THE SAFE SIDE

VIENNA INSURANCE GROUP SUPPLEMENT TO THE GROUP ANNUAL REPORT 2015

55%
of profit before taxes from the CEE region

Profit before taxes EUR 172.1 million
Results reduced due to the historically low level of interest rates, a write-down of IT systems and further impairments of assets in Romania and Poland.

Combined ratio 97.3%
Solid underwriting result leads to a combined ratio significantly below the 100% mark.

EUR 9.0 billion in premiums
Stable performance despite decreases in single premium life insurance.

PHOTO: SEBASTIAN REICH; WIENER STÄDTISCHE VERSICHERUNGSVEREIN/ ROBERT NEWALD; SHUTTERSTOCK.COM (4); ILLUSTRATION: FRANK MAIER

A balance between continuity and change

The new Managing Board is maintaining the proven strategy of the Company.

Continuity and change are fundamentally in conflict. However, if a company has achieved success based on a strategy that has proven itself over the long run, there is no need to follow a new direction when a change in personnel occurs *(page 7)*.

As a result, the new General Manager of Vienna Insurance Group (VIG), Elisabeth Stadler, and her new Managing Board team are keeping the Company on its previous course: "There is absolutely no reason to deviate from our strategy. Our focus on Austria and the region of Central and Eastern Europe (CEE) has made us the market leader in our core markets." Elisabeth Stadler's appointment as VIG General Manager made her the first woman to hold the top position in a company listed in the ATX index. For her, however, this somewhat historical occurrence is merely incidental. She feels it is much more important to work with her colleagues in all the Group companies to ensure VIG's continued success in the future.

Vienna Insurance Group can now build on a strong foundation of around 50 Group companies in 25 countries that offers considerable growth potential. The markets of Central and Eastern Europe are growing significantly faster than those in the West and the market penetration of insurance products is around one tenth the level it is in Austria. The Group has successfully taken advantage of this potential during the last 25 years to establish itself as the main insurance company in the CEE region *(page 2)*.

The Group is therefore operating from a leading position. He does not, however, simply want to rest there. VIG is intensively involved with future trends and product development, and is taking advantage of the opportunities offered by the Digital Revolution *(page 18)*. This is because continuity and change do not have to be in conflict here either. On the contrary, adjusting to the future needs of its customers will enable VIG to continue its success story into the future.

HIGHLIGHTS

An interview
The Managing Board on business development in 2015, the strategy and why it continues to be convinced of the potential offered by the CEE region. **Page 4**

Good news from the CEE region
The CEE region not only generates around 50% of our premiums, it also creates a great deal of good news. Learn more about the highlights from the Group companies on **Page 8**

Solvency II
Solvency II creates a new foundation for risk management in the industry. Intensive preparatory work was successfully completed with approval of the partial internal model at the end of the year. **Page 12**

CURRENT

Group Annual Report 2015
Facts and figures. Everything you need to know about financial year 2015.

TOP RATING FOR VIG
A good rating is a sign of strong creditworthiness. Learn why VIG is the best-rated company in the ATX index on **Page 14**

Rock-bottom interest rates
Interest rates continue at a low level. We are currently living in a period of historically low money market and capital market interest rates. Earning a positive return at an acceptable level of risk is a major challenge. Learn why VIG nevertheless continues to provide guaranteed interest rates for life insurance on **Page 11**

VIG on the stock exchange
Opportunities and risks. VIG shares lost value in the year just ended. This was in spite of solid and profitable fundamentals, a clear strategy and adequate capital. It was the result of a series of various events. **Page 14**

Corporate social responsibility
Diverse, motivated and socially involved. Assuming responsibility, both within and outside the Company, is part of the corporate culture at VIG. Social involvement and developing our own employees represent two different sides of VIG. **Page 16**

VIG
VIENNA INSURANCE GROUP

CONTENTS

CEE region: Potential waiting to be used

Further growth to come

Vienna Insurance Group has insured Central and Eastern Europe for 25 years. The region offers above-average growth and huge market potential, and therefore plays an integral role in the success of the Group.

Euphoria was high in the East and West in 1989 and 1990, as the former communist governments in Central and Eastern Europe were removed from power by their own people. What had previously been considered impossible had happened. The Iron Curtain had fallen.

It was above all Austrian companies that recognised the opportunity presented by this change and found the courage to invest in these new markets. As a result, Austria quickly became the most important investor in this emerging region. Wiener Städtische was right in the middle of this movement, and its successful expansion in following years led to creation of the internationally operating Vienna Insurance Group.

The expansion reached its high point in the mid-2000s. The Group obtained the capital it needed to continue its expansion in the CEE region by performing the largest capital increase ever undertaken by an Austrian insurance company.

Maintaining its strategy. The financial and economic crisis that originated from the USA in 2007 nevertheless dampened the feeling of euphoria that existed in the first few years. Many analysts, economists and rating agencies predicted a dismal future, including for Austria, which was now closely tied to the region due to its investments. They believed that these ties to CEE markets, particularly in the finance and banking sectors, would drag Austria into the abyss. As a result, many concluded that Austrian companies should make an orderly withdrawal from their investments in the east.

This was, however, never in question for VIG, which was firmly anchored in the CEE region. It maintained its strategy, despite prophesies of doom, and the facts and figures show it was right. While the economy of Western Europe continues its deep sleep, the CEE region is recording an upswing.

The CEE region is one step ahead. A considerable gap has opened up again between the East and West, but this time in the other direction. The economies of Central and Eastern Europe grew considerably faster in 2015 than that of Austria.

A LONG HISTORY OF SUCCESS

VOTAVA

VIG's roots reach back to the year **1824**. The oldest of the three companies that merged to form today's Wiener Städtische was founded in Austria that year.

The Group headquarters has been located in the Vienna Ringturm building for 60 years. The building opened as the first office high-rise in Austria in **1955**. The company established itself in the Austrian market over the next thirty years, and finally took a chance on its first expansion into the CEE region in **1990**. Just one year after the fall of the Iron Curtain, Wiener Städtische was involved in establishing Kooperativa in the former Czechoslovakia.

In **1994**, the Company was floated on the Vienna Stock Exchange. VIG shares have also been listed on the Prague Stock Exchange since 2008. The "Vienna Insurance Group" umbrella brand was introduced at the beginning of **2006**. In **2008**, the Group established its own reinsurance company, VIG Re, in Prague and formed a strategic partnership between Erste Group and VIG. In **2010**, Wiener Städtisches' business operations in Austria were finally separated from the international activities of the holding company. The listed Group holding company has operated under the name VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe since then and is responsible for managing the Group on a partnership basis with the Group companies.

The **2014** entry into the Moldovan market filled the final remaining gap in coverage of the CEE region. The Group now operates around 50 companies in 25 countries in Austria and Central and Eastern Europe. VIG can look back with pride on a 190-year history that saw it develop from a successful local insurer into a leading international insurance group.

TOP POSITION IN AN EMERGING MARKET

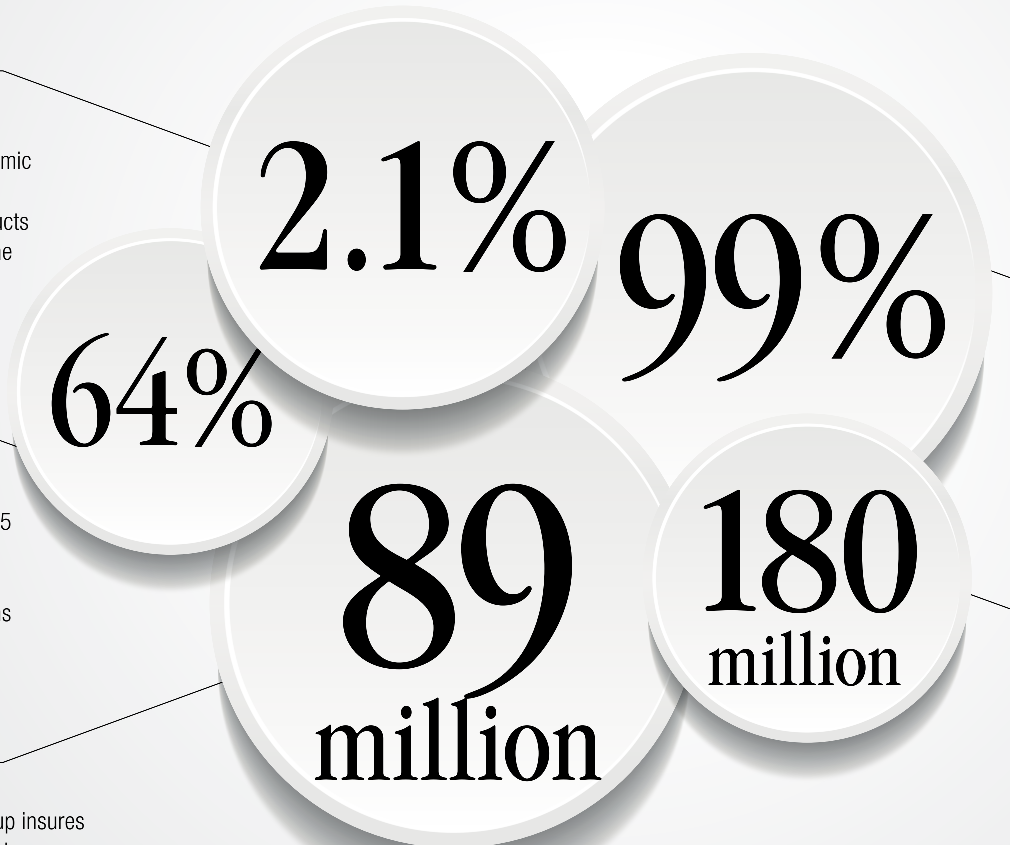
The CEE region makes it possible. VIG is drawing on a huge reservoir of business and growth potential that will continue to exist for many years.

GDP

2.1% GDP growth in the CEE region in 2015. In comparison, growth in the EU-15 countries was 1.7%. As the economic catch-up process continues in the CEE markets, the demand for insurance products will also rise. This will continue to form the basis for VIG's sustainable growth.

64% growth per capita insurance expenditure in the CEE region between 2004 and 2014. In comparison, growth in the EU-15 countries was 23%. VIG is optimally positioned to take advantage of this potential. Around 50% of all VIG premiums already come from the CEE region.

89 million registered vehicles in the CEE region. Vienna Insurance Group insures close to 1 in every 12 cars in the CEE region.



25 SUCCESSFUL YEARS IN THE CEE REGION

Premiums:	EUR 1.0 billion
Employees:	approx. 5,600
Companies:	3

- **1989**
- **1990** Czech Republic, Slovakia (former Czechoslovakia), Germany
- **1996** Hungary
- **1998** Poland
- **1999** Liechtenstein, Croatia, Italy
- **2001** Romania
- **2002** Bulgaria, Belarus
- **2003** Serbia
- **2004** Slovenia, Ukraine

This trend is set to continue and intensify. The countries from Poland to Romania are particularly noteworthy for their high growth rates, rising employment and current account surpluses. According to estimates by the International Monetary Fund, growth in the CEE region will be 1.2 percentage points higher than Austria in 2016. By 2020, this gap will actually increase to 2.2 percentage points. The Polish economy grew by 3.5% in 2015, and that of Slovenia by 2.3%. These are increases that the western part of the continent can only dream of. Italy and Austria achieved 0.8% and even Germany only managed to grow by 1.5%.

The CEE countries also have another major advantage compared to Western countries, namely a comparatively low level of national debt, which gives them considerably more room for manoeuvre. The CEE region continues to be the engine of growth for Austria, particularly for companies with strong local ties.

Growth potential at multiple levels. For Vienna Insurance Group this brave strategic decision has paid off. With a market share of more than 18% in its core markets, it is a clear market leader. Around half of all premiums and significantly more than 50% of the profit now come from the CEE region.

The economic momentum of the CEE region and positive growth prospects of companies investing there open up enormous opportunities. Using the insurance industry as an example, it can be shown that density in the CEE region as measured by per capita expenditure on insurance is around one tenth of the Austrian level. It should also be added that even Austria has only reached approximately 70% of the level in the "old" EU-15 countries. As prosperity increases, the demand for insurance also rises – and that in a region with 180 million potential customers.

The CEE strategy that has been adopted therefore creates huge growth potential for VIG. And this potential is based on an exceptionally sound starting position. The Group now operates around 50 companies in 25 countries. It is not focused on the "usual suspects" in the region, namely Poland, the Czech Republic, Slovakia and Hungary, but is now present throughout the region. Entry into Moldova in 2014 filled the final gap in coverage of the CEE region.

Risk diversification. This generates major benefits in terms of risk diversification. If some markets do not perform that well, they are compensated by other, faster growing countries. Within VIG, this logic is further reinforced by a growth phases model, which is based on the fact that faster and slower phases alternate in the individual countries. All distribution channels are used at full strength during growth phases, while the focus is on high-margin business areas and cost control during quiet phases.

If the economic researchers' predictions are correct, however, it appears that we – Vienna Insurance Group – will be dealing with a great deal more "growth" than "quiet" phases in the next few years. This is no surprise. The CEE has regained its momentum, and companies that never lost their belief in the region are the ones that will benefit the most.

SIGNIFICANT POTENCEEAL

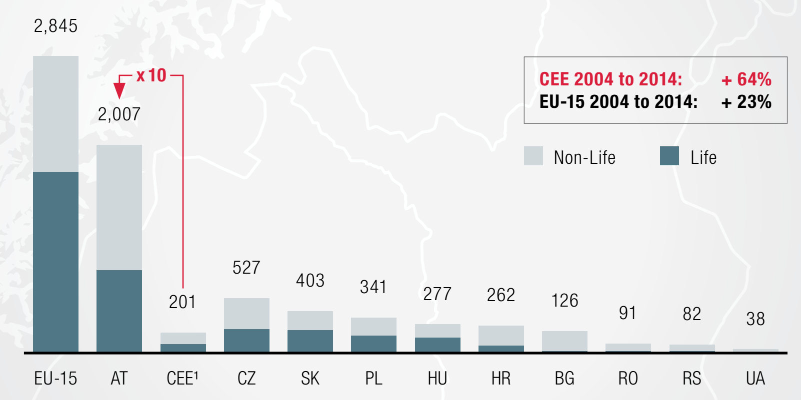
VIG's success is based on its top position in the CEE region – a region with 180 million potential customers where the Group has operated for 25 years and now has full coverage. The economies there are growing significantly faster than those in the West, and the insurance needs of the population are rising in line with increasing prosperity.

