	59	4	55
Other insurance	1,001,750	989,784	616,431	345,385	-16,765
Total indirect business	**1,001,750**	**989,784**	**616,490**	**345,389**	**-16,710**
(Previous year values)	1,082,224	1,072,116	727,762	335,817	-2,155
Total direct and indirect business	**1,100,026**	**1,089,522**	**703,154**	**356,585**	**-15,732**
(Previous year values)	1,167,277	1,157,301	788,851	348,216	-8,547

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

The run-off result for property and casualty insurance was EUR 13,751,000 (EUR 18,848,000) for financial year 2019.

The result from indirect business was EUR 45,951,000 (EUR 21,561,000). The net earned premiums of EUR 989,784,000 (EUR 1,072,116,000) from indirect business were included immediately in the income statement.

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

	2019	2018
in EUR '000		
Income from participations	302,402	296,913
Income from other investments	23,525	21,230
Income from land and buildings	929	1,107

The funds in the portfolio distributed EUR 1,754,000 (EUR 3,761,000) during the financial year.

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

Losses on disposals of investments were EUR 2,809,000 (EUR 535,000) in financial year 2019.

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

in EUR '000	2019	2018
Wages and salaries	25,876	23,678
Expenses for severance benefits and payments to company pension plans	368	-35
Expenses for retirement provisions	2,864	3,430
Expenses for statutory social contributions and income-related contribution and mandatory contributions	4,935	4,365
Other social security expenses	245	219

Commissions of EUR 8,334,000 (EUR 9,582,000) were incurred for direct business in financial year 2019.

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 0 (EUR 4,387,000) 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

in EUR '000	31.12.2019	31.12.2018
Shares in affiliated companies	48,119	64,524
Investments	-681	-4,510
Tangible assets (not incl. land and buildings) and inventories	20	19
Valuation reserve	-21,100	-21,662
Subordinated liabilities	4,694	4,887
Underwriting provision – retention	74,497	75,785
Long-term personnel provisions	32,004	27,581
Other provisions	79,514	101,775
Temporary differences	217,067	248,399
Not subject to tax	-217,067	-228,900
Total differences	0	19,499
Resulting deferred taxes as at 31 December (22.5 %)	0	4,387
Deferred taxes changed as follows:		
As of 1 January	4,387	3,563
Changes recognised in the income statement	-4,387	824
As of 31 December	0	4,387

IV. SIGNIFICANT PARTICIPATIONS

Company	Direct interest in capital (%)	Equity capital (EUR '000)	Share of Capital (EUR '000)	Result of the year (EUR '000)	Share of profit for the year (EUR '000)	Last annual financial statements
Affiliated companies						
ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A.	88.7	86,455	76,668	-7,642	-6,777	2019
ATBIH GmbH	69.0	161,487	111,378	8,990	6,200	2019
BCR Asigurari de Viata Vienna Insurance Group S.A.	94.0	48,037	45,145	7,377	6,933	2019
BTA Baltic Insurance Company AAS	90.8	65,536	59,526	10,649	9,672	2019
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni	100.0	4,829	4,829	338	338	2019
Compensa Life Vienna Insurance Group SE	100.0	45,259	45,259	3,048	3,048	2019
Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group	84.1	71,350	60,034	11,127	9,362	2019
Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group	70.7	118,251	83,568	21,934	15,501	2019
Compensa Vienna Insurance Group, akcine draudimo bendrove	100.0	34,892	34,892	377	377	2019
DONAU Versicherung AG Vienna Insurance Group	74.2	100,454	74,577	9,382	6,965	2019
ELVP Beteiligungen GmbH	100.0	23,318	23,318	3	3	2019
Foreign limited liability company "InterInvestUchastie"	100.0	281	281	10	10	2018
GLOBAL ASSISTANCE SERVICES SRL	40.0	76	30	-66	-27	2018
GLOBAL ASSISTANCE SERVICES s.r.o.	100.0	209	209	15	15	2018
GLOBAL ASSISTANCE SLOVAKIA s.r.o.	40.0	24	10	-6	-2	2018
GLOBAL ASSISTANCE, a.s.	60.0	4,624	2,775	2,039	1,223	2018
Global Assistance Polska Spolka z ograniczona odpowiedzialnoscia	40.0	117	47	-117	-47	2018
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP"	14.2	50,732	7,204	5,530	785	2019
INTERSIG VIENNA INSURANCE GROUP Sh.A.	90.0	5,447	4,901	707	636	2019
Insurance Company Vienna osiguranje d.d., Vienna Insurance Group	100.0	9,670	9,670	707	707	2019
Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group	94.3	25,624	24,153	1,572	1,482	2019
InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group	100.0	100,159	100,159	18,919	18,919	2019
InterRisk Versicherungs-AG Vienna Insurance Group	100.0	54,270	54,270	16,400	16,400	2019
Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group Skopje	100.0	3,778	3,778	73	73	2018
KOMUNALNA poistovna, a.s. Vienna Insurance Group*	18.9	70,097	13,220	1,106	209	2019
KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group	94.4	372,351	351,388	36,486	34,432	2019
KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company	52.3	8,949	4,684	1,991	1,042	2018
Kooperativa, pojist'ovna, a.s. Vienna Insurance Group	95.8	773,635	741,452	148,036	141,878	2019

* VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe acquired an additional interest of 20.09 % on 09/01/2020

Company	Direct interest in capital (%)	Equity capital (EUR '000)	Share of Capital (EUR '000)	Result of the year (EUR '000)	Share of profit for the year (EUR '000)	Last annual financial statements
Affiliated companies						
LVP Holding GmbH	100.0	654,028	654,028	18,805	18,805	2019
OMNIASIG VIENNA INSURANCE GROUP S.A.	99.5	135,599	134,921	-1,664	-1,656	2019
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP"	90.6	7,940	7,190	-241	-218	2019
Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP"	97.8	2,251	2,201	168	164	2019
RISK CONSULT Sicherheits- und Risiko-Managementberatung Gesellschaft m.b.H.	41.0	738	302	446	183	2018
Ray Sigorta Anonim Sirketi	12.7	39,219	4,969	7,877	998	2019
SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A.	89.1	13,481	12,005	681	606	2019
Seesam Insurance AS	100.0	55,240	55,240	3,310	3,310	2019
TBI BULGARIA EAD in Liquidation	100.0	40,501	40,501	-28	-28	2019
UNION Vienna Insurance Group Biztosító Zrt.	98.6	53,484	52,757	6,744	6,652	2019
VIG Asset Management, a.s.	100.0	520	520	24	24	2018
VIG Properties Bulgaria AD	100.0	3,880	3,879	-1	-1	2019
VIG RE zajist'ovna, a.s.	55.0	178,936	98,415	20,803	11,442	2019
VIG Real Estate GmbH	90.0	140,026	126,023	23	21	2019
VIG Services Ukraine, LLC	20.9	39	8	-135	-28	2019
Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia	51.4	19,915	10,242	35	18	2018
Vienna International Underwriters GmbH	100.0	310	310	42	42	2018
Vienna Life Towarzystwo Ubezpieczen na Zycie S.A. Vienna Insurance Group	100.0	3,575	3,575	3,080	3,080	2019
Vienna-Life Lebensversicherung AG Vienna Insurance Group	100.0	8,684	8,684	-3,287	-3,287	2019
WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje Beograd	100.0	62,819	62,819	8,581	8,581	2019
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group	90.8	539,292	489,785	117,392	106,615	2019
Joint Stock Insurance Company WINNER-Vienna Insurance Group	100.0	6,605	6,605	723	723	2019
Wiener Osiguranje Vienna Insurance Group ad	100.0	9,330	9,330	155	155	2019
Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group	100.0	4,415	4,415	298	298	2018
Wiener Towarzystwo Ubezpiezen Spolka Akcyjna Vienna Insurance Group	100.0	35,240	35,240	6,531	6,531	2019
Wiener osiguranje Vienna Insurance Group dionicko drustvo za osiguranje	97.8	113,778	111,298	7,091	6,936	2019
twinformatics GmbH	20.0	1,957	391	394	79	2019
Participations						
CEESEG Aktiengesellschaft	8.5	372,063	31,625	21,474	1,825	2018
Erste Asset Management GmbH	0.8	104,716	796	39,397	299	2018

V. OTHER DISCLOSURES

The Company has total 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 number of shares issued remains unchanged since the previous financial year.

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

Wiener Städtische Versicherungsverein holds (directly or indirectly) approximately 71.54 % of the share capital.

No shares have special rights of control. See the following paragraph for information on the rights of the shareholder Wiener Städtische Versicherungsverein.

The Managing Board must have at least three and no more than eight 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.

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

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 11 May 2022 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 12 May 2017 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 11 May 2022, 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 12 May 2017 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 12 May 2017.

The general meeting of 12 May 2017 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 11 May 2022, 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 General Meeting of 24 May 2019 authorised the Managing Board to acquire the Company's own no-par value bearer shares in accordance with § 65(1) no. 4 and 8 and (1a) and (1b) AktG to the maximum extent permissible by law during a period of 30 months following the date the General Meeting resolution was adopted.

The amount paid upon repurchase of the Company's own shares may not be more than a maximum of 50 % below, or more than a maximum of 10 % above, the average unweighted stock exchange closing price on the ten stock exchange trading days preceding the repurchase.

The Managing Board may choose to make the purchase on the stock exchange, through a public offer or in any other legally permissible and expedient manner.

The General Meeting of 24 May 2019 also authorised the Managing Board to use own shares

a. for issuing shares to employees and senior management of the Company or to employees, senior management and managing board members of companies affiliated with the Company;

b. for servicing convertible bonds issued based on the resolution adopted by the General Meeting of 12 May 2017;

c. for sales in accordance with § 65(1b) AktG on the stock market or through a public offer. The Managing Board is also authorised for a period of at most five years after adoption of the resolution to dispose of the acquired own shares in some other way without or with partial or full exclusion of shareholder pre-emptive rights. The written report on the reasons for exclusion of shareholder pre-emptive rights was submitted to the General Meeting.

The Managing Board has not made use of this authorisation to date. The Company held no own shares as of 31 December 2019. As of the balance sheet date, 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.

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

On 9 October 2013 the Company issued a subordinated bond with a nominal value of EUR 500,000,000.00 and a maturity 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.

A EUR 200,000,000.00 subordinated bond with a term of 30 years was privately placed with international institutional investors on 6 April 2017. The subordinated bond can be called for the first time after 10 years by VIG Holding and satisfies the tier 2 requirements of Solvency II. Inclusion for trading in the Third Market of the Vienna Stock Exchange took place on 13 April 2017.

The interest rate is 3.75 % p.a. until 13 April 2027, after which the bond pays variable interest.

THE SUPERVISORY BOARD HAD THE FOLLOWING MEMBERS IN FINANCIAL YEAR 2019:

Chairman:
Günter Geyer

1st Deputy Chairman:
Rudolf Ertl

2nd Deputy Chairwoman:
Maria Kubitschek

Members:
Bernhard Backovsky (until 24 May 2019)
Martina Dobringer
Gerhard Fabisch
Peter Mihok (since 24 May 2019)
Heinz Öhler
Georg Riedl
Gabriele Semmelrock-Werzer
Gertrude Tumpel-Gugerell

THE MANAGING BOARD HAS THE FOLLOWING MEMBERS:

Chairwoman:
Elisabeth Stadler

Members:
Franz Fuchs
Judit Havasi (until 31 December 2019)
Liane Hirner (CFO)
Peter Höfinger
Gerhard Lahner (since 1 January 2020)
Gábor Lehel (since 1 January 2020)
Harald Riener (since 1 January 2020)
Peter Thirring

Substitute members of the Managing Board:
Gábor Lehel (until 31 December 2019)
Gerhard Lahner (until 31 December 2019)

The average number of employees was 285 (251). These employees were employed in the insurance business and resulted in personnel expenses of EUR 34,289,000 (EUR 31,657,000).

There were no loans outstanding to members of the Managing Board or members of the Supervisory Board as of 31 December 2019 (EUR 0). No guarantees were outstanding for members of the Managing Board or Supervisory Board as of 31 December 2019.

In 2019, the total expenses for severance pay and pensions of EUR 3,233,000 (EUR 3,395,000) included severance pay and pension expenses of EUR 2,315,000 (EUR 2,380,000) for members of the Managing Board and senior management in accordance with § 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 5,480,000 (EUR 5,031,000) from the Company during the reporting period for their services. Members of the Managing Board are provided a company car for both business and personal use. Former members of the Managing Board received EUR 790,000 (EUR 1,650,000).

The members of the Supervisory Board received EUR 506,000 (EUR 461,000) in remuneration for their services to the Company in 2019.

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.

If positive income is attributed to the parent company, the tax allocation equals 25 % of the positive income. If negative income is attributed to the parent company, the negative tax allocation equals 22.5 % of the current tax loss.

A receivable of EUR 93,495,000 (EUR 100,963,000) is owed by the parent company.

The Company is included in the consolidated financial statements prepared by Wiener Stadtische 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.

VI. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Current risks in connection with the coronavirus pandemic
The coronavirus pandemic that began at the beginning of 2020 has affected the business world worldwide. It has also exposed the VIG Insurance Group to a number of risks that are being addressed and handled as part of our sustainable risk management.

In addition to operational risks, mainly due to the possibility of employees becoming ill and subsequent quarantine measures, it is also having a negative impact on our insurance business and associated investments whose effects cannot yet be estimated at this time.

The high level of volatility exhibited by all financial asset classes and the downward potential that still exists in the interest rate environment are working hand-in-hand with the underwriting risks due to the pandemic to adversely affect our solvency.

We are closely monitoring financial market developments so that we can implement the measures needed in accordance with our risk-bearing capacity and established limits.

The VIG Insurance Group has initiated preventative measures at both the Holding level and the level of its subsidiaries in order to mitigate significant risks affecting our ability to maintain our business operations.

In addition to clear communication of hygiene and conduct measures, emergency plans for maintaining business operations in the event of a loss of employees or location closures were tested and preliminary IT and organisational measures have been introduced.

PROPOSED APPROPRIATION OF PROFITS

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) ended financial year 2019 with net retained profits of EUR 300,950,530.64. The following appropriation of profits will be proposed in the Annual General Meeting:

The 128 million shares shall receive a dividend of EUR 1.15 per share. The payment date for this dividend will be 20 May 2020, the record date 19 May 2020, and the ex-dividend date 18 May 2020.*

A total of EUR 147,200,000.00 will therefore be distributed. The net retained profits of EUR 153,750,530.64 remaining for financial year 2019 after distribution of the dividend is to be carried forward.

Vienna, 23 March 2020

The Managing Board:

Elisabeth Stadler
General Manager, Chairwoman of the Managing Board

Franz Fuchs
Deputy General Manager, Member of the Managing Board

Liane Hirner
CFO,
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Gerhard Lahner
Member of the Managing Board

Gábor Lehel
Member of the Managing Board

Harald Riener
Member of the Managing Board

Peter Thirring
Member of the Managing Board

* Editorial changes that have occurred between the date of preparation of the consolidated financial statements and the date of printing: In view of the decision of the Managing Board on March 30, 2020 to postpone the General Meeting for an indefinite period of time, the dates stated are no longer current. The dates for the payment day, the record date (dividend record date) and the ex-dividend day will be determined and redefined on the basis of the date of the General Meeting, which is still to be specified.

AUDITOR'S REPORT

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Audit opinion
We have audited the annual financial statements of

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna, Austria,
which comprise the Balance Sheet as at 31 December 2019, 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 at 31 December 2019 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 Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian company law and professional regulations, and we 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. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Recoverability of investments in affiliated insurance companies
Refer to notes chapter "I. Summary of significant accounting policies", "II. Notes to the balance sheet" and "IV. Significant participations".

Risk for the Financial Statements
Investments in affiliated insurance companies represent a significant part of Vienna Insurance Group AG assets.

In previous years certain investments in affiliated insurance 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 on an ad hoc basis. The impairment test of investments in affiliated insurance 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.

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 insurance companies. We have reconciled the expected future cash flows used in the calculation with the strategic business planning approved by the management.

We have reconciled the assumptions regarding the market development 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 determined fair value, we have compared the parameters used for derivation of the applied costs of capital with those used by a group of comparable companies (Peer-Group).

Responsibilities of management and the Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements for insurance companies and for such internal controls as management determines are 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, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion.

Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any.

Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- We obtain an understanding of 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 and related disclosures made by management.

- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.

– We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.

– From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Management report
In accordance with Austrian company law, the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with Austrian company law 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 is consistent with the financial statements and has been prepared in accordance with legal requirements. 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 our understanding of the Company and its environment, we did not note any material misstatements in the management report.

Other information
Management is responsible for other information. Other information is all information provided in the annual report, other than the financial statements, the management report and the auditor's report. Our opinion on the financial statements does not cover other information and we do not provide any kind of assurance thereon.

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

Additional Information in accordance with Article 10 EU Regulation

We were elected as auditors at the Annual General Meeting on 25 May 2018 and were appointed by the supervisory board on 18 June 2018 to audit the financial statements of Company for the financial year ending on that date. In addition, we have already been elected as auditors for the following financial year by the Annual General Meeting dated 24 May 2019 and appointed by the Supervisory Board on 24 June 2019.

We have been auditors of the Company, without interruption, since the financial statements at 31 December 2013.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner

The engagement partner is Mr Michael Schlenk.

Vienna, 23 March 2020

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Michael Schlenk
Austrian Chartered Accountant

DECLARATION BY THE MANAGING BOARD

We declare to the best of our knowledge that the annual financial statements of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe prepared in accordance with the requirements of Austrian 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, 23 March 2020

The Managing Board:

Elisabeth Stadler
General Manager, Chairwoman of the Managing Board

Franz Fuchs
Deputy General Manager, Member of the Managing Board

Liane Hirner
CFO,
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Gerhard Lahner
Member of the Managing Board

Gábor Lehel
Member of the Managing Board

Harald Riener
Member of the Managing Board

Peter Thirring
Member of the Managing Board

SUPERVISORY BOARD REPORT

The Supervisory Board and its committees, Chair and Deputy Chairs periodically and repeatedly monitored in detail the management of the Company and the activities of the Managing Board in connection with its management and monitoring of the Group.

This purpose was served by detailed presentations and discussions during meetings of the Supervisory Board and its committees as well as by detailed discussions on individual topics with Managing Board members who provided comprehensive explanations and evidence relating to management, the financial position of the Company and that of the Group. Among other things, strategy, business development (overall and in individual regions), risk management, the internal control system, internal audit activities, the compliance function and reinsurance, both at VIG Holding and Group level, and other important topics for the Company and the Group were discussed at these meetings.

In accordance with the Solvency II requirements, starting in 2016 non-financial aspects must be part of the performance expectations for variable remuneration of Managing Board Members. VIG Holding is committed to social responsibility and the importance of having employees drive forward performance, innovation and expertise. Goal fulfilment for Managing Board Members also depended on both financial and non-financial criteria in the 2019 reporting year.

The 2019 consolidated corporate governance report presents detailed information on the principles underlying the remuneration system, and we refer to this information in the 2019 consolidated corporate governance report.

The Supervisory Board has formed five committees from its Members. Information on the responsibilities and composition of these committees is available on the Company's website and in the 2019 consolidated corporate governance report.

One Annual General Meeting and five Supervisory Board meetings distributed across the financial year were held in 2019. Four meetings of the Audit Committee (Accounts Committee) were also held. The financial statements and consolidated financial statements auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, company number FN 269873y (KPMG), attended three Audit Committee meetings and the Supervisory Board meeting in 2019 that addressed the audit of the 2018 annual financial statements and the 2018 consolidated financial statements as well as formal approval of the 2018 annual financial statements, and also attended the Annual General Meeting. KPMG also informed the Audit Committee about the planning and procedure used to audit the financial statements and consolidated financial statements. Three meetings of the Committee for Managing Board Matters (Personnel Committee) were held in 2019. The Nomination Committee held one meeting in 2019. The Committee for Urgent Matters (Working Committee) and Strategy Committee did not meet in 2019. Strategic matters were handled by the Supervisory Board as a whole.

No agenda items were discussed in Supervisory Board meetings in 2019 without the participation of members of the Managing Board.

No Member of the Supervisory Board attended less than half of the Supervisory Board meetings. In order to ensure the 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 its organisational structure and procedures were satisfactory in terms of efficiency and in compliance with the law. It found no need for change or desire for change in the practices followed to date.

Acting upon the proposal and motion of the Supervisory Board, the general meeting of 25 May 2018 selected KPMG to be the financial statements auditor and consolidated financial statements auditor for financial year 2019, and KPMG consequently performed these duties in financial year 2019.

.

The Supervisory Board Audit Committee mainly dealt with the following topics in 2019:

During one meeting of the Audit Committee, the members of the committee consulted with the (consolidated) financial statements auditor on specification of two-way communications and audit planning.

By inspecting relevant documents, meeting with the Managing Board and discussions with the (consolidated) financial statements auditor, the Audit Committee was able to monitor the accounting process and the procedure used for auditing the financial statements and consolidated financial statements, and found no facts or circumstances providing grounds for objection. The Audit Committee also discussed and debated in detail the possibilities of providing recommendations or suggestions to ensure the reliability of the accounting process and, based on the comprehensive information and documents obtained by the Audit Committee during its review, found that the processes that had been established were adequate. The Supervisory Board Audit Committee also reviewed and 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 with the auditor's independent status. While reviewing and monitoring the independence of the financial statements auditor and consolidated financial statements auditor, the Audit Committee did not find any circumstances that would raise doubts about its independence and impartiality.

The Audit Committee also monitored the effectiveness of the internal control system, internal audit and the risk management system by obtaining 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 the Supervisory Board and discussed with the head of the internal audit department and the Group internal audit department or his substitute. The Supervisory Board found no grounds for objection.

The Audit Committee examined the Company's Solvency and Financial Condition Report (SFCR) and reported its findings to the Supervisory Board. The Supervisory Board found no grounds for objection.

In 2019, the Audit Committee also dealt with the selection of the financial statements and consolidated financial statements auditor for financial year 2020. It was determined that there were no grounds for exclusion of KPMG or circumstances that would give rise to concerns about impartiality, and that sufficient protective measures had been taken to ensure an independent and impartial audit. The Audit Committee reported to the Supervisory Board on the insights of these evaluations and proposed to the Supervisory Board and subsequently to the general meeting that KPMG be selected as auditor of the financial statements and consolidated financial statements. The General Meeting selected KPMG as auditor of the financial statements and consolidated financial statements for 2020.

The Audit Committee also received the 2019 annual financial statements, management report, 2019 consolidated corporate governance report and 2019 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined them. The Managing Board's proposal for appropriation of profits was also reviewed 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 examined the 2019 consolidated financial statements and Group management report.

In addition, the auditor's reports prepared by (consolidated) financial statements auditor KPMG for the 2019 annual financial statements and management report and the 2019 consolidated financial statements and Group management report were reviewed by the Audit Committee and examined. As a result of this examination, a unanimous resolution was adopted to recommend to the Supervisory Board that they be accepted without qualification. The Supervisory Board found no grounds for objection.

The (consolidated) financial statements auditor provided the Audit Committee with an additional report in accordance with Art. 11 of Regulation (EU) No. 537/2014 on specific requirements regarding statutory audit of public-interest entities that explained the results of the financial statements audit and consolidated financial statements audit. This additional report prepared by the financial statements auditor was also provided to the Supervisory Board.

The audit results and all resolutions adopted by the Audit Committee were reported to the Supervisory Board in its next meeting, along with an explanation of how the financial statement audit had contributed to the reliability of the financial reporting and what role the Audit Committee had played.

The Supervisory Board also dealt with the topic of remuneration policy.

The Nomination Committee and Supervisory Board also dealt intensively with the future-oriented composition of the Managing Board. Judit Havasi's move to the Managing Board of Donau Versicherung as Chairwoman of the Managing Board starting 1 January 2020, and the upcoming end of the term of office of Deputy General Manager Franz Fuchs in 2020 also had to be considered. In 2019, the Supervisory Board appointed Gerhard Lahner, Gábor Lehel and Harald Riener to the Managing Board starting 1 January 2020. Gerhard Lahner and Gábor Lehel were previously already substitute members of the Managing Board and, like Harald Riener, had already held positions nationally and abroad for many years in the VIG Insurance Group.

The 2019 annual financial statements together with the management report and 2019 consolidated corporate governance report, the 2019 consolidated financial statements together with the Group management report, and the Managing Board's proposal for appropriation of profits were taken up and examined in detail by the Supervisory Board. The appropriation of profits proposal was checked, in particular, to ensure that it was reasonable when capital requirements were taken into account.

The Supervisory Board also received the 2019 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined it. As a result of this examination, it found that the 2019 sustainability report (consolidated non-financial report) had been prepared properly and was appropriate. The Supervisory Board found no grounds for objection.

In addition, the auditor's reports prepared by (consolidated) financial statements auditor KPMG for the 2019 annual financial statements and management report and the 2019 consolidated financial statements and Group management report were reviewed by the Supervisory Board and examined. KPMG's audit of the 2019 annual financial statements and management report and the 2019 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 2019, and of the results of operations of the Company for financial year 2019 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 2019, and of the results of operations and cash flows of the Group for financial year 2019 in accordance with the IFRS as adopted by the EU and § 138 of the Austrian Insurance Supervision Act (VAG) in combination with § 245a of the Austrian Commercial Code (UGB).

The Group management report is consistent with the consolidated financial statements.

KPMG also reviewed the 2019 sustainability report (consolidated non-financial report) and determined in accordance with § 269 (3) UGB that the 2019 consolidated corporate governance report had been prepared. The final results of the review by the Supervisory Board did not provide any basis for reservation either. The Supervisory Board stated that it had nothing to add to the auditor's reports for the financial statements and consolidated financial statements.

After thorough examination, the Supervisory Board therefore adopted a unanimous resolution to approve the 2019 annual financial statements prepared by the Managing Board, not to raise any objections to the management report, the 2019 consolidated financial statements and Group management report, the 2019 consolidated corporate governance report and the 2019 sustainability report (consolidated non-financial report) and to agree with the Managing Board proposal for appropriation of profits. The 2019 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 approves the Managing Board's proposal for appropriation of profits and formally approves the actions of the Managing Board and Supervisory Board.

Vienna, April 2020

The Supervisory Board:

Günter Geyer
(Chairman)

Service

CONTACT INFORMATION

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

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

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

Bancassurance and International Partnerships
Harald Londer
Phone: +43 (0) 50 390-25670
Email: harald.londer@vig.com

Affiliated companies department
Sonja Raus
Phone: +43 (0) 50 390-21953
Email: sonja.raus@vig.com

Corporate Social Responsibility
Petra Ringler
Phone: +43 (0) 50 390-26052
Email: petra.ringler@vig.com

Data Management & Processes
Carsten Dehner
Phone: +43 (0) 50 390-26719
Email: carsten.dehner@vig.com

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

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

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

Corporate and large customer business
Gerald Netal
(Underwriting policy issues and organisation)
Phone: +43 (0) 50 390-26900
Email: gerald.netal@vig.com
Josef Aigner
(Claims policy issues and risk management)
Phone: +43 (0) 50 390-26112
Email: josef.aigner@vig.com

General Secretariat and Legal
Philipp Bardas
Phone: +43 (0) 50 390-21062
Email: philipp.bardas@vig.com

Group Compliance
Jasmin Schwarz
Phone: +43 (0) 50 390-20249
Email: jasmin.schwarz@vig.com

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

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

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

Group Reinsurance
Gerald Klemensich
Phone: +43 (0) 50 390-21161
Email: gerald.klemensich@vig.com

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

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

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

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

Planning and controlling
Harald Londer
Phone: +43 (0) 50 390-25670
Email: harald.londer@vig.com

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

Personal Insurance
Gerhard Kalcik
Phone: +43 (0) 50 390-27053
Email: gerhard.kalcik@vig.com

Motor and Property Insurance
Jürgen Palmberger
Phone: +43 (0) 50 390-20219
Email: juergen.palmberger@vig.com

ABBREVIATIONS USED IN THE TEXT

Abbreviations	Full company name
VIG Insurance Group[1]	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna
VIG Holding bzw. 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) Refers to all consolidated VIG (insurance-) 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 Wiener Versicherung Gruppe 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 large risks occur.

ADDRESS:

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe
Schottenring 30
1010 Vienna
Phone: +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

17PG001VIGHD19

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, formulations such as him/her, etc. have been avoided. It should be understood that the text always refers to women and men equally without discrimination.

Editorial deadline: 23 March 2020

Printing: WIENER STÄDTISCHE VERSICHERUNG AG
Vienna Insurance Group, Vienna