VIENNA INSURANCE GROUP

TODAY

Protecting what matters.

17PG001/HE18 (19.02 – J20197605)

Annual financial statements 2018

FOR VIENNA INSURANCE GROUP AG
WIENER VERSICHERUNG GRUPPE

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

Contents

NOTE:

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, formulations such as him/her, etc. have been avoided. It should be understood that the text always refers to women and men equally without discrimination.

To improve readability, company names have been shortened in the text below. A list of full company names is provided on page 47.

Company profile

PROTECTING WHAT MATTERS

Vienna Insurance Group's roots reach back to the year 1824. Today, Vienna Insurance Group, headquartered in Vienna, is the leading insurance group in Austria and Central and Eastern Europe and offers custom-tailored products and services appropriate for all of its customers' needs. Our strategy is to achieve sustainable profitable growth in order to protect what matters.

ORGANISATION

Vienna Insurance Group manages and assists its around 50 Group companies, with more than 25,000 employees in 25 countries, so they can guarantee comprehensive, individual and needs-appropriate insurance protection for their customers. Around 250 employees work in essential management areas, such as the actuarial department, risk management, Group development and strategy, reinsurance or planning & controlling to continue strengthening VIG's position as the leading insurance group in Austria and the CEE region. VIG works as a partner with the 50 insurance companies and maintains a continuous exchange of information to ensure that both the interests of the Group and those of the individual Group companies are pursued.

CLEAR FOCUS ON AUSTRIA AND CEE

In addition to Austria, VIG also focuses on Central and Eastern Europe and takes advantage of the many growth opportunities offered by this region. The resulting differences in economic and insurance-specific maturity guarantee broad risk diversification. VIG uses its multi-brand policy to take advantage of the potential offered by the local companies and established markets, because it is precisely the strengths of the individual brands and regional experience that increase regional identity, strengthen customer and employee loyalty to the companies, and in the end strengthen the entire corporate group.

FINANCIAL STRENGTH

The international Standard & Poor's rating agency renewed its A+ rating with stable outlook, so that VIG continues to have the best rating of all of the listed companies in the ATX index. VIG shares have been listed on the Vienna Stock Exchange since 1994 and on the Prague Stock Exchange since 2008. Wiener Städtische Versicherungsverein holds around 70 % of VIG's shares and therefore acts as an exceptionally stable and long-term principal shareholder.

THINKING ABOUT THE FUTURE

Building on many years of experience, VIG focuses its business on the future in order to guarantee long-term success. VIG is using its Agenda 2020 strategic work programme to expand promising lines of business, promote digitalisation projects and take concrete steps to optimise its business model.

Management report 2018

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 2018 (and in the same period in 2017):

	2018			2017		
	Direct business	Indirect business	Total	Direct business	Indirect business	Total
in EUR '000						
Premiums written	85,053	1,082,224	1,167,277	84,112	926,386	1,010,498
Net earned premiums	85,185	1,072,116	1,157,301	84,517	912,629	997,146
Expenses for claims and insurance benefits	61,089	727,762	788,851	81,423	598,170	679,593
Administrative expenses	12,399	335,817	348,216	11,471	301,103	312,574
Reinsurance balance	-6,392	-2,155	-8,547	12,318	7,265	19,583

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

FINANCIAL PERFORMANCE INDICATORS

Premium income

VIG Holding generated a total premium volume of EUR 1,167.28 million in 2018. The increase compared to the previous year (+15.5%) was mainly due to good growth in reinsurance premiums. Direct premiums written (corporate business) increased 1.1% year-on-year to EUR 85.05 million. Premium income from indirect business (assumed reinsurance) was EUR 1,082.22 million, 16.8% higher than the previous year.

VIG Holding retained EUR 1,131.70 million (2017: EUR 977.34 million) of the premiums written. EUR 35.58 million was ceded to reinsurers in 2018 (2017: EUR 33.16 million). Gross earned premiums were EUR 1,157.30 million (2017: EUR 997.15 million). Net earned premiums increased EUR 157.20 million to EUR 1,121.13 million.

Expenses for claims and insurance benefits

Gross expenses for claims and insurance benefits were EUR 788.85 million in 2018 (2017: EUR 679.59 million). EUR 61.09 million of this amount was attributable to corporate business (2017: EUR 81.42 million), EUR 20.33 million less than the previous year.

The gross claims ratio for direct business decreased from 94.8 % to 69.8 %, mainly due to the fire insurance and other property insurance lines of business. Expenses for claims and insurance benefits for assumed reinsurance rose 21.7 % to EUR 727,76 million.

The gross claims ratio for indirect business was 67.9 % (2017: 65.5 %). After deducting reinsurance of EUR 26.11 million (2017: EUR 50.95 million), expenses for claims and insurance benefits were EUR 762.74 million (2017: EUR 628.65 million).

Administrative expenses

Administrative expenses were EUR 348.22 million in 2018, or 11.4 % higher than the previous year (2017: EUR 312.57 million). This change was due to an increase in commissions for indirect business. EUR 12.40 million of the administrative expenses were for the corporate business and EUR 335.82 million for the reinsurance business.

After reinsurance commissions for ceded reinsurance business, EUR 346.70 million in administrative expenses remained for VIG Holding. This was an increase of EUR 35.99 million compared to the previous year.

Combined ratio

VIG Holding's combined ratio was 99.1 % in 2018 (2017: 97.5 %), and 94.2 % for direct business (corporate business) (2017: 94.4 %).

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

Financial result

VIG Holding had a financial result of EUR 162,82 million (2017: EUR 121.54 million). The increase in the financial result in 2018 was primarily due to larger dividends from affiliated companies and participations and greater appreciation of investments. Impairment of shares in affiliated companies was EUR 112.15 million (2017: EUR 109.50 million).

in EUR '000	2018	2017
Land and buildings	9,780	10,336
Investments in affiliated companies and participations	312,011	294,541
Other investments	15,381	20,692
Total income (net)	337,172	325,569
Other investment and interest income	13,053	27,309
Expenses for asset management	-86,076	-143,881
Interest expenses	-80,513	-84,110
Other investment expenses	-20,819	-3,348
Investment profit according to income statement	162,817	121,539

Result from ordinary activities

VIG Holding earned a result from ordinary activities of EUR 188.25 million in 2018 (2017: EUR 116.37 million). The increase was due to an increase in the underwriting result and a higher financial result.

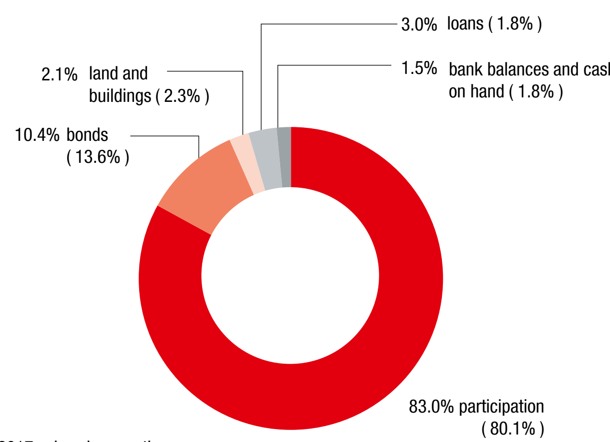
Investments

Investments, including liquid assets, were EUR 5,231.78 million as of 31 December 2018 (2017: EUR 5,097.72 million).