99% of all CEE companies are small and medium-sized enterprises. VIG companies successfully use customised insurance products to exploit this potential.

180 million potential customers in the CEE region. Our multi-brand strategy, local entrepreneurship and multi-channel distribution ensure that we know the needs of our customers.

DEVELOPMENT OF INSURANCE DENSITY EU-15 AND CEE REGION

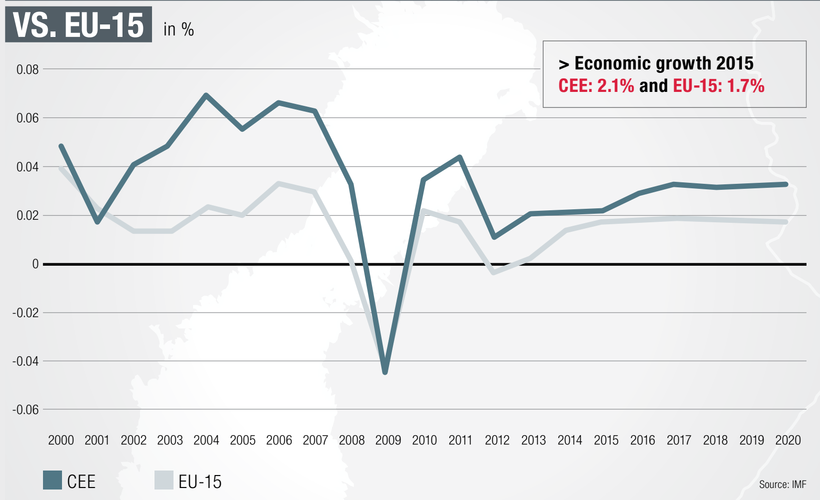
Per capita expenditure on Insurance in EUR



Source: CEE: In-house calculations based on data published by national insurance supervisory authorities and associations, the IMF and Swiss Re; 1 Weighted average: Bulgaria, Croatia, Poland, Romania, Serbia, Slovakia, Czech Republic, Ukraine, Hungary; Source EU-15: Swiss Re (Sigma)

FORECAST OF ECONOMIC GROWTH IN THE CEE REGION VS. EU-15

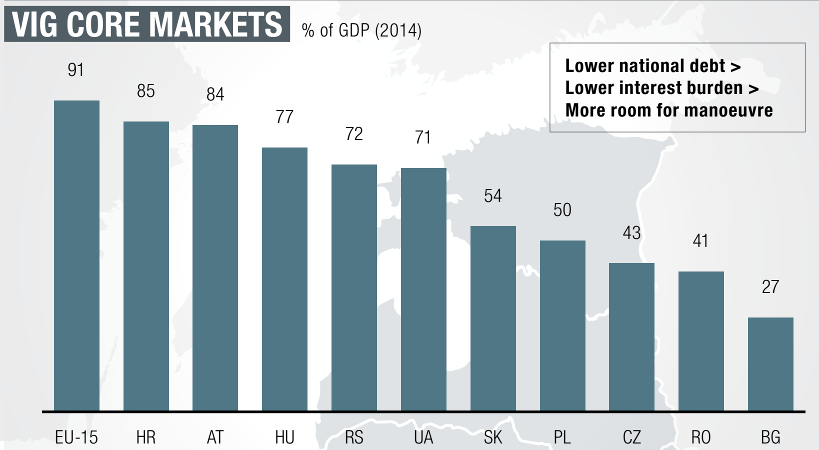
in %



Source: IMF

COMPARISON OF NATIONAL DEBT IN THE EU-15 AND VIG CORE MARKETS

% of GDP (2014)



Source: IMF, Eurostat (EU-15)

2005 Georgia
2007 Albania, Macedonia, Turkey
2008 Estonia, Latvia, Lithuania
2010 Montenegro
2011 Bosnia-Herzegovina
2014 Moldova
2015

Premiums:	EUR 9.0 billion
Employees:	approx. 23,000
Companies:	approx. 50

Standing tall, thanks to the CEE region.

An interview with the VIG Managing Board about 2015 and future challenges.

At the beginning of the year you began managing the largest insurance group in Austria and the CEE region. Are you going to start with a major change in strategy?
Stadler: No, why change something that has proven its value. VIG is number 1 in its core markets, with a market share of more than 18%, and is well positioned both inside and outside Austria. We are therefore continuing to adhere to VIG's strategic direction and its dividend policy of distributing at least 30% of net profits. As the new Managing Board team, however, we want to increasingly take advantage of growth opportunities and strengthen the profile of VIG.

Right from the start, however, I would like to stress that we are aware of our high level of corporate social responsibility as an insurance company and we aim to continue fulfilling this responsibility in the future. Our focus is on people, because we provide them with protection from the risks of life and the high costs these can lead to. This is a rewarding function in terms of social policy. But VIG goes even one step further. The Group is well-known in all of its countries for its social involvement.

> "We are adhering to VIG's proven strategic direction"
> Elisabeth Stadler

What role does VIG play as an employer in this respect?
Stadler: I feel it is important for VIG to be considered a secure employer, especially in times like these when we hear of subsidiaries being closed in a wide variety of sectors and businesses having to dismiss employees. Our around 23,000 employees are the main reason for our success. They should be proud of working for a large company with very stable performance. We also consider it our responsibility to foster the talents and skills of our employees, and we in addition support the exchange of cultures and technical information between countries.

Let us turn now to 2015. A year in which the economic conditions continued to be very challenging. How did VIG premium volume perform against this background?
Simhandl: The macroeconomic situation improved in 2015, with primarily some CEE countries recording very good growth rates. At the same time, we also saw a very sharp drop in the price of oil and a very low inflation rate, and, linked to this, the decision by the European Central Bank to start exerting its influence strongly in a low interest rate policy by using quantitative easing. The ongoing low interest rate phase had a negative effect on premium growth in the area of single premium life insurance products. After adjusting for single premium products, however, we achieved good premium growth of 2.2%. Overall, that is very respectable performance in this market environment. In figures, this means that total Group written premiums were EUR 9.0 billion in 2015. Property and casualty insurance grew by 0.8%, health insurance by 3.0% and regular-premium life insurance products recorded an increase of 4.9%.

Let us take a detailed look at the markets …
Simhandl: In Austria, which continues to be our largest individual market, premium volume remained stable compared to the previous year at around EUR 4.1 billion. In the Czech Republic, single premium life insurance declined due to the low level of interest rates, which in turn led to a decrease in premiums. We saw a solid performance in Slovakia. The decrease in Polish life insurance business was due to a focus on profitable business in the area of single premium products. In addition, competition was extremely strong in Poland in the area of motor liability insurance. This

The VIG Managing Board: Roland Gröll, Martin Simhandl, Elisabeth Stadler, Franz Fuchs, Judit Havasi, Peter Höfinger (l. to r.)

PHOTO: IAN EHM, ILLUSTRATION: FRANK MAIER

had an effect on premium development. VIG continues to be on course in Romania, where all lines of business recorded double-digit growth rates. As always, our Remaining Markets achieved pleasing development with a 12.0% increase in premiums. With respect to the CEE countries, the Baltic countries, Bulgaria, Serbia, Turkey and Hungary achieved particularly significant growth.

The interest rate environment also affects product design, namely life insurance with a guaranteed interest rate. Will you continue to offer this?
Fuchs: Yes. It is a very important unique selling point for insurance. Combining a guaranteed interest rate with a long term allows us to best meet the needs of our customers with respect to risk coverage. We see a need for lifelong pensions over the long term. This is due to the changes occurring in national pension systems. Apart from that, in the area of life insurance we are focusing on risk insurance, and unit-linked and index-linked products.

"We are sticking with guaranteed interest rates for life insurance"
Franz Fuchs

What effect does the low-interest rate environment have on earnings?
Simhandl: The decrease in the ordinary financial result is essentially due to the ongoing low level of interest rates, which also made it necessary to increase personnel provisions in Austria. This year's result, however, was also negatively affected by other one-time special effects. These ranged from the EUR 195.0 million write-down of IT systems, to impairments of assets in Romania and Poland. As a result, Group profit before taxes was EUR 172.1 million in 2015.

What does this mean in terms of costs?
Simhandl: Maintaining a continuous focus on costs has always been important to VIG and has helped us avoid major cost-cutting programmes in the past. This is also confirmed by our combined ratio of 97.3%, which is significantly below the 100% mark.

Why was a write-down of IT systems necessary?
Gröll: Three important changes have taken place in recent years. Firstly, the pace of change has accelerated considerably in the insurance market. The times are gone when a product could be developed and then sold for the next five years. Secondly, the legal framework has changed. Solvency II requires even more data than in the past. Disclosure and transparency requirements also significantly increase the demands on IT systems. Thirdly, technological change has to be taken into account. We regularly evaluate the technical usability of our existing systems. Our analyses showed that adjustments are needed in some areas where IT no longer fully satisfies requirements. We therefore decided to make a EUR 195.0 million write-down in this area.

What other steps will you take in terms of IT?
Gröll: We have seen that the rapid pace of change and differences between markets make the idea of uniform IT systems across all business areas, countries and languages unworkable. Group-wide solutions are, of course, reasonable in some areas. The finance area, for example, has Group-wide systems for accounting and asset management. We have, however, clearly seen that individual company requirements differ greatly with regard to insurance portfolio management. IT developments in each market will therefore take account of this in the future.

A brief look at share performance…
Stadler: There is no question that we are completely dissatisfied with a decrease in the price of VIG shares to under EUR 20. The effects of the low interest rate environment on the result, the special effects in 2015 and, not least, the unexpected change in top management have unsettled investors and analysts. We will do everything necessary to gradually win back market confidence and will do our best to provide regular information about the Group and its opportunities and risks.

It has now been 25 years since VIG took the bold step of entering Central and Eastern Europe. How satisfied are you today about your position in these markets?
Fuchs: Around half of our premium income and significantly more than 50% of our profit come from the CEE region. We can therefore be very satisfied with our position, and now that the strategy is bearing fruit, we will, as mentioned at the start, also be adhering to the strategy in the future. This is partly because the CEE region is predicted to record significantly higher growth than the saturated markets of Western Europe. However, one should never be satisfied with business results. VIG aims to improve steadily, even if the current environment is difficult and not susceptible to change.
Stadler: This can also be expressed another way: We still have an appetite for more! We have markets with double-digit growth in the CEE region. Insurance penetration there is, in some cases, only one tenth of the Western level. This and the higher level of economic growth are what generates the great potential. For this reason, in the next few months we will be examining the markets from the Baltic area to the Black Sea for further growth potential. Our goal is to increase market share to at least 10% over the medium

THE THREE NEWCOMERS

New to the Managing Board, but part of the team for years

Three new members were added to the VIG Managing Board at the beginning of 2016. All three previously held a variety of management positions in the Group.

Elisabeth Stadler

IAN EHM

Elisabeth Stadler is the new General Manager of VIG. Since 1 January 2016, she has also been the first woman to hold the top position at a company in the ATX Index. A qualified actuary, she has held a number of Managing Board positions in insurance companies since 2003. In September 2014, she was appointed General Manager of Donau Versicherung. The same year, she was awarded the honorary title of Professor by Federal Minister Gabriele Heinisch-Hosek for her work in the area of adult education. Elisabeth Stadler comes from Langenlois, Lower Austria.

Judit Havasi

IAN EHM

Judit Havasi has worked for the Group since 2000. Her first position was with UNION Biztosító in her home country of Hungary, where she was appointed head of the Internal Audit department in 2003. Judit Havasi was a member of the Wiener Städtische Austria Executive Committee of the Vienna Insurance Group and a member of the Managing Board of UNION Biztosító in Hungary before her appointment to the Managing Board of Wiener Städtische in 2009. She was Deputy General Manager of Wiener Städtische from July 2013 to the end of 2015, and deputy member of the Vienna Insurance Group Managing Board from 2011. A trained lawyer, she has been a member of the Vienna Insurance Group Managing Board since the beginning of 2016.

Roland Gröll

IAN EHM

Roland Gröll studied at the Vienna University of Economics and Business and joined the Wiener Städtische Finance and Accounting department in 1994. He became deputy head of the Finance and Accounting department in 2003 and subsequently became head of the department, which he led from 2008 until the end of 2015. Moreover, Roland Gröll was a member of the Managing Board of Donau Versicherung for two years. He has been a member of the Vienna Insurance Group Managing Board since January 2016.

term in Croatia, Serbia, Hungary and Poland. If it is economically reasonable and possible, we are also open to further acquisitions, particularly if this is more cost-efficient than establishing and developing our own company.

Are all CEE markets providing the same satisfying performance?
Höfinger: We are now present in 25 countries and therefore well diversified. Some markets grow quickly, some more slowly, but we can even this out within the Group. Our decentralised management approach is also important, and allows the Group companies in each country to follow an appropriate strategy that takes advantage of local market conditions.

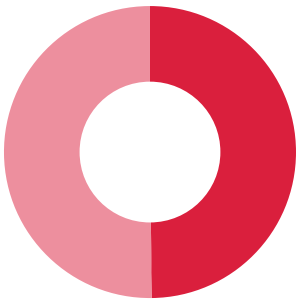
Isn't it true that competition and price pressure are also very strong in the CEE region?
Fuchs: No, that is not the case. There are naturally countries where competition is strong – and I am thinking, in particular, about motor liability insurance. But there is sufficient business potential in these countries that is not price-driven. On the contrary, the goal in these areas is to expand the product portfolio, be the first in the market, and make use of all distribution channels to create corresponding customer awareness. Property and casualty insurance and health insurance are among the areas we will be focusing on more strongly.
Höfinger: We follow the principal of healthy sustainable growth. Growth is only sustainable if it is also profitable. This is the only way we can generate further growth in the countries and offer the customer service that is expected of us. We use a selective underwriting policy in areas where the price pressure is irrational, because if margins are inappropriate we intentionally accept decreases in premiums.

And if everything it doesn't run smoothly in a market?
Höfinger: It is in periods like these that costs are particularly important. Building up alternative distribution channels, combining back office units, or reorganising and optimising the portfolio are options for action.
Gröll: Romania is the best example. The situation was in turmoil there for many years and competition was extreme. We reacted by massively restructuring and preparing for the time when the market recoveres again. That is precisely what is happening now, and we are recording double-digit growth again in Romania.

