Annual Financial Statements **2015**

VIENNA INSURANCE GROUP

# TWOTHOUCEENDAND FIFTEEN

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# Annual Financial Statements 2015

## of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

**in accordance with the Austrian Commercial Code (UGB)**

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**Note:**

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

**To improve readability, company names have been shortened in the text below. A list of full company names is provided on page 41**

# COMPANY PROFILE

**Expansion**
Twenty-five years ago, starting as Wiener Städtische Versicherung AG, the Company laid the foundation for successful expansion into Central and Eastern Europe (CEE). A quarter of a century later, in 2015, Vienna Insurance Group is an international insurance group with around 50 companies in 25 countries and one of the top players in Austria and Central and Eastern Europe.

**Organisation**
VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding), which is located in Vienna and works with the Group companies on a partnership basis is responsible for Group management. The Group companies are responsible for their own turnover and P&L, and are monitored by their own supervisory boards, which include members of the Managing Board of VIG Holding. VIG Holding is also responsible for international reinsurance and international direct insurance for corporate customers. The company is listed on the Vienna and Prague Stock Exchanges. Its majority shareholder is Wiener Städtische Versicherungsverein, which holds approximately 70% of the VIG shares.

The main management responsibilities of the Group holding company include the following in particular:

- IT coordination
- Asset management
- Affiliated companies department
- Finance and accounting
- Planning and controlling
- Human resources
- International actuarial services
- Risk management
- Solvency II project
- Group audit
- Investor relations
- International processes and methods
- Group communications and marketing
- Sponsoring
- Legal matters
- Reinsurance
- International corporate business
- Vienna International Underwriters (VIU)
- European affairs
- Compliance

In addition, organisational units were formed to deal with the specific issues of profit management for personal and motor vehicle insurance across the Group. Strategic initiatives also exist, in particular insurance for small and medium-sized enterprises.

In the area of reinsurance, VIG Holding manages and assists the Group companies with all matters concerned with reinsurance. Bundling together different risks leads to essential risk compensation at Group level that helps to ensure optimum external insurance protection for VIG as a whole.

VIG Holding additionally bundles together and coordinates large customer business that extends outside the borders of Austria. This satisfies increasing customer needs for their business to be handled by a broad-based international insurance provider that offers simple, centralised communications. Custom-tailored professional insurance solutions are particularly important for international corporate customers. For this reason, VIG Holding has established a separate insurance platform, Vienna International Underwriters (VIU), especially for business customers. Its extensive network offers professional, custom-tailored, international customer support in this area by experts in Austria and the entire CEE region. Further development of this selective, profit-oriented underwriting approach involves more intensive risk management and increased risk diversification.

**Standard & Poor's**
Rating agency Standard & Poor's has given VIG Holding an excellent rating for many years and 2015 was no different. Based on its excellent capital resources and its market leadership in Austria and the CEE region, the company's rating was once again confirmed as “A+” with a stable outlook. This high credit rating once again gives VIG Holding the number one position in terms of ratings compared to the other companies listed on the Vienna Stock Exchange.

# MANAGEMENT REPORT 2015

## VIG HOLDING BUSINESS DEVELOPMENT

Premiums written, net earned premiums, expenses for claims and insurance benefits, administrative expenses and reinsurance balance had the following breakdown for property and casualty insurance in 2015 (and in the same period in 2014):

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Direct business | Indirect business | Total | Direct business | Indirect business | Total |
| in EUR '000 | | | | | | |
| Premiums written | 86,144 | 829,101 | 915,245 | 64,010 | 843,090 | 907,100 |
| Earned premiums | 83,486 | 823,486 | 906,972 | 62,166 | 847,669 | 909,835 |
| Expenses for claims and insurance benefits | 61,864 | 549,692 | 611,556 | 44,380 | 615,275 | 659,655 |
| Administrative expenses | 9,923 | 247,572 | 257,495 | 6,378 | 219,127 | 225,505 |
| Reinsurance balance | -9,261 | -3,070 | -12,331 | -8,732 | 8,424 | -308 |

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

### Financial performance indicators

#### Premium income

VIG Holding generated total premium income of EUR 915.25 million in 2015. This stable performance compared to the previous year (+0.9%) was mainly due to good premium growth in the corporate client business.

Direct premiums written (corporate business) increased year-on-year by 34.6% to EUR 86.14 million. Premium income from indirect business (assumed reinsurance) totalled EUR 829.10 million, a year-on-year reduction of 1.7%.

VIG Holding retained EUR 867.96 million (2014: EUR 867.99 million) of the gross premiums written and EUR 47.28 million (2014: EUR 39.10 million) was ceded to reinsurers. Gross earned premiums were EUR 906.97 million (2014: EUR 909.84 million). Net earned premiums decreased by EUR 11.51 million to EUR 860.20 million.

#### Expenses for claims and insurance benefits

Gross expenses for claims and insurance benefits were EUR 611.56 million in 2015. Of this, EUR 61.86 million (2014: EUR 44.38 million) was attributable to the corporate business, up EUR 17.48 million year on year. As a result, the gross claims ratio for direct business rose from 69.9% to 72.8%, which was mostly due to fire insurance. In assumed reinsurance, expenses for claims fell by 10.7% to EUR 549.69 million. The decrease from 72.6% to 66.8% in the gross claims ratio for indirect business was primarily due to lower claims expenses in the motor vehicle lines of business. After deducting reinsurance of EUR 30.68 million (2014: EUR 34.40 million), expenses for claims and insurance benefits were EUR 580.88 million (2014: EUR 625.25 million).

#### Administrative expenses

Administrative expenses were EUR 257.50 million in 2015, 14% higher year on year (2014: EUR 225.51 million). This can be attributed to an increase in commissions from indirect business. EUR 9.92 million of the administrative expenses were for corporate business and EUR 247.57 million for reinsurance business. After reinsurance commissions for ceded reinsurance business, EUR 253.74 million in administrative expenses remained for VIG Holding, an increase of EUR 31.64 million compared to the previous year.

**Combined Ratio**

VIG Holding had a combined ratio of 97.0% in 2015 (2014: 97.3%). This ratio is calculated as the sum of all underwriting expenses and income plus net payments for claims and insurance benefits, including the net change in underwriting provisions, divided by net earned premiums in the property/casualty segment.

**Financial Result**

VIG Holding had a financial result of EUR 10.99 million, corresponding to a decrease of 95.2% compared to the previous year (2014: EUR 227.60 million). The decrease in VIG's financial result was due to lower current income and increased write-downs of participations and loans. Shares in affiliated companies had write-downs of EUR 170.8 million (2014: EUR 100 million) versus write-ups of EUR 15.8 million. The total (net) income includes current income, realised gains and losses and write-downs for the following investment groups:

| in EUR '000 | 2015 | 2014 |
|---|---|---|
| Land and buildings | 8,981 | 24,653 |
| Investments in affiliated companies and participations | 186,225 | 315,580 |
| Other investments | -42,636 | 21,426 |
| **Total income (net)** | **152,570** | **361,659** |
| Other investment and interest income | 19,439 | 20,799 |
| Expenses for asset management | -61,031 | -58,605 |
| Interest expenses | -94,455 | -86,776 |
| Other investment expenses | -5,530 | -9,481 |
| **Investment profit according to income statement** | **10,993** | **227,596** |

**Result from ordinary activities**

VIG Holding earned a result from ordinary activities of EUR 1.78 million in 2015. (2014: EUR 258.41 million). This fall is due to the change in the financial result.

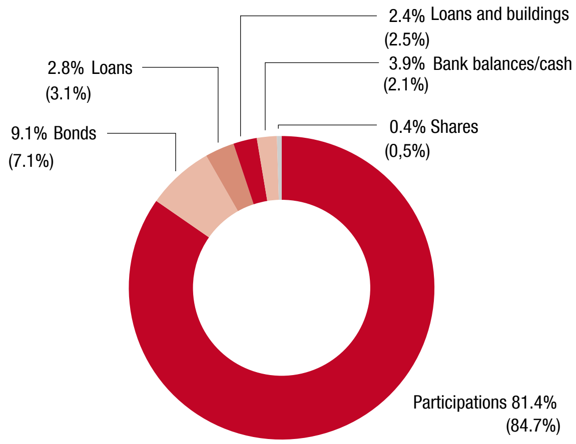
**Solvency ratio**

VIG Holding's solvency ratio of 2,089.7% is extremely high, due to an outstanding endowment of capital resources and a low capital requirement. It also reflects the holding company's function in the Group.

**Investments**

Investments, including liquid assets, were EUR 4,885.13 million as of 31 December 2015 (2014: EUR 4,721.43 million). Deposits were EUR 987.26 million in 2015 (2014: EUR 926.92 million). 81.4% (2014: 84.7%) of the investments at the end of 2015 were participations, 9.1% (2014: 7.1%) were bonds (including bond funds), 2.8% (2014: 3.1%) were loans, 2.4% (2014: 2.5%) were land and buildings, 3.9% (2014: 2.1%) were bank balances and cash on hand, and 0.4% (2014: 0.5%) were equities.

BREAKDOWN OF INVESTMENTS




The acquisitions of a 100% interest in the Latvian property and casualty insurance company Baltikums AAS and the Lithuanian life insurance company Compensa Life Distribution were concluded after official approvals were received in 2015. VIG received a licence at the end of July 2015 from the local authorities for the formation of the company Compensa Non-Life in Lithuania. Successful completion of the merger of the two property and casualty insurance companies Compensa and Benefia at the end of October 2015 strengthened VIG's market presence in Poland. The merged company operates under the name Compensa TU SA Vienna Insurance Group. VIG signed an agreement to acquire a majority interest in BTA Baltic Insurance Company AAS (BTA Baltic) towards the end of 2015. The acquisition is subject to official approval.