Deposits were EUR 1,116.05 million in 2018 (2017: EUR 1,036.329 million). 83.0 % (2017: 80.1 %) of the investments at the end of 2018 were participations, 10.4 % (2017: 13.6 %) were bonds (including bond funds), 3.0 % (2017: 1.8 %) were loans, 2.1 % (2017: 2.3 %) were land and buildings, 1.5 % (2017: 1.8 %) were bank balances and cash on hand, and 0.0 % (2017: 0.4 %) were equities.

Detailed information is provided on pages 22 and 23 of the separate financial statements.

BREAKDOWN OF INVESTMENTS IN 2018



2017 values in parentheses

Underwriting provisions

Underwriting provisions were EUR 1,238.29 million as of 31 December 2018 (2017: EUR 1,141.38 million). This corresponds to a year-on-year increase of 8.5 %, which was primarily due to provisions for outstanding claims arising from assumed reinsurance business. The reinsurers' share was EUR 80.46 million (2017: EUR 84.22 million).

Solvency ratio

The solvency ratio of 375.0 % is high due to an outstanding endowment of capital resources combined with a low capital requirement, and also includes VIG Holding's holding company function in the Group.

NON-FINANCIAL PERFORMANCE INDICATORS

For the 2018 reporting year, Vienna Insurance Group is publishing its second sustainability report that addresses the Group's corporate social responsibility (CSR) strategy. This strategy and much more information on CSR in the VIG companies can be read in this report, which is available for download free of charge at www.vig.com/Nachhaltigkeitsberichte. A few examples of the VIG Holding's own initiatives are presented below.

Social involvement –
Example: Social Active Day
Since 2011, VIG employees have been allowed to use one day per year to volunteer for a good cause. The Social Active Day initiative was brought to life by VIG's principal shareholder Wiener Städtische Versicherungsverein. A wide variety of activities are performed, ranging from renovation work in social aid organisations and nursing care facilities, collecting food, serving soup, helping in social supermarkets, working with socially disadvantaged people and people in need, all the way to accompanying elderly people on trips. VIG Holding employees also took part in this group-wide initiative. 158 of them participated in 2018.

Cultural involvement –
Example: Gustav Mahler Youth Orchestra
For VIG, being anchored in society means assuming social responsibility, and promoting and valuing this understanding throughout the Group. Instead of just monitoring developments, this means actively helping to create a future worth living. One example of this is the Gustav Mahler Youth Orchestra, which VIG has already sponsored for many years. It is considered the best youth orchestra in the world and is a place of learning that helps talented young Austrian musicians play music with their colleagues from all over the world, traditionally including many participants from the CEE region. It stands for music without borders, dedication and enthusiasm, and offers highly talented musicians up to the age of 26 the opportunity to work together with the great conductors and soloists of our time. This promotes cross-border cultural exchange, mutual understanding and equal opportunity.

VIG is a partner of WIENER STAATSOPER live at home
VIG supports the WIENER STAATSOPER live at home project in order to give its customers and employees the opportunity to experience many evenings of live opera and ballet performances in an illustrious national cultural institution within and beyond the borders of Austria. Each season, the WIENER STAATSOPER live at home project broadcasts many of the around 50 opera and 15 ballet works in the broad and varied repertoire of the Vienna State Opera in HD quality.

VIG promotes peace –
projects focusing on children and youth
VIG is currently supporting three projects devoted to the topic of peace and aimed at educating children and youth: VIG Kids Camp, the Alfred Fried photography award and the Mirno More peace fleet.

VIG Kids Camp took place for the ninth time in the summer of 2018 at the initiative of Wiener Städtische Versicherungsverein. Around 500 children of VIG employees from 23 European countries took part. In order to visit VIG Kids Camp, the children have to win a Group-wide contest. In 2018, the contest was held under the motto “Photograph a picture of peace”.

In addition to being rewarded with an invitation to the 2018 VIG Kids Camp, the most creative submissions from children of VIG employees were also entered in the 2018 Alfred Fried photography award for children (Children Peace Image of the Year), which once again received support from VIG.

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

The Mirno More peace fleet, the world's largest peace sailing project for socially and economically disadvantaged children and youth, took place in the area of Split, Croatia, between 15 and 22 September 2018. VIG was a ship sponsor for the Mirno More peace fleet again. The peace fleet has sailed through the Dalmatian Islands area each year since 1994. Mirno More means "peaceful sea" and is both a greeting and message of good wishes used by Croatian sailors.

The week-long trip gives the children the opportunity to pilot a sailing ship together and is aimed at throwing prejudices overboard and creating friendships that cross ethnic and social boundaries. Some of the 580 children taking part come from crisis centres, social residences and socio-pedagogical facilities – including displaced children and war orphans from the Balkans.

"Vienna Insurance Group is aware of its social responsibility and is involved in a wide variety of projects in the 25 countries where it operates. Helping disadvantaged children has been particularly important to the Group for many years", said Elisabeth Stadler, General Manager of VIG. "The Mirno More peace fleet project is a wonderful way to satisfy this responsibility." VIG provides support for the Ship Safety Team, which provides medical care for the 965 participants and ensures their safety.

Employees

VIG Holding offers attractive prospects and development opportunities for its employees. It offers a broad range of training and advanced training courses, the opportunity to gather international experience by participating in mobility programmes, and an attractive working environment. Expert careers are another development opportunity offered to employees.

In addition, a new diversity concept was developed in 2017 that focuses on the criteria of gender, internationality and generations.

This concept is discussed in more detail in the VIG 2018 Group Annual Report (in the corporate governance report).

Flexible working hours, a company cafeteria, company kindergarten and internal company healthcare services, such as physical treatments and other medical services, increase the attractiveness of the work environment. VIG Holding once again received an award in the 2018 BEST RECRUITERS study for its presence at career events, Internet career webpages and candidate management service. This is the second time in a row that VIG has been awarded the gold certificate.

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

VIG Holding had 262 employees (not including the Managing Board) as of 31 December 2018. Women held 50 % of the positions in the Managing Board and around 26 % of the positions directly below the Managing Board.

Research and development

Although Vienna Insurance Group does not perform any research activities as defined in § 243 (3) (2) UGB, it contributes its expertise to the development of insurance-specific software models.

Vienna Insurance Group is also cooperating with the Insurance Innovation Lab in Leipzig.