You also recently recorded strong growth in the Baltic region.
Fuchs: And how! Our life insurance premium volume has more than tripled since 2009. And the non-life business is also recording excellent performance. There is only a handful of players in this market. It was clear to us that we had to invest if we wanted to play a role there. We achieved this in 2016 by establishing Compensa Non-Life and acquiring BTA and Balitikums, and we have now reached a size in this region that has to be taken seriously.
Simhandl: This clearly shows how right it was to put our trust in the CEE region.

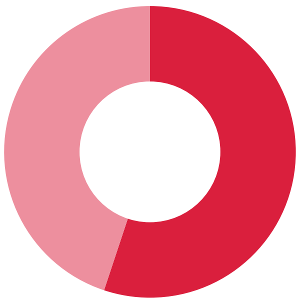
CEE SHARE OF:

PREMIUM VOLUME



- 49.8% CEE
- 50.2% outside CEE

PROFIT BEFORE TAXES



- 55.1% CEE
- 44.9% outside CEE

Many people had made a very negative assessment of the Baltic area after the financial crisis. At the time we believed – and the Baltic countries have now demonstrated – that they could recover from a very difficult situation through the hard work and efforts of the local people.

How do you succeed in a saturated market like Austria?
Stadler: Austria is definitely at a higher and better stage of development compared to the CEE region, but it is below average for the EU in terms of insurance premiums. This is particularly evident in the area of personal and company old-age provision. People are now aware that the state retirement pension will not be able to satisfy our expectations. This opens up enormous opportunities for us as a private insurer to bring products to market that are precisely tailored to the needs of our customers, such as biometric pension products.

Let us move on to the topic of Solvency II. How well is VIG prepared for this? What changes are the new regulations bringing?
Havasi: Solvency II came into force in January 2016 and has far-reaching consequences for the entire European insurance industry in respect of capital requirements and risk management. Combined with increased documentation and reporting requirements, it will lead to better policyholder protection and standardisation of supervisory systems in the EU. VIG has fully implemented the appropriate structures and processes Group-wide and in the holding company within the prescribed time horizon. VIG had a solvency ratio of around 200% under Solvency II, based on our partial internal model. This means VIG is optimally prepared for the new regulatory requirements. Even under Solvency II, we still remain one of the leaders among international insurance groups in terms of solvency.

> **"VIG's solvency ratio of around 200% means it is prepared for Solvency II"**
> **Judit Havasi**

Why did VIG decide to use a partial internal model?
Havasi: The standard model offers too little detail in many respects. We therefore decided to introduce a partial internal model in order to model VIG's risk profile as realistically as possible. We are the only insurance group in Austria that has been given group approval by the supervisory authority. In addition to the Austrian companies concerned, the internal model is also being used in the Czech Republic, Slovakia, Poland and Romania. We are now in the first year of real implementation after the general rehearsal in 2015.

Let us now take a look at the future. What are your expectations?
Stadler: The low-interest rate environment is going to continue affecting us for some time, and will also have negative effects on our result. However, we hope that positive economic growth will continue. Trying to achieve higher levels of investment income by making riskier investments is not part of our business model – we will also remain true to our conservative investment policy in the future. Because we want to continue acting in the interests of and for the benefit of all our stakeholders by remaining on "The Safe Side", in accordance with the title of this newspaper.
Höfinger: We see very good market opportunities for innovative digital products in the future. A good example is Poland, where we can immediately issue a motor-vehicle policy digitally via the barcode on the registration certificate. In Hungary, our customers can purchase travel insurance via SMS. We are also looking increasingly at the subject of assistance, i.e. adding value to our products with additional services. We will now be taking a closer look at whether and how our companies can use such services across markets. However, the rapid pace of technological change and concerns about customer data privacy raise the question of how far insurance companies should go in the direction of digitalisation.

Is product design the key to success?
Havasi: That is too narrow a question. The main concern is how we want to address the new generations, what form of communication to use.
Stadler: We can see a significant change in customer behaviour. Readiness to change providers and price sensitivity have become much more pronounced. Providing a quality service as well as modern communication and distribution channels is therefore extremely important, in order that price is no longer the sole factor used to justify sales. Nonetheless, I am convinced that customers are mainly looking for a reliable partner who invests their funds conservatively. One thing is certain. VIG will do everything it can to maintain its good position in the future for the benefit of its customers, business partners, shareholders and employees.

A good strategy lays the foundations for business success.

Guidelines for a successful future

The VIG strategy is based on continuity and stability, and clearly sets the Group apart from its competitors.

"Strategy is an economy of force" is a quote from Prussian General Carl von Clausewitz. It focuses energy and defines boundaries. Without knowing what you want to do, you will lose yourself in the multitude of options. VIG is in no danger of this, as it continues to hold on to its proven strategy. The **core business of insurance** is as clearly defined as the **regional focus on Austria and Central and Eastern Europe**. These two central strategic elements are supplemented by four management principles. The Group uses **local entrepreneurship** to deal with the regional differences between its 25 markets. **Conservative investment** forms the basis for responsible handling of customer funds. Then there are two "multis" – a **multi-brand strategy** that allows different customer groups to be addressed and **multi-channel distribution** that combines the strength of our own sales forces with professional partners. One example is Erste Group, which has a mutual sales agreement with VIG.

The multi-brand strategy clearly separates VIG from its competitors. During its expansion, the Group decided to retain well-established brands that already enjoyed good customer recognition. The result is that VIG operates with more than one company and brand in most of its markets. The individually tailored market presence of each of these companies allows them to address different target groups and design different product portfolios.

Another special feature of VIG is its decentralised structures and rapid decision-making, which allows it to react quickly and flexibly to market circumstances. The Group is guided by the principle "think globally, act locally", namely local entrepreneurship instead of centralised Group management. This means more freedom for local management, which best understands the particular needs and requirements of the market, but also considerably more responsibility. Each country is assigned to a VIG Managing Board member who regularly consults directly with local management. As a result, the listed holding company manages the Group on a partnership basis with the Group companies.

Exploiting potential using a differentiated approach. VIG is convinced of the great potential offered by the CEE region *(see article on pages 2–3)*. The goal and challenge of future years is to take advantage of this potential. However, this does not mean that VIG tries to step up the pace in all of its markets. Instead it uses a highly differentiated approach that takes account of the different phases of market growth. It has been evident that the potential of the CEE region has not materialised at all times in all markets. Instead, growth takes place in stages and in different ways. VIG therefore uses a differentiated approach to its markets. In countries experiencing dynamic growth, the full strength of existing distribution channels is used in order to grow all lines of business. In countries with difficult economic situations or strong competition that make growth appear almost impossible, it makes little sense to try to force premium increases at all costs. During these quiet market phases, VIG promotes sales in high-margin business areas and selects the risks it assumes accordingly. A primary focus is then placed on costs, particularly in the area of administration.

The multi-brand strategy clearly distinguishes VIG from its competitors.

This has the pleasing side-effect of diversifying risk across country borders. The portfolio always includes markets that are expanding and those that are in a quiet phase. Any reductions in premiums in one region can be compensated by growth in another.

Sustainable growth. VIG aims for sustainable profitable growth. The Group strictly follows this motto, which also naturally means not acquiring new business unless it is profitable. This applies, for instance, to the motor-vehicle line of business, which is highly contested in CEE markets, and to single premium life insurance in the current interest rate environment.

Our careful pricing policy is complemented by a conservative investment policy. In view of the historically low level of interest rates and the resulting drop in returns, it would naturally be one option to follow the path of switching to higher risk investments with potentially higher returns. This is, however, out of the question for VIG. Investing customer funds is one of the key duties of the Group and demands great responsibility. A good investment strategy can be seen by the fact that it does not lead to any sudden changes.

The human factor. VIG very quickly recognised that only good employers can attract appropriately qualified and motivated personnel. VIG also offers security and stability in this area, by combining a wide variety of career opportunities with an international business environment. VIG actively promotes the talent and skills of its employees, as this is the only way it can actually realise its strategic guidelines.

Focus on Austria and CEE

Broad risk diversification across countries; multiple growth opportunities

Local entrepreneurship

- Decentralised structures and rapid decision-making
- Exchange of best practices/networking within the Group

Multi-brand strategy

- Retention of established local brands
- Allows different target groups to be addressed
- A tool to maintain customer and employee loyalty

CORE BUSINESS INSURANCE

VIG VIENNA INSURANCE GROUP

Conservative investment policy

- Emphasis on quality and sustainability
- Broad risk spreading through diversification of the investment portfolio

Multi-channel distribution

- Combination of multiple channels of distribution
- Strongly customer-oriented distribution
- Long-term cooperation with Erste Group

VIG expansion strategy bears fruit:

Bread and butter from Austria, sweet fruit from CEE

What is the best thing about our hard work? When the local companies bloom and prosper.
Selected measures and achievements in 2015.

Austria

Market position 1

approx. 46%
approx. 41%

Wiener Städtische digital offensive. Wiener Städtische focused clearly on online capability and digital fitness in 2015 in order to proactively use the Technical Revolution in the interests of its customers. In addition to introducing a professional video advisory service, completely renewing its range of apps and redesigning its website, it also significantly expanded the opportunities for purchasing insurance online. Learn more about the Wiener Städtische digital offensive on *page 19.*

Repositioning of Donau Versicherung. Donau Versicherung has been part of Vienna Insurance Group since 1971. It is the sixth largest insurance company in the Austrian insurance market, making it one of the top players. The goal in 2015 was to set this long-established company on a new, updated course to ensure that it remained competitive and profitable for the long term. As part of this repositioning, a project was created to sharpen the profile of the company and a future strategic orientation was introduced. Donau Versicherung continues to follow its vision of being perceived as the most customer-oriented insurance company in Austria. In addition to a new mission statement, the newly defined values of awareness, drive, clarity and reliability form the basis for future company decisions.

Recommender Award for s Versicherung. s Versicherung, Austria's leading provider of life insurance, was awarded first place in the "Bank Insurance" category of the coveted Recommender Award, making this the fourth time it has received this special hallmark of excellence. A total of 8,000 customers of Austrian banks, insurance companies and home loan savings associations were surveyed for the award.

Czech Republic

Market position 1

approx. 17%
approx. 31%

Kooperativa is a "millionaire"! Kooperativa, number two in the Czech insurance market, issued its millionth property and casualty policy in 2015. This was a happy day for Martin Diviš, General Manager of Kooperativa: "It makes me very proud that we have reached this impressive figure. My thanks to all customers and employees who made this possible."

Crowning of the Czech companies. The Golden Crown is awarded to the best insurance companies in the Czech Republic, and our companies were delighted to receive more than one of the awards in 2015. Kooperativa received awards in the "Business Insurance" and "Non-Life" categories, and PČS was chosen as the best life insurance company in the country for the seventh time in a row.

Bronze in the "Czech 100 Best". The "Czech 100 Best" recognises the best companies in the Czech Republic each year. After receiving fourth place in 2014, Kooperativa made the leap to the podium with third place in 2015. This makes Kooperativa the best financial company in the country.

Slovakia

Market position 1

approx. 8%
approx. 10%

PSLSP receives silver in the TREND competition. PSLSP's consistently good performance was once again recognised with an award. PSLSP received the silver medal in the prestigious "TREND Top 2015" competition organised each year by the business magazine TREND. This is the fifth time the Slovakian life insurance company has been on the podium – three times for silver and twice for bronze.

Poland

Market position 4

approx. 9%
approx. 8%

Combined strength in Poland. The merger of the two Polish non-life insurance companies Compensa and Benefia at the end of October 2015 was an important prerequisite for further increasing customer-orientation and efficient development of the market. The merged company bears the name Compensa TU SA Vienna Insurance Group, and occupies fifth place in the non-life insurance market with a market share of around 5%.

OMNIASIG

Omniasig brand campaign. Call for a sustainable, considerate approach to the environment.

Romania

Market position 1

approx. 5%
approx. 1%

New focus for the Romanian Group companies. The optimisation measures implemented in the last few years are having an effect in Romania. All three companies worked tirelessly in 2015 on strengthening sales, developing customer-friendly products and improving their market presence. Asirom, for example, began restructuring its distribution networks and focused on expanding cooperations with brokers. BČR Life developed new products, including a life insurance policy that combined serious illness, such as cancer, with secured loans. There is no other comparable product in the Romanian market. While Omniasig focused on repositioning its brand and image. This included unifying its market presence to increase stakeholder identification with the company.

Omniasig starts a new brand campaign. Omniasig presented itself in 2015 as a strong, responsible company taking part in the sustainable development of the country. As part of its "Insurance with Value" campaign, the Romanian VIG company called for a more considerate approach to the environment, because a future worth living requires a sustainable here and now. A small amount is sent to Ivan Patzaichin's organisation for each Omniasig policy sold. The famous Romanian canoeist is promoting sustainable development of the Danube delta region and became a popular brand ambassador for the Omniasig brand.

Best non-life insurer and product of the year. Omniasig won the award for "Best Non-Life Insurer of the Year" at the now traditional Insurance Market Awards Gala in Bucharest, organised by the Romanian publisher XPRIMM. The award recognises the best insurance company for outstanding sustainable development in the non-life segment. In addition, Asirom won the "Product of the Year" award for "Casuta Noastra", a household insurance product.