**Underwriting provisions**

Underwriting provisions were EUR 1,021.78 million as of 31 December 2015, representing an increase of 9.3% over the previous year (2014: EUR 934,76 million), which was primarily due to provisions for outstanding claims arising from assumed reinsurance business. The reinsurers' share was EUR 70.10 million (2014: EUR 52.42 million).

## Non-financial performance indicators

VIG has a corporate culture of appreciation and openness. The insurance business is based on trust. VIG earns this trust not only in its day-to-day dealings with customers and business partners, but also by assuming social responsibility, ranging from sponsoring local cultural events and funding artistic projects, to active promotion of volunteer activities. Sustainable conduct has a wide variety of aspects at VIG.

**Social involvement – Example: Social Active Day**

The Social Active Day (SAD) was introduced right in the middle of the economic and financial crisis in 2011 by Wiener Städtische Versicherungsverein and has become an established institution at Vienna Insurance Group. This initiative, in which employees of VIG and other Group companies are usually allowed to take one working day off in order to become involved in a good cause, has now taken place for the fifth time in a row. Because of the very positive reaction, both from the people and organisations receiving the help and the participants, SAD has gradually been expanded. In 2015 a total of 37 Group companies from 20 countries took part. In comparison, it initially started with 9 countries.

**Cultural involvement –**
**Example: Gustav Mahler Youth Orchestra**

VIG Holding feels that arts and culture make an important contribution to a society's quality of life. For this reason, it promotes artists and cultural projects. One of these is the Gustav Mahler Youth Orchestra, which it has supported since 2011. The Orchestra was founded in 1986 with the aim of helping young Austrian musicians play music with their colleagues from the former Czechoslovakia and Hungary. Since 1992, it has offered highly talented musicians throughout Europe up to the age of 26 the opportunity to work together with the great conductors and soloists of our time. The Gustav Mahler Youth Orchestra has been an ambassador for UNICEF Austria since 2012.

**Employees**

Employees' personal and professional qualifications, together with their commitment, are a fundamental element in the success of VIG Holding. Internationality, diversity and mobility also play an important role, as they have already been assimilated into all the different areas of the business and are now a fixed part of the working environment. VIG Holding offers committed employees a wide range of development opportunities, including the option of acquiring experience and knowledge of the different VIG markets, through international training and internal mobility programs. The excellent work of VIG Holding's HR department is also worth mentioning in this context. After receiving the bronze award in the previous year, they have now been awarded silver for the first time from Career's Best Recruiters. A separate expert career path was introduced in the VIG competence model in 2014, parallel to the traditional management career path. It has already been implemented in VIG Holding and is being rolled out in stages in the other Group companies. The internal job market also offers employees the opportunity to make their own career choices about which new responsibilities and challenges they want to pursue within the company. Flexible working hours, a company canteen, a company kindergarten and a variety of internal company healthcare services such as pre-employment medical check-ups, ergonomic workplace analysis, computer screen checks to comply with the Working with Display Screen Equipment Regulations, and other medical services, provide employees with the environment they need to develop their full potential in their day-to-day work.

VIG Holding had an average of 224.5 employees in 2015, of which approximately 11% were part-time. Approximately 57% of employees were women. Women held around 30% of the management positions directly below the Managing Board in 2015.

**Significant events after the balance sheet date**

There were no significant events after the balance sheet date.

**Research and Development**

VIG Holding and some subsidiaries make professional contributions to the further development of insurancespecific software models.

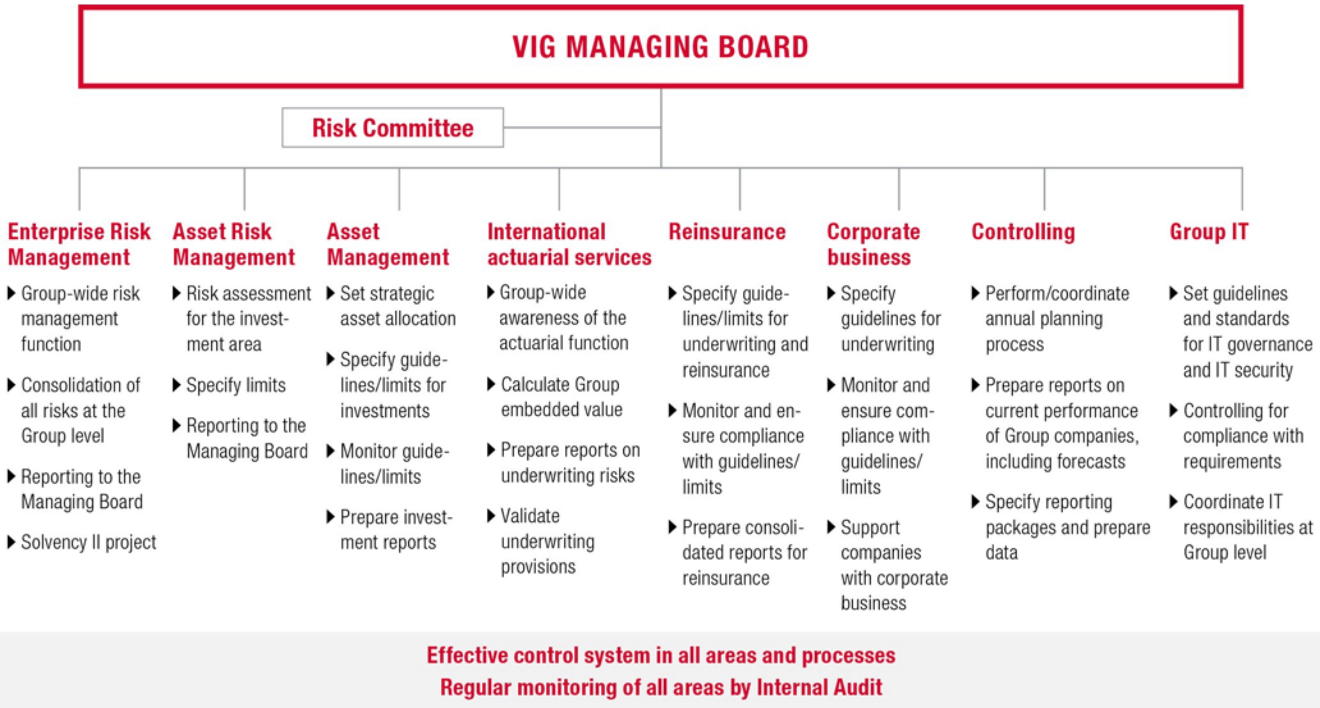
**Other information**

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

## RISK REPORT

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

The Enterprise Risk Management (ERM) department is responsible for Group-wide risk management. ERM assists the Managing Board with improvements to risk organisation and corporate risk management topics. ERM also creates a framework for Group-wide risk management that uses key principles and concepts, uniform terminology and clear instructions and support. The international actuarial department, corporate reinsurance department, corporate business, asset risk management, asset management, group controlling, internal audit and group IT departments are also involved in the ongoing process of risk monitoring and management.




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

- **Market risk:** Market risk is taken to mean the risk of changes in the value of investments caused by unforeseen fluctuations in interest rate curves, share prices and currency rates, and the risk of changes in the market value of real estate and participations.
- **Underwriting risks:** Vienna Insurance Group's core business consists of the transfer of risk from policyholders to the insurance company.

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

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

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

- **Liquidity risk:** Liquidity risk depends on the match between the investment portfolio and insurance commitments.

- **Concentration risk:** Concentration risk is a single direct or indirect position, or a group of related positions, with the potential to significantly endanger the insurance company, core business or key performance indicators. Concentration risk is caused by an individual position, a collection of positions with common holders, guarantors or managers, or by sector concentrations.

VIG Holding is primarily exposed to market risk by its activities as an insurance holding company. A conservative investment policy is used to limit other market risk due to investments. Market risk is monitored using fair value measurement, value-at-risk (VaR) calculations, sensitivity analysis and stress tests.

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

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

**Investments**

VIG Holding's investments primarily consist of participations and deposits. Additional investments are mainly made in fixed-interest securities (bonds, loans) and real estate, and only to a small extent in shares and other investments.

VIG Holding aligns its investments to its liability profile and aims to achieve sustainable increases in value in accordance with Group investment guidelines, which are based on a long-term conservative investment policy.

**Use of forward exchange transactions**

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

**Solvency II**

The changes to the European insurance supervisory system referred to as Solvency II that are to be implemented by all member states of the EU, presented great challenges for insurance companies. Temporary uncertainties about the final detailed formulation of Solvency II made it especially important for companies to provide a high level of flexibility in their implementation plans.

After years of preparation, Solvency II came into force in full at the start of 2016. The new Austrian Insurance Supervision Act (VAG) came into force at the same time.

To gradually prepare insurance companies for Solvency II, the interim measures published by the European insurance supervisory authority EIOPA became binding in 2014 and were also applied by almost all national supervisory authorities in the EU in 2015.

Preparatory modifications were made to the previous VAG on 1 July 2014, making extensive reference to EIOPA' s interim measures, specifying the requirements of the core areas of Solvency II and concerning the following points:

- the governance system;
- reporting to national supervisory authorities;
- Forward looking assessment of own risks (FLAOR) in preparation for the Own Risk and Solvency Assessment (ORSA) under Solvency II; and
- the approval of (partial) internal models under Solvency II.