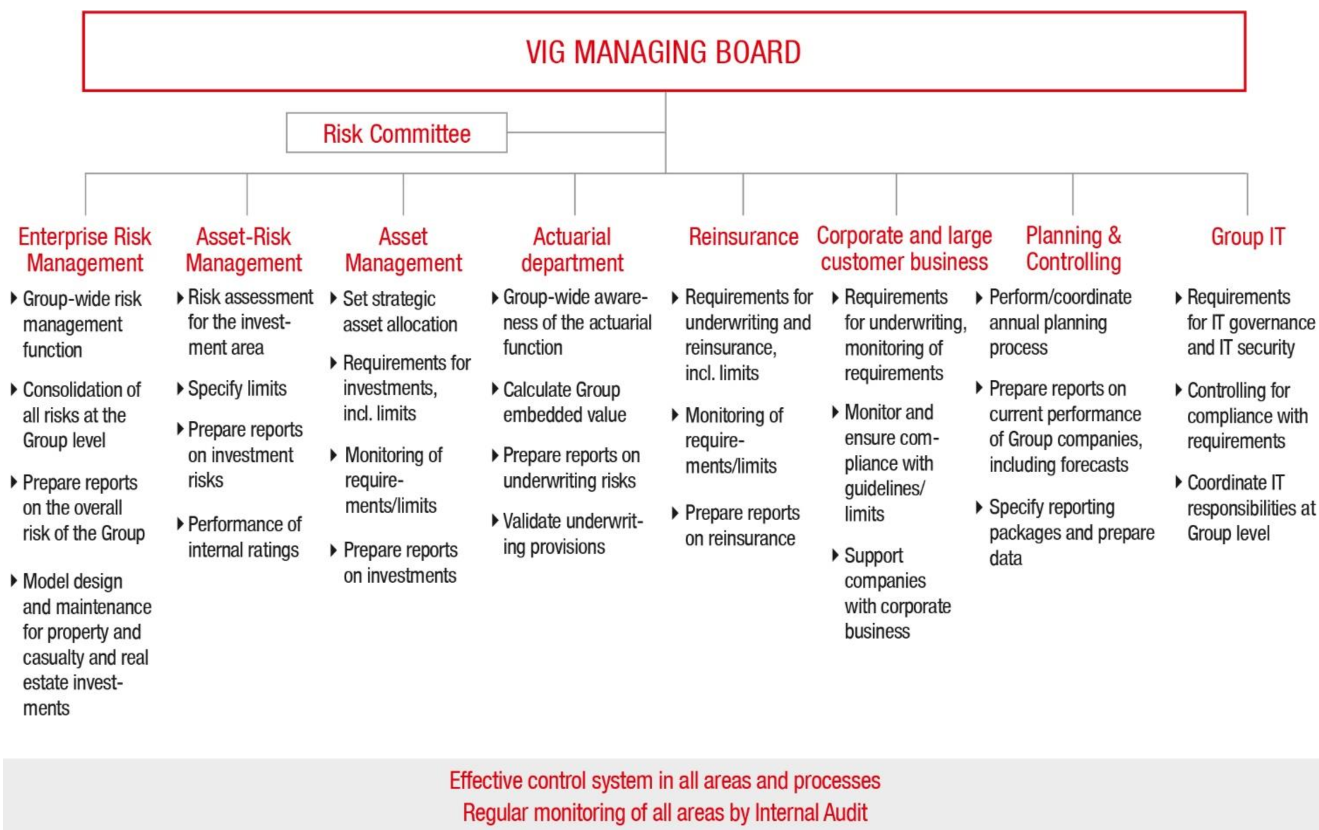
Other Information

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

RISK REPORT

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

ERM assists the Managing Board with improvements to the risk organisation and corporate risk management topics. There is a Group-wide risk management system that uses key principles and concepts, uniform terminology and clear instructions and support. The Actuarial department, Reinsurance, Corporate and large customer business, Asset-Risk Management, Asset Management, Planning & Controlling, Internal Audit and Group IT are also involved in the ongoing process of risk monitoring and management.



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

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

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

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

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

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

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

Strategic risks: Strategic risks can arise due to changes in the economic environment, case law, or the regulatory environment. Established risk management processes are used to regularly identify, analyse, evaluate, report, control and monitor all the risks to which VIG is exposed.

The risk control measures used are avoidance, reduction, diversification, transfer and acceptance of risks and opportunities.

A Group-wide unified internal control system also helps to ensure compliance with the guidelines and requirements resulting from risk management.

VIG Holding is primarily exposed to market risk due to its activities as an insurance holding company. A conservative investment policy is used to limit other market risk due to investments. Market risk is monitored using fair value measurement, value-at-risk (VaR) calculations, sensitivity analysis and stress tests. Market risk is by far VIG Holding's most important risk exposure, in particular the equity and currency risk resulting from its primary activity, holding participations in insurance companies.

VIG Holding is also exposed to underwriting risks as a result of its international corporate business and reinsurance business. Appropriate underwriting provisions are determined using recognised actuarial methods and assumptions and managed by means of guidelines concerning the assumption of insurance risks. VIG Holding also limits the potential liability from its insurance business/active reinsurance business by ceding part of the risk it has assumed to the external reinsurance market through the Group reinsurance company VIG Re.

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

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

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ACCOUNTING PROCESS

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

Important control elements in the accounting process
The documentation for the annual financial statement preparation process includes the important elements of the internal control and risk management system that are present in the accounting process.

The controls documented there are used during the process to ensure that potential errors whose occurrence cannot be completely ruled out in spite of the many additional functional and technical controls in existing IT systems (e.g. SAP) are identified and corrected at an early stage in the reporting.

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

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

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

The Managing Board provides final approval of the financial statements. The auditor takes the internal control system into account during the financial statement audit to the extent that it is relevant to preparation of the annual financial statements.

Effectiveness and controls

To ensure the effectiveness of the internal control system, VIG established an annual evaluation and documentation process for the ICS with the professional assistance of external auditors. This process identifies, analyses, assesses, documents and reports risks and controls existing for VIG Holding to the Managing Board, particularly those in the areas of accounting and compliance. Optimisation measures are introduced into the control environment based on the findings and their implementation is also monitored and reported by the responsible units. The results of this process are also used later by the internal audit department as a basis for its subsequent audit of the accounting process and the control environment established there.

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

Detailed information on the disclosures in accordance with § 267(3a) in conjunction with § 243a and § 243(3)(3) UGB is available in the notes to the consolidated financial statements on page 30.

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

Internal and external service providers provide IT services for VIG Holding. Outsourcing agreements that had been approved by the supervisory authority existed in 2018 with IBM Austria (Internationale Büromaschinen Ges. m.b.H.), T-Systems Austria GesmbH and with the internal Group IT system provider twinformatics GmbH, all with registered offices in Austria. twinformatics GmbH was also engaged in 2018 to assume overall responsibility for all IT services for the Austrian VIG insurance companies, and to perform the sub-outsourcing necessary for this purpose taking into account statutory and regulatory requirements and report them to the Austrian Financial Market Authority (FMA). The reports to the FMA and FMA approvals also took place in 2018. In addition to these outsourcing agreements, VIG Holding has not outsourced any critical or important functions or business activities.