Remaining Markets

approx. 15%
approx. 8%

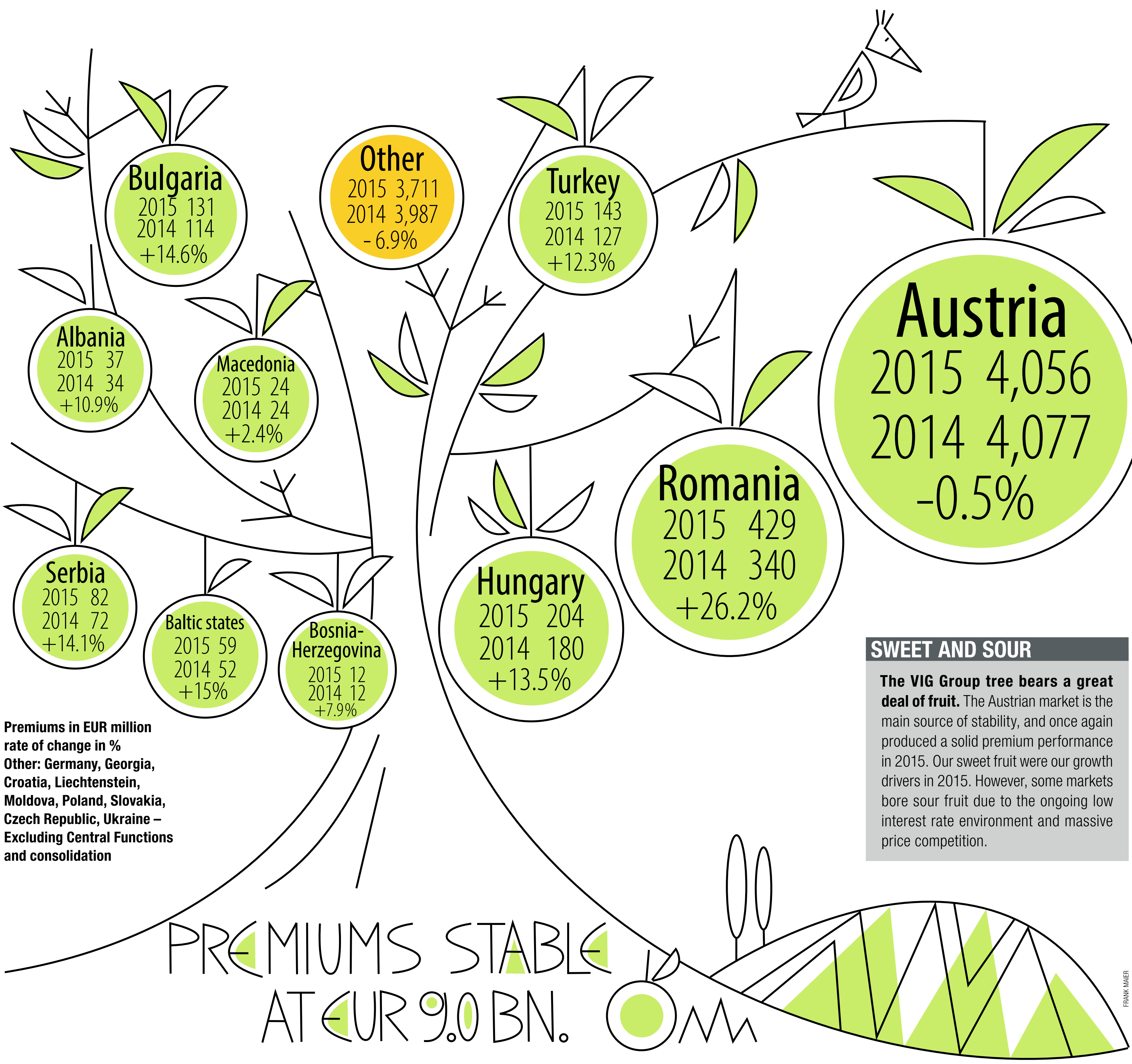
VIG strengthens its market presence in the Baltic region. Vienna Insurance Group successfully continued on its expansion course in 2015 with a focus on the Baltic region. VIG considerably strengthened its presence in the Baltic countries by acquiring the Lithuanian distribution company Compensa

LEADERSNET.AT/FELTEN

1st place in the Recommender Award.
s Versicherung receives an award for the fourth time in a row.

XPRIMM

▲ **Well-deserved award:** Asirom won the "Product of the Year" award for "Casuta Noastra", a household insurance product.



Premiums in EUR million
rate of change in %
Other: Germany, Georgia, Croatia, Liechtenstein, Moldova, Poland, Slovakia, Czech Republic, Ukraine – Excluding Central Functions and consolidation

SWEET AND SOUR

The VIG Group tree bears a great deal of fruit. The Austrian market is the main source of stability, and once again produced a solid premium performance in 2015. Our sweet fruit were our growth drivers in 2015. However, some markets bore sour fruit due to the ongoing low interest rate environment and massive price competition.

Life Distribution and Latvian non-life insurer Baltikums, and by establishing a new company, Compensa Non-Life, in Lithuania. A majority interest was also acquired of BTA Baltic in Latvia towards the end of the year. The acquisition took place subject to necessary official approvals. As a result, VIG is now one of the top three insurers in the Baltic non-life insurance market. The huge potential of the region, which recorded average economic growth of around 2% in 2015, was already apparent to VIG in 2008. VIG successfully entered Estonia at that time with its acquisition of Group company Compensa Life.

Increasing distribution in Bulgaria. Group company Bulstrad, which has been part of the Group since 2002, entered into a cooperation agreement with United Bulgarian Bank (UBB) in 2015. UBB is the third-largest Bulgarian retail bank, reaching around one million customers through its 200 branches and points of sale. This acquisition allowed the Group to diversify its portfolio in Bulgaria and increase its sales potential using its multi-channel strategy. Bulstrad also acquired 100% of the shares in the company UBB-AIG, which was formed as a banc assurance company for UBB in 2006. After receiving official approval at the beginning of 2016, the name of the company was changed to Insurance Company Nova Ins EAD (Nova).

VIG successful in Ukraine, despite the crisis. The situation in Ukraine continues to be extremely difficult for the people there and we can only hope that the situation calms down soon. VIG has almost no representation in Crimea and the conflict areas in eastern Ukraine. In spite of difficult conditions, local management continued to handle the situation there outstandingly in 2015, thereby proving the value of VIG's principle of local entrepreneurship. The Ukrainian companies achieved strong premium growth of 31.4% in local currency terms in 2015. VIG's market share of 4.3% puts it in third place in the Ukrainian market.

Successful first year in Moldova. VIG has been represented in the Republic of Moldova since 2014, when it entered the market and acquired Group company Donaris. This filled the final gap in VIG's coverage of the CEE region. Donaris is number one in large customer business and motor vehicle comprehensive insurance in Moldova. "VIG's market entry made the company a pioneer in the Moldovan market that is setting new standards and challenging competitors," explained Dinu Gherasim, Chairman of the Managing Board. This statement underscores the company's upward movement in market ranking from fifth to third place in just one year.

Sales campaign in Bosnia-Herzegovina. The Bosnian market has been dominated by non-life insurance for years, particularly the motor vehicle line of business. Wiener Osiguranje launched a sales campaign to expand its product portfolio and increase customer awareness of products in the life sector. The focus here was on employee training to provide high quality service that would put the company one step ahead of its many competitors in the Bosnian market. The results can already be seen after one year. Life insurance premium volume rose sharply by 54.8%, while the cancellation rate for life insurance products fell by half at the same time.

Central Functions: VIG is one of Austria's top brands. During the annual reinsurance meeting in Baden-Baden, Germany, VIG received the XPRIMM Insurance Award for its long-term contribution in Central and Eastern Europe. "VIG has made a lasting mark on the local insurance industry in the last ten years and helped implement European standards in the markets," stated the jury. VIG was also placed ninth in the "Austrian Brand Value Study 2015", putting it for the first time in the Top 10 of the most valuable corporate brands in Austria.

MARKET POSITION

As of:
1st–4th quarter 2014: Slovakia
1st–3rd quarter 2015: Poland
1st–4th quarter 2015: Austria, Romania, Czech Republic

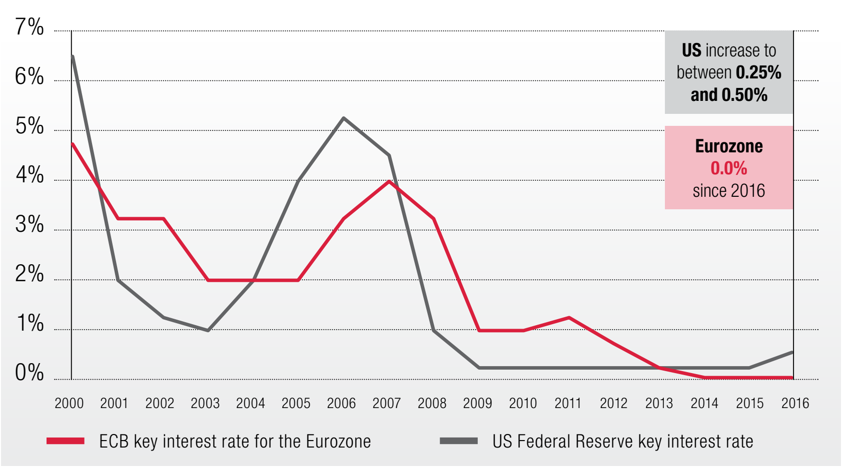
Share of total premiums in 2015
Share of profit before taxes in 2015

Andreas Treichl, CEO of Erste Group, on the effects of the historically low interest rates:

Good intentions, but not good

We are living in a period of almost zero interest rates that creates happy borrowers and angry savers. As shown in our interview with Andreas Treichl, however, it also poses risks for business activity and substantial risks for the economic system.

EUR AND USD KEY INTEREST RATES SINCE 2000



The ECB lowered its key interest rate to 0.0% for the first time in March 2016. It was previously reduced to 0.05% in September 2014. What effects does this have on the financial sector?

Very dramatic effects. It is not the low interest rate policy alone, but the length of time it has been in force that is causing major changes to our entire economic system. I am not talking about bank profitability, which is suffering seriously as a result. The problem is that the risks in the economy are no longer being priced properly. The ECB has also created capital market expectations that are almost impossible to fulfil. I would never have thought the European Central Bank would actually implement the canonical prohibition on interest. The long-term effects, however, are what I consider to be even more dramatic. Think, for example, about pension funds. It is very difficult for them to achieve the increase in private pension fund assets that form the basis of the system. The compound interest effect has practically been eliminated for private capital formation. We are laying the foundation for old-age poverty with dramatic consequences. Making it impossible for people to earn interest on savings would destroy the middle class. Although we have previously seen negative real interest rates, even in years of high inflation, zero interest rates are much more emotionally depressing for savers.

In your view, did this achieve the intended goal of stimulating the economy?

In general, I would not say this is true. In any case, the economic data do not show such an effect everywhere. The measures certainly did reduce funding costs for the business sector and lead to a weakening of the euro. This should, in theory, give a boost to economic recovery in the Eurozone, in which Austria is lagging alarmingly behind in terms of economic growth. Companies are very reluctant to make investments. There is a lack of confidence and stable conditions, for example in the area of taxation. And we see once again that low lending rates alone are not sufficient to drive the economy.

Andreas Treichl: Lending rates alone are not sufficient to drive the economy

WB/JINDRICH FOLTIN

To what extent do you think the increased regulation of lending works against this goal?

Increased equity requirements are aimed at making the banking sector more secure in the long run, and this is a good objective overall. One of the problems is uncoordinated multiple burdens placed on banks, such as the bank levy and various EU funds. Another is that the increased regulation of the financial sector makes it almost impossible for banks to take on risks from the business sector. This makes it more difficult to stimulate an economic revival. What we need now is five years without new regulations every month. We need time, as does the business sector, to implement existing rules and to see what their effects are.

> "The USA is ahead of the Eurozone in the economic cycle."

Quantitative easing in the form of bond purchases is one of the key elements in the ECB's expansive monetary policy. Can you explain the intended effects on the economy and inflation?

The ECB is buying bonds from other investors in the secondary market so that these investors will, in turn, make "riskier" investments. This gives banks more funds for lending, but the end result also naturally depends on the demand for loans. In some Eurozone countries e.g. Italy and Spain, these measures have actually been successful in helping to reduce the cost of funding for businesses. But the most important result of the bond purchases was the weakening of the euro compared to other currencies, thereby increasing exports. This boost in economic activity should, in turn, have a positive effect on inflation. However, the sharp drop in the price of oil and commodities is currently depressing inflation and the ECB still remains a considerable way off its goal.

The US Federal Reserve raised its key interest rate to a range of 0.25% to 0.50% in December 2015 – can this actually be described as an interest rate turnaround?

The step taken by the Federal Reserve is too modest for this description. I would not talk about a sustainable turnaround until we are back above 1% again.

When and under what conditions do you expect a similar reversal of monetary policy in the Eurozone?

That is a good question, and it is hard to answer. The USA is significantly ahead of the Eurozone in the economic cycle. Just look at the developments that took place in the first few weeks of this year. The growth slowdown in China and weakness in emerging markets together with low commodity prices mean that the ECB will maintain its current policy for even longer.

To what extent is the European economy benefiting from the depreciation of the euro compared to the US dollar?

In theory, a weaker euro should help our export sector. In Austria, export is currently the only relevant growth-supporting area. Even the modest GDP growth that was recorded would not have occurred without this increase in exports. But we should not fool ourselves into thinking that the weakness of the euro is only due to the difference between interest rates in the Eurozone and the USA. It is also a reflection of our weaker economic output, a lack of growth momentum and insufficient propensity to invest. If we as the EU want to play in the same league as the USA, we have to do more to actually function as a large internal market with an appropriate level of internal demand. This requires not only a banking union, but also a clear common presence as a political union. No one from Washington to Beijing will take us seriously as a group of 28 egocentric nation states pursuing individual interests.

ERSTE GROUP AND VIG COOPERATION

The two large CEE groups, Vienna Insurance Group and Erste Group, formed a strategic partnership in 2008. VIG acquired Erste Group's insurance operations, and VIG has been selling its products through its sales partner Erste Group since that time. In return, VIG companies offer Erste Group's banking products, creating a win-win situation for both Groups.

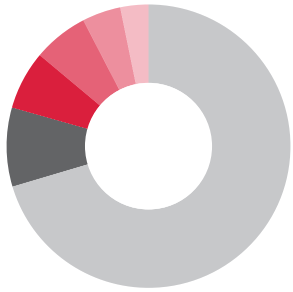
Investment with a safety harness

The unstable situation on the financial markets increases VIG's resolve to continue its security-oriented investment strategy.

Sometimes speculation pays off. When it does, assuming a higher risk is rewarded with an above-average return. As mentioned, this pays off sometimes – but probably not always, and this is by no means a professional approach to take when it involves the investment made by an insurance company.

Safety first. When VIG invests its money, security is given top priority. Non-transparent investment vehicles are not permitted. The focus instead is on good credit ratings and stable investment returns. As a result, VIG invests primarily in European government bonds with sound budgets in good corporate bonds and in real estate. Equities, on the other hand, only account for around four percent of the portfolio. It is also important for the investment horizon to match the liabilities profile. And since insurance policies – particularly life insurance policies – tend to be somewhat long-term, the principle of conservative investment also includes long-term investment. The result is an asset mix representing stable cash flows and a steady growth in value. Rapid changes in value – in one direction or the other – do not fit this picture. In order to ensure this is not the case, VIG investment is subject to some security mechanisms – it could be described as a "safety harness" for the invested capital. Risk is managed among others using strategic asset allocation, with upper and lower limits for each asset class and each subsidiary. Limits and guidelines naturally exist across the Group. This applies to the holding company as well as the Group companies.

VIG investments



- 70.4% Bonds
- 9.0% Loans
- 6.7% Bank deposits, deposit receivables, cash assets
- 6.3% Real Estate
- 4.4% Shares
- 3.2% Participations

Sustainability. VIG also feels it has a duty to make appropriately sustainable investments. This means, for instance, giving preference to investing in local infrastructure projects. Other examples that can be named are our continued involvement in providing affordable housing in Austria, and our sustainable approach to energy and resources when constructing our own office buildings. We take the same line with our ongoing investment in CEE government bonds. In this way, the Group provides long-term capital for the funding needs of the region.

All's well that ends well. In the final analysis, the investment strategy used by an insurance company must ensure that the company's own long-term obligations can be met in full. This principle is given the highest priority when we make investments.

AN INTERVIEW

KORNEL STADLER

"We have to properly assess developments taking place in the capital markets and in economies in order to avoid risks."

Gerald Weber,
Head of VIG Asset Management

European interest rates have remained just above the zero percent mark for a number of years. What exactly does this mean for VIG?
The low level of interest rates and yields is primarily a challenge when making new investments and re-investments, particularly investments to meet the guarantee commitments on traditional life insurance and provide an additional return for customers. The "interest rate" for the investment portfolio as a whole does not change suddenly, but instead steadily over time. This applies to the average guarantee interest rate for the insurance portfolio. We give particular importance to making investments that are secure and of a long-term nature, thus ensuring we receive the stable cash flows that are needed. This has been important in the past and will continue to be important in the future – particularly in the low-interest rate environment.

How suitable is VIG's conservative investment strategy for the current low-interest rate environment?
In my opinion, this is not a question that concerns the current market environment. Our customers expect us to appropriately honour the commitments and promises we have made regardless of the circumstances. Given the possibility of failure, aggressive and potentially uncontrolled or unnecessarily risky strategies are unacceptable – and, due to their volatility, the probability they will fail is also correspondingly high, as the past has repeatedly shown us. VIG's conservative investment strategy is therefore also suitable for the current low-interest rate environment.

If such conservative investments are made, where do the challenges lie in your job?
Investment risks can occur individually or cumulatively, depending on the particular market environment and macroeconomic changes. Even conservative investment involves certain risks. It is therefore important for us to properly assess developments in the capital markets and in economies in order to avoid risk. It is also important to remain true to our fundamental principles of conservative investment, and to continue consistently following our medium and long-term strategy.

S VERSICHERUNG

LIFE INSURANCE WITH A GUARANTEED INTEREST RATE

A guarantee forms the basis of all sensible retirement provision

Manfred Rapf,
Deputy General Manager and CFO of s Versicherung

Low interest rates make it difficult for life insurance. Austrian company s Versicherung is nevertheless maintaining a guaranteed interest rate.

For years, the Austrian Financial Market Authority has been gradually reducing the maximum guaranteed interest rate for life insurance. It is now 1% and some insurance companies no longer offer a guaranteed interest rate. The reason is clear. The historically low level of interest rates makes it difficult to earn the guaranteed return. And that is precisely the point. It is difficult, but not impossible. We will therefore continue to provide a guaranteed interest rate, which we consider to be such an important component of life insurance.

"All of us need financial security – also in our retirement."

This is because we are convinced that a guaranteed interest rate is a key differentiator in retirement provision. Particularly because there are no alternative products in the financial market that combine a life-long pension with a guaranteed interest rate. We don't want to lose this unique selling point, as it is the only way we can offer our customers financial security in their retirement provision.

The introduction of Solvency II, however, did not make things easier. Solvency II is a risk-based solvency regime, i.e. the capital requirements of an insurance company are based on the risk it assumes. Giving guarantees to customers is precisely such a risk for the company. Additional capital must be held in reserve to ensure that these guarantee commitments can be met at all times. We accept this higher capital requirement because providing financial security for our customers in their retirement is important to us.

s Versicherung is not only Austria's largest life insurance company, but also its most successful bank insurance company. We distribute our products through our bank partners, Erste Bank and the Sparkasse banks. This allows us to streamline our costs – which also benefits customers in the end – while allowing our customers to receive high quality advisory services from their trusted advisor.

About

Manfred Rapf (55) has been CFO of Sparkassen Versicherung AG Vienna Insurance Group since 2005, and Deputy General Manager since 2015. He studied mathematics and computer science, is President of the Austrian Actuarial Association and has been Chairman of the Life Insurance section of the Austrian Insurance Association since 2013.

Risk is ok – but it needs to be managed

Identifying the risks of a business model, assessing them appropriately and making provisions for their occurrence – these are the requirements of a comprehensive risk management system.

One of the primary requirements of the VIG risk management system is to ensure that the obligations assumed under insurance contracts can be met over the long term. And this must still be the case, even if large, unforeseeable losses occur, such as natural disasters. “Nothing will happen” is not an appropriate attitude to take. The years following the economic and financial crisis in 2007 showed that many previously unimaginable things could actually become reality. Transparent, verifiable internal decisions and processes are essential elements in creating an appropriate company-wide risk culture. By observing all existing rules, each employee makes their own individual contribution to a functioning system, including in respect of compliance. VIG uses long-term measures to control underwriting risk and forms provisions to allow it to make future insurance payments. These are based in part on the new Solvency II guidelines, which ensure that risks remain manageable and insurance companies remain resistant to crisis.

VIG INFOBOX

One of Vienna Insurance Group’s core competence is dealing professionally with risk. The VIG risk management system is firmly anchored in the management culture of the Company and is based on a clearly defined, conservative risk policy, extensive risk expertise, a highly developed set of risk management tools, and risk-based Managing Board decisions. Read more about the VIG risk management system in the Group report on page 56.

KAREL VAN HULLE ON THE INTRODUCTION OF SOLVENCY II

“It should be proportional and expedient.”

The launch of Solvency II provides a comprehensive reform of the previous regulations. It will ensure that the industry becomes more risk-conscious and more robust.

The new EU Solvency II Directive came into force on 1 January 2016. It nevertheless continues to represent a challenge for all parties concerned. For the insurance industry, it is not evident to implement a risk based solvency regime in a low interest rate environment. For insurance supervisors, it is not easy to work with a regime that leaves much more freedom to insurance undertakings than was the case under Solvency I. For regulators, it is new to work with a regime that is largely EU driven. For customers, in addition to making considerably more information available, Solvency II also brings new information that is based on concepts and ideas that are not in general use and are therefore difficult to understand.

And still, this reform is necessary and it is overdue. It is no longer possible for the insurance industry to continue hiding in the corner, as was often the case in the past. Financial markets have changed and no longer function in the way we became accustomed to in the past. Risks are numerous and the only way to succeed in this risky environment is by substantially improving risk management and governance. In that sense, it is wrong to focus too much on capital. Solvency II is more than that.

Solvency II is not perfect. Naturally, everyone involved would have liked to see Solvency II completed in a shorter time period, Especially since the results are not perfect. However, no one ever thought that regulations as complex as these would be perfect right from day one. Much attention was paid to ensure that the system would be flexible so that changes could be made when they appeared necessary. It will take some years before this reform will be fully understood and applied. Basically, this should not be a problem. We just need to accept the situation.

However, since the regulations were already so extensive on the day they took effect, we have to avoid making them even more complex. It is therefore important to monitor the implementation of Solvency II in practice. National regulators have a tendency to add further rules on top of the EU regulations. We can only hope that the European authorities keep an eye open for this kind of overregulation. Insurers should also complain to Brussels about such excesses.

Principle of proportionality. Most of the insurance companies affected are small or medium-sized enterprises. It is therefore important that the nature, size and complexity of the business are taken into account, not only in regulation but also in supervision. Proportionality must be ensured. It does not mean that an insurance undertaking is exempted from applying a rule which is considered important. It means that the rule is adapted to the particular situation of a small, less complex entity.

> **“Not everything should be regulated.”**

Implementing proportionality in regulation was not easy. After much debate, a number of case examples have now been specifically included in the Solvency II rules and guidelines. These examples concern the three pillars of Solvency II: simplified calculations for technical provisions (pillar 1), reduced governance requirements (pillar 2) and reduced supervisory reporting (pillar 3).

Introducing proportionality to supervisory authorities is also difficult. Applying fixed rules is far easier than applying proportionality and expedience when assessing a company. Insurers and supervisory authorities should therefore begin a true dialogue, one that cannot be allowed to become a monologue. When looking at the current processes, you get the impression that this goal has not yet been achieved. Nothing is more difficult than to change established practices.

Examine the regulations critically. Solvency II is a project in stages. The length of the negotiations made it ever more complex. The insurance industry wanted clear principles so as to avoid discussions with supervisors and supervisors wanted detailed rules so as to be armed in their discussions with the insurance industry.

We will now have to learn to work with this large volume of rules and guidelines. Hopefully, experience will show that parts of it are not needed at all. I invite all of the parties concerned to critically examine Solvency II and identify areas where useful or necessary changes could be made.

Years of work as a regulator have shown that not everything should be regulated and that regulation requires a certain degree of flexibility. At the same time, we have to ensure that Solvency II, which was created with the cooperation of all parties involved, fulfils its purpose.

Van Hulle believes that Solvency II is necessary, but must also be critically questioned.

LINELLE DEUNK

About

Karel Van Hulle is an Honorary Professor at the Goethe University of Frankfurt and Associate Professor at the University of Leuven. He is also Chairman of the EIOPA Insurance and Reinsurance Stakeholder Group. Van Hulle participated in the development and preparation of Solvency II in his previous position as head of the Insurance and Pensions Unit of the European Commission.

VIG UPDATE

KORNEL STADLER

“Green light for Solvency II”

Ronald Laszlo
Head of VIG Enterprise Risk Management/Solvency II Project

VIG implements the European directive with its own partial modelling. The European insurance sector continued to be intensively involved with the introduction of Solvency II in 2015. Insurance company regulatory activities were focused on developing new risk management methods and models appropriate for Solvency II that could go live on 1 January 2016, and with making the necessary adjustments to the IT systems.

One major aspect of Solvency II is the change in capital requirements for insurance companies. Insurance companies must have sufficient capital to allow them to withstand a potential 1-in-200-year loss (capital requirement). The key performance indicator for solvency is the solvency ratio, which reflects the relationship between equity capital and the capital requirement. The equity capital is calculated using an economic balance sheet, and the capital requirement either using a predefined standard formula or using an internal company model. However, the latter requires approval from the supervisory authorities.

Since the standard formula did not adequately reflect VIG's risk profile, VIG decided to internally model the property and casualty area and real estate investments and to develop a partial model. This complex multi-year project was successfully brought to a conclusion with approval from the supervisory authority for the Group, the Austrian Financial Markets Authority (FMA), at the end of 2015. VIG is the only Austrian company that can boast an approved internal model.

Based on this partial internal model, the solvency ratio is expected to be in the area of 200% at the level of the listed VIG group. This – together with VIG's rating – confirms that the Group has excellent capital resources which give it sufficient freedom to continue actively pursuing its chosen strategy.

In spite of the high cost of organisational and process-related changes and the strict capital requirements, the introduction of Solvency II was a step in the right direction. In the final analysis, it is concerned with making secure investments with a competitive advantage that provide long-term benefits to customers, the company and shareholders alike.

Common compliance culture

Group Compliance Officer, Natalia Čadek on the special function of codes of conduct in an international group of companies.

Compliance: Illegal conduct must be prevented.

JAN EHM

If you look up the word “compliance” in the dictionary, you will come across terms like obedience or good behaviour. What exactly is compliance and what role does this function play in a company like VIG?
First of all, we understand it to be the observance of all existing regulations by the company and its employees – laws, regulations and voluntary commitments. Compliance as a concept also involves putting organisational measures in place in the company to ensure observance with legal norms and internal company guidelines.

What organisational measures of this type exist in VIG?
Training programmes are a very important element in this. They include not only topic-specific physical training courses, but also cross-department and cross-company workshops. Compliance also relies heavily on an exchange of information. We use an internal Group newsletter for this purpose, in which we focus on EU law. An in-depth exchange of information and experience also takes place in Compliance Committee meetings, which take place in VIG at both the holding company and Group level. Providing proactive support to employees on compliance-related issues also helps to raise awareness and create a compliance-conscious environment in the entire organisation.

What role does Compliance play in an international company and what challenges arise in connection with the CEE region in particular?
First and foremost, it is concerned with preventing unlawful conduct in the entire organisation, because such conduct can have far-reaching consequences. In addition to fines and damage claims, there is also a risk of severe damage to the company's image and reputation. A special aspect of the compliance organisation in VIG is that it involves companies in 25 countries. This includes companies based in EU member states as well as those in third countries. In this context, the aim and key responsibility of Group Compliance is to ensure that a consistent understanding of compliance and a common compliance culture exist Group-wide. This is also the greatest challenge, particularly given the differences in legal frameworks.

Does Solvency II now provide a common compliance framework for EU member states?
Yes, that is correct. Solvency II came into force at the beginning of 2016, and imposes new, far-reaching requirements on us. Intensive preparatory work took place in the period before it came into force. The focus was primarily on designing and communicating the Group-wide compliance organisation. Now it has come into force, we have to adjust our business operations to the new regulations and make the new Solvency II regulatory regime a part of day-to-day life in our insurance company.

What are employees concerned about? Which questions do you encounter the most?
They cover a broad range, from general questions about insurance law to questions about the correct way to deal with gifts and invitations. Since VIG shares are listed, we also frequently receive questions about issuer compliance at the holding company level. In any case, what is important is that our colleagues can turn to us if they are unsure. In this way, we can further develop our compliance organisation.

THIS IS WHAT THE LOCAL COMPLIANCE OFFICERS HAVE TO SAY ABOUT THE TOPIC:

Project-related workshops. The compliance officers of the Austrian VIG companies meet regularly for project-related workshops to ensure an exchange of expertise between the companies. This makes synergies possible, since we often face very similar challenges.

Ulrike Pruckner-Herran
Wiener Städtische,
Austria

International Compliance Committee meeting. VIG compliance committee meetings are a valuable tool for cooperation. They ensure a shared understanding and an exchange of knowledge. The Group-wide compliance structure and regular communication are an important source of support for the local compliance departments.

Jaanika Ulst
Compensa Life,
Estonia

Local meetings. At the formal level, information is exchanged within the Group by means of periodic and ad hoc reports. At the same time, however, it is just as important to meet regularly in person to exchange views and experiences.

Tomasz Gradkowski
Compensa Life &
Compensa Non-Life, Poland

Newsletter. Regular and successful cooperation is the basis for our teamwork within the Group. Many compliance issues are solved jointly. We especially value the VIG compliance newsletter. It provides helpful information, particularly on current initiatives at the European level.

Martin Laur
Kooperativa CZ,
Czech Republic

KORNEL STADLER (4)

AT A GLANCE

Roadshow activities in 2015

Maintaining ongoing communication with the capital market is very important to VIG. Frankfurt, London, New York and Boston were the cities where VIG management held roadshows to meet with existing and potential investors. In addition to VIG's basic strategy, the growth potential that still exists in the CEE region was also discussed. VIG also took advantage of eleven conferences organised by national and international banks to inform investors in other cities such as Munich, Rome and Warsaw about current developments. Private investors were able to obtain first-hand information about the Group in Vienna at the Gewinn Messe trade fair in October.

Bond issue and repurchase

On 2 March 2015 the Company issued a subordinated bond with a nominal value of EUR 400.0 million and a term 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 subordinated bond satisfies the Tier 2 requirements under Solvency II. The bond is listed on the Luxembourg Stock Exchange. In March 2015, the Company repurchased EUR 51,983,000 of the nominal value of Tranche 1 of the EUR 500 million in hybrid bonds issued in 2008 and EUR 35,822,500 of the nominal value of supplementary capital bond 2005–2022 issued in January 2005.

Dividend

The Group has paid out a dividend every year since its IPO in 1994. Since the capital increase in 2005, this has been based on VIG's sound dividend policy, which provides for the payout of at least 30% of Group net profit (after minority interests) to the shareholders. The Managing Board is also following this principle for financial year 2015 by proposing a dividend of 60 Cent per share to the statutory body.

Rating

The confirmation of the A+ rating with stable outlook from the internationally recognised rating agency Standard & Poor's (S&P) in July 2015 shows how solid the position of Vienna Insurance Group is. The excellent capital resources of the Group even exceed S&P's defined benchmark for AAA. Moreover, due to its market leadership position in Austria and Central and Eastern Europe, VIG's competitive situation was rated as "very strong". This means that VIG continues to enjoy the best credit rating of all companies in the ATX Index.

A+ with stable outlook

Opportunities and risks of VIG shares

2015 was a difficult year for Vienna Insurance Group shareholders, even though the Group continues to have a solid and profitable foundation.

Stable foundation. Every price is a mix of fundamental data, expectations, sentiment and technical factors. The fundamentals of the Group are as stable as they have ever been. The Group's operating result is solid and its capitalisation is also rated excellent by Standard & Poor's. The Solvency II ratio calculated at the level of the listed VIG group is in the area of 200% and therefore continues to be among the leaders of internationally operating insurance groups. In addition to the fact that VIG is the largest insurance group in Austria and the CEE region, the Group companies provide many positive contributions to performance and Central and Eastern Europe offers growth potential that cannot be ignored. The downward trend in the share price during the year just ended and the painful drop to below EUR 20 at the middle of March 2016 were due to macroeconomic changes and a series of other events that generated critical sentiment among investors and analysts. Aside from the fact that international perceptions of the CEE region – VIG's growth markets – are continually changing, the first decoupling of VIG shares from the market was triggered by the earnings report published on 14 April 2015. During this presentation, management drew attention with its statement that the negative effects of the low-interest rate environment in 2015 could not be offset even by further improvements in the underwriting result. The subsequent revisions to expected earnings by capital market analysts led to the first significant price correction, from the previous high of EUR 42.62 on 10 April 2015 to EUR 35.50 at the end of April.

The foundations of the Group are as stable as they have ever been

Regular reviews in May and June of the composition of two important European indices, MSCI and STOXX, put further pressure on the share price. Due to too low a market capitalisation for the free float of around 30%, VIG got excluded from both of these important index families. This led to a technical price reduction. Many funds are "index trackers", which means they replicate the composition of various stock indices. This means that fund portfolios are adjusted based on index changes, without taking the fundamental performance of companies into account. The resulting selling pressure led to another sell-off of VIG shares, which closed the 1st half of 2015 at a price of EUR 30.775, 17% below the price at the end of 2014.

The general nervousness of the markets, due to concerns about the Chinese economy and discussions about the European Union's ability to deal with the refugee crisis, put additional pressure on share prices in the 2nd half of 2015. In this environment, VIG then announced a write-down of its IT systems. The resulting decrease in earnings led to initial indications and fears that this might also have an effect on the VIG dividend. Adding to this came the change of management at the end of the year that the market did not expect. On 14 December 2015, VIG shares fell to a low for the year of EUR 24.91.

Technical price drop due to removal from the MSCI and STOXX indices

Headwinds at the start of the year. Fears that the Chinese economy could encounter difficulties continued to affect the stock market at the beginning of 2016. In this environment, the price of VIG shares fell further to almost EUR 22 at the middle of January. Publication of VIG's preliminary profit before taxes, which was reduced by negative effects of low interest rate environment and other impairments of assets, led to another significant price correction. VIG is maintaining the dividend policy it has followed for many years, namely distributing at least 30% of Group net profit after minority interests. The Managing Board will propose a dividend of 60 Cent per share for financial year 2015 to the statutory body. This corresponds to a dividend payout ratio of around 78%.

Outlook. The low interest rate environment will continue to be a major challenge for VIG in 2016. The Group nevertheless plans to at least double its 2015 pre-tax results and achieve a profit before taxes of up to EUR 400 million in 2016.

In medium terms VIG aims for an improvement of the Combined Ratio, an important profitability ratio for property and casualty insurance, towards 95%.

Communications will continue to focus on presenting the opportunities and risks of the Group's business development, with the goal of gradually winning back market confidence.

THE VIG EQUITY STORY

- **Market leader in Austria and the CEE region**
- **Long-term growth potential**
- **Successful business model: broad diversification across countries, products and distribution channels**
- **Optimal combination of local entrepreneurship and central risk management**
- **Experienced management**
- **Strong capitalisation**
- **Conservative investment policy**

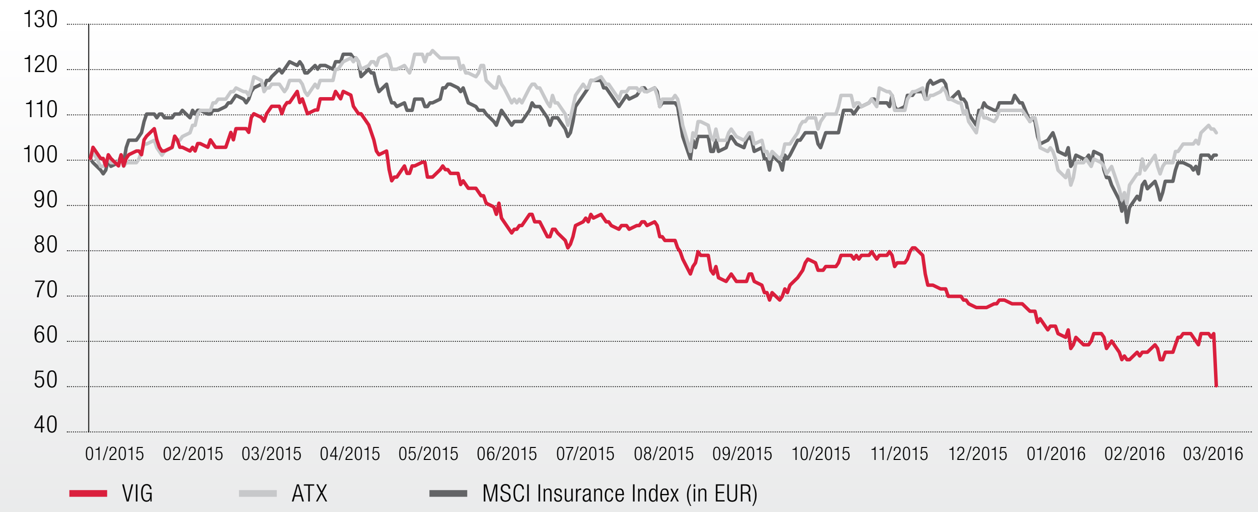
KORNEL STADLER

If you have any questions about the Group and VIG shares, please contact the Investor Relations team.

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

SHARE PERFORMANCE – VIENNA INSURANCE GROUP (VIG)

Vienna Insurance Group (VIG) compared to the ATX and MSCI Insurance Index (in EUR), 1 January 2015 to 17 March 2016



KEY FIGURES – VIENNA INSURANCE GROUP (VIG)

Key share information		**2015**	**2014**	**2013**
Market capitalisation	EUR million	3,237.12	4,746.24	4,636.80
Average number of shares traded per day	Shares	approx. 147,000	approx. 65,000	approx. 64,000
Average daily stock exchange trading volume (single counting)	EUR million	6.8	3.1	3.0
Year-end price	EUR	25.290	37.080	36.225
High	EUR	42.620	40.070	42.810
Low	EUR	24.910	33.800	34.260
Share performance for the year (excluding dividends)	%	-31.80	2.36	-10.28
Dividend per share	EUR	0.60[1]	1.40	1.30
Dividend yield	%	2.37	3.78	3.59
Earnings per share[2]	EUR	0.66	2.75	1.57
Price-earnings ratio as of 31 December		38.32	13.48	23.08

1 Planned dividend
2 The calculation of this financial ratio includes accrued interest expenses for hybrid capital.

VIG SHARES IN OVERVIEW

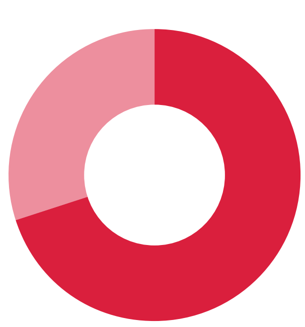
Initial listing (Vienna)	17 October 1994
Initial listing (Prague)	5 February 2008
Number of common shares	128 million
Free float	approx. 30%
ISIN	AT0000908504
Security symbol	VIG
Bloomberg	VIG AV / VIG CP
Reuters	VIGR.VI / VIGR.PR
Standard & Poor's rating	A+, stable outlook

FINANCIAL CALENDAR*

Annual General Meeting	13 May 2016
Ex-dividend day	18 May 2016
Record date	19 May 2016
Dividend payment day	20 May 2016
Results for the 1st quarter of 2016	24 May 2016
Results for the 1st half of 2016	23 August 2016
Results for the 1st to 3rd quarters of 2016	22 November 2016

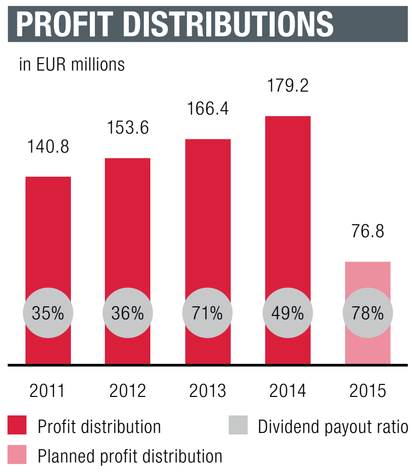
* Preliminary schedule

SHAREHOLDER STRUCTURE

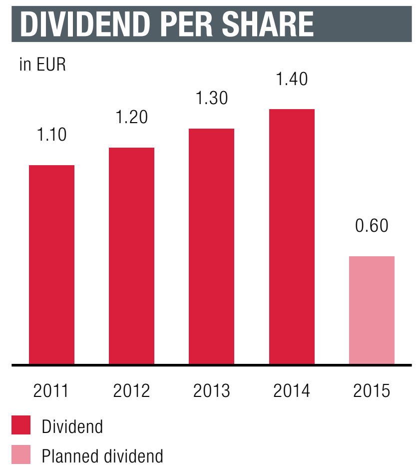


Approx. 70% Wiener Städtische Versicherungsverein
Approx. 30% free float

PROFIT DISTRIBUTIONS



DIVIDEND PER SHARE

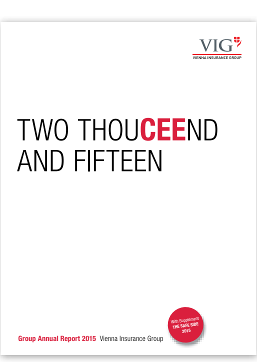


SERVICE TIP

Online annual report

An online version of the annual report that is optimised for both the Internet and mobile devices can be found on the Vienna Insurance Group website at www.vig.com. This means that interested parties can now examine the Company's business performance at any time and any place. All sections may be downloaded in PDF form, and the most important tables are also available for download as Excel files. Other features, such as links within the report and a comparison with the previous year create transparency and take you directly to the information being sought.

The VIG online Annual Report is available at: www.vig.com/AR2015



EXPERT CHECK

"Is there a CEE bonus?"

Friedrich Mostböck
Head of Group Research, Erste Group

In 2009, the spectre of Austrian and CEE bankruptcy was raised at the height of the international financial crisis. This viewpoint was spread by the media, economists, rating agencies and even the International Monetary Fund (IMF). This was based on the incorrect assumption that the total loan exposure of Austrian banks (incl. CEE) was too high compared to Austrian gross domestic product.

Austrian financial institutions do, of course, have a large exposure to CEE. However, the economic output of the CEE countries concerned had not been included when estimating the loan volume. In addition, loans were and continue to be covered not only by Austrian savings deposits (which would have been too little), but also by local deposits in the CEE countries. It was a gross miscalculation that was later shown to be flawed. The IMF apologised, but the damage was enormous. What had been a CEE bonus for the Austrian economy became a serious Eastern European malus.

"Once a reputation is ruined… " – this saying definitely does not apply to the CEE region. However, it took years of presenting facts before investors were convinced and lost confidence was restored. Naturally, growth rates are also at a moderate level here, but on average the CEE region is growing twice as fast as the Eurozone. In addition, growth rates like those before the crisis could not have been sustained over the long term. From this point of view, the crisis had a cleansing effect.

However, the fact is that the current situation should benefit Austria and the CEE region over the long term. This view is supported by the fact that they have practically no direct relationships with emerging markets that have run into difficulties, such as China and Brazil, and weak oil and commodity prices benefit industrial production. The small economic revival in Western Europe and weaker euro should also have further positive effects on the export industry.

All in all, the CEE bonus can be seen not only in an expansion of the business base, but also in greater economic diversification as a consequence of the variety of different countries involved and in a higher average growth rate for the region as a whole due to the sound catch-up potential.

AN INTERVIEW

"Long-term thinking is in our DNA."

Petra Ringler
CSR-Officer

What is the importance of CSR for an insurance company?
As an insurance company, we promise our customers to deliver a clearly defined service in the future. Take life insurance or health insurance, for example, and you are talking about a time frame of 30 or even 60 years. Long-term thinking is in our DNA, so to speak, as part of our core business. The fact that VIG has this kind of vision is proof of our company's 190-year old history.

Which CSR topics are of particular importance to VIG?
On the one hand these include topics concerning employees, diversity, fairness, environmental concerns, and support from social and cultural institutions. On the other hand I believe that we must integrate CSR much more into our core business. How can we sustainably support our customers with their safety and financial security needs? How do we as an insurance group handle the demographic changes or natural disasters, which occur more and more frequently? These are central issues and questions, which strongly influence the product design of our Group companies and also our company's strategy.

Where else do you see the need for action over the coming years?
As I mentioned, many of the topics we have been dealing with intensively for quite a while. Now it is time to build a solid roof for all those diverse measures and to communicate our plans to the outside world even more. In doing so, one of our foremost interests in the design of our CSR agendas is to structurally involve our customers, employees and business partners and to proactively ask them, which topics are important to them. What good are our best ambitions and intentions, if they fail to address the real target, namely long-term satisfied customers, employees and shareholders?

The whole interview is available at: www.vig.com/en/CSR_Interview

Patrick Göttlicher
Special operations project
InterRisk, Germany

Goran Kesić
Sales
Wiener Städtische Osiguranje, Serbia

Barbara Grötschnig
Group Sponsoring
VIG Holding, Austria

Daniela Michaličová
Marketing
Komunálna, Slovakia

Capable, responsible, diverse: the people behind Vienna Insurance Group

Responsibility both in & outside the Company

Our involvement does not end at the office door. We also actively tackle issues and provide help outside our daily business lives. In addition to helping with the professional development of its employees, VIG also uses social initiatives to contribute to their personal development.

VIG has a long tradition of social involvement. This is why we actively initiate and promote social programmes and projects that are dedicated to those who are socially disadvantaged.

Bringing social involvement to life. Our Social Active Day deserves special mention. Started in 2011, it allows every VIG employee to dedicate one working day per year to a social initiative. Employees support a wide range of projects and social organisations that differ greatly across regions. Around 4,000 VIG employees set a strong example of greater involvement, charity and solidarity in 2015. **Patrick Göttlicher** was one of them. He contributed his organisational talent from "Wiesbadener Tafel" to help enable disadvantaged children and their families, and seniors without caregivers to take a boat cruise on the Rhine. It was clear that Serbian-born **Goran Kesić** also wanted to provide help by renovating the homes of families with children who have cancer as part of the NURDOR project.

The Günter Geyer Award is granted each year with support from Wiener Städtische Versicherungsverein, the principle shareholder of VIG, to honour this contribution to society within the Group. In 2015, one of the award winners for social involvement was the Slovakian company Komunálna, which took third place, and **Daniela Michaličová** as Head of Marketing for the company. She is the main person in the Group responsible for the "Child-Friendly Community" project, which trains social workers, among others, to better recognise and understand the needs and problems of young people.

Barbara Grötschnig, Head of VIG Group Sponsorship, and her dedicated team are responsible for all social and cultural activities in the Group: In addition to coordinating the Social Active Day, this also includes the annual wrapping of VIG's headquarters in the Ringturm

Gustav Mahler Youth Orchestra

Vienna Insurance Group sponsors the Gustav Mahler Youth Orchestra, one of the world's leading youth orchestras. It is a place of learning for talented European orchestral musicians and encourages young Austrian musicians to play music with their colleagues from all over Europe, traditionally including many from Central and Eastern Europe. More than 2,000 young people apply each year, but after the rigorous selection process only the best are invited to join the orchestral projects. VIG has supported the Gustav Mahler Youth Orchestra for many years, thereby also promoting international understanding and equal opportunities.

Wrapping of the Ringturm

The Company headquarters, the Ringturm building, once again became an art tower in celebration of its 60th anniversary. The work "Joys of Summer" by Croatian artist Tanja Deman is the eighth traditional wrapping of the Ringturm by Wiener Städtische Versicherungsverein. In addition to the artist herself, many art enthusiasts also attended the opening event.

WIENER STÄDTISCHE VERSICHERUNGSVEREIN/ROBERT NEWALD

VIG Kids Camp

VIG Kids Camp was organised for the sixth time by Wiener Städtische Versicherungsverein, the principal shareholder of VIG. 500 children of VIG employees from 22 countries enjoyed an unforgettable experience full of adventure, excitement and social involvement. The children in the three camps, "City Camp" in Strebersdorf, "Country Camp" in Wagrain and "Mountain Camp" in Mariazell, dedicated one day to a social activity. Songs were rehearsed and dances learned, and then presented in an establishment for senior citizens. The children sang and danced to the great enjoyment of the audience.


Stela Šeperić
Actuary
Wiener Osiguranje, Croatia


Enid Minarolli
Managing Board
Sigma Interalbanian, Albania


Jiří Pařík
Legal department
Kooperativa, Czech Republic


Judit Pécsi
People Management
Union Biztosító, Hungary

IAN EHM (8)

building, the VIG Kids' Camp and refugee aid initiatives, to mention only a few.

Learning without borders. VIG combines responsibility and solidarity with the best possible support for its employees. In addition to respect for others at all staff levels, importance is also placed on identifying career opportunities, and recognising and promoting employee potential.

The mobility programme is a key component of employee development that gives highly talented employees practical insights into the processes, guidelines and standards of the different departments and Group companies. **Stela Šeperić** is one of the employees who took part in this programme. She is an actuary from Wiener Osiguranje, Croatia, and visited Vienna under the mobility programme. "I returned to Croatia with more knowledge, a wider professional network and many positive impressions," stated Šeperić, summarising her experience.

Mobility as a key factor

Jiří Pařík also took part in the mobility programme. In his case, however, he joined VIG company Kooperativa in the Czech Republic through its one-year trainee programme. "I learned about the Company in all of its aspects, and this experience will be highly valuable to me in my future work," stated Pařík.

Identify, promote and use potential. In addition to employee training, priority is also given to management development. A range of training programmes covers both professional expertise and personal development. One of the key programmes is the International Management Development Programme for High Potentials and Young Managers (IMDP), which was developed in cooperation with the renowned Zeppelin University in Friedrichshafen. **Enid Minarolli** is one of the managers who took part in the programme. He was recently appointed to the Managing Board of Sigma Interalbanian.

"The programme promotes out-of-the-box thinking to best equip managers for current and future challenges in the insurance industry. The experimental approach and professional exchange of information with my colleagues in the Group were particularly valuable to me," stated Minarolli about the programme.

Focus on experts. Part of the VIG competence model has experts as its target group and thus offers an alternative to the traditional management career. **Judit Pécsi**, Head of Human Resources for Union Biztosító, played a major role in the introduction of the expert career in the three Hungarian Group companies. "We know what an important role our experts play in the success of our company. By implementing the expert career profile, we are able to offer clear development and career prospects to this professional group," explained Pécsi.

VIG is always on the lookout for motivated people whose spirit and involvement can help us on our path to success, and who add to the colourful diversity that makes Vienna Insurance Group what it is.

MORE ON THE TOPIC

Learn more about the importance of CSR in the Group and the many exciting prospects that VIG offers as an employer at: www.vig.com

AN INTERVIEW

"Our focus is on people"

Birgit Moosmann
Head of Human Resources

What are your responsibilities at VIG?
I am responsible for implementing Group-wide initiatives and incentives that set a framework for local heads of HR. Since they know local conditions the best, Group companies are independently responsible for the direction they take, such as providing local advanced training courses.

What makes VIG an attractive employer for job seekers?
We offer a wide range of opportunities and prospects. Our advanced training and development programmes focus on Group-wide collaboration and international experience. Continuing training is available in all areas, right through to the systematic promotion of expert careers and the development of managers. Employees can exchange information with their colleagues in other countries and develop an understanding of different cultures and local market conditions.

What is particularly important to you about your work?
Since our success is based on our 23,000 employees, we have a clear focus on people. Only by working together can we continue to provide excellent service to our customers in 25 countries. What particularly sets us apart is that our VIG team is motivated, diverse and capable, and speaks many languages.

What are the priorities for the future?
We want to continue promoting diversity within VIG and providing all employees with opportunities for development. Our goal is to become even better every day, so that we can continue to attract – and retain – the smartest minds for our company in the future.

Silver at Best Recruiters

For the second time, VIG Holding has been rewarded with the silver label by Career's Best Recruiters. This study evaluates around 500 Austrian companies each year. It looks at how the companies present themselves, and how they address and treat job candidates. The award reflects the success of the Human Resources strategy VIG introduced to position itself as an employer of choice. The award once again recognises the efforts of the VIG HR Management team in terms of presence at career events and on career websites, and the high level of service provided during candidate management.

Georgia: GPI sets HR trends

In 2015, the HR and Marketing department of Georgian Group company GPI organised an exclusive conference for the HR managers and CEOs of their corporate customers from a total of 80 companies. The speakers included many Georgian and international experts. GPI used this to position itself in Georgia as a pioneer in the area of HR management and as a strong business partner. VIG's competence model, which focuses on the development of various employee groups, was also presented. The event was highly praised by everyone in attendance, as well as the media.

~60% percentage of women

Women power

VIG had an average of 23,000 employees in 2015, with approximately 56% in the field sales force and around 44% in administration. Approximately 60% of the employees in the Group are women. The share for the Managing Boards of VIG insurance companies is around 22% and at the next management level below approximately 40%.

AN INTERVIEW


KORNEL STADLER

"The industry is developing virtual channels that ensure a sense of security."

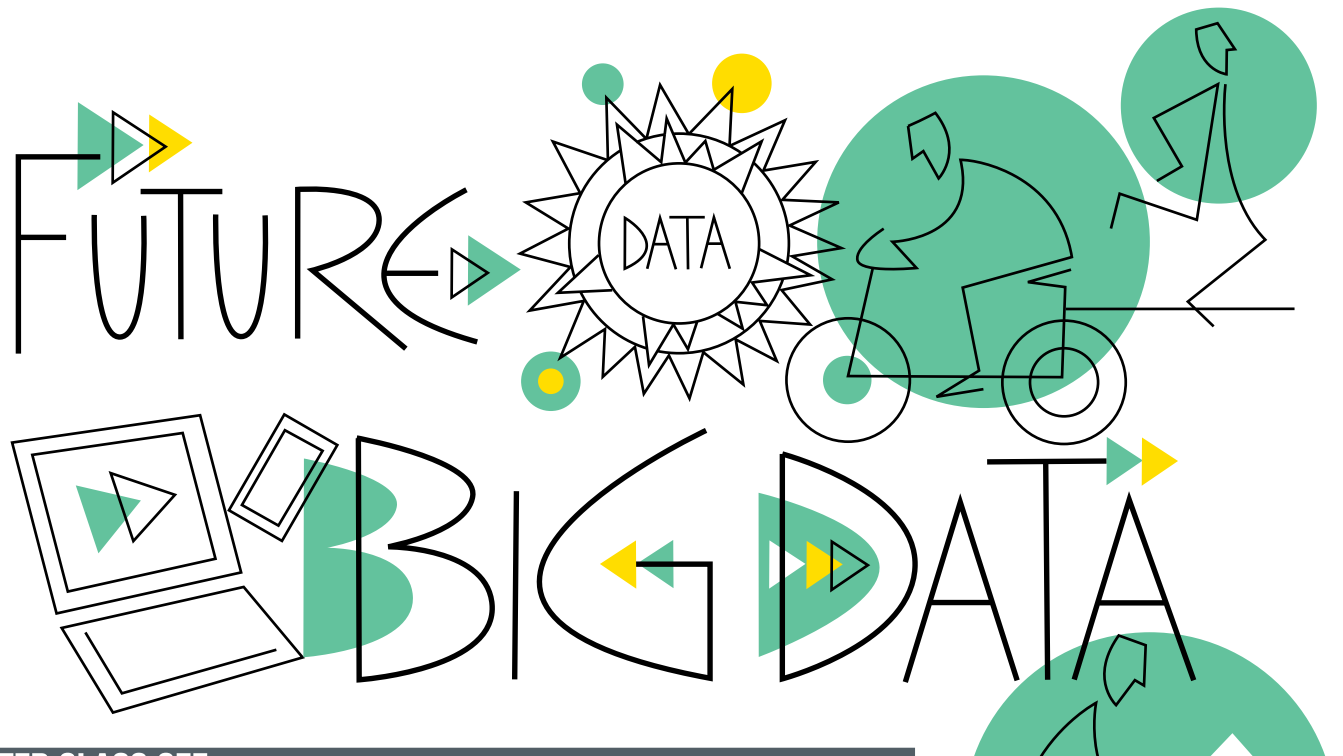
Tomasz Borowski
General Secretary Compensa, Poland

The students in the Master Class CEE stress the importance of security in the virtual world. What does this mean for insurance companies?
Technology is becoming increasingly multi-dimensional. Smartphones are not just for making phone calls, but also for buying, watching TV and making payments. The shape of communications and product distribution is changing and insurance companies have to face the challenge. Personalised products must be offered in an uncomplicated way, at a time and place determined by the customer. The industry is in the process of developing virtual channels that ensure a true sense of security. We are, however, at the start of this development and there is a great potential for insuring virtual risks.

What do you think about the ethical conflicts the students addressed?
The new technologies always involve data transfer – to and from the customer. It is an exchange: service in return for information. The better a customer's needs are known, the better the product can be. This also applies to insurance. However, it is the customer who decides whether to give information or not, and it is our responsibility to handle it with great care.

How can insurance companies meet the growing need for mobility?
The insurance business is already very international and follows its customers wherever they go. This ranges from cross-border motor vehicle insurance to health insurance while abroad. Knowing that mobility will continue to increase in the future, insurance companies are developing digital channels that allow customers to purchase the policy of their choice any time and any place.

What solutions do the Polish Group companies have for the future trends that were mentioned?
We have primarily invested in modern IT solutions. In the case of Skandia, for example, we have smartphone apps for policy management and a personalised asset management programme. Benefia, which has now been merged with Compensa, developed a solution that allows a motor-vehicle policy to be issued within a matter of minutes using a QR scan. Compensa is focusing on digital sales support. Sales employees can issue policies via their smartphones or tablets. We have seen that our customers greatly appreciate our desire to innovate.



FRANK MAIER

MASTER CLASS CEE


PETER BERGER

VIG has been a sponsor of the Master Class CEE study program since 2013. This is a compact two semester programme at the Vienna University of Economics and Business aimed at teaching management skills, with a special focus on the management and steering of multinational companies in Central and Eastern Europe. More information is available at www.vig.com/cooperation

We will need security and stability

How do young people today see life in the future? This is precisely what VIG wanted to learn from students from Austria and the CEE region when it surveyed them about their expectations of future trends in the digital age.

What do cabaret performer Karl Valentin, author Mark Twain and physicist Niels Bohr have in common? The saying "It is difficult to make predictions, especially about the future" is attributed to all of them. Nevertheless, we need to deal with predictions. Some developments can be seen far in advance, while others take us by surprise.

Technology drives the need for security. The students in the "Master Class CEE" are optimistic about their future. The world will not descend into chaos in twenty years' time, but will instead have evolved considerably, driven by accelerating technological change. Most of the students feel they will have a greater need for security in twenty years' time than they do today. "I think the need for security will increase in relation to technological trends," said Katharina Haramia from Austria.

> **"I want my data to be insured."**
> **Stefanie Bohacek**

One of the major trends is described by the expression "smart living". "Things in our daily lives will be interconnected and smartphones will be used as a 'life remote control' to continuously monitor and control them," is the vision of Dora Jokkel from Hungary as she looks into the future. Humans and smartphones will develop a quasi-union. "While I am still in bed, I could use my smartphone to tell my coffee machine to make me a coffee," said Bernadette Neumayer from Austria. Not by laboriously sending an SMS or using an app – the smartphone will be controlled by our thoughts.

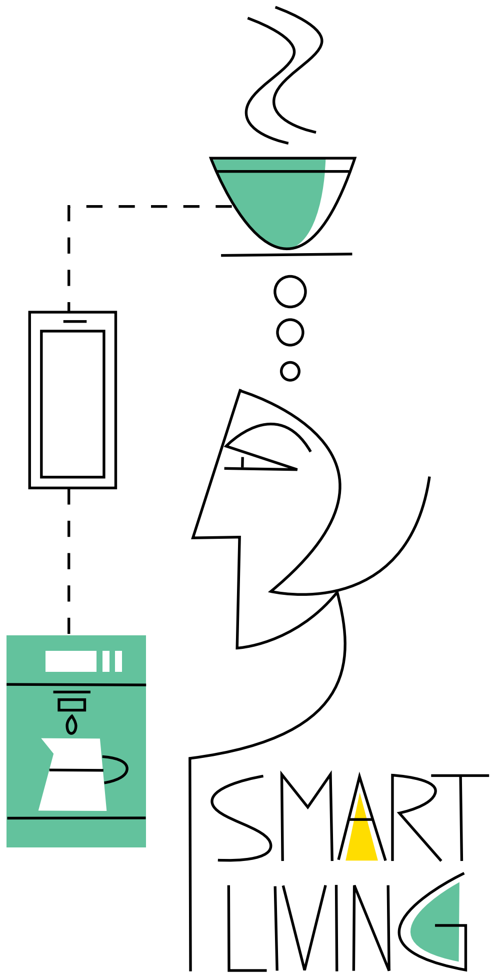
Big Data. Houses, cars, friendships – everything will be "smart" in the future, i.e. connected interdependently. Digitisation will make inroads into all areas of life. Neumayer: "On the one hand, it can make our lives easier, but, on the other hand, it makes us more vulnerable." And particularly when it involves the security of this big data, and the need to protect it from cyber-criminals.

This will result in a greater need for security in the virtual world, and a new business area for insurance companies. "I go through my mental checklist every time I leave the house: keys, wallet, mobile phone. In twenty years' time, all three of these will be combined into a smartphone that I use to pay my bills and unlock my house. I therefore want to be sure that my data are secure and insured," said Stefanie Bohacek from Austria.

On the other hand, insurance companies could make use of these large quantities of data to precisely determine customer needs and offer tailor-made products. The general expectation is that products will be much more individualised and personalised in the future. This is a bit of a contradiction, since people also expect in future to be able to purchase, manage, deactivate and reactivate insurance policies very simply via their smartphones. Digital processing, however, requires a certain degree of standardisation.

Mobility. Increasing importance is attached to the topics of travel and mobility. "I think that travelling regularly from one continent to another will become as common as using the tram today. Insurance companies will have to respond by offering flexible, individually tailored insurance products," according to Jokkel. "My personal impression is that the more 'borderless' we become, the more security we need," said Lukrecia Maljarova from Slovakia.

Ethical challenges. The ageing of society is becoming an increasingly important topic. It will fuel the trend towards private pensions, because the government pension system is stretched to its limits. Medical care and nursing care will also



become increasingly important in the context of insurance. At the same time, however, this will raise important ethical questions for the insurance industry. How will it deal with the new possibilities in the field of genetic testing? Will customers be rejected based on the results of genetic tests? Or will customers be required to take such tests so that premiums can be calculated based on the results? In twenty years' time customers might also know what illnesses they would get in the future. "If only people who knew they were likely to get sick took out insurance, it could put the whole idea of insurance at risk," said Hannah Kofler from Austria.

"Fitness trackers" also present a challenge. These are armbands that record every aspect of daily life, such as sporting activities, sleep, movement patterns, etc. Will insurance rates increasingly be offered that reward the use of such trackers, or provide discounts if a certain minimum number of steps are taken each month? Insurance companies will be judged on how they deal with the issue of the security of precisely this kind of data.

The idea that insurance companies could become obsolete appears completely unthinkable. These companies are needed to take on risk, and to provide security and a bit more predictability in life, which is changing at an ever increasing rate. "The need for security and stability will be so strong in the future that insurance will no longer simply be something that people would like to have, but instead something that is absolutely necessary in our day-to-day lives," is how Juliana Pivovarnikova from Slovakia summarised the topic.

INNOVATION AND RELIABILITY

CUTTING-EDGE PRODUCTS AND SERVICES

Change is a key characteristic of our times. Insurance products and services also have to reflect new behaviours, rising living standards and changes in habits. This cross-section of examples shows how quick and innovative VIG is in expanding its product portfolio.

Advice by video telephone. In addition to a completely new range of apps, Wiener Städtische Austria is setting new standards in customer communications with its innovative video advisory service. The Wiener Städtische website can be used either to start a video advisory session right away, or to schedule a session. All the customer needs for this is a desktop or laptop computer with a microphone and camera. Apps are available free of charge for customers who want to use a mobile device to receive advice.

Mobile app for emergencies. The Slovakian VIG company Kooperativa has developed a mobile solution called "Help App" that offers practical help for its customers in emergency situations. Thanks to the "Help App", users know what they have to do in the case of a traffic accident, theft or natural disaster, for example. A practical tool that helps customers do the right thing in an emergency.

Digital signatures – easier and less paper. In accordance with the digital age, the Czech company Kooperativa is giving customers the option to sign using digital biometric characteristics. Customers benefit from a more convenient way of handling their correspondence, and the environment benefits from the use of less paper.

KOMUNÁLNA

Unique protection for children. Komunálna offers a product that is unique in the Slovakian insurance market. Going under the name of Provital Junior, it offers children a combination of accident insurance and future provisions for use when they are of legal age – such as funding for a course of study, a wedding or purchasing their own home.

Flexible travel insurance by SMS. In collaboration with local mobile phone providers, Union Biztosító Hungary is offering travel insurance that can be purchased via SMS. As soon as mobile phone users enter a foreign network, an SMS is sent asking whether they would like to purchase travel insurance. A reply SMS is sent to purchase the insurance, which is then charged to the mobile phone account. Nothing could be easier.

Targeting cancer risk. Donau Versicherung in Austria also wants to do something about the increasing risk of cancer. Its new cancer insurance provides benefits immediately when malignant cancer is diagnosed. The insured can also obtain a second medical opinion from internationally renowned experts. This can measurably improve the chances of treatment.

SKANDIA

Car insurance via mobile phone. The Polish VIG company Skandia provides a user-friendly, non-bureaucratic mobile app for its customers to purchase motor vehicle insurance. Another mobile solution provides a detailed overview of all existing policies. Skandia is one of the most innovative insurers in Poland when it comes to digitisation.

THE GOAL OF INNOVATION LEADERSHIP

Wiener Städtische digital offensive

An interview with **Gerhard Hopfgartner**, Head of Marketing at Wiener Städtische

ELKE MAYR

Wiener Städtische is making changes. Our digitisation strategy is being systematically implemented, starting with a redesign of the website and a completely new range of apps, right through to the topic of online insurance. We were clearly focused on a single goal – achieving digital fitness and helping to shape the course of technical change.

What else can we expect in terms of online strategy for your customers?
We have developed a new range of online products, professional advisory videos and a range of apps to satisfy customer requirements for greater online communication. This allowed us to further strengthen our innovation leadership. We will also continue to drive forward and proactively pursue our digital themes in the future. Our field sales force, for example, has already been equipped with new touchscreen laptops. Electronic signatures and modernising sales force web pages are also important topics.

We will also continue to drive forward and proactively pursue our digital themes in the future.

So your field sales employees have their own web pages?
Yes, that is an important element in our digital offensive and continues to be unique among insurance companies. Each field sales force employee has their own web page and a personalised electronic business card. This concept of using a completely new digital approach to deal with customers opens up possibilities for customer advisors to provide customer-friendly, service-oriented sales support. The logical outcome is an increase in online sales.

What steps have been taken internally towards digitisation?
Behind the scenes, we have steadily developed our system to provide a simple, comprehensive customer view, our "business radar". We have now reached a position that is state-of-the-art and trend-setting for the insurance industry. We are also planning further projects on customer communication and sales support for the future.

About

Gerhard Hopfgartner (43), Head of Marketing at Wiener Städtische, is responsible for market research and product management, among other things.

VIG VIENNA INSURANCE GROUP

Austria and Central and Eastern Europe – this is our home

An online version of the Annual Report is available at www.vig.com/AR2015

VIG's IR app for the iPad is available at www.vig.com/iPad

From Belarus to Bulgaria and from the Czech Republic to Georgia – Austria and Central and Eastern Europe are deeply rooted in our DNA. Vienna Insurance Group has operated in the CEE region for 25 years. We have around 50 companies in 25 countries serving this region with 180 million potential customers. We believe in the strength of this region, its economic power and the inexhaustible will of the people there to accelerate the economic catch-up process. We have become a constant institution there, and, as market leader, it is our home.

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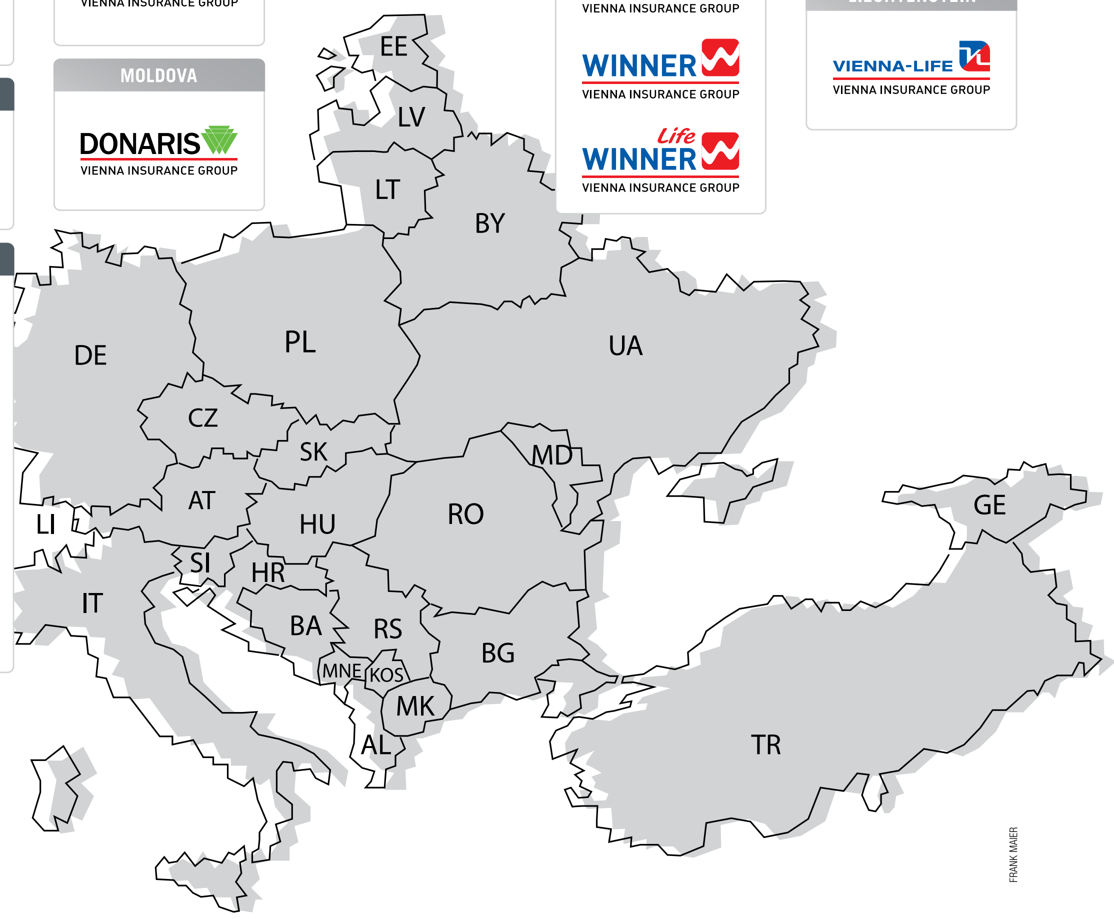

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In case of doubt, the German version is authoritative.

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Website – online report
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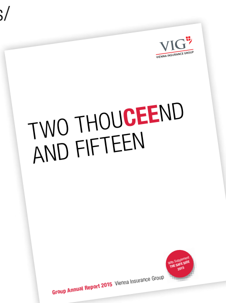

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