VIG is well prepared to fulfil the extensive requirements placed on the Company by Solvency II starting in 2016 and the VAG amendment since the middle of 2014. A Group-wide project "Solvency II" was successfully completed after just over seven years. This project, which was centrally managed from Austria, involved following legal developments in detail and promptly implementing measures required to ensure that the Group and all the individual companies were suitably prepared for the implementation of Solvency II.

Standardised guidelines, calculation and reporting solutions and advanced risk management processes were developed and implemented with the assistance of experts from the Group companies.

Intensive work continued on the development and implementation of a partial internal model at both the Group and individual company levels as part of the Solvency II project. The calculation procedures have been established in the individual companies and the required expertise is available there to allow consistent management parameters to be determined both at the Group and individual company levels. The parameters calculated by the model are used in corporate management.

At the end of 2015, the supervisory authority responsible for the group, the Austrian Financial Markets Authority FMA, approved the partial internal model for use both at the Group and individual company levels for the most important core markets.

With respect to qualitative risk management requirements, VIG has established a uniform governance system appropriate for Solvency II that includes all necessary key functions and clearly defines responsibilities and processes. Uniform Group-wide standards and methods for risk inventories and ORSA (for 2014 and FLAOR for 2015) were also developed and successfully implemented at the local and Group levels, thereby ensuring timely FLAOR reporting to the supervisory authority at the end of 2015. A Group-wide unified internal control system helps to ensure compliance with the guidelines and requirements resulting from the risk management system.

In 2015, aside from the final preparations for the approval procedure and submission of VIG's partial internal model, the main focus was on compliance with the quantitative and qualitative reporting requirements in the EIOPA interim measures. This included the first statutory calculation of Group solvency under Solvency II as of 31 December 2014 and compliance with the quantitative and qualitative reporting requirements on the reporting dates of 31 December 2014 and 30 September 2015. VIG completed the relevant reports for the Group and the respective individual companies in full within the required deadlines.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ACCOUNTING PROCESS

**General structure and organisation**
The internal control and risk management system (ICS) plays an important role in VIG and is firmly anchored in the structural and process organisation of the Company. Responsibilities are clearly defined in the ICS by ICS Group guidelines and extend from the overall responsibility of the Managing Board for establishing an effective control system and appropriate risk management, to the responsibility of middle management for ensuring adequate risk control infrastructure in the various areas, all the way to individual employees, who are expected to perform their work responsibly and pro-actively report and/or eliminate potential risks, deficiencies and sources of errors.

The ICS itself is comprised of all measures and control activities used to minimise risks – particularly for the areas of accounting and compliance, but also for other operational risks. It extends from specially established processes, organisational units such as accounting and controlling to guidelines, regulations and individual controls within processes such as automated audits or the use of the principle of dual control.

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

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

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

The financial statement process includes the aggregation of all data from accounting and upstream processes for the annual financial statements. The financial statements are submitted to the appropriate division head for review and further consultation with the Managing Board. The Managing Board provides final approval of the financial statements.

The auditor takes the internal control system into account during the audit to the extent that it is relevant to the preparation of the annual financial statements.

**Effectiveness and controls**
To ensure the effectiveness of the internal control system, VIG established an annual evaluation and documentation process for the ICS with the professional assistance of external auditors. This process identifies, analyses, assesses and documents risks and controls applying to VIG Holding and reports them to the Managing Board, particularly those in the areas of accounting and compliance. Optimisation measures are introduced into the control environment based on the findings, and their implementation is also monitored and reported by the responsible units.

The results of this process are also used later by the internal audit department as a basis for its subsequent audit of the accounting process and the control environment established there.

In the first half of 2014 this ICS process was used to update the documentation of risks and controls and, among other things, to confirm that all significant risks in the accounting process are covered by effective controls in VIG Holding, so that the financial reporting risk (i.e. the remaining risk of incorrect reporting) can be categorised as low.

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

1. The Company has EUR 132,887,468.20 in share capital that is divided into 128,000,000 no-par value bearer shares with voting rights, with each share participating equally in the share capital.

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

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

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

5. Employees who hold shares exercise their voting rights without a proxy during General Meetings.

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

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

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

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

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

As at 31 December 2015, no authorisation of the Managing Board under Section 65 of the AktG (acquisition of treasury shares) was in effect, and the Company held no treasury shares as at 31 December 2015.

8. As of 31 December 2015, the Company was not party to any material agreements that would come into effect, change or terminate if control of the Company were to change due to a takeover bid, in particular, no agreements that would affect participations held in insurance companies. Existing agreements that would come into effect if control of the Company were to change due to a takeover bid concern participations held in other (non-insurance) companies.

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

## OUTLOOK

### Austria

The lack of economic dynamism in the Eurozone, the US and some major emerging markets has had a dampening effect on growth forecasts for the Austrian economy as a result of its traditionally strong foreign trade links. Notwith standing the fact that the demand for exports and investment in equipment had an invigorating effect, private consumption decreased by the end of 2015. This is added to an increasingly tight job market with an unemployment rate of 9.1% in January 2016. The International MonetaryFund (IMF) sees no signs of a recovery and in its winter forecast maintains a growth rate of 1.7% for the Austrian gross domestic product for both 2016 and 2017.

The low oil price continued to provide relief to the budgets of companies and private households and helped to keep inflation low. However, no long-term fall in energy prices is expected. The positive trends expected in the first months of 2016 relate mainly to increased demand in purchasing and the intermediate input sections of the industry. The more positive expectations are not, however, expected to take immediate effect in the consumer goods industry.

As part of a slight recovery in the Austrian economy in the calendar year 2016 based on the manufacturing industry index, it is expected that it will be possible to achieve values again that correspond approximately to the average for the past few decades. At the beginning of the year, a tax reform came into force in Austria which it is hoped will somewhat reinvigorate private demand that has beenmod erate over the past few months. The lasting low interest rates will continue to present a challenge for the life insurance business in both Austria and Europe, as well as in other parts of the world. The Austrian banking system is currently in a major restructuring phase. This involves firstly a reduction in the number of banks and branches, and secondly the further increasing of the capital base required by the international regulatory authorities.

The public budget deficit remained within the limits in 2015 at 2.0% of GDP. Despite the continuing high level of government debt of 86.7% and the doubts expressed by the EU commission as to whether the budget targets set can really be achieved, Austria still has an “AA+” rating on the international capital markets (Standard & Poor’s). During the dismantling of HETA last year, initial steps were put into place that were intended to have a positive effect on government debt in years to come. Nevertheless, overcoming the burden of debt will remain one of Austria’s main challenges, alongside unemployment and immigration issues.

The Austrian Insurance Association (VVO) expects premium volume to rise to EUR 17.5 billion in 2016, representing a year-on-year increase of 0.3%. While property and casualty insurance is expected to develop in a constant manner at 1.9%, life insurance business, which grew by only 0.2% in 2015, is expected to see a decline of 2.4% in the coming year. In health insurance in Austria, stable premium growth of 3.0% is expected for 2016.

### CEE region

According to international forecasts, positive development is to be expected in Central and Eastern Europe this year. Almost all VIG markets can expect to see economic development at least remain stable or even grow. The forecasts for Romania are particularly positive for 2016 according to the Vienna Institute for International Economics (WIIW) which is anticipating GDP growth of 4.0%. Growth will remain solid in Poland also, at 3.4%. Particular growth is expected in the Baltic States. Economic growth in Estonia should rise by a percentage point to 2.2%. Both

Latvia and Lithuania are expected to achieve a level of 3.0% in 2016, with Latvia increasing its growth by 0.3 percentage points in comparison with the previous year and Lithuania by 1.4 percentage points. The Czech Republic is expected to see growth of 2.4%, which is a very solid value for an economy that is already very well developed. Hungary expects economic growth in 2016 of 2.2%. A decline in GDP growth to 2.0% is forecasted in Slovenia for 2016.

The expiry of EU subsidy programmes from which Hungary in particular has been benefiting massively during the last phase will have the effect of slowing down growth. In the Czech Republic, the slow recovery in Germany and a restrictive fiscal policy will have a detrimental effect. In Slovenia the recovery is progressing slowly mainly because it is driven by private consumption. The trend remains positive, however. This applies to most countries in the West Balkan region also. In 2016, their overall growth remains at a moderate level but the development nevertheless tends towards solid growth.

It is difficult to estimate what the effect of the migration crisis on the CEE countries will be. The greater availability of additional workers is having a positive effect, as are the immediate expansive measures that governments are taking in response to the crisis. On the other hand, there will be medium to long-term negative effects of difficulties in integration into employment markets, as well as increased budget deficits.

Developments during 2015 made it possible to expect a certain amount of stabilisation in Greece in 2016. The unity of the European Union, however, is still repeatedly being questioned. It appears at the moment, however, that it will not be necessary for Greece to leave the EU and that there will be no dismantling of the Union. But this apparently stable state is not certain in the long-term.

It is expected that oil prices will continue to remain low, which will support global demand. One of the major challenges over the coming months and years will probably be a global switch to sustainable energies, as well as the cohesion or restructuring of the European Union. Both of these, however, also represent enormous economic and political potential. In the insurance industry, the major challenges will remain the low interest rate environment and the severe price competition in particular in the area of motor insurance.

**Outlook for the Group**

The new management team of VIG will continue to pursue the proven business strategy. In addition to the Group-wide management principles practised, the insurance business as the central core competence is as strongly anchored as is its regional focus. Vienna Insurance Group remains convinced of the great potential offered by the CEE region, and is firmly committed to Austria and Central and Eastern Europe as its home market.

VIG aims to generate healthy, properly considered growth and, based on this principle, will continue in the future to follow a growth policy focusing on earnings. In doing so, the Group will continue to rely on targeted strengthening of high-margin business areas by a calculated push of property and casualty insurance and life insurance with regular premiums. In addition, Vienna Insurance Group will pay attention to potential for insurance in small and mediumsize companies and place a strong focus on the area of health insurance. Furthermore, on the product and service side, there will be a new focus on digitalisation.

Based on the proven multi-brand strategy and the many well-established regional sales channels - including the successful cooperation with Erste Group - the Group aims to strengthen its market share both by means of organic growth and through further acquisitions aimed at improving its position in the markets and strategically supplementing the existing portfolio. Acquisitions will be made in areas that make sense economically for VIG in order to achieve the target market position more quickly. Countries where VIG holds top market share should be secured. These include the Czech Republic and Slovakia, in each of which Vienna Insurance Group holds a market share of over 30%, and Austria, where it holds almost 24%. In Poland, Hungary, Croatia, and Serbia, Vienna Insurance Group wants to increase its market share to a minimum of 10% in the medium term. Despite this aim, there will still be a focus on cost-effectiveness. Investigations will be done to determine where consolidations or bundling of services and processes would make sense.

With regard to the development of results of VIG, it is anticipated that the current low interest rate environment will again lead to a decline in the ordinary financial result in 2016. Vienna Insurance Group will continue to rule out boosting investment income by taking greater investment risks. While maintaining its conservative investment policy, the Group aims to at least double its profit before taxes to earn up to EUR 400 million in 2016. In addition, VIG will pursue a medium-term improvement in the combined ratio approaching 95%.

**Outlook for VIG Holding**

As in previous years, VIG Holding has once again set itself a goal of increasing premium volume from international reinsurance and cross-border corporate business in 2016. In accordance with its management responsibilities as a holding company, it will also continue to focus on coordinating and initiating measures primarily aimed at optimising the areas of process organisation and earnings power.

Vienna Insurance Group will continue to do whatever is needed to be viewed as an attractive employer with an international background, offer its employees the best possible development opportunities, strengthen their long-term loyalty and be the employer of choice for young, talented trainees.

## PROPOSED APPROPRIATION OF PROFITS

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe ended financial year 2015 with net retained profits of EUR 119,926,396.56. The following allocation of profits will be recommended to the ordinary Annual General Meeting:

The 128 million shares will receive a dividend of EUR 0.60 per share. The payment date for this dividend is 20 May 2016, the record date is 19 May 2016 and the ex-dividend date is 18 May 2016.

A total of EUR 76,800,000.00 will therefore be distributed.

The net retained profits of EUR 43,126,396.56 remaining for financial year 2015 after the dividend has been paid will be carried forward.

Vienna, 23. March 2016

The Managing Board:

Elisabeth Stadler
General Manager
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Roland Gröll
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

# SEPARATE FINANCIAL STATEMENTS

## BALANCE SHEET AS OF 31 DECEMBER 2015

| Assets | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| | | in EUR | in EUR '000 |
| **A. Intangible assets** | | | |
| Other intangible assets | | 26,564,219.81 | 26,286 |
| **Total intangible assets** | | **26,564,219.81** | **26,286** |
| **B. Investments** | | | |
| I. Land and buildings | | 117,179,224.39 | 119,347 |
| II. Investments in affiliated companies and participations | | | |
| 1. Shares in affiliated companies | 3,977,187,458.52 | | 4,000,121 |
| 2. Bonds and other securities of affiliated companies and loans to affiliated companies | 278,401,604.09 | | 278,446 |
| 3. Participations | 241,457.88 | 4,255,830,520.49 | 241 |
| III. Other investments | | | |
| 1. Shares and other non-fixed-interest securities | 233,912,945.00 | | 116,696 |
| 2. Bonds and other fixed-interest securities | 80,638,330.50 | | 88,609 |
| 3. Mortgage receivables | 306,000.00 | | 442 |
| 4. Other loans | 9,273,171.45 | 324,130,446.95 | 17,126 |
| IV. Deposits on assumed reinsurance business | | 987,258,483.91 | 926,923 |
| **Total investments** | | **5,684,398,675.74** | **5,547,951** |
| **C. Receivables** | | | |
| I. Receivables from direct insurance business | | | |
| 1. from policyholders | 1,268,743.85 | | 3,896 |
| 2. from insurance intermediaries | 38,963.06 | | 3 |
| 3. from insurance companies | 12,758,919.98 | 14,066,626.89 | 7,255 |
| II. Receivables from reinsurance business | | 21,144,749.13 | 17,558 |
| III. Other receivables | | 244,305,734.05 | 195,472 |
| **Total receivables** | | **279,517,110.07** | **224,184** |
| **D. Pro rata interest** | | **2,475,325.84** | **2,970** |
| **E. Other assets** | | | |
| I. Tangible assets (not incl. land and buildings) | | 1,310,274.00 | 1,663 |
| II. Current bank balances and cash on hand | | 187,992,179.33 | 100,406 |
| III. Other assets | | 310,520,945.18 | 250,011 |
| **Total other assets** | | **499,823,398.51** | **352,080** |
| **F. Deferred charges** | | | |
| I. Deferred tax assets | | 9,261,165.28 | 9,261 |
| II. Other deferred charges | | 2,412,710.79 | 1,113 |
| **Total deferred charges** | | **11,673,876.07** | **10,374** |
| **Total ASSETS** | | **6,504,452,606.04** | **6,163,845** |

## BALANCE SHEET AS OF 31 DECEMBER 2015

| Liabilities and shareholders' equity | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| | | in EUR | in EUR '000 |
| **A. Shareholders' equity** | | | |
| I. Share capital | | | |
| 1. Par value | | 132,887,468.20 | 132,887 |
| II. Capital reserves | | | |
| 1. Committed reserves | | 2,267,232,422.07 | 2,267,232 |
| III. Retained earnings | | | |
| 1. Free reserves | | 608,825,481.03 | 608,826 |
| IV. Risk reserve as per § 73a VAG, taxed portion | | 28,512,966.00 | 23,352 |
| V. Net retained profits | | 119,926,396.56 | 280,542 |
| *of which brought forward* | | *101,341,505.08* | *101,402* |
| **Total shareholders' equity** | | **3,157,384,733.86** | **3,312,839** |
| **B. Tax-exempt reserves** | | | |
| I. Valuation reserve for impairment losses | | 26,954,675.02 | 27,855 |
| **Total reserves** | | **26,954,675.02** | **27,855** |
| **C. Subordinated liabilities** | | | |
| I. Hybrid bond | | 500,000,000.00 | 500,000 |
| II. Supplementary capital bond | | 1,156,634,500.00 | 792,457 |
| **Total subordinated liabilities** | | **1,656,634,500.00** | **1,292,457** |
| **D. Underwriting provisions – retention** | | | |
| I. Unearned premiums | | | |
| 1. Gross | 79,905,556.03 | | 73,812 |
| 2. Reinsurers' share | -3,289,096.24 | 76,616,459.79 | -2,834 |
| II. Provision for outstanding claims | | | |
| 1. Gross | 1,009,138,688.86 | | 912,543 |
| 2. Reinsurers' share | -66,806,437.06 | 942,332,251.80 | -49,590 |
| III. Equalisation provision | | 2,307,260.00 | 62 |
| IV. Other underwriting provisions | | | |
| 1. Gross | 527,725.00 | | 767 |
| 2. Reinsurers' share | 0.00 | 527,725.00 | 0 |
| **Total underwriting provisions** | | **1,021,783,696.59** | **934,760** |
| **E. Non-underwriting provisions** | | | |
| I. Provision for severance pay | | 1,636,916.00 | 1,657 |
| II. Provision for pensions | | 24,396,573.00 | 21,439 |
| III. Tax provisions | | 1,376,316.96 | 0 |
| IV. Other provisions | | 60,828,356.17 | 40,855 |
| **Total non-underwriting provisions** | | **88,238,162.13** | **63,951** |
| **F. Other liabilities** | | | |
| I. Liabilities from direct insurance business | | | |
| 1. to policyholders | 15,742,973.67 | | 29,851 |
| 2. to insurance intermediaries | 797,350.75 | | 444 |
| 3. to insurance companies | 17,749,179.76 | 34,289,504.18 | 18,081 |
| II. Liabilities from reinsurance business | | 19,859,572.83 | 18,667 |
| III. Liabilities to financial institutions | | 40,288,570.23 | 36,857 |
| IV. Other liabilities | | 457,657,611.79 | 426,423 |
| **Total liabilities** | | **552,095,259.03** | **530,323** |
| **G. Deferred income** | | **1,361,579.41** | **1,660** |
| **Total LIABILITIES AND SHAREHOLDERS' EQUITY** | | **6,504,452,606.04** | **6,163,845** |

## INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

| | | 2015 | 2014 |
|---|---|---|---|
| | | in EUR | in EUR '000 |
| **Underwriting account:** | | | |
| **1. Net earned premiums** | | | |
| Premiums written | | | |
| Gross | 915,245,245.76 | | 907,101 |
| Ceded reinsurance premiums | -47,280,710.86 | 867,964,534.90 | -39,102 |
| Change in unearned premiums | | | |
| Gross | -8,273,552.99 | | 2,733 |
| Reinsurers' share | 511,472.54 | -7,762,080.45 | 985 |
| **Total premiums** | | **860,202,454.45** | **871,717** |
| **2. Investment income from underwriting business** | | **10,596,380.28** | **12,932** |
| **3. Other underwriting income** | | **51,117.09** | **31** |
| **4. Expenses for claims and insurance benefits** | | | |
| Payments for claims and insurance benefits | | | |
| Gross | 519,481,755.70 | | 538,213 |
| Reinsurers' share | -14,149,210.44 | 505,332,545.26 | -5,825 |
| Change in provision for outstanding claims | | | |
| Gross | 92,074,489.39 | | 121,442 |
| Reinsurers' share | -16,530,706.55 | 75,543,782.84 | -28,580 |
| **Total expenses for claims and insurance benefits** | | **-580,876,328.10** | **-625,250** |
| **5. Increase in underwriting provisions** | | | |
| Other underwriting provisions | | | |
| Gross | 0.00 | | 737 |
| Reinsurers' share | 0.00 | 0.00 | 0 |
| **Total increase in underwriting provisions** | | **0.00** | **-737** |
| **6. Decrease in underwriting provisions** | | | |
| Other underwriting provisions | | | |
| Gross | 239,275.00 | | 0 |
| Reinsurers' share | 0.00 | 239,275.00 | |
| **Total reduction in underwriting provisions** | | **239,275.00** | **0** |
| **7. Administrative expenses** | | | |
| Acquisition expenses | | 256,720,320.83 | 224,789 |
| Other administrative expenses | | 774,542.65 | 716 |
| Reinsurance commissions and profit commissions from reinsurance cessions | | -3,757,823.18 | -3,404 |
| **Total administrative expenses** | | **-253,737,040.30** | **-222,101** |
| **8. Other underwriting expenses** | | **-314,862.79** | **-89** |
| **9. Change in the equalisation provision** | | **-2,245,334.00** | **-62** |
| | | | |
| **Underwriting result (amount carried forward)** | | **33,915,661.63** | **36,441** |

## INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

| | 2015 | 2014 |
|---|---|---|
| | in EUR | in EUR '000 |
| **Underwriting result (amount carried forward)** | **33,915,661.63** | **36,441** |
| **Non-underwriting account:** | | |
| **1. Income from investments and interest income** | | |
| Income from participations | 341,219,229.71 | 415,451 |
| Income from land and buildings | 13,557,873.49 | 12,615 |
| Income from other investments | 25,201,148.44 | 22,210 |
| Income from appreciations | 15,800,000.00 | 1,200 |
| Income from the disposal of investments | 3,186,089.41 | 16,157 |
| Other investment and interest income | 19,438,654.85 | 20,953 |
| **Total investment income** | **418,402,995.90** | **488,586** |
| **2. Expenses for investments and interest expenses** | | |
| Expenses for asset management | 61,031,365.04 | 58,605 |
| Depreciation of investments | 243,341,161.20 | 104,670 |
| Interest expenses | 94,454,522.42 | 86,776 |
| Losses from the disposal of investments | 3,053,045.86 | 1,458 |
| Other investment expenses | 5,529,750.47 | 9,481 |
| **Total investment expenses** | **-407,409,844.99** | **-260,990** |
| **3. Investment income transferred to the underwriting account** | **-10,596,380.28** | **-12,932** |
| **4. Other non-underwriting income** | **6,944,839.71** | **10,650** |
| **5. Other non-underwriting expenses** | **-39,481,492.20** | **-3,345** |
| **6. Result from ordinary activities** | **1,775,779.77** | **258,410** |
| **7. Taxes on income** | **21,070,545.66** | **8,956** |
| **8. Profit for the period** | **22,846,325.43** | **267,366** |
| **9. Release of reserves** | | |
| Release of valuation reserve for impairment losses | 899,781.05 | 7,006 |
| **Total release of reserves** | **899,781.05** | **7,006** |
| **10. Transfer to reserves** | | |
| Transfer to risk reserve as per § 73a VAG | 5,161,215.00 | 5,230 |
| Transfer to free reserves | 0.00 | 90,002 |
| **Total transfer to reserves** | **-5,161,215.00** | **-95,232** |
| **11. Profit for the year** | **18,584,891.48** | **179,140** |
| **12. Retained profits brought forward** | **101,341,505.08** | **101,402** |
| **Net retained profits** | **119,926,396.56** | **280,542** |

## NOTES TO THE 2015 ANNUAL FINANCIAL STATEMENTS

### I. Summary of significant accounting policies

The annual financial statements as of 31 December 2015 were prepared in accordance with the accounting provisions of the Austrian Commercial Code (UGB) and the special provisions of the Austrian Insurance Supervision Act (VAG), as amended, and in accordance with Austrian generally accepted accounting principles and the general standard of presenting a true and fair view of the net assets, financial position and results of operations of the Company.

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

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

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

Land is valued at cost, and buildings at cost less depreciation and any write-downs. As a rule, repair costs for residential buildings are spread over ten years.

Equities and other non-fixed interest securities and shares in affiliated companies are valued according to the strict lower-of-cost-or-market principle (strenges Niederstwertprinzip). Starting in 2008, bonds, other fixed-income securities and participations have been valued using the less strict lower-of-cost-or-market principle provided for in Section 81h (1) VAG.

Valuation using the less strict lower-of-cost-or-market principle resulted in write-downs of EUR 72,000 (EUR 345,000) not being performed.

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

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

As a rule, investments are largely low risk. The strategic investment committee decides on potential high-risk investments based on the inherent risk of each individual investment after performing a full analysis of all related risks and liquidity at risk, and considering all assets currently in the portfolio and the effects of the individual investments on the overall risk position.

All known financial risks are assessed regularly, and specific limits or reserves are used to limit exposure. Security price risk is reviewed periodically using value-at-risk and stress tests. Default risk is measured using both internal and external rating systems.

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

A forward exchange transaction in PLN with a maturity date of 12 May 2016 existed as of the 31 December 2015 balance sheet date. This transaction is being used to hedge future foreign currency dividends. Since the market value of the forward exchange transaction was negative as of the reporting date, a provision for expected losses was formed in the amount of EUR 537,000 (EUR 0).

For the supplementary capital bond issued on 12 January 2005 that became a variable supplementary capital bond after the first year (AT0000342704), an interest rate swap running until 12 January 2017 with a notional amount of

EUR 120 million was entered into. The interest rate swap had a market value of EUR -3,660,000 as of 31 December 2015 (EUR -7,127,000). Since the interest rate swap was entered into as a hedge for coupon risk and is considered a single valuation unit as defined in the AFRAC position paper, no provision for expected losses is required as of the balance sheet date.

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

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

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

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

The EUR 250,000,000 nominal value of the hybrid bond that was repurchased by the Company on 13 August 2013 was recognised under “other assets” in the balance sheet. In March 2015 a nominal value of EUR 51,983,000 was repurchased for a value of EUR 60,518,608.60; it was not netted with the liabilities side, as the bond has not yet been cancelled.

Unearned premiums were essentially calculated by prorating over time after applying a deduction for expenses (15%) of EUR 1,664,000 (EUR 1,195,000).

The provision for outstanding claims for direct business is calculated for claims reported by the balance sheet date by individually assessing claims that have not yet been settled and adding lump-sum safety margins for unexpected large losses. Lump-sum provisions based on past experience are formed for claims incurred but not reported. Recourse claims of EUR 11,677,000 (EUR 18,052,000) were included.

In indirect business, provisions for outstanding claims are primarily based on reports from ceding companies as of the 31 December 2015 balance sheet date. The reported amounts were increased where this was considered necessary in light of past experience.

The underwriting items for assumed reinsurance business and associated retrocessions are included immediately in the annual financial statements.

The equalisation provision is calculated in accordance with the directive of the Austrian Federal Finance Minister, BGBl (Federal Gazette) No. 545/1991 in the version contained in BGBl II No. 66/1997.

The provisions for severance pay, pensions, and anniversary bonuses are based on the pension insurance calculation principles of the Actuarial Association of Austria (AVÖ), AVÖ 2008-P (Employees), using a discount rate of 2.25% p.a. (2014: 2.75% p.a.). Company pension plan obligations are measured using the actuarial entry age normal method (Teilwertverfahren). The retirement age used to calculate the provisions for anniversary bonuses and severance pay is the statutory minimum retirement age as stipulated in the Austrian General Social Security Act (ASVG) (2004 reform), subject to a maximum age of 62 years for the provision for anniversary bonuses. The retirement age used to calculate the provision for pensions is based on each individual agreement. The following percentages were used for employee turnover based on age: <31 7.5%, 31-35 3.5%, 36-40 2.5%, 41-50 1.5%, 51-55 0.5% and 56-65 0%. The severance entitlements used to calculate the provision for severance obligations are based on each individual agreement or on the collective agreement. The following percentages were used for employee turnover based on age: <30 7.5%, 30-34 3.5%, 35-39 2.5%, 40-50 1.5%, 51-59 1.0% and 60-65 0.5%. The interest expenses for personnel provisions of EUR 2,963,000 (EUR 1,490,000) are reported under investment and interest expenses. A portion of the direct pension obligations, in the amount of EUR 225,000 (EUR 234,000), is administered as an occupational group insurance plan under an insurance policy concluded in accordance with Section 18f to 18j VAG. Provisions are formed for another portion (actuarial pension amount of EUR 2,004,000 (EUR 2,040,000)). The severance pay provision required under Austrian commercial law for 2015 was EUR 4,942,000 (EUR 4,586,000). The amount earmarked for satisfying the outsourced severance pay obligations that was held by the outside insurance company was EUR 3,656,000 (EUR 3,305,000). The difference of EUR 1,431,000 (EUR 1,453,000) between the size of the severance pay provisions to be formed under Austrian commercial law and the deposit held by the outside insurance company is reported under provisions for severance pay in the balance sheet.