OUTLOOK

Austria

The Austrian Institute of Economic Research (WIFO) expects the Eurozone to continue recording solid growth, although the value of 1.7 % expected for 2019 is below the real GDP growth of 2.0 % forecast for Austria in 2019. WIFO is assuming that household income will rise – driven by rising wages and salaries and lower taxes, in particular introduction of the family bonus – and in turn increase private consumption (+1.7 %). The unemployment rate as a percentage of the labour force will continue to fall, although at a slower rate. In addition to the labour market, the good economic conditions will also benefit the government budget. WIFO expects budget surpluses in 2019 and 2020 based on overall increases in tax revenues.

The Austrian Insurance Association (VVO) expects premiums to rise 1.5 % to around EUR 17.6 billion this year. Health insurance is expected to record the largest increase of 3.5 %, and property and casualty insurance is expected to grow 3 %. Life insurance premiums are expected to decrease by 2 %.

CEE region

The November 2018 forecast by the Vienna Institute for International Economic Studies (WIIW) continues to show robust growth in most Central and Eastern European countries. Tight labour markets are causing significant wage increases. As in Austria, this is having a positive effect on consumption, but could present a challenge for future growth in the medium term.

With the exception of Croatia (2.6 %), the Central and Eastern European (CEE) countries in the EU are expected to record real GDP growth rates of at least 3 % in 2019. Slovakia, in particular, stands out for an expected growth rate of 4.1 %, which is also an increase compared to 2018. According to WIIW, the average GDP growth rate of 3.4 % expected for the CEE countries in the EU is almost the same as the growth of 3.5 % expected for the Western Balkans in 2019.

As WIIW summarises in its analysis, the overall outlook remains positive for the region, although with a considerably higher level of risk due, among other things, to intensification of the trade conflict between the US and China and a reduction in the EU budget after Brexit. WIIW confirms that the region in general is still on a path of convergence with Western Europe, although at a slower pace due to a weakening of the external environment.

Based on the forecasts currently available, VIG expects growth rates to be considerably higher in the CEE markets than in Western Europe, so that the insurance industry will continue to show dynamic growth in the CEE region in 2019.

Outlook for the Group

As a market leader in Austria and the CEE region, Vienna Insurance Group with its around 25,000 employees is in an excellent position to take advantage of the opportunities available in this region and the long-term growth options they offer. VIG remains committed to its proven business strategy of profitable growth. Based on VIG's values of diversity, customer proximity and responsibility, the Group plans to use its successful management principles to consolidate and further increase its market share. This includes both organic growth and growth by acquisitions, particularly if an opportunity arises to strategically expand the existing portfolio or take advantage of economies of scale. Vienna Insurance Group has set itself a goal of increasing its market share to a minimum of 10 % in Poland, Hungary, Croatia and Serbia in the medium term. This goal was already achieved in one of these countries, Serbia, in 2016 as the result of an acquisition. VIG's acquisition of Gothaer TU raised its market share to around 9 % in Poland.

The strategic measures and initiatives set by the Agenda 2020 work programme – business model optimisation, organisation and cooperation and ensuring future viability – helped accelerate the development of the Group in 2018. The Group continues to focus on efficiency improvements and making use of synergies, and is working systematically to reduce both losses and expenses in order to improve its combined ratio. In life insurance, efforts will also be made to further promote biometric risk coverage and the regular premium business.

For 2019, VIG plans to steadily grow its Group premium volume to EUR 9.9 billion and its result before taxes (including non-controlling interests) to between EUR 500 to 520 million. Based on current conditions and the positive macroeconomic development of the region, Vienna Insurance Group aims to continuously increase premiums to more than EUR 10.2 billion by 2020 and achieve a result before taxes (including non-controlling interests) in the range of EUR 530 to 550 million. For the combined ratio, VIG expects a sustainable improvement to around 95 % by 2020.

Based on the feedback received from the investor survey in the summer of 2018, Management decided to implement a new dividend policy. The new policy is to distribute a dividend in the range of 30 to 50 % of Group net profits. The goal is to continue aligning the dividend per share to the company's earnings performance.

Outlook for VIG Holding

VIG Holding continues to focus on increasing premium volume from the cross-border corporate and international reinsurance business. As part of its management responsibility, VIG Holding is also concentrating on initiating and then coordinating projects aimed at optimisation in the areas of process organisation and earnings power.

VIG has also set itself a goal of creating the conditions necessary to stand out as a first-class employer with an international background. VIG Holding wants to challenge and develop its employees as best possible and strengthen their long-term loyalty so that it is seen as the employer of first choice for experts and young talented employees.

Vienna, 20 March 2019

The Managing Board:

Elisabeth Stadler
General Manager,
Chair of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
CFO, Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Peter Thirring
Member of the Managing Board

Separate financial statements

BALANCE SHEET AS OF 31 DECEMBER 2018

Assets	31.12.2018	31.12.2017
	in EUR	in EUR '000
A. Intangible assets	**22,241,189.28**	22,902
I. Other intangible assets	22,241,189.28	22,902
B. Investments	**6,269,807,677.08**	6,043,937
I. Land and buildings	110,817,062.80	115,330
II. Investments in affiliated companies and participations	4,848,393,514.20	4,522,588
1. Shares in affiliated companies	4,316,973,863.76	4,085,910
2. Bonds and other securities of affiliated companies and loans to affiliated companies	507,203,565.84	436,330
3. Participations	24,216,084.60	348
III. Other investments	194,551,924.19	369,725
1. Shares and other non-fixed-interest securities	119,967,088.96	291,804
2. Bonds and other fixed-interest securities	71,370,935.00	71,618
3. Mortgage receivables	2,322,000.01	2,422
4. Other loans	891,900.22	3,881
IV. Deposits on assumed reinsurance business	1,116,045,175.89	1,036,294
C. Receivables	**170,232,536.26**	175,308
I. Receivables from direct insurance business	18,037,869.49	10,125
1. from policyholders	429,573.00	469
2. from insurance intermediaries	84,657.18	3
3. from insurance companies	17,523,639.31	9,653
II. Receivables from reinsurance business	17,023,162.61	35,890
III. Other receivables	135,171,504.16	129,293
D. Pro rata interest	**7,442,286.89**	6,183
E. Other assets	**79,115,114.43**	401,711
I. Tangible assets (not incl. land and buildings)	1,095,636.37	1,116
II. Current bank balances and cash on hand	78,019,478.06	90,076
III. Other assets	0.00	310,519
F. Deferred charges	**1,437,572.97**	1,409
G. Deferred tax assets	**4,387,174.17**	3,563
Total Assets	6,554,663,551.08	6,655,013

BALANCE SHEET AS OF 31 DECEMBER 2018

Liabilities and shareholders' equity	31.12.2018	31.12.2017
	in EUR	in EUR '000
A. Shareholders' equity	**3,407,797,641.49**	3,225,520
I. Share capital		
Par value	132,887,468.20	132,887
II. Capital reserves		
Committed reserves	2,267,232,422.07	2,267,232
III. Retained earnings		
Free reserves	729,715,354.17	629,716
IV. Risk reserve	44,845,010.00	38,557
V. Net retained profits	233,117,387.05	157,128
of which brought forward	41,928,123.45	37,206
B. Subordinated liabilities	**1,100,000,000.00**	1,600,000
I. Hybrid bond	0.00	500,000
II. Supplementary capital bond	1,100,000,000.00	1,100,000
C. Underwriting provisions – retention	**1,238,290,030.12**	1,141,383
I. Unearned premiums	95,214,244.60	88,235
1. Gross	96,429,578.99	90,095
2. Reinsurers' share	-1,215,334.39	-1,860
II. Provision for outstanding claims	1,125,704,533.52	1,029,465
1. Gross	1,204,948,866.40	1,111,829
2. Reinsurers' share	-79,244,332.88	-82,364
VI. Equalisation provision	15,896,152.00	22,418
III. Other underwriting provisions	1,475,100.00	1,265
1. Gross	1,475,100.00	1,265
D. Non-underwriting provisions	**193,398,738.56**	176,237
I. Provision for severance pay	791,618.00	1,299
II. Provision for pensions	45,277,598.00	36,600
III. Tax provisions	3,500,357.14	2,186
IV. Other provisions	143,829,165.42	136,152
E. Other liabilities	**614,616,226.22**	507,334
I. Liabilities from direct insurance business	36,674,975.74	36,820
1. to policyholders	20,834,108.41	21,277
2. to insurance intermediaries	610,997.54	349
3. to insurance companies	15,229,869.79	15,194
II. Liabilities from reinsurance business	26,407,256.52	4,537
III. Liabilities to financial institutions	76,353,017.24	3,913
IV. Other liabilities	475,180,976.72	462,064
F. Deferred income	**560,914.69**	4,539
Total Liabilities and shareholders' equity	**6,554,663,551.08**	6,655,013

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

Underwriting account	2018	2017
	in EUR	in EUR '000
1. Net earned premiums	**1,121,125,247.70**	963,923
Premiums written	1,131,699,633.60	977,342
Gross	1,167,277,160.17	1,010,498
Ceded reinsurance premiums	-35,577,526.57	-33,156
Change in unearned premiums	-10,574,385.90	-13,419
Gross	-9,975,667.03	-13,352
Reinsurers' share	-598,718.87	-67
2. Investment income from underwriting business	**13,024,061.53**	9,347
3. Other underwriting income	**33,787.56**	203
4. Expenses for claims and insurance benefits	**-762,737,438.41**	-628,648
Payments for claims and insurance benefits	-637,446,361.75	-579,337
Gross	-665,954,136.96	-621,337
Reinsurers' share	28,507,775.21	42,000
Change in provision for outstanding claims	-125,291,076.66	-49,311
Gross	-122,896,365.66	-58,256
Reinsurers' share	-2,394,711.00	8,945
5. Increase in underwriting provisions	**-209,875.00**	-456
Other underwriting provisions	-209,875.00	-456
Gross	-209,875.00	-456
6. Administrative expenses	**-346,699,680.03**	-310,713
Acquisition expenses	-347,288,604.06	-311,848
Other administrative expenses	-927,068.57	-726
Reinsurance commissions and profit commissions from reinsurance cessions	1,515,992.60	1,861
7. Other underwriting expenses	**-1,687,110.79**	-282
8. Change in the equalisation provision	**6,522,229.00**	-14,125
Underwriting result	29,371,221.56	19,249

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

	2018	2017
	in EUR	in EUR '000
Underwriting result	29,371,221.56	19,249
Non-underwriting account:		
1. Income from investments and interest income	487,747,693.95	476,494
Income from participations	297,229,293.55	285,585
Income from land and buildings	13,419,867.86	13,618
Income from other investments	28,614,017.95	30,039
Income from appreciations	129,648,634.93	119,575
Income from the disposal of investments	5,782,689.91	368
Other investment and interest income	13,053,189.75	27,309
2. Expenses for investments and interest expenses	-324,930,492.46	-354,956
Expenses for asset management	-86,076,334.61	-143,881
Depreciation of investments	-136,987,383.45	-120,040
Interest expenses	-80,512,602.19	-84,110
Losses from the disposal of investments	-535,094.79	-3,577
Other investment expenses	-20,819,077.42	-3,348
3. Investment income transferred to the underwriting account	-13,024,061.53	-9,347
4. Other non-underwriting income	14,197,096.76	10,334
5. Other non-underwriting expenses	-5,113,038.52	-25,400
6. Result from ordinary activities	188,248,419.76	116,374
7. Taxes on income	18,524,753.23	8,079
8. Increase of net assets through absorption due to upstream de-merger	90,704,173.61	0
9. Profit for the period	297,477,346.60	124,453
10. Transfer to reserves	-106,288,083.00	-4,531
Transfer to free reserves	-100,000,000.00	0
Transfer to risk reserve	-6,288,083.00	-4,531
11. Profit for the year	191,189,263.60	119,922
12. Retained profits brought forward	41,928,123.45	37,206
Net retained profits	233,117,387.05	157,128

NOTES TO THE 2018 ANNUAL FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements as of 31 December 2018 were prepared in accordance with the accounting provisions of the Austrian Commercial Code (UGB) and the special provisions of the Austrian Insurance Supervision Act (VAG), as amended, and in **accordance with Austrian generally accepted accounting principles** and the general standard of presenting a true and fair view of the net assets, financial position and results of operations of the Company. Measurement was performed assuming the Company would continue as a going concern.

The measurement methods that were previously used were also used in financial year 2018.

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 parentheses.

Intangible assets were reported at cost less amortisation based on a useful life of three to ten years.

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

Equities and other non-fixed interest **securities** and **shares in affiliated companies** are valued according to the strict lower-of-cost-or-market principle (*strenges Niederstwertprinzip*).

Bonds, other fixed-income securities and **participations** are valued using the less strict lower-of-cost-or-market principle (gemildertes Niederstwertprinzip) provided for in § 149(1) VAG.

Valuation using the less strict lower-of-cost-or-market principle resulted in write-downs of EUR 1,116,000 (EUR 35,000) not being performed.

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

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

As a rule, investments are generally low-risk. The strategic investment committee decides on potential high-risk investments based on the inherent risk of each individual investment after performing a full analysis of all related risks and liquidity at risk, and considering all assets currently in the portfolio and the effects of the individual investments on the overall risk position. All known financial risks are assessed regularly and specific limits or reserves are used to limit exposure. Security price risk is reviewed periodically using value-at-risk and stress tests. Default risk is measured using both internal and external rating systems.

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

Six forward exchange transactions in the CZK and PLN currencies with terms limited to 23 May 2019 existed as of the 31 December 2018 balance sheet date. The transactions are being used to hedge future dividends in foreign currency. Since the market value of the forward exchange transactions in the currency CZK was negative as of the reporting date, a provision for expected losses was formed in the amount of EUR 451,000 (EUR 0).

The forward exchange transactions in the currency PLN had a positive market value of EUR 3,000 as of the reporting date, a provision for expected losses was formed in the previous year in the amount of EUR 122,000.

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

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

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

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

In the **other assets** balance sheet item, the hybrid capital bond was called effective 12 September 2018 for early repayment at its redemption amount of 100 % of nominal value plus all accrued interest up to (but not including) the repayment date.

Unearned premiums were essentially calculated by prorating over time after applying a deduction for expenses (15 %) of EUR 1,227,000 (EUR 1,250,000).

The **provision for outstanding claims** for direct business is calculated for claims reported by the balance sheet date by individually assessing claims that have not yet been settled and adding lump-sum safety margins for large unexpected losses. Lump-sum provisions based on past experience are formed for claims incurred but not reported. Recourse claims of EUR 8,250,000 (EUR 9,471,000) were included.

In **indirect business**, provisions for outstanding claims are primarily based on reports from ceding companies as of the 31 December 2018 balance sheet date. The reported amounts were increased where this was considered necessary in light of past experience.

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

The equalisation provision is calculated in accordance with the directive of the Austrian Federal Minister of Finance, BGBl. (Federal Gazette) No. 315/2015.

The **provisions for severance pay, pensions, and anniversary bonuses** are based on the pension insurance calculation principles of the Actuarial Association of Austria (AVÖ), AVÖ 2018-P (Employees), assuming a wage growth rate of 2.00 % (2.00 %) and a discount rate of 1.66 % (2.09 %) p.a. for the severance provision, 2.42 % (2.88 %) for the pension provision and 1.85 % (2.34 %) for the anniversary bonus provision. The discount rate used was based on the 7-year average interest rate as published by the German Bundesbank. The severance pay, pension and anniversary bonus obligations were valued using the projected unit credit method. The retirement age used to calculate the provisions for anniversary bonuses and severance pay is the statutory minimum retirement age as stipulated in the Austrian General Social Security Act (ASVG) (2004 reform), subject to a maximum age of 62 years. The retirement age used to calculate the provision for pensions is based on each individual agreement, or the statutory minimum retirement age as stipulated in the Austrian General Social Security Act (ASVG) (2004 reform). The following percentages were used for employee turnover based on age: <31 4.0 %, 31–35 2.0 %, 36–40 2.0 %, 41–50 1.5 %, 51–55 0.5 % and 56–65 0 %. The severance entitlement used to calculate the provision for severance obligations is based on each individual agreement or on the collective agreement. The following percentages were used for employee turnover based on age: <30 5.5 %, 30–39 2.0 %, 40–50 1.5 %, 51–59 1.0 % and 60–65 0.5 %.

The difference of EUR 2,388,000 due to the changeover in calculation principles was covered in full in financial year 2018.

EUR 3,136,000 (EUR 2,622,000) in provisions have been formed for direct pension obligations. A portion of the direct benefits equal to EUR 244,000 (EUR 241,000) will be administered as an occupational group insurance plan after an insurance contract has been concluded in accordance with §§ 93-98 VAG, so that the provision will equal the overall obligation less the outsourced plan assets.

The severance pay provision required under Austrian commercial law for 2018 was EUR 2,418,000 (EUR 4,124,000). The amount earmarked for satisfying the outsourced severance pay obligations that was held by the outside insurance company was EUR 1,627,000 (EUR 2,825,000).

The difference of EUR 792,000 (EUR 1,299,000) between the size of the severance pay provisions to be formed under Austrian commercial law and the deposit held by the outside insurance company is reported under provisions for severance pay in the balance sheet.

II. NOTES TO THE BALANCE SHEET

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

in EUR '000	Intangible assets	Land and buildings	Shares in affiliated companies	Bonds and other securities of affiliated companies and loans to affiliated companies	Participations
As of 31 December 2017	22,902	115,330	4,085,910	436,330	348
Additions	4,637	8,900	284,859	91,524	23,868
Disposals	0	8,731	68,577	500	0
Appreciation	0	0	126,932	0	0
Depreciation	5,298	4,682	112,150	20,150	0
As of 31 December 2018	22,241	110,817	4,316,974	507,204	24,216

The following companies were merged in financial year 2018: POLISA-ZYCIE TU S.A. VIG into Compensa TU na Zycie SA VIG; Poist'ovna Slovenskej sporitel'ne a.s. VIG into KOOPERATIVA poist'ovna a.s. VIG; Pojist'ovna Ceske sporitelny, a.s. VIG into Kooperativa pojist'ovna a.s. VIG; COMPENSA Hldg. GmbH into LVP Holding GmbH; Erste osiguranje VIG d.d. into Wiener Osiguranje VIG d.d. za osiguranje and Vienna Life VIG Biztosito Zrt., and Erste VIG Biztosito Zrt. into UNION VIG Biztosito Zrt. The book values of the absorbed companies were transferred to the book values of the absorbing companies.

Wiener Städtische Versicherung AG Vienna Insurance Group spun off a 70.26 % interest in DONAU Versicherung AG Vienna Insurance Group to VIG Holding in financial year 2018. This led to an addition of EUR 159,281,000 and an offsetting disposal of EUR 68,577,000. Under Austrian commercial law, the resulting profit of EUR 90,704,000 must be reported as a one-time item before calculating the profit for the period.

The additions to "participations" are due to a reclassification of the shares in CEESEG Aktiengesellschaft, which were previously reported under securities.

Intangible assets with a value of EUR 2,826,000 (EUR 188,000) were acquired from affiliated companies during the financial year.

The value of **developed and undeveloped properties** was EUR 29,895,000 (EUR 36,464,000) as of 31 December 2018. The **carrying amount of self-used property** was EUR 19,897,000 (EUR 19,966,000).

The investments have the following carrying amounts and fair values:

Items under § 144 Abs. 2 VAG	Book value	Fair value	Book value	Fair value
in EUR '000	2018	2018	2017	2017
Land and buildings	110,817	495,575	115,330	481,095
thereof appraisal reports 2015	0	0	10,872	95,750
thereof appraisal reports 2016	46,464	231,255	42,984	258,595
thereof appraisal reports 2017	50,871	116,970	61,474	126,750
thereof appraisal reports 2018	13,482	147,350	0	0
Shares in affiliated companies	4,316,974	9,477,956	4,085,910	9,233,351
Bonds and other securities of affiliated companies and loans to affiliated companies	507,204	583,316	436,330	478,575
Participations	24,216	28,247	348	348
Shares and other non-fixed-interest securities	119,967	119,967	291,804	303,915
Bonds and other fixed-interest securities	71,371	76,576	71,618	77,959
Mortgage receivables	2,322	2,956	2,422	3,155
Other loans	892	855	3,881	3,762
Deposits receivables	1,116,045	1,116,045	1,036,294	1,036,294
Total	6,269,808	11,901,493	6,043,937	11,618,454

Hidden reserves rose by EUR 57,168,000 to a total of EUR 5,631,685,000 (EUR 5,574,517,000).

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

The fair values of **shares in affiliated companies** and shares in companies in which a participation is held correspond to available market values. If no such value exists, the purchase price is used as the fair value, if necessary reduced by any write-downs, or a proportionate share of the publicly reported equity capital, whichever is greater.

To test for impairment, the individual book values are first compared with the fair value or a proportionate share of the equity capital of the affiliated company. The fair values for shares in domestic affiliated insurance companies are based on external appraisal reports obtained before 2018.

Internal valuations are performed for shares in foreign affiliated insurance companies.

Stock exchange values were used for the fair value of **shares and other non-fixed interest securities**, and of **bonds and other fixed interest securities** (including those from affiliated companies), or in the case of structured securities, fair values were determined using the purchased LPA software.

The remaining investments were valued at their nominal values, reduced by write-downs where necessary.

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

The **other loans** not secured by insurance contracts are loans of EUR 885,000 (EUR 871,000) to the Republic of Austria and loans of EUR 7,000 (EUR 3,010,000) to other borrowers. The other loans do not include any loans (EUR 3,000,000) with remaining terms of up to one year.

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

Name	2018	2017
in EUR '000		
Hybrid bond 2008	0	500,000
Supplementary capital bond 2013 - 2043	500,000	500,000
Supplementary capital bond 2015 - 2046	400,000	400,000
Supplementary capital bond 2017 - 2047	200,000	200,000
Total	1,100,000	1,600,000

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

	Affiliated companies		Companies in which an ownership interest is held	
in EUR '000	2018	2017	2018	2017
Mortgage receivables	2,322	2,422	0	0
Deposits receivables	1,116,045	1,036,294	0	0
Receivables from direct insurance business	16,142	7,796	0	0
Receivables from reinsurance business	7,607	20,290	0	0
Other receivables	124,703	120,323	0	0
Liabilities from direct insurance business	620	201	0	0
Liabilities from reinsurance business	23,192	2,952	0	0
Other liabilities	436,727	429,831	0	0

The change in the **personnel provision** was recognised in personnel expenses. The interest expenses for personnel provisions of EUR 5,043,000 (EUR 5,184,000) are reported under investment and interest expenses.

The **other provisions** of EUR 143,829,000 (EUR 136,152,000) mainly consist of IT provisions of EUR 120,503,000 (EUR 125,788,000), provisions for unused vacation time of EUR 1,773,000 (EUR 1,897,000), provisions for customer support and marketing of EUR 822,000 (EUR 720,000) and provisions for anniversary bonuses of EUR 813,000 (EUR 634,000).

The amount shown under **other liabilities** includes EUR 1,052,000 (EUR 6,000) in tax liabilities and EUR 391,000 (EUR 338,000) in social security liabilities.

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

Liabilities arising from the use of off-balance sheet tangible assets were EUR 1,908,000 (EUR 2,201,000) for the following financial year and EUR 10,129,000 (EUR 11,687,000) for the following five years.

III. NOTES TO THE INCOME STATEMENT

Premiums written, net earned premiums, expenses for insurance claims and benefits, administrative expenses and reinsurance balance had the following breakdown for property and casualty insurance in 2018:

Gross	Premiums written	Net earned premiums	Expenses for claims and insurance benefits	Administrative expenses	Reinsurance balance
in EUR '000					
Direct business					
Fire and fire business interruption insurance	70,482	69,522	45,273	10,307	-8,030
Liability insurance	1,379	1,409	-555	209	-1,361
Marine, aviation and transport insurance	982	988	1,039	296	-29
Other non-life insurance	12,210	13,266	15,332	1,587	3,028
Total direct business	85,053	85,185	61,089	12,399	-6,392
(Previous year values)	84,112	84,517	81,423	11,471	12,318
Indirect business					
Marine, aviation and transport insurance	198	198	211	52	65
Other insurance	1,082,026	1,071,918	727,551	335,765	-2,220
Total indirect business	1,082,224	1,072,116	727,762	335,817	-2,155
(Previous year values)	926,386	912,629	598,170	301,103	7,265
Total direct and indirect business	1,167,277	1,157,301	788,851	348,216	-8,547
(Previous year values)	1,010,498	997,146	679,593	312,574	19,583

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

The run-off result for property and casualty insurance was EUR 18,848,000 (EUR 19,126,000) for financial year 2018.

The result from **indirect business** was EUR 21,561,000 (EUR 22,703,000). The net earned premiums of EUR 1,072,116,000 (EUR 912,629,000) from indirect business were included immediately in the income statement.

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

	2018	2017
in EUR '000		
Income from participations	296,913	285,319
Income from other investments	21,230	19,286
Income from land and buildings	1,107	1,204

The funds in the portfolio distributed EUR 3,761,000 (EUR 6,530,000) during the financial year.

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

Losses on disposals of investments were EUR 535,000 (EUR 3,577,000) in financial year 2018.

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

in EUR '000	2018	2017
Wages and salaries	23,678	20,566
Expenses for severance benefits and payments to company pension plans	-35	-217
Expenses for retirement provisions	3,430	451
Expenses for statutory social contributions and income-related contribution and mandatory contributions	4,365	4,140
Other social security expenses	219	229

Commissions of EUR 9,582,000 (EUR 9,273,000) were incurred for direct business in financial year 2018.

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

Deferred profit taxes of EUR 4,387,000 (EUR 3,563,000) were recognised due to temporary differences between earnings under commercial law and taxable earnings. A tax rate of 22.5 % was chosen for deferred taxes based on the provisions of the tax allocation agreement with the parent company.

Deferred taxes

in EUR '000	31.12.2018	31.12.2017
Shares in affiliated companies	64,524	15,894
Investments	-4,510	-2,387
Tangible assets (not incl. land and buildings) and inventories	19	15
Valuation reserve	-21,662	-25,325
Subordinated liabilities	4,887	5,080
Underwriting provision – retention	75,785	73,230
Long-term personnel provisions	27,581	21,838
Other provisions	101,775	101,336
Temporary differences	248,399	189,681
Not subject to tax	-228,900	-173,842
Total differences	19,499	15,839
Resulting deferred taxes as at 31 December (22.5 %)	4,387	3,563

Deferred taxes changed as follows:		
As of 1 January	3,563	3,380
Changes recognised in the income statement	824	183
As of 31 December	4,387	3,563

IV. SIGNIFICANT PARTICIPATIONS

Company	Direct interest in capital (%)	Equity capital (EUR '000)	Share of Capital (EUR '000)	Result of the year (EUR '000)	Share of profit for the year (EUR '000)	Last annual financial statements
Affiliated companies						
ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest	86.47	61,517	53,194	-39,920	-34,519	2018
ATBIH GmbH, Vienna	68.97	152,496	105,176	-2,350	-1,621	2018
BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest	93.97	41,761	39,243	-6,536	-6,142	2018
BTA Baltic Insurance Company AAS, Riga	90.83	51,196	46,501	8,192	7,441	2018
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chisinau	99.99	4,556	4,556	-111	-111	2018
Compensa Life Vienna Insurance Group SE, Tallinn	100.00	34,479	34,479	3,533	3,533	2018
Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw	84.14	61,848	52,039	3,224	2,713	2018
Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	70.67	102,112	72,163	15,866	11,213	2018
Compensa Vienna Insurance Group, akcine draudimo bendrove, Vilnius	100.00	27,060	27,060	-1,811	-1,811	2018
DONAU Versicherung AG Vienna Insurance Group, Vienna	74.24	91,072	67,612	418	310	2018
ELVP Beteiligungen GmbH, Vienna	100.00	23,315	23,315	-2	-2	2018
Foreign limited liability company "InterInvestUchastie", Minsk	99.95	258	258	31	31	2017
GLOBAL ASSISTANCE SERVICES SRL, Bucharest	40.00	72	29	-3	-1	2017
GLOBAL ASSISTANCE SERVICES s.r.o., Prague	100.00	192	192	-46	-46	2017
GLOBAL ASSISTANCE SLOVAKIA s.r.o., Bratislava	40.00	30	12	1	1	2017
GLOBAL ASSISTANCE, a.s., Prague	60.00	4,567	2,740	2,041	1,225	2018
Global Assistance Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	40.00	neu	neu	neu	neu	n.a.
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia	14.20	41,639	5,913	5,319	755	2018
INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana	89.98	4,873	4,385	590	531	2018
Insurance Company Vienna osiguranje d.d., Vienna Insurance Group, Sarajewo	100.00	8,550	8,550	860	860	2018
Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group, Skopje	94.26	25,776	24,296	1,582	1,491	2018
InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	100.00	90,334	90,334	11,973	11,973	2018
InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden	100.00	51,370	51,370	14,400	14,400	2018
Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group Skopje, Skopje	100.00	3,768	3,768	23	23	2017
KOMUNALNA poistovna, a.s. Vienna Insurance Group, Bratislava	18.86	41,844	7,892	-1,946	-367	2018

Company	Direct interest in capital (%)	Equity capital (EUR '000)	Share of Capital (EUR '000)	Result of the year (EUR '000)	Share of profit for the year (EUR '000)	Last annual financial statements
Affiliated companies						
KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group, Bratislava	94.37	329,936	311,361	36,114	34,081	2018
KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company, Minsk	52.34	6,580	3,444	1,324	693	2017
Kooperativa, pojist'ovna, a.s. Vienna Insurance Group, Prague	95.84	1,208,917	1,158,626	108,729	104,206	2018
LVP Holding GmbH, Vienna	100.00	635,223	635,223	-9,596	-9,596	2018
OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest	99.50	145,853	145,124	-5,228	-5,202	2018
Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev	9.19	9,723	894	1,076	99	2018
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev	90.56	4,750	4,302	-1,598	-1,447	2018
Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev	97.80	1,674	1,637	138	135	2018
RISK CONSULT Sicherheits- und Risiko-Managementberatung Gesellschaft m.b.H., Vienna	41.00	791	324	520	213	2017
Ray Sigorta Anonim Sirketi, Istanbul	12.67	37,737	4,781	5,000	634	2018
SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A., Tirana	89.05	13,240	11,790	982	874	2018
Seesam Insurance AS, Tallinn	100.00	50,646	50,646	3,669	3,669	2018
TBI BULGARIA EAD in Liquidation, Sofia	100.00	40,528	40,528	-60	-60	2018
UNION Vienna Insurance Group Biztosító Zrt., Budapest	98.64	53,600	52,871	5,177	5,107	2018
VIG Asset Management, a.s., Prague	100.00	489	489	-12	-12	2017
VIG Properties Bulgaria AD, Sofia	99.97	3,883	3,882	9	9	2018
VIG RE zajist'ovna, a.s., Prague	70.00	168,887	118,221	20,812	14,568	2018
VIG Real Estate GmbH, Vienna	90.00	109,810	98,829	5	5	2018
VIG Services Ukraine, LLC, Kiev	21.27	142	30	-182	-39	2018
Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	51.05	6,532	3,335	8	4	2017
Vienna International Underwriters GmbH, Vienna	100.00	268	268	39	39	2017
Vienna Life Towarzystwo Ubezpieczen na Zycie S.A. Vienna Insurance Group, Warsaw	100.00	750	750	-2,009	-2,009	2018
Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern	100.00	11,609	11,609	-832	-832	2018
WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje Beograd, Belgrad	100.00	50,746	50,746	5,692	5,692	2018
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	90.82	501,900	455,826	-506,416	-459,927	2018
Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje	100.00	6,300	6,300	723	723	2018
Wiener Osiguranje Vienna Insurance Group ad, Banja Luka	100.00	8,871	8,871	-206	-206	2018
Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group, Podgorica	100.00	4,237	4,237	157	157	2017
Wiener osiguranje Vienna Insurance Group dionicko drustvo za osiguranje, Zagreb	97.82	92,621	90,602	5,655	5,532	2018
twinformatics GmbH, Vienna	20.00	1,564	313	11	2	2018

Company	Direct interest in capital (%)	Equity capital (EUR '000)	Share of Capital (EUR '000)	Result of the year (EUR '000)	Share of profit for the year (EUR '000)	Last financial statements
Participations						
CEESEG Aktiengesellschaft, Vienna	8.50	372,627	31,673	29,319	2,492	2017
Erste Asset Management GmbH, Vienna	0.76	90,119	685	24,809	189	2017

V. OTHER DISCLOSURES

The Company has total share capital of EUR 132,887,468.20. It is divided into 128,000,000 no-par value bearer shares with voting rights, each share representing an equal portion of share capital. The number of shares issued remains unchanged since the previous financial year.

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

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

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

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

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

The Managing Board is authorised to increase the Company's share capital by a nominal amount of EUR 66,443,734.10 by issuing 64,000,000 no-par value bearer or registered shares in one or more tranches on or before 11 May 2022 against cash or in-kind contributions. The terms of the shares, the exclusion of shareholder pre-emption rights, and other terms and conditions of the share issue are decided by the Managing Board, subject to Supervisory Board approval. Preferred shares without voting rights may also be issued, with rights equivalent to those of existing preferred shares. The issue prices of common and preferred shares may differ.

The general meeting of 12 May 2017 authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer convertible bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 11 May 2022, with or without exclusion of shareholder pre-emptive rights, and to grant the holders of convertible bonds conversion rights for up to 30,000,000 no-par value bearer shares with voting rights in accordance with the convertible bond terms set by the Managing Board. The share capital has consequently been raised in accordance with § 159(2) no. 1 of the Austrian Stock Corporation Act (AktG) by a contingent capital increase of up to EUR 31,145,500.36, through the issue of up to 30,000,000 no-par value bearer shares