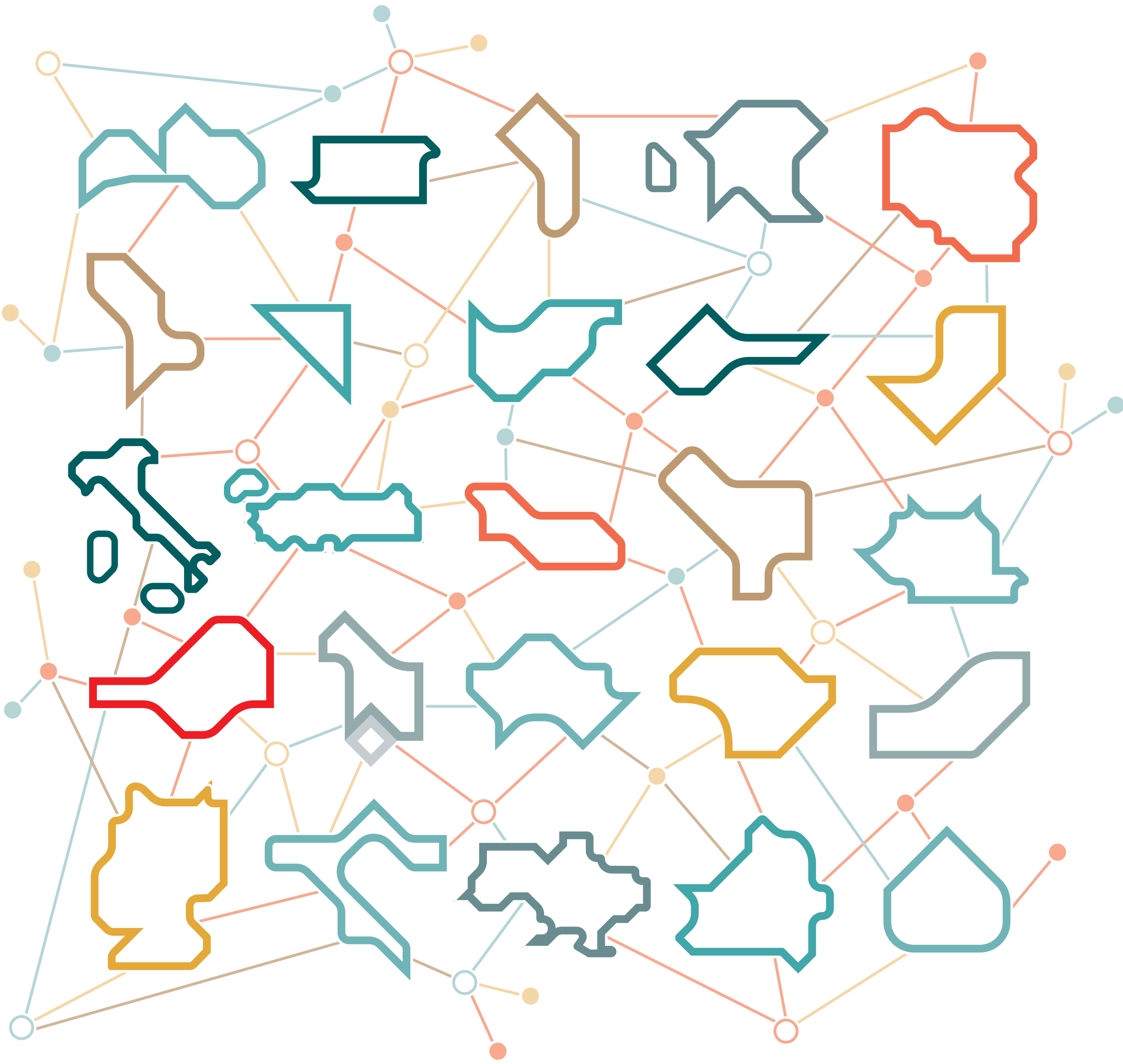
VIG
VIENNA INSURANCE GROUP



WE EMBRACE **DIVERSITY**

Protecting what matters.

17PG001/HE17 (18.03 – J20187050)

Annual financial statements 2017

FOR VIENNA INSURANCE GROUP AG
WIENER VERSICHERUNG GRUPPE

In accordance with the Austrian Commercial Code (UGB)

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NOTE:

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, 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 43.

Company profile

WE LIVE DIVERSITY

Our focus is on Austria and Central and Eastern Europe, where we offer custom-tailored products and services appropriate for our customers' needs. Our strategy aims to achieve sustainable profitability and continuous earnings growth in order to be a reliable partner in times of dynamic change.

ORGANISATION

Vienna Insurance Group (VIG) has more than 25,000 employees in around 50 insurance companies in 25 countries. We develop insurance solutions that are custom-tailored to the local and personal needs of our customers in order to further strengthen our leading position in the insurance area in Austria and Central and Eastern Europe (CEE). Around 230 employees work in control areas, such as Group Development and Strategy, Risk Management, Actuarial Department, Reinsurance, Planning & Controlling to make this possible. Their focus is on working as partners with the Group companies and maintaining continuous contact to ensure that both the interests of the companies and those of the Group are safeguarded.

FOCUS ON CENTRAL AND EASTERN EUROPE

In addition to Austria, VIG also clearly considers Central and Eastern Europe to be its home market. More than half of the premiums are generated in CEE. VIG is focusing on its business activities in this region. The main reasons for this are the growth forecasts for the CEE region, which are in some cases at least twice as high as those for Western Europe, and insurance density, which is still far below the EU average.

EXPERTISE AND STABILITY

Vienna Insurance Group is an international insurance group with its registered office in Vienna. VIG quickly grew from a pure Austrian company into an international group of companies after the opening of the East in 1989. It stands for stability and expertise in providing financial protection against risks. The roots of the Group reach back to the year 1824. Its close to 200 years of experience and a focus on the core competence of providing insurance form a solid, secure foundation for the more than 20 million customers of the Group.

FINANCIAL STRENGTH AND CREDIT RATING

The internationally recognised rating agency Standard & Poor's has granted VIG an A+ rating with stable outlook, which means that VIG continues to have the best rating of all companies in the ATX index, the leading index of the Vienna Stock Exchange. Vienna Insurance Group shares are listed on the Vienna Stock Exchange and Prague Stock Exchange. Around 70% of VIG's shares are held by Wiener Städtische Versicherungsverein, a stable principal shareholder with a long-term orientation. The remaining shares are in free float.

LOCAL MARKET PRESENCE

VIG feels that its responsibility is to provide financial protection for its customers. It relies on a multi-brand strategy with regionally established brands and local entrepreneurship to fulfil this responsibility. This is because the individual strengths of these brands and local know-how enable VIG to be especially close to its customers and make it successful as a corporate group.

Management report 2017

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 2017 (and in the same period in 2016):

			2017			2016
	Direct business	Indirect business	Total	Direct business	Indirect business	Total
in EUR '000						
Premiums written	84,112	926,386	1,010,498	79,116	888,284	967,400
Net earned premiums	84,517	912,629	997,146	81,058	875,453	956,511
Expenses for claims and insurance benefits	81,423	598,170	679,593	67,384	591,254	658,638
Administrative expenses	11,471	301,103	312,574	10,297	266,421	276,718
Reinsurance balance	12,318	7,265	19,583	256	-3,755	-3,499

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 1,010.49 million in 2017. The increase compared to the previous year (+4.5%) was mainly due to good growth in reinsurance premiums. Direct premiums written (corporate business) increased 6.3% year-on-year to EUR 84.11 million. Premium income from indirect business (assumed reinsurance) was EUR 926.39 million, 4.3% higher than the previous year.

VIG Holding retained EUR 977.34 million (2016: EUR 931.03 million) of the premiums written. EUR 33.16 million was ceded to reinsurers in 2017 (2016: EUR 36.37 million). Gross earned premiums were EUR 997.15 million (2016: EUR 956.51 million). Net earned premiums increased EUR 45.03 million to EUR 963.92 million.

Expenses for claims and insurance benefits

Gross expenses for claims and insurance benefits were EUR 679.59 million in 2017. EUR 81.42 million of this amount was attributable to corporate business (2016: EUR 67.38 million), EUR 14.04 million more than the previous year. The gross claims ratio for direct business rose from 81.8% to 94.8%, mainly due to the fire insurance and other property insurance lines of business. Expenses for claims and insurance benefits for assumed reinsurance rose 1.2% to EUR 598.170 million. The gross claims ratio for indirect business was 65.5% (2016: 67.5%). After deducting reinsurance of EUR 50.95 million (2016: EUR 30.66 million), expenses for claims and insurance benefits was EUR 628.65 million (2016: EUR 627.98 million).

Administrative expenses

Administrative expenses were EUR 312.57 million in 2017, or 12.9% higher than the previous year (2016: EUR 276.72 million). This development was due to an increase in commissions for indirect business. EUR 11.47 million of the administrative expenses were for the corporate business and EUR 301.10 million for the reinsurance business. After reinsurance commissions for ceded reinsurance business, EUR 310.71 million in administrative expenses remained for VIG Holding. This was an increase of EUR 37.45 million compared to the previous year.

Combined Ratio

VIG Holding's combined ratio was 97.5% in 2017 (2016: 98.1%), and 95.0% (2016: 94.8%) for direct business (corporate business). This ratio is calculated as the sum of all underwriting expenses and income, and net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums in the property/casualty segment.

Financial result

VIG Holding had a financial result of EUR 121.54 million (2016: EUR 45.18 million). The increase in the financial result in 2017 was primarily due to less impairment of participations and loan write-downs, and higher appreciation of investments. Impairment of shares in affiliated companies was EUR 109.5 million (2016: EUR 140.5 million).

in EUR '000	2017	2016
Land and buildings	10,336	9,717
Investments in affiliated companies and participations	294,541	164,475
Other investments	20,692	32,797
Total income (net)	**325,569**	206,989
Other investment and interest income	27,309	15,978
Expenses for asset management	-143,881	-70,456
Interest expenses	-84,110	-98,942
Other investment expenses	-3,348	-8,385
Investment profit according to income statement	**121,539**	45,184

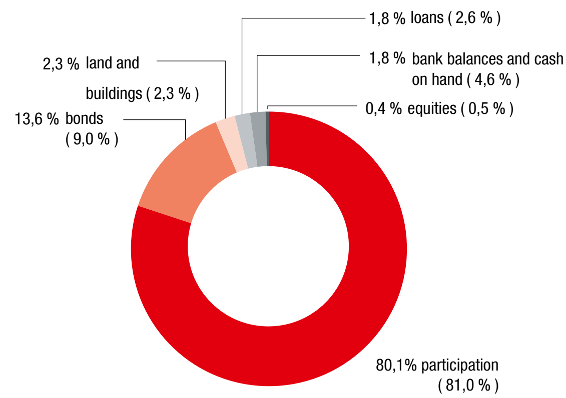
Result from ordinary activities

VIG Holding earned a result from ordinary activities of EUR 116.37 million in 2017 (2016: EUR 86.69 million). The increase was due to a positive development of the financial result.

Investments

Investments, including liquid assets, were EUR 5,097.72 million as of 31 December 2017 (2016: EUR 4,998.44 million). Deposits were EUR 1,036.29 million in 2017 (2016: EUR 1,026.73 million). 80.1% (2016: 81.0%) of the investments at the end of 2017 were participations, 13.6% (2016: 9.0%) were bonds (including bond funds), 1.8% (2016: 2.6%) were loans, 2.3% (2016: 2.3%) were land and buildings, 1.8% (2016: 4.6%) were bank balances and cash on hand, and 0.4% (2016: 0.5%) were equities.

BREAKDOWN OF INVESTMENTS IN 2017



The Serbian non-life insurance company AXA Nezivotno Osiguranje a.d.o. Beograd (Axa Non-Life) and life insurance company AXA Zivotno Osiguranje a.d.o. Beograd (Axa Life) that were acquired in November 2016 were merged with WIENER STÄDTISCHE OSIGURANJE ADO BELGRADE in August 2017. The purchase agreement for 100% of the shares of Merkur Osiguranje dd, Bosnia-Herzegovina was signed at the end of October 2017. The closing took place in February 2018 after the necessary approvals had been received. In addition, a purchase agreement to acquire 100% of the shares of the Estonian non-life insurance company Seesam Insurance AS (Seesam) was signed in December 2017.

Underwriting provisions

The retained share of underwriting provisions was EUR 1,141.38 million as of 31 December 2017. This corresponds to a year-on-year increase of 5.2% (2016: EUR 1,085.15 million), which was primarily due to provisions for outstanding claims arising from assumed reinsurance business. The reinsurers' share was EUR 84.22 million (2016: EUR 74.87 million).

Solvency ratio

The solvency ratio of 389.0% is extremely high due to an outstanding endowment of capital resources combined with a low capital requirement, and also includes VIG Holding's holding company function in the Group.

NON-FINANCIAL PERFORMANCE INDICATORS

Vienna Insurance Group drew up a sustainability strategy for the Group in reporting year 2017. This strategy and a great deal of other information on corporate social responsibility in the VIG companies can be read in the Sustainability Report, which is available for downloading at www.vig.com/sustainability-reports. A few examples of the VIG Holding's own initiatives are presented below.

Social involvement – Example: Social Active Day

Since 2011, VIG employees have been allowed to use one working day per year to volunteer in an aid organisation. This so-called Social Active Day was brought to life by VIG's principal shareholder, Wiener Städtische Versicherungsverein, and has become an established date each year for many employees. 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. 125 of them participated in 2017.

Cultural involvement –
Example: Gustav Mahler Youth Orchestra

VIG Holding has sponsored the Gustav Mahler Youth Orchestra, one of the leading youth orchestras worldwide, for many years. It is a place of learning for talented European orchestra musicians, and helps young Austrian musicians play music with their colleagues from all over Europe, traditionally including many from Central and Eastern Europe. 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.

Alfred Fried photography award 2017

Since 2013, the Alfred Fried award has been given to photographers of all ages whose pictures capture peace in the actual world. VIG was a sponsor this year for the Alfred Fried award for children and youth, which was awarded for the first time. The topic of peace is generally given too little attention, particularly during times of terrorism and war. This is especially true of the world at our latitudes, where people lead relatively safe day-to-day lives, but are nevertheless used to pictures with dramatic contents. Motifs of calm and peace are rare there. These are exactly the images that receive the Alfred Fried photography award. They are also pictures that reflect personal ideas of peace. Pictures that people put online every day. Ideas of peace that drift through the net on Instagram or Snapchat. For the first time this year, there was an award category for children who used a smartphone or iPad, among other things, to take their peace pictures. VIG is therefore especially pleased to be a sponsor for this category.

Children have "always been particularly important" for VIG. Those are the words of VIG Managing Board Member Judit Havasi, who handed the award to twelve-year-old Lina Momsen from Hamburg during a ceremony in Parliament on 14 September – the title of her photograph: "Friends are there for you". The children who attended VIG Kids Camp could also take part in the competition. Three of VIG's little guests in Austria even made it to the short list of the award.

Employees

VIG Holding offers attractive prospects and development opportunities for its employees. It offers a broad range of training and education 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 2017 Group Annual Report in 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. After receiving silver certificates in the previous three years, VIG Holding was the winner in the insurance industry category for the first time in 2017.

VIG Holding had an average of 231 employees in 2017, of which approximately 16% were part-time. Approximately 57% of the employees were women. Women held around 28% of the management positions directly below the Managing Board in 2017.

Research and development

VIG Holding and some subsidiaries make technical contributions to the further development of models in insurance-specific software. VIG is also cooperating with the Insurance Innovation Lab in Leipzig.

Other Information

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

RISK REPORT

In general, all Group companies are responsible for managing their own risks. The VIG Holding corporate risk management department provides framework guidelines in all major areas for these companies. The requirements set in the investments and reinsurance areas are particularly strict and are also applied in VIG Holding as a separate company. The Enterprise Risk Management (ERM) department is responsible for Group-wide risk management.

ERM assists the Managing Board with improvements to the risk organisation and corporate risk management topics. ERM also creates a framework for Group-wide risk management that uses key principles and concepts, uniform terminology and clear instructions and support. The international actuarial department, Rreinsurance department, corporate business, Asset-Risk Management, Asset Management, Planning & Controlling, internal audit and Group IT are also involved in the ongoing process of risk monitoring and management.

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

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

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

Liquidity risk: This category includes risks of VIG not being able to satisfy its payment obligations by liquidating assets at short notice.

Underwriting risks: VIG's core business consists of the transfer of risk from policyholders to the insurance company.

Underwriting risks in the areas of reinsurance and non-life insurance are primarily the result of changes in insurance-specific parameters, such as loss frequency, loss amount, lapse rates and lapse costs.

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

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

Strategic risks: Strategic risks can arise due to changes in the economic environment, case law, or the regulatory environment.

Established risk management processes are used to regularly identify, analyse, evaluate, report, control and monitor all the risks to which VIG is exposed. The risk control measures used are avoidance, reduction, diversification, transfer and acceptance of risks and opportunities. 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 Group reinsurance company VIG Re.

With respect to credit risk, consideration is only given to those issuers or contracting parties whose credit quality or reliability can be assessed by VIG Holding, whether on the basis of an in-house analysis, credit assessments/ratings from recognised sources, provision of security or the possibility of recourse to reliable mechanisms for safeguarding investments.

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

Investments

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

Use of forward exchange transactions

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ACCOUNTING PROCESS

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

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

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

- Completeness: all transactions during the reporting period are recorded in full.
- Existence: all reported assets and liabilities exist on the balance sheet date.
- Accuracy: all transactions recorded in the financial statements apply to the same period as the financial statements.
- Measurement: all asset, liability, income and expense items were 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 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. In the first half of 2014 this ICS process was used to completely revise the documentation of risks and controls and confirm, among other things, that all significant risks in the accounting process are covered by effective controls in VIG Holding, so that the financial reporting risk (i.e. the remaining risk of incorrect reporting) can be categorised as low. In following years, the documentation was kept up-to-date and the risk inventory was reviewed each year.

DISCLOSURES IN ACCORDANCE WITH § 267(3a) IN CONJUNCTION WITH § 243a UGB

Detailed information on the disclosures in accordance with § 267(3a) in conjunction with § 243a and § 243(3)(3) UGB is available in the notes to the consolidated financial statements on page 28.

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

A resolution was adopted allowing external service providers to perform IT services for VIG Holding. Outsourcing agreements that have been approved by the supervisory authority currently exist with IBM Austria (International Büromaschinen Ges. m.b.H.), twinformatics GmbH and T-Systems Austria GesmbH, each having its registered office in Austria. VIG Holding has not outsourced any critical or important functions or business activities.

OUTLOOK

Austria

WIFO is forecasting further secure economic growth for the Eurozone, with a GDP increase of 2.4%. According to the forecast, Austria will benefit greatly from strong growth in foreign trade in this environment, which would maintain a high level of capacity utilisation for the production of material goods. Real export volume and investments in equipment are both projected to increase by another 5.0% in the coming year.

Even though they will likely no longer reach the levels in 2017 (+5.5% and +8.5%, respectively), they are expected to make a major contribution to medium-term economic growth. As a result of the economic growth and further increases in employment, the unemployment rate would also fall further to 5.4% in 2018. The good economy and associated high level of economic activity would increase tax revenues thereby creating additional leeway in the public budget. The disposable income of private households is also forecast to increase in the next two years (+1.4% and 1.6%). This, combined with a lower savings rate, implies an increase in the level of private household consumption.

According to WIFO, new government debt based on the Maastricht definition will fall to 0.4% of GDP in 2018 and move further towards a zero deficit in 2019. This will also have a highly positive effect on government debt (2017: 80.2% and 2018: 77.5%). Even if the forecasts assume a moderate increase in the next two years, an abrupt change in the general interest rate environment cannot be expected in the short term. The Austrian Insurance Association (VVO) is forecasting an increase in total premiums in 2018. This is once again expected to be comprised of a decrease in life insurance and major increases in the property and casualty and health lines of business. Regular premium life insurance would remain relatively stable, and health insurance is expected to be one of the strongest drivers in 2018.

CEE

The Vienna Institute for International Economic Studies (WIIW) is predicting further positive economic growth in its current forecast for 2018 and 2019. Economic growth is expected to be stronger in small countries compared to 2017, while slowdowns could occur in some large countries. If such slowdowns occur in 2018, however, they will only be mild and as a rule will even be followed by a stabilisation or a new increase in 2019. Real economic growth in the CEE region will be significantly higher than 3% in both years. Due to the economic catch-up process taking place in small countries, such as Macedonia and Serbia, CEE is not only converging to Western Europe, but also becoming a more economically uniform region. Although the lowest national GDP growth rate in the region was still around 2% in 2017 (Macedonia), this will increase to 2.3% in 2018 and 2.6% in 2019 (Belarus in both cases).

The GDP growth rate for the Czech Republic is expected to decrease to 3.2% in 2018. Economic growth will also be slower in Poland (3.5%), Romania (4.5%) and Turkey (3.9%) than the calendar year just ended.

However, the growth rates expected for the Czech Republic, Poland and Turkey are still higher than those recorded in 2016. These growth rates are also solid or even excellent, especially when compared to Western European economies, and will continue to stabilise in 2019.

The positive economic development in CEE is primarily due to a combination of decreasing unemployment and rising wages, leading to strong private consumption, and slow increases in investment and net exports. All these factors directly or indirectly depend on increasingly well-established value chains that often have strong Western European demand at their end. Based on this, the CEE region will also continue to benefit from the robust economic growth that is forecast for the Eurozone.

Outlook for the Group

As a market leader in Austria and CEE, Vienna Insurance Group with its around 25,000 employees is in an excellent position to take advantage of the opportunities available in this region and the long-term growth possibilities they offer. Vienna Insurance Group remains committed to its proven business strategy of profitable growth. Based on VIG's values of diversity, customer proximity and responsibility, the Group plans to use its successful management principles to consolidate and further increase its market share. This includes both organic growth and growth by acquisitions, particularly if an opportunity arises to strategically expand our existing portfolio or take advantage of economies of scale.

Vienna Insurance Group also sees growth potential in the bank insurance business. A separate joint project aimed at further expanding this distribution channel was initiated with our bank insurance partner, Erste Group, in financial year 2017. The goal was, and continues to be, broadening the range of products offered and optimising the cooperation between banks and insurance companies in all countries where Erste Bank and the savings banks are working together with VIG.

On the insurance side, consideration was also given to organisational and structural changes to optimise the cooperation, leading to the merger of life insurance companies specialising in bank distribution with local Group companies. The mergers in Austria, the Czech Republic, Slovakia, Hungary and Croatia will be implemented by the beginning of 2019, subject to approval by the local authorities. Faster communication, simplified processes, easily understandable products and integration into bank online sales will generate additional business and cost benefits in the medium and long term.

The Group will continue to focus on efficiency improvements and making use of synergies, and will work systematically on reducing both losses and expenses with the aim of achieving a sustainable combined ratio of 95%. In life insurance, efforts will also be made to further expand biometric risk coverage and the regular premium business. This is aimed at offsetting the ongoing reduction in the ordinary financial result caused by the low interest rate environment.

The strategic measures and initiatives set by the Agenda 2020 work programme to optimise our business model, organisation and cooperation and ensure future viability helped improve the development of the Group in 2017.

Based on this, VIG is moving forward the targets previously indicated for 2019, and now plans to generate EUR 9.5 billion in premiums and a result before taxes of EUR 450 to 470 million in financial year 2018.

Based on current conditions and the positive macroeconomic development of the region, Vienna Insurance Group aims to steadily increase premiums to more than EUR 10 billion and achieve a profit before taxes in the range of EUR 500 million to EUR 520 million over the medium term by 2020. This will also benefit our shareholders, who can expect to receive stable dividends that increase with corporate earnings based on VIG's established dividend policy.

Outlook for VIG Holding

VIG Holding's goal is to increase premium volume from international reinsurance and cross-border corporate business. As part of its management responsibilities, VIG Holding will continue to focus on coordinating and initiating measures aimed in particular at optimisation in the areas of process organisation and earning power.

VIG Holding also aims to satisfy the conditions needed to be viewed as an outstanding first-class employer with an international background. Vienna Insurance Group Holding wants to challenge and develop its employees as best possible, strengthen their long-term loyalty and be the employer of first choice for experts and young talented employees.

Vienna, 19 March 2018

The Managing Board:

Elisabeth Stadler
General Manager,
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

Separate financial statements

BALANCE SHEET AS OF 31 DECEMBER 2017

Assets	31.12.2017	31.12.2016
	in EUR	in EUR '000
A. Intangible assets	**22,902,420.81**	25,757
Other intangible assets	22,902,420.81	25,757
B. Investments	**6,043,937,052.44**	5,797,396
I. Land and buildings	115,330,324.04	115,297
II. Investments in affiliated companies and participations	4,522,587,458.37	4,322,604
1. Shares in affiliated companies	4,085,909,820.29	4,049,016
2. Bonds and other securities of affiliated companies and loans to affiliated companies	436,330,000.00	273,346
3. Participations	347,638.08	242
III. Other investments	369,725,531.23	332,762
1. Shares and other non-fixed-interest securities	291,804,298.67	241,899
2. Bonds and other fixed-interest securities	71,618,135.00	80,565
3. Mortgage receivables	2,422,000.01	170
4. Other loans	3,881,097.55	10,128
IV. Deposits on assumed reinsurance business	1,036,293,738.80	1,026,733
C. Receivables	**175,307,915.01**	210,763
I. Receivables from direct insurance business	10,125,401.41	19,244
1. from policyholders	469,388.57	250
2. from insurance intermediaries	3,070.47	41
3. from insurance companies	9,652,942.37	18,953
II. Receivables from reinsurance business	35,889,597.75	2y2,299
IV. Other receivables	129,292,915.85	169,220
D. Pro rata interest	**6,182,765.54**	2,439
E. Other assets	**401,710,746.00**	539,469
I. Tangible assets (not incl. land and buildings)	1,115,569.63	1,177
II. Current bank balances and cash on hand	90,076,567.77	227,773
III. Other assets	310,518,608.60	310,519
F. Deferred charges	**1,408,619.21**	1,225
G. Deferred tax assets	**3,563,014.00**	3,380
Total ASSETS	**6,655,012,533.01**	6,580,429

BALANCE SHEET AS OF 31 DECEMBER 2017

Liabilities and shareholders' equity	31.12.2017	31.12.2016
	in EUR	in EUR '000
A. Shareholders' equity	3,225,520,294.89	3,203,467
I. Share capital		
1. Par value	132,887,468.20	132,887
II. Capital reserves		
1. Committed reserves	2,267,232,422.07	2,267,232
III. Retained earnings		
1. Free reserves	629,715,354.17	629,716
IV. Risk reserve	38,556,927.00	34,026
V. Net retained profits	157,128,123.45	139,606
of which brought forward	37,205,985.93	43,126
B. Subordinated liabilities	1,600,000,000.00	1,656,635
I. Hybrid bond	500,000,000.00	500,000
II. Supplementary capital bond	1,100,000,000.00	1,156,635
C. Underwriting provisions – retention	1,141,382,772.95	1,085,147
I. Unearned premiums	88,234,598.77	73,974
1. Gross	90,094,998.11	75,966
2. Reinsurers' share	-1,860,399.34	-1,992
II. Provision for outstanding claims	1,029,464,568.18	1,002,071
1. Gross	1,111,828,950.29	1,074,950
2. Reinsurers' share	-82,364,382.11	-72,879
III. Equalisation provision	22,418,381.00	8,293
IV. Other underwriting provisions	1,265,225.00	809
1. Gross	1,265,225.00	809
D. Non-underwriting provisions	176,236,954.52	91,717
I. Provision for severance pay	1,299,315.90	1,029
II. Provision for pensions	36,599,919.00	30,951
III. Tax provisions	2,185,714.29	1,996
IV. Other provisions	136,152,005.33	57,741
E. Other liabilities	507,334,204.28	538,212
I. Liabilities from direct insurance business	36,819,784.15	35,804
1. to policyholders	21,276,842.99	22,387
2. to insurance intermediaries	349,289.28	661
3. to insurance companies	15,193,651.88	12,756
II. Liabilities from reinsurance business	4,537,055.03	14,132
III. Liabilities to financial institutions	3,913,404.27	6,507
IV. Other liabilities	462,063,960.83	481,769
F. Deferred income	4,538,306.37	5,251
Total LIABILITIES AND SHAREHOLDERS' EQUITY	6,655,012,533.01	6,580,429

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

Underwriting account	2017	2016
	in EUR	in EUR '000
1. Net earned premiums	**963,923,187.03**	918,893
Premiums written	977,342,221.80	931,035
Gross	1,010,497,857.53	967,400
Ceded reinsurance premiums	-33,155,635.73	-36,365
Change in unearned premiums	-13,419,034.77	-12,142
Gross	-13,352,280.00	-10,890
Reinsurers' share	-66,754.77	-1,252
2. Investment income from underwriting business	**9,347,798.64**	8,074
3. Other underwriting income	**203,082.88**	137
4. Expenses for claims and insurance benefits	**-628,648,024.12**	-627,976
Payments for claims and insurance benefits	-579,336,505.11	-563,541
Gross	-621,336,984.28	-588,554
Reinsurers' share	42,000,479.17	25,013
Change in provision for outstanding claims	-49,311,519.01	-64,435
Gross	-58,256,176.20	-70,084
Reinsurers' share	8,944,657.19	5,649
5. Increase in underwriting provisions	**-456,375.00**	-281
Other underwriting provisions	-456,375.00	-281
Gross	-456,375.00	-281
6. Administrative expenses	**-310,713,544.88**	-273,261
Acquisition expenses	-311,848,302.16	-275,897
Other administrative expenses	-726,307.87	-821
Reinsurance commissions and profit commissions from reinsurance cessions	1,861,065.15	3,457
7. Other underwriting expenses	**-282,475.16**	-219
8. Change in the equalisation provision	**-14,124,839.00**	-5,986
Underwriting result (amount carried forward)	19,248,810.39	19,381

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

	2017	2016
	in EUR	in EUR '000
Underwriting result (amount carried forward)	19,248,810.39	19,381
Non-underwriting account:		
1. Income from investments and interest income	476,494,215.02	368,471
Income from participations	285,584,430.60	293,913
Income from land and buildings	13,618,335.22	14,088
Income from other investments	30,039,313.69	27,481
Income from appreciations	119,575,428.04	15,068
Income from the disposal of investments	367,696.00	1,943
Other investment and interest income	27,309,011.47	15,978
2. Expenses for investments and interest expenses	-354,955,656.57	-323,287
Expenses for asset management	-143,881,031.77	-70,456
Depreciation of investments	-120,039,463.96	-145,169
Interest expenses	-84,110,069.67	-98,942
Losses from the disposal of investments	-3,576,941.98	-335
Other investment expenses	-3,348,149.19	-8,385
3. Investment income transferred to the underwriting account	-9,347,798.64	-8,074
4. Other non-underwriting income	10,334,356.98	35,629
5. Other non-underwriting expenses	-25,399,920.57	-5,425
6. Result from ordinary activities	116,374,006.61	86,695
7. Taxes on income	8,078,730.91	15,298
8. Profit for the period	124,452,737.52	101,993
9. Transfer to reserves	-4,530,600.00	-5,513
Transfer to risk reserve	-4,530,600.00	-5,513
10. Profit for the year	119,922,137.52	96,480
11. Retained profits brought forward	37,205,985.93	43,126
Net retained profits	157,128,123.45	139,606

NOTES TO THE FINANCIAL STATEMENTS FOR 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements as of 31 December 2017 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 2017.

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

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

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

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

Equities and other non-fixed interest **securities** and **shares in affiliated companies** are valued according to the strict lower-of-cost-or-market principle (strenges Niederstwertprinzip). Bonds, other fixed-income securities and **participations** are valued using the less strict lower-of-cost-or-market principle (gemildertes Niederstwertprinzip) provided for in § 149(1) VAG.

Valuation using the less strict lower-of-cost-or-market principle resulted in write-downs of EUR 35 (EUR 0) 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.

Six forward exchange transactions in the CZK and PLN currencies with terms limited to 23 May 2018 existed as of the 31 December 2017 balance sheet date. The transactions are being used to hedge future dividends in foreign currency. Since the market value of the forward exchange transactions was negative as of the reporting date, a provision for expected losses was formed in the amount of EUR 122,000 (EUR 130,000).

The forward exchange transactions in the CZK currency had a positive market value of EUR 97,000 on the reporting date (EUR 413,000).

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.

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

Unearned premiums were essentially calculated by prorating over time after applying a deduction for expenses (15%) of EUR 1,250,000 (EUR 1,322,000).

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 9,471,000 (EUR 9,313,000) were included.

In **indirect business,** provisions for outstanding claims are primarily based on reports from ceding companies as of the 31 December 2017 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 2008-P (Employees), assuming a wage growth rate of 2.00% (1.80%) and a discount rate of 2.09% (2.52%) p.a. for the severance provision, 2.88% (3.30%) for the pension provision and 2.34% (2.76%) 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%, 30–34 2.0%, 35-39 2.0%, 40–50 1.5%, 51-59 1.0% and 60–65 0.5%.

EUR 2,622,000 (EUR 2,715,000) in provisions have been formed for direct pension obligations. A portion of the direct benefits equal to EUR 241,000 (EUR 237,000) 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 2017 was EUR 4,124,000 (EUR 4,057,000). The amount earmarked for satisfying the outsourced severance pay obligations that was held by the outside insurance company was EUR 2,825,000 (EUR 3,028,000). The difference of EUR 1,299,000 (EUR 1,029,000) 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.

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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 2016	25,757	115,297	4,049,016	273,346	242
Additions	2,328	3,316	50,748	203,500	106
Disposals	0	0	22,810	40,516	0
Appreciation	0	1,119	118,456	0	0
Depreciation	5,183	4,402	109,500	0	0
As of 31 December 2017	22,902	115,330	4,085,910	436,330	348

Intangible assets with a value of EUR 188,000 (EUR 8,000) were acquired from affiliated companies during the financial year.

The value of **developed and undeveloped properties** was EUR 36,464,000 (EUR 35,642,000) as of 31 December 2017. The **carrying amount of self-used property** was EUR 19,966,000 (EUR 19,708,000).

The investments have the following carrying amounts and fair values:

Items under § 144 Abs. 2 VAG	Book value	Fair value	Book value	Fair value
	2017	2017	2016	2016
in EUR '000				
Land and buildings	115,330	481,095	115,297	463,035
thereof appraisal reports 2013	0	0	42,776	65,260
thereof appraisal reports 2014	0	0	20,560	38,550
thereof appraisal reports 2015	10,872	95,750	11,147	100,630
thereof appraisal reports 2016	42,984	258,595	40,814	258,595
thereof appraisal reports 2017	61,474	126,750	0	0
Shares in affiliated companies	4,085,910	9,233,351	4,049,016	8,996,533
Bonds and other securities of affiliated companies and loans to affiliated companies	436,330	478,575	273,346	300,569
Participations	348	348	241	241
Shares and other non-fixed-interest securities	291,804	303,915	241,899	252,638
Bonds and other fixed-interest securities	71,618	77,959	80,565	88,116
Mortgage receivables	2,422	3,155	170	172
Other loans	3,881	3,762	10,128	10,195
Deposits receivables	1,036,294	1,036,294	1,026,733	1,026,733
Total	6,043,937	11,618,454	5,797,395	11,138,232

Hidden reserves rose by EUR 233,682,000 to a total of EUR 5,574,517,000 (EUR 5,340,835,000).

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. External appraisal reports are obtained for direct and indirect shares in domestic affiliated insurance companies. Internal valuations are performed for shares in foreign affiliated insurance companies.

Stock exchange values were used 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), or in the case of structured securities fair values were determined using the purchased LPA software.

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 871,000 (EUR 858,000) to the Republic of Austria and loans of EUR 3,010,000 (EUR 9,271,000) to other borrowers. The other loans include EUR 3,000,000 in loans to other borrowers 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	2017	2016
in EUR '000		
Hybrid bond 2008	500,000	500,000
Supplementary capital bond 2005–2022	0	136,635
Supplementary capital bond 2005	0	120,000
Bond 2013–2043	500,000	500,000
Supplementary capital bond 2015–2046	400,000	400,000
Supplementary capital bond 2017–2047	200,000	0
Total	1,600,000	1,656,635

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

	Affiliated companies		Companies in which an participation interest is held	
	2017	2016	2017	2016
in EUR '000				
Mortgage receivables	2,422	170	0	0
Deposits receivables	1,036,294	1,026,733	0	0
Receivables from direct insurance business	7,796	16,787	0	0
Receivables from reinsurance business	20,290	14,962	0	0
Other receivables	120,323	154,739	0	0
Liabilities from direct insurance business	201	233	0	0
Liabilities from reinsurance business	2,952	9,690	0	0
Other liabilities	429,831	443,292	0	0

The change in the personnel provision was recognised in personnel expenses. The interest expenses for personnel provisions of EUR 5,184,000 (EUR 5,367,000) are reported under investment and interest expenses.

The **other provisions** of EUR 136,152,000 (EUR 57,742,000) mainly consist of IT provisions of EUR 125,788,000 (EUR 47,324,000), provisions for unused vacation time of EUR 1,897,000 (EUR 1,980,000), provisions for customer support and marketing of EUR 720,000 (EUR 690,000) and provisions for anniversary bonuses of EUR 634,000 (EUR 742,000).

The amount shown under **other liabilities** includes EUR 6,000 (EUR 2,000) in tax liabilities and EUR 338,000 (EUR 332,000) 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.

Liabilities arising from the use of off-balance sheet tangible assets were EUR 2,201,000 (EUR 2,020,000) for the following financial year and EUR 11,687,000 (EUR 10,725,000) 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 2017:

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	70,008	70,223	72,684	9,494	12,727
Liability insurance	1,441	1,484	959	223	-58
Marine, aviation and transport insurance	909	906	653	176	110
Other non-life insurance	11,754	11,904	7,127	1,578	-461
Total direct business	84,112	84,517	81,423	11,471	12,318
(Previous year values)	(79,116)	(81,058)	(67,384)	(10,297)	(256)
Indirect business					
Marine, aviation and transport insurance	201	201	213	65	77
Other insurance	926,185	912,428	597,957	301,038	7,188
Total indirect business	926,386	912,629	598,170	301,103	7,265
(Previous year values)	(888,284)	(875,453)	(591,254)	(266,421)	(-3,755)
Total direct and indirect business	1,010,498	997,146	679,593	312,574	19,583
(Previous year values)	(967,400)	(956,511)	(658,638)	(276,718)	(-3,499)

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 19,126,000 (EUR 8,648,000) for the financial year.

The result from **indirect business** was EUR 22,703,000 (EUR 25,852,000). The net earned premiums of EUR 912,629,000 (EUR 875,453,000) 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:

	2017	2016
in EUR '000		
Income from participations	285,319	293,587
Income from other investments	19,286	15,251
Income from land and buildings	1,204	1,175

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

Losses on disposals of investments were EUR 3,577,000 (EUR 335,000) in financial year 2017.

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

in EUR '000	2017	2016
Wages and salaries	20,566	18,882
Expenses for severance benefits and payments to company pension plans	-217	720
Expenses for retirement provisions	451	1,380
Expenses for statutory social contributions and income-related contribution and mandatory contributions	4,140	4,239
Other social security expenses	229	169

Commissions of EUR 9,273,000 (EUR 8,510,000) were incurred for direct business in financial year 2017.

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

Deferred profit taxes of EUR 3,563,000 (EUR 3,380,000) 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	31.12.2017	31.12.2016
Shares in affiliated companies	15,894	22,767
Investments	-2,387	-1,155
Tangible assets (not incl. land and buildings) and inventories	15	18
Valuation reserve	-25,325	-26,140
Subordinated liabilities	5,080	5,447
Underwriting provision - retention	73,230	64,433
Long-term personnel provisions	21,838	17,793
Other provisions	101,336	13,541
Temporary differences	189,681	96,704
Not subject to tax	-173,842	-81,684
Total differences	15,839	15,021
Resulting deferred taxes as at 31 December (22.5%)	3,564	3,380
Deferred taxes changed as follows:		
As of 1 January	3,380	3,196
Changes recognised in the income statement	183	184
As of 31 December	**3,563**	**3,380**

IV. SIGNIFICANT PARTICIPATIONS

Company	Direct interest in capital (%)	Equity capital EUR '000	Share of Capital EUR '000	Result for the year EUR '000	Share of profit for the year in EUR '000	Last annual financial statements
Affiliated companies						
"POLISA-ZYCIE" Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	99.9	15,821	15,805	1,935	1,933	2017
ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest	86.5	99,106	85,697	4,009	3,467	2017
ATBIH GmbH, St.Pölten	69.0	163,366	112,674	-18,310	-12,628	2017
BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest	94.0	36,384	34,194	4,592	4,316	2017
BTA Baltic Insurance Company AAS, Riga	90.8	54,498	49,501	7,792	7,077	2017
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chisinau	100.0	4,466	4,466	507	507	2017
COMPENSA Holding GmbH, Wiesbaden	100.0	54,573	54,573	47	47	2017
Compensa Life Vienna Insurance Group SE, Tallinn	100.0	36,037	36,037	2,766	2,766	2017
Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw	78.9	47,659	37,579	1,725	1,360	2017
Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	70.7	94,738	66,951	14,245	10,067	2017
Compensa Vienna Insurance Group, akcine draudimo bendrove, Vilnius	100.0	21,161	21,161	-2,870	-2,870	2017
DONAU Versicherung AG Vienna Insurance Group, Vienna	4.0	90,654	3,599	6,116	243	2017
ELVP Beteiligungen GmbH, Vienna	100.0	23,317	23,317	-2	-2	2017
ERSTE Vienna Insurance Group Biztosító Zrt., Budapest	90.0	8,229	7,406	2,042	1,838	2017
Erste osiguranje Vienna Insurance Group d.d., Zagreb	95.0	16,903	16,058	2,111	2,005	2017
Foreign limited liability company "InterInvestUchastie", Minsk	100.0	239	239	0	0	2016
GLOBAL ASSISTANCE SERVICES SRL, Bucharest	40.0	75	30	0	0	n.a.
GLOBAL ASSISTANCE SERVICES s.r.o., Prague	100.0	240	240	-9	-9	2016
GLOBAL ASSISTANCE SLOVAKIA s.r.o., Bratislava	40.0	129	52	120	48	2016
GLOBAL ASSISTANCE, a.s., Prague	60.0	4,186	2,512	1,865	1,119	2017
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia	14.2	38,055	5,404	3,482	494	2017
INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana	90.0	3,950	3,554	491	442	2017
Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group, Skopje	94.3	24,593	23,181	1,554	1,465	2017
InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	100.0	88,171	88,171	9,037	9,037	2017
InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden	100.0	49,970	49,970	13,570	13,570	2017
Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group Skopje, Skopje	100.0	3,726	3,726	-190	-190	2016
KOMUNÁLNA poistovna, a.s. Vienna Insurance Group, Bratislava	18.9	47,760	9,008	5,790	1,092	2017
KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group, Bratislava	94.2	304,709	287,127	29,779	28,061	2017
KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company, Minsk	52.3	5,517	2,888	2,088	1,093	2016
Kooperativa, pojist'ovna, a.s. Vienna Insurance Group, Prague	96.3	490,464	472,415	73,420	70,718	2017
LVP Holding GmbH, Vienna	100.0	567,543	567,543	45,335	45,335	2017
OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest	99.5	151,233	150,477	673	670	2017
Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev	9.2	8,705	800	696	64	2017
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev	90.6	1,492	1,351	-2,409	-2,182	2017
Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev	97.8	1,442	1,410	16	16	2017
Poist'ovna Slovenskej sporitel'ne, a.s. Vienna Insurance Group, Bratislava	90.0	56,457	50,811	12,959	11,663	2017
Pojist'ovna Ceské sporitelny, a.s. Vienna Insurance Group, Pardubice	90.0	159,009	143,108	41,350	37,215	2017

Company	Direct interest in capital (%)	Equity capital EUR '000	Share of Capital EUR '000	Result for the year EUR '000	Share of profit for the year in EUR '000	Last annual financial statements
Affiliated companies						
RISK CONSULT Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H., Vienna	41.0	821	337	587	241	2016
Ray Sigorta Anonim Sirketi, Istanbul	12.7	43,279	5,483	5,164	654	2017
SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A., Tirana	89.1	12,414	11,055	661	589	2017
TBI BULGARIA EAD, Sofia	100.0	40,640	40,640	-176	-176	2017
UNION Vienna Insurance Group Biztositó Zrt., Budapest	100.0	33,569	33,569	1,926	1,926	2017
VIG Asset Management, a.s., Prague	100.0	507	507	46	46	2016
VIG Properties Bulgaria AD, Sofia	100.0	3,887	3,886	-8	-8	2017
VIG RE zajist'ovna, a.s., Prague	70.0	169,614	118,730	20,397	14,278	2017
VIG Real Estate GmbH, Vienna	90.0	92,215	82,994	6	5	2017
VIG Services Ukraine, LLC, Kiev	21.3	30	6	-176	-37	2017
Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	69.9	6,718	4,694	24	17	2016
Vienna International Underwriters GmbH, Vienna	100.0	229	229	32	32	2016
Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warsaw	100.0	2,417	2,417	-2,085	-2,085	2017
Vienna Life Vienna Insurance Group Biztosító Zártkörüen Müködö Részvénytársaság, Budapest	100.0	17,857	17,857	1,360	1,360	2017
Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern	100.0	12,164	12,164	181	181	2017
WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje Beograd, Belgrade	100.0	44,048	44,048	2,971		2017
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	99.9	987,437	986,450	105,830	105,724	2017
Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje	100.0	5,938	5,938	785	785	2017
Wiener Osiguranje Vienna Insurance Group ad, Banja Luka	100.0	6,011	6,011	-1,201	-1,201	2017
Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group, Podgorica	100.0	3,898	3,898	208	208	2016
Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb	97.8	78,374	76,665	3,738	3,657	2017
twinformatics GmbH, Vienna	20.0	1,553	311	278	56	2017
Erste Asset Management GmbH, Vienna	1.2	90,119	1,045	24,809	288	2017

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

Wiener Städtische Versicherungsverein holds (directly or indirectly) approximately 70% 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 seven members. The Supervisory Board has between three and ten members (shareholder representatives). The shareholder Wiener Städtische Versicherungsverein has the right to appoint up to one third of the members of the Supervisory Board if, and so long as, it holds 50% or less of the Company's voting shares. General meeting resolutions are adopted by a simple majority, unless a different majority is required by law or the articles of association.

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 preemption 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 12 May 2017 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 12 May 2017 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 2017.

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 covering the case of a public takeover bid.

Income bonds with a total nominal value of EUR 250,000,000.00, (Tranche 1) were issued on 12 June 2008 and income bonds with a total nominal value of EUR 250,000,000.00, (Tranche 2) were issued on 22 April 2009 based on the authorisation granted by the general meeting of 16 April 2008. The Company repurchased Tranche 2 in August 2013. EUR 51,983,000 of the nominal value of Tranche 1 was repurchased in March 2015. The income bonds are traded on the Vienna Stock Exchange. The interest rate is 8% p.a. until 12 September 2018 (fixed interest rate), after which the income bonds pay variable interest. The Company has the right to call the bonds each quarter after the start of the variable interest period.

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

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

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

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 and satisfies the tier 2 requirements of Solvency II. Inclusion for trading in the Third Market of the Vienna Stock Exchange will take 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 2017:

Chairman:
Günter Geyer

1st Deputy Chairman
Rudolf Ertl (since 1 May 2017, member until 30 April 2017)

Karl Skyba (1st Deputy Chairman until 30 April 2017, left the Supervisory Board effective the date of formal discharge by the General Meeting on 12 May 2017).

2nd Deputy Chairwoman
Maria Kubitschek

Members:
Bernhard Backovsky
Martina Dobringer
Gerhard Fabisch (since 12 May 2017)
Heinz Öhler
Reinhard Ortner (deceased 21 January 2017)
Georg Riedl
Gabriele Semmelrock-Werzer (since 12 May 2017)
Gertrude Tumpel-Gugerell

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

Chairwoman:
Elisabeth Stadler

Members:
Franz Fuchs
Roland Gröll (until 30 June 2017)
Judit Havasi
Liane Hirner (since 1 February 2018)
Peter Höfinger
Martin Simhandl

The average number of employees was 231 (229). These employees were employed in the insurance business and resulted in personnel expenses of EUR 25,170,000 (EUR 25,390,000).

There were no loans outstanding to members of the Managing Board or members of the Supervisory Board as of 31 December 2017 (EUR 0).

No guarantees were outstanding for members of the Managing Board or Supervisory Board as of 31 December 2017.

In 2017, the total expenses for severance pay and pensions of EUR 234,000 (EUR 2,100,000) included severance pay and pension expenses of EUR 1,046,000 (EUR 1,348,000) 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 4,511,000 (EUR 3,942,000) 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. The members of the Managing Board received EUR 115,000 (EUR 267,000) from affiliated companies for their operational services for the Company, or as a manager or employee of an affiliated company.

Former members of the Managing Board received EUR 719,000 (EUR 2,771,000). Former members of the Managing Board received EUR 659,000 (EUR 350,000) from affiliated companies for their services to the Company, or as a manager or employee of an affiliated company during the reporting period; this compensation was paid in full by affiliated companies.

The members of the Supervisory Board received EUR 494,000 (EUR 429,000) in remuneration for their services to the Company in 2017.

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 81,211,000 (EUR 72,371,000) is owed by the parent company.

VI. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No other events of special significance that would have changed the presentation of the **net assets, financial position and results of operations** occurred **after the balance sheet date.**

The legal form of the Austrian Group companies will be changed in 2018, subject to approval by the supervisory authority.

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

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

PROPOSED APPROPRIATION OF PROFITS

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) ended financial year 2017 with net retained profits of EUR 157,128,123.45. The following appropriation of profits will be proposed in the Annual General Meeting:

The 128 million shares shall receive a dividend of EUR 0.90 per share. The payment date for this dividend will be 30 May 2018, the record date 29 May 2018, and the ex-dividend date 28 May 2018.

A total of EUR 115,200,000.00 will therefore be distributed. The net retained profits of EUR 41,928,123.45 remaining for financial year 2017 after distribution of the dividend is to be carried forward.

Vienna, 19 March 2018

The Managing Board:

Elisabeth Stadler
General Manager,
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

AUDITOR´S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Optinion
We have audited the consolidated financial statement of

VIENNA INSURANCE GROUP AG
Wiener Versicherung Gruppe, Wien,
which comprise the Balance Sheet as of 31 December 2017, 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 2017 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 ("EU 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 Generally Accepted Accounting Principles 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, 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 the EU 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 the EU 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, misprepresentations 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 the Austrian Generally Accepted Accounting Principles, 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 the Austrian Generally Accepted Accounting Principles 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
At the Annual General Meeting dated 13 May 2016, we were elected as auditors. We were appointed by the supervisory board on 8 June 2016. We have been the Company's auditors from the year ended 31 December 2013 without interruption.

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 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU 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, 26 March 2018

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, 19 March 2018

The Managing Board:

Elisabeth Stadler
General Manager,
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

Managing Board areas of responsibility:

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

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

Judit Havasi: Solvency II, planning and controlling, legal, data management & processes; Country responsibilities: Slovakia, Romania

Liane Hirner: Finance and accounting

Peter Höfinger: Corporate and large customer business, Vienna International Underwriters (VIU), reinsurance; Country responsibilities: Albania and Kosovo, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Montenegro, Serbia

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

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. Detailed presentations and discussions during meetings of the Supervisory Board and its committees were used for this purpose, as were thorough and, in some cases, in-depth discussions with the members of the Managing Board, who provided detailed explanations and supporting documentation relating to the management and financial position of the Company and the Group. Among other things, strategy, business development (overall and in individual regions), risk management, the internal control system, internal audit activities and reinsurance, both at the VIG Holding and Group levels, and other important topics for the Company and 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 members of the Managing Board. VIG 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 financial year 2017.

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 2017 consolidated corporate governance report.

One Annual General Meeting and seven Supervisory Board meetings distributed across the financial year were held in 2017. Five meetings of the Audit Committee were also held. The financial statement and consolidated financial statement auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, company number FN 269873y (KPMG), attended four Audit Committee meetings and the Supervisory Board meeting in 2017 that dealt with the audit of the 2016 annual financial statements and 2016 consolidated financial statements and formal approval of the 2016 annual financial statements, and also attended the Annual General Meeting. The financial statement auditor and consolidated financial statement auditor also informed the Audit Committee about the planning and procedure used to audit the financial statements and consolidated financial statements. The Committee for Urgent Matters held two meetings in 2017. The Committee for Managing Board Matters held four meetings and the Nomination Committee held two meetings in 2017. The Strategy Committee also held a meeting in financial year 2017. The Supervisory Board also dealt with strategic matters.

The 2017 consolidated corporate governance report presents detailed information on the principles underlying the remuneration system, and we make reference here to this information in the 2017 consolidated corporate governance report. No agenda items were discussed in Supervisory Board meetings in 2017 without the participation of members of the Managing Board.

No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings. In order to ensure 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 selected KPMG (FN 269873y) on 13 May 2016 to be the financial statements auditor and consolidated financial statements auditor for financial year 2017, and KPMG consequently performed these duties in financial year 2017. KPMG and WOLF THEISS Rechtsanwälte GmbH & Co KG (rules 77–83) were also engaged for the voluntary external evaluation of the 2017 consolidated corporate governance report. The evaluations all came to the conclusion that VIG has complied with all the requirements of the Code.

The Supervisory Board Audit Committee mainly dealt with the following topics in 2017:

During one of the meetings of the Audit Committee, the members of the Committee consulted with the (consolidated) financial statements auditor concerning the specification of two-way communications.

By inspecting relevant documents, meeting with the Managing Board and holding discussions with the (consolidated) financial statements auditor, the Audit Committee was able to form a satisfactory view of the accounting process and the procedure used for auditing the financial statements and consolidated financial statements, and found no reasons for objection. The Supervisory Board Audit Committee also monitored independence of the auditor of the financial statements and consolidated financial statements, and after reviewing suitable documents and supporting records submitted to the Committee, particularly with respect to the appropriateness of the fee and the additional services provided to the Company, was satisfied of the auditor's independence status. The Audit Committee also dealt with permitted non-audit services.

The Audit Committee also reviewed the effectiveness of the internal control system, the internal auditing system 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 Supervisory Board and discussed with the head of the internal audit department and the Group internal audit department. The Supervisory Board found no grounds for objection.

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.

The Audit Committee carried out a selection procedure for the financial statement auditor for financial year 2018 and presented two proposals for selection of the (consolidated) financial statement audit for financial year 2018 to the Supervisory Board. The Supervisory Board proposed to the general meeting that KPMG be selected as the financial statement and consolidated financial statement auditor for 2018. The general meeting selected KPMG as auditor of the financial statements and consolidated financial statements for 2018. Together with its offer, KPMG sent a list of the audit and advisory services that it, as a financial statement auditor, and its network provided for Vienna Insurance Group, and confirmed that it was licensed to audit. Based on the documents provided, it was determined that there were no grounds for exclusion or circumstances that could give rise to concerns about impartiality, and that sufficient protective measures had been taken to ensure an independent and impartial audit. The Audit Committee also considered the appropriateness of the fee of the financial statements and consolidated financial statements auditor. It also verified that KPMG was included in a statutory quality assurance system and was registered in the register maintained by the supervisory authority for financial statement auditors.

The Audit Committee also received the 2017 annual financial statements, management report, 2017 consolidated corporate governance report and 2017 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 debated and discussed with respect to capital adequacy and its effects on the solvency and financial position of the Company during the course of this examination.

The Supervisory Board Audit Committee also carefully examined the 2017 consolidated financial statements and Group management report. In addition, the auditor's reports prepared by the (consolidated) financial statements auditor KPMG for the 2017 annual financial statements and management report and the 2017 consolidated financial statements and Group management report were reviewed by the Audit Committee and debated and discussed with KPMG. As a result of this examination and discussion, a unanimous resolution was adopted to recommend to the Supervisory Board that they be accepted without qualification. The Supervisory Board found no reasons for objection.

The (consolidated) financial statement auditor also provided the Audit Committee with an additional report in accordance with Art 11 AP-VO (EU Audit Regulation) that includes the financial statement audit as well as the consolidated financial statement audit. This report also explains the specific requirements for auditing the financial statements of companies that are of public interest, and the results of the financial statement audit and presents and explains the effects that the non-audit services that it and its network provided have on the audited financial statements (consolidated financial statements).

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 2017 annual financial statements together with the management report and 2017 consolidated corporate governance report, the 2017 consolidated financial statements together with the Group management report, and the Managing Board's proposal for appropriation of profits were subsequently taken up, thoroughly discussed, and examined by the entire 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 2017 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined it. As a result of this discussion and examination, it found that the 2017 sustainability report (consolidated non-financial report) had been prepared properly and was appropriate.

In addition, the auditor's reports prepared by the (consolidated) financial statements auditor KPMG for the 2017 annual financial statements and management report and the 2017 consolidated financial statements and Group management report were reviewed by the entire Supervisory Board and debated and discussed with KPMG. KPMG's audit of the 2017 annual financial statements and management report and the 2017 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 2017, and of the results of operations of the Company for financial year 2017 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 2017, and of the results of operations and cash flows of the Group for financial year 2017 in accordance with IFRS and § 138 VAG (Austrian Insurance Supervision Act) in combination with § 245a UGB. The Group management report is consistent with the consolidated financial statements. KPMG also determined in accordance with § 269(3) UGB and § 273 UGB that the 2017 sustainability report (consolidated non-financial report) and 2017 consolidated corporate governance report had been prepared.

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

After a thorough examination, the Supervisory Board therefore adopted a unanimous resolution to approve the 2017 annual financial statements prepared by the Managing Board, to raise no objections to the management report, 2017 consolidated financial statements and Group management report, 2017 consolidated corporate governance report and 2017 sustainability report (consolidated non-financial report) and to declare its agreement with the Managing Board proposal for appropriation of profits.

The 2017 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 2018

The Supervisory Board:

Günter Geyer
(Chairman)

V

Kontakte der Vienna Insurance Group

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

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

Bancassurance
Harald Londer
Phone: +43 (0) 50 390-25459
E-mail: harald.londer@vig.com

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

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

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

Performance management motor vehicle insurance
Jürgen Palmberger
Phone: +43 (0) 50 390-20219
E-mail: juergen.palmberger@vig.com

Performance management personal insurance
Gerhard Kalcik
Phone: +43 (0) 50 390-27053
E-mail: gerhard.kalcik@vig.com

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

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

Corporate and large customer business
Wolfgang Petschko
(Underwriting policy issues and organisation)
Phone: +43 (0) 50 390-21406
E-mail: wolfgang.petschko@vig.com

Josef Aigner
(Claims policy issues and risk management)
Phone: +43 (0) 50 390-26112
E-mail: josef.aigner@vig.com

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

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

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

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

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

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

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

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

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

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

Planning & Controlling
Thomas Schmee
Phone: +43 (0) 50 390-21900
E-Mail: thomas.schmee@vig.com

Legal department
Edeltraud Fichtenbauer
Phone: +43 (0) 50 390-20188
E-mail: edeltraud.fichtenbauer@vig.com

Reinsurance
Gerald Klemensich
(Reinsurance coordination and policy issues)
Phone: +43 (0) 50 390-21161
E-mail: gerald.klemensich@vig.com

Eva-Maria Stackl
(Reinsurance network and organisation)
Phone: +43 (0) 50 390-21144
E-mail: eva.stackl@vig.com

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

ABBREVIATIONS USED IN THE TEXT

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

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

[2] Used when referring to the company itself

NOTICE

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

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

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

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, 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.

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In case of doubt, the German version is authoritative.