## II. Notes to the balance sheet

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

| | Intangible assets | Land and buildings | Shares in affiliated companies | Bonds and other securities of affiliated companies and loans to affiliated companies | Participations |
|---|---|---|---|---|---|
| in EUR '000 | | | | | |
| **As of 31 December 2014** | **26,286** | **119,347** | **4,000,121** | **278,446** | **241** |
| Additions | 4,605 | 2,409 | 132,093 | 60,200 | 0 |
| Disposals | 0 | 0 | 33 | 244 | 0 |
| Appreciation | 0 | 0 | 15,800 | 0 | 0 |
| Depreciation | 4,327 | 4,577 | 170,794 | 60,000 | 0 |
| **As of 31 December 2015** | **26,564** | **117,179** | **3,977,187** | **278,402** | **241** |

The value of developed and undeveloped properties was EUR 35,642,000 (EUR 35,642,000) as of 31 December 2015. The carrying amount of owner occupied property was EUR 18.506,000 (EUR 18,733,000).

**The investments have the following carrying amounts and fair values:**

| Items under § 81c (2) VAG | Book value 2015 | Fair value 2015 | Book value 2014 | Fair value 2014 |
|---|---|---|---|---|
| in EUR '000 | | | | |
| Land and buildings | | | | |
| thereof appraisal reports 2010 | 0 | 0 | 769 | 3,915 |
| thereof appraisal reports 2012 | 655 | 3,910 | 5,298 | 25,970 |
| thereof appraisal reports 2013 | 79,928 | 223,585 | 83,897 | 257,455 |
| thereof appraisal reports 2014 | 23,334 | 74,410 | 29,383 | 133,230 |
| thereof appraisal reports 2015 | 13,262 | 127,950 | 0 | 0 |
| Shares in affiliated companies | 3,977,187 | 10,032,535 | 4,000,121 | 9,417,668 |
| Bonds and other securities of affiliated companies and loans to affiliated companies | 278,402 | 304,153 | 278,446 | 285,190 |
| Participations | 241 | 241 | 241 | 241 |
| Shares and other non-fixed-interest securities | 233,913 | 243,183 | 116,696 | 129,423 |
| Bonds and other fixed-interest securities | 80,638 | 87,361 | 88,609 | 97,281 |
| Mortgage receivables | 306 | 312 | 442 | 510 |
| Other loans | 9,273 | 9,387 | 17,126 | 17,388 |
| Deposits receivables | 987,259 | 987,259 | 926,923 | 926,923 |
| **Total** | **5,684,398** | **12,094,286** | **5,547,951** | **11,295,194** |

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

Hidden reserves rose by EUR 662,644,000 to a total of EUR 6,409,887,000 (EUR 5,747,243,000).

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

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

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

The other loans of EUR 9,273,000 (EUR 17,126,000) are loans to other borrowers not secured by insurance contracts.

The subordinated liabilities item on the balance sheet consists of the bonds listed in the table below, which were issued in the form of securities. The lawfulness of the issues was confirmed by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Vienna.

| Name | 2015 | 2014 |
|---|---|---|
| in EUR '000 | | |
| Hybrid bond 2008 | 500,000 | 500,000 |
| Supplementary capital bond 2005 - 2022 | 136,635 | 172,457 |
| Supplementary capital bond 2005 | 120,000 | 120,000 |
| Bond 2013 - 2043 | 500,000 | 500,000 |
| Supplementary capital bond 2015 - 2046 | 400,000 | 0 |
| **Total** | **1,656,635** | **1,292,457** |

EUR 35,822,000 (EUR 7,543,000) of supplementary capital bond 2005-2022 was repurchased in financial year 2015.

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

| | Affiliated companies | | Companies in which an ownership interest is held | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| in EUR '000 | | | | |
| Mortgage receivables | 306 | 442 | 0 | 0 |
| Deposits receivables | 987,258 | 926,923 | 0 | 0 |
| Receivables from direct insurance business | 11,784 | 1,218 | 0 | 0 |
| Receivables from reinsurance business | 15,732 | 17,016 | 0 | 0 |
| Other receivables | 232,364 | 183,502 | 16 | 16 |
| Liabilities from direct insurance business | 1,364 | 3,211 | 0 | 0 |
| Liabilities from reinsurance business | 4,951 | 15,782 | 0 | 0 |
| Other liabilities | 441,437 | 415,429 | 0 | 0 |

The following disclosures are provided for off-balance sheet contingent liabilities: Letters of comfort and liability undertakings totalling EUR 44,103,000 (EUR 48,103,000) have been issued in connection with borrowing. A total of EUR 44,103,000 (EUR 44,103,000) relates to letters of comfort for affiliated companies.

The amount shown under other liabilities includes EUR 9,873,000 (EUR 4,423,000) in tax liabilities and EUR 324,000 (EUR 308,000) in social security liabilities.

Liabilities arising from the use of off-balance sheet tangible assets are EUR 1,921,000 (EUR 2,228,000) for the following financial year, and EUR 10,198,000 (EUR 11,830,000) for the following five years.

## III. Notes to the income statement

**Premiums written, net earned premiums, expenses for insurance claims and benefits, administrative expenses and reinsur-ance balance had the following breakdown for property and casualty insurance in 2015:**

| Gross | Premiums written | Net earned premiums | Expenses for claims and insurance benefits | Administrative expenses | Reinsurance balance |
|---|---|---|---|---|---|
| in EUR '000 | | | | | |
| | | | | | |
| Direct business | | | | | |
| Fire and fire business interruption insurance | 68,324 | 68,071 | 54,157 | 7,487 | -6,330 |
| Liability insurance | 1,461 | 1,445 | 968 | 177 | -276 |
| Marine, aviation and transport insurance | 1,461 | 1,263 | 1,677 | 327 | 40 |
| Other non-life insurance | 14,898 | 12,707 | 5,062 | 1,932 | -2,695 |
| **Total direct business** | **86,144** | **83,486** | **61,864** | **9,923** | **-9,261** |
| (Previous year values) | (64,010) | (62,166) | (44,380) | (6,378) | (-8,732) |
| | | | | | |
| Indirect business | | | | | |
| Marine, aviation and transport insurance | 373 | 373 | 268 | 93 | -12 |
| Other insurance | 828,728 | 823,113 | 549,424 | 247,479 | -3,058 |
| **Total indirect business** | **829,101** | **823,486** | **549,692** | **247,572** | **-3,070** |
| (Previous year values) | (843,090) | (847,669) | (615,275) | (219,127) | (8,424) |
| | | | | | |
| **Total direct and indirect business** | **915,245** | **906,972** | **611,556** | **257,495** | **-12,331** |
| (Previous year values) | (907,100) | (909,835) | (659,655) | (225,505) | (-308) |

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

The result from indirect business was EUR 36.818,000 (EUR 26,197,000). The net earned premiums of EUR 823,486,000 (EUR 847,669,000) from indirect business were included immediately in the income statement.

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

| | 2015 | 2014 |
|---|---|---|
| in EUR '000 | | |
| Income from participations | 340,901 | 415,175 |
| Income from appreciation | 15,800 | 0 |
| Income from other investments | 14,973 | 14,900 |
| Income from land and buildings | 1,244 | 1,252 |
| Write-down of participations | 170,794 | 100,000 |
| Write-down of loans | 60,000 | 0 |

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

Losses on disposals of investments were EUR 3,053,000 (EUR 1,459,000) in financial year 2015.

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

| | 2015 | 2014 |
|---|---|---|
| in EUR '000 | | |
| Wages and salaries | 19,090 | 18,191 |
| Expenses for severance benefits and payments to company pension plans | 262 | 158 |
| Expenses for retirement provisions | 756 | 1,351 |
| Expenses for statutory social contributions and income-related contribution and mandatory contributions | 3,883 | 3,494 |
| Other social security expenses | 207 | 270 |

Commissions of EUR 8,224,000 (EUR 5,064,000) were incurred for direct business in financial year 2015.

**The valuation reserve shown on the balance sheet as of 31 December 2015 and releases and additions over the financial year are broken down by asset item as follows:**

| | As of 31.12.2014 | Release | Additions | As of 31.12.2015 |
|---|---|---|---|---|
| in EUR '000 | | | | |
| Land and buildings | 27,760 | 900 | 0 | 26,860 |
| Shares in affiliated companies | 95 | 0 | 0 | 95 |
| **Total** | **27,855** | **900** | **0** | **26,955** |

The formation and release of untaxed reserves resulted in a change in income tax expense of EUR 225,000 (EUR 1,751,000) for the financial year.

## IV. Significant participations

**Affiliated companies and participations Vienna Insurance Group AG as of 31 December 2015**

| Company | Direct interest in capital (%) | Equity capital (EUR '000) | Net income/loss (EUR '000) | Last annual financial statements |
|---|---|---|---|---|
| **Affiliated companies** | | | | |
| "Baltikums Vienna Insurance Group" AAS, Riga | 100 | 5.848 | -968 | 2015 |
| "POLISA-ZYCIE" Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw | 99,43 | 12.926 | 1.587 | 2015 |
| Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group, Podgorica | 100 | 2.201 | -54 | 2014 |
| ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest | 86,3 | 59.565 | -11.389 | 2015 |
| BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest | 93,98 | 30.005 | 4.885 | 2015 |
| Business Insurance Application Consulting GmbH, Vienna | 100 | -9.017 | -11.836 | 2015 |
| CAL ICAL "Globus", Kiev | 98,4 | 3.022 | 23 | 2015 |
| Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chisinau | 99,99 | 2.914 | 144 | 2015 |
| COMPENSA Holding GmbH, Wiesbaden | 100 | 59.968 | 39.315 | 2015 |
| Compensa Life Vienna Insurance Group SE, Tallinn | 100 | 22.899 | 1.848 | 2015 |
| Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw | 78,85 | 50.461 | 1.435 | 2015 |
| Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw | 70,67 | 90.886 | 16.125 | 2015 |
| Compensa Vienna Insurance Group, uzdaroji akcine draudimo bendrove, Vilnius | 100 | 22.696 | -268 | 2015 |
| DONAU Versicherung AG Vienna Insurance Group, Vienna | 3,97 | 81.873 | -10.909 | 2015 |
| ELVP Beteiligungen GmbH, Vienna | 100 | 25.121 | 1.739 | 2015 |
| Erste osiguranje Vienna Insurance Group d.d., Zagreb | 90 | 11.768 | 1.616 | 2015 |
| ERSTE Vienna Insurance Group Biztosító Zrt., Budapest | 90 | 5.799 | 284 | 2015 |
| Foreign limited liability company "InterInvestUchastie", Minsk | 99,95 | 266 | 25 | 2014 |
| GLOBAL ASSISTANCE SERVICES s.r.o., Prague | 100 | 6 | -1 | 2014 |
| GLOBAL ASSISTANCE, a.s., Prague | 60 | 3.870 | 2.355 | 2015 |
| GPIH B.V., Amsterdam | 11,11 | 6.787 | 1.079 | 2015 |
| INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia | 14,2 | 30.954 | -4.989 | 2015 |
| InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw | 99,98 | 95.165 | 14.143 | 2015 |
| InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden | 100 | 44.300 | 10.000 | 2015 |
| INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana | 89,98 | 3.034 | 428 | 2015 |
| Joint Stock Company for Insurance and Reinsurance Makedonija Skopje - Vienna Insurance Group, Skopje | 94,25 | 24.482 | 3.894 | 2015 |
| Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group Skopje, Skopje | 100 | 4.249 | -773 | 2014 |
| Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje | 100 | 5.231 | 678 | 2015 |
| KOMUNÁLNA poistovna, a.s. Vienna Insurance Group, Bratislava | 18,86 | 53.199 | 7.081 | 2015 |
| KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group, Bratislava | 94,23 | 301.004 | 29.653 | 2015 |
| Kooperativa, pojist'ovna, a.s. Vienna Insurance Group, Prague | 96,32 | 496.852 | 103.299 | 2015 |
| KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company, Minsk | 52,34 | 2.887 | 1.133 | 2014 |
| LVP Holding GmbH, Vienna | 100 | 552.017 | -65.377 | 2015 |
| OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest | 99,47 | 147.137 | 3.562 | 2015 |
| Poist'ovna Slovenskej sporitel'ne, a.s. Vienna Insurance Group, Bratislava | 90 | 44.305 | 8.159 | 2015 |
| Pojist'ovna Ceské sporitelny, a.s. Vienna Insurance Group, Pardubice | 90 | 134.009 | 28.961 | 2015 |
| Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev | 9,5 | 7.553 | 2.128 | 2015 |
| Private Joint-Stock Company "JUPITER LIFE INSURANCE VIENNA INSURANCE GROUP", Kiev | 97,8 | 1.803 | 62 | 2015 |
| PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev | 90,01 | 5.439 | -253 | 2015 |
| Ray Sigorta Anonim Sirketi, Istanbul | 12,67 | 29.597 | -4.896 | 2015 |
| RISK CONSULT Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H., Vienna | 41 | 607 | 383 | 2014 |
| SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A., Tirana | 89,05 | 11.450 | -614 | 2015 |

| Company | Direct interest in capital (%) | Equity capital (EUR '000) | Net income/loss (EUR '000) | Last annual financial statements |
|---|---|---|---|---|
| **Affiliated companies** | | | | |
| Skandia Zycie Towarzystwo Ubezpieczen Spolka Akcyjna, Warsaw | 100 | 34.152 | -37 | 2015 |
| TBI BULGARIA EAD, Sofia | 100 | 41.037 | -82 | 2015 |
| TBIH Financial Services Group N.V., Amsterdam | 68,97 | 236.532 | -34.728 | 2015 |
| UNION Vienna Insurance Group Biztositó Zrt., Budapest | 100 | 30.995 | 1.040 | 2015 |
| Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw | 69,87 | 5.120 | 3 | 2014 |
| Vienna International Underwriters GmbH, Vienna | 100 | 165 | 25 | 2014 |
| Vienna Life Vienna Insurance Group Biztositó Zártkörüen Müködö Részvénytársaság, Budapest | 100 | 13.966 | 612 | 2015 |
| Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern | 100 | 13.063 | 58 | 2015 |
| VIG Asset Management investicni spolecnost, a.s., Prague | 100 | 430 | 130 | 2014 |
| VIG Properties Bulgaria AD, Sofia | 99,97 | 3.835 | 19 | 2015 |
| VIG RE zajist'ovna, a.s., Prague | 70 | 134.785 | 18.912 | 2015 |
| VIG Real Estate GmbH, Vienna | 90 | 103.822 | -5 | 2015 |
| VIG Services Ukraine, LLC, Kiev | 100 | 59 | -13 | 2014 |
| Wiener Osiguranje Vienna Insurance Group ad, Banja Luka | 100 | 6.718 | -1.615 | 2015 |
| Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb | 99,47 | 71.044 | 3.489 | 2015 |
| WIENER RE akcionarsko društvo za reosiguranje, Beograd, Belgrade | 0,7 | 7.026 | 559 | 2015 |
| WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje, Beograd, Belgrade | 100 | 27.853 | 2.908 | 2015 |
| WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna | 99,9 | 934.376 | 90.808 | 2015 |

## V. Other disclosures

The Company has EUR 132,887,468.20 in share capital that is divided into 128,000,000 no-par value bearer shares with voting rights, with each share participating equally in the share capital.

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

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

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

The Company held no treasury shares as of 31 December 2015.

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

On 12 January 2005, the company issued supplementary capital bond 2005-2022, with a total nominal value of EUR 180,000,000.00 in accordance with Section 73c(2) VAG. The bond pays interest at 4.625% p.a. on its nominal value during the first twelve years of its term (fixed interest rate period), after which the bond pays variable interest. The Company repurchased EUR 7,543,000 of the nominal value in June 2014 and EUR 35,822,500 of the nominal value in March 2015.

On 12 January 2005, the Company also issued supplementary capital bond 2005, with a total nominal value of EUR 120,000,000.00 in accordance with Section 73c(2) VAG. This bond does not have a fixed term. The bond paid interest at 4.25% p.a. on its nominal value during the first year of its term, after which the bond pays variable interest. Interest was paid at 2.000% p.a. on the bond's nominal value during the period from 12 January 2015 to 11 January 2016.

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

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

The auditor has verified that the requirements under Section 73b(2) no. 4 VAG have been satisfied.

The Supervisory Board had the following members in financial year 2015:

**Chairman:**
Günter Geyer

**Deputy Chairman:**
Karl Skyba

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

**The Managing Board had the following members in financial year 2015:**

**Chair:**
Elisabeth Stadler (since 1 January 2016)
Peter Hagen (until 31 December 2015)

**Members:**
Franz Fuchs
Roland Gröll (since 1 January 2016)
Judit Havasi (since 1 January 2016)
Peter Höfinger
Martin Simhandl

The average number of employees was 225 (220). These employees were employed in the insurance business and resulted in personnel expenses of EUR 24,199,000 (EUR 23,464,000).

There were no loans outstanding to members of the Managing Board or members of the Supervisory Board as of 31 December 2015 (EUR 0).

No guarantees were outstanding for members of the Managing Board or Supervisory Board as of 31 December 2015.

In 2015, the total expenses for severance pay and pensions of EUR 1,019,000 (EUR 1,509,000) included severance pay and pension expenses of EUR 79,000 (EUR 736,000) for members of the Managing Board and senior management in accordance with Section 80(1) of the Austrian Stock Corporation Act (AktG).

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

The members of the Managing Board received EUR 3,459,000 (EUR 2,432,000) in remuneration for their services to the Company during the reporting period. Members of the Managing Board are provided a company car for both business and personal use. The members of the Managing Board received EUR 42,000 (EUR 75,000) from affiliated companies for their services in the operations of the Company, or as a manager or employee of an affiliated company.

Former members of the Managing Board received EUR 490,000 (EUR 561,000).

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

The members of the Supervisory Board received EUR 414,000 (EUR 419,000) as remuneration for their services to the Company in 2015.

A summary of auditing fees is provided in the notes to the Vienna Insurance Group consolidated financial statements.

The Company is a group member, within the meaning of Section 9 of the Austrian Corporate Income Tax Act (KStG), of the Wiener Städtische Versicherungsverein, Vienna, group of companies. The taxable earnings of group members are attributed to the parent company. The parent company has entered into agreements with each group member governing the allocation of positive and negative tax amounts for the purpose of allocating corporate income tax charges according to origin. A receivable of EUR 74,483,000 (EUR 54,935,000) is owed by the parent company. The difference of EUR 19,548,000 represents the tax allocation for 2015 and previous years. Use was made of the option to capitalise deferred taxes on profit of EUR 9,261,000 (EUR 9,261,000) arising due to temporary differences between earnings under commercial law and taxable earnings.

The Company is included in the consolidated financial statements prepared by Wiener Städtische Versicherungsverein, which has its registered office in Vienna. These consolidated financial statements have been disclosed and are available for inspection at the business premises of this company located at Schottenring 30, 1010 Vienna.

Vienna, 23 March 2016

The Managing Board:

| | | |
|---|---|---|
| Elisabeth Stadler<br>General Manager<br>Chairwoman of the Managing Board | Franz Fuchs<br>Member of the Managing Board | Roland Gröll<br>Member of the Managing Board |
| Judit Havasi<br>Member of the Managing Board | Peter Höfinger<br>Member of the Managing Board | Martin Simhandl<br>CFO, Member of the Managing Board |

## AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of

**VIENNA INSURANCE GROUP AG**
**Wiener Versicherung Gruppe, Vienna,**

that comprise the statement of financial position as of 31 December 2015, the income statement for the fiscal year then ended, and the notes.

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

**Auditors' Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing – ISA. In accordance with International Standards on Auditing, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
Our audit did not give rise to any objections. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2015, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and regulatory requirements for insurance companies.

## Report on Other Legal Requirements (Management Report)

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 23 March 2016

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

Mag. Michael Schlenk
Wirtschaftsprüfer
(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid.

The financial statements together with our auditor's opinion may only be published if the financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

## DECLARATION BY THE MANAGING BOARD

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

Vienna, 23 March 2016

The Managing Board:

Elisabeth Stadler
General Manager
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Roland Gröll
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Martin Simhandl
CFO, Member of the Managing Board

**Managing Board areas of responsibility:**

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

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

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

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

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

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

## SUPERVISORY BOARD REPORT

The Supervisory Board reports that it has taken the opportunity to comprehensively monitor the management of the Company, both acting as a whole and periodically by means of its committees, Chairman and Deputy Chairman. Detailed presentations and discussions during meetings of the Supervisory Board and its committees were used for this purpose, as were recurring meetings with the members of the Managing Board, who provided detailed explanations and supporting documentation relating to the management and financial position of the Company and the Group. The strategy, business development, risk management, internal control system and activities of the internal audit department, IT strategy of the Company, Managing Board matters and preparations for Solvency II were also discussed in these meetings.

In accordance with the Solvency II Directives, from 2016 onwards, non-financial elements must form part of the performance criteria for variable remuneration to members of the Managing Board. VIG is committed to social responsibility and the importance of employees as contributors to performance, innovation and expertise, and, in 2015, started to include non-financial as well as financial criteria in the performance evaluation of members of the Managing Board.

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

One Annual General Meeting and four Supervisory Board meetings spread across the financial year were held in 2015. Four meetings of the Audit Committee were also held. The auditor of the financial statements and consolidated financial statements, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG), attended all Audit Committee meetings and the Supervisory Board meeting in 2015 that dealt with the auditing of the annual financial statements of 2014 and consolidated financial statements of 2014 and formal approval of the annual financial statements of 2014, and also attended the general meeting. The committee for decisions on urgent matters was contacted in writing on two occasions. Two meetings of the Committee for Managing Board Matters were held in 2015. The Strategy Committee did not hold any meetings in 2015; strategic matters were handled by the Supervisory Board as a whole.

All members of the Supervisory Board were present at all Supervisory Board meetings. In order to ensure the effectiveness and efficiency of its activities and procedures, the Supervisory Board performed a self-evaluation of its procedures. The Supervisory Board's evaluation of its activities found that the practices followed satisfied the requirements of the Austrian Stock Corporation Act and the Code of Corporate Governance, and that its organisational structure and procedures were satisfactory in terms of efficiency. During a meeting of the Audit Committee, the members of the committee consulted with the (consolidated) financial statements auditor concerning specification of two-way communications.

Acting upon the proposal and motion of the Supervisory Board, the General Meeting selected KPMG to be the financial statements auditor and consolidated financial statements auditor for financial year 2015, and KPMG consequently performed these duties in financial year 2015. KPMG was also commissioned to perform the voluntary external evaluation of the Corporate Governance Report 2015. Rules 77 to 83 were reviewed by WOLF THEISS Rechtsanwälte GmbH & Co KG (law firm). All evaluations came to the conclusion that VIG has complied with all the requirements of the code. The summary reports on these evaluations are available on the VIG website.

By inspecting suitable documents, meeting with the Managing Board and holding discussions with the (consolidated) financial statements auditor, the Supervisory Board Audit Committee was able to form a satisfactory view of the accounting process and the procedure used for auditing the financial statements and consolidated financial statements, and found no reasons for objection. The Supervisory Board Audit Committee also monitored the independence of the auditor of the financial statements and consolidated financial statements, and after reviewing suitable documents and supporting records submitted to it, particularly with respect to additional services provided for the Company and the Group, was satisfied of the auditor's independence. The Audit Committee also reviewed the effectiveness of the internal control system, the internal auditing system and the risk management system by obtaining verbal and written descriptions of the processes and organisation of these systems from the Managing Board, the (consolidated) financial statements auditor and the individuals directly responsible for these areas. The Audit Committee reported on these monitoring activities to the Supervisory Board and stated that no deficiencies had been identified. The Supervisory Board was also given the opportunity during Supervisory Board meetings to satisfy itself about the functional adequacy of the existing control and auditing systems. In addition, the audit plan and the quarterly reports prepared by internal audit department were discussed by the Audit Committee and Supervisory Board and with the head of the internal audit and Group audit departments. The Supervisory Board found no reasons for objections.

In order to prepare the Supervisory Board proposal for selection of the financial statements and consolidated financial statements auditor, the Audit Committee obtained a list from KPMG of the fees received by the company broken down by service category, and documents concerning its licence to audit a stock corporation. It was determined that there were no grounds for exclusion or circumstances that could give rise to concerns about impartiality, and that sufficient protective measures had been taken to ensure an independent and impartial audit. It was also verified that KPMG was included in a statutory quality assurance system. The Audit Committee reported to the Supervisory Board on the findings of these investigations and proposed to the Supervisory Board and subsequently to the General Meeting that KPMG be selected as auditor of the financial statements and consolidated financial statements.

In addition, the Supervisory Board Audit Committee received the 2015 annual financial statements, management report and corporate governance report from the Managing Board, and reviewed and carefully examined them. The Supervisory Board Audit Committee also carefully examined the 2015 consolidated financial statements and Group management report. The Managing Board's proposal for appropriation of profits was also debated and discussed during the course of this examination. As a result of this examination and discussion, a unanimous resolution was adopted to recommend to the Supervisory Board that they be accepted without qualification. The committee chairman informed the Supervisory Board of the resolutions adopted by the committee. The 2015 annual financial statements together with the management report and corporate governance report, the 2015 consolidated financial statements together with the Group management report, and the Managing Board's proposal for appropriation of profits were subsequently taken up, thoroughly discussed, and examined by the entire Supervisory Board.

In addition, the auditor's reports prepared by the (consolidated) financial statements auditor KPMG for the 2015 annual financial statements and management report and the 2015 consolidated financial statements and Group management report were reviewed by the Audit Committee and by the entire Supervisory Board, and debated and discussed with KPMG. KPMG's audit of the 2015 annual financial statements and management report and the 2015 consolidated financial statements and Group management report did not lead to any reservations. KPMG determined that the annual financial statements comply with statutory requirements and give a true and fair view of the net assets and financial position of the Company as of 31 December 2014, and of the results of operations of the Company for financial year 2015 in accordance with Austrian generally accepted accounting principles. The management report is consistent with the annual financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate. KPMG further determined that the consolidated financial statements also comply with statutory requirements and give a true and fair view of the net assets and financial position of the Group as of 31 December 2015, and of the results of operations of the Group for financial year 2015 in accordance with IFRS and the provisions of Section 80b of the Austrian Insurance Supervision Act (VAG) in combination with Section 245a of the Austrian Commercial Code (UGB) that apply to the 2015 financial year. The Group management report is consistent with the consolidated financial statements.

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

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

The 2015 annual financial statements have therefore been approved in accordance with Section 96(4) of the Austrian Stock Corporation Act (AktG).

The Supervisory Board proposes to the General Meeting that it approve the Managing Board's proposal for appropriation of profits and formally approve the actions of the Managing Board and Supervisory Board.

Vienna, April 2016

The Supervisory Board:

Günter Geyer
(Chairman)

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## ABBREVIATIONS USED

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

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

2) Used when referring to the company itself.

## NOTICE

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

Rounding differences may occur when rounded amounts or percentages are added.

The annual report was prepared with great care to ensure that all information was complete and accurate. Rounding, typesetting and printing errors can nevertheless not be completely ruled out.

Our goal was to make the annual report quick and easy to read. For this reason we have not used phrasing such as “he/she”, “his/her”, etc. It should be understood that the text always refers to women and men equally without discrimination.

In case of doubt, the German version is authoritative.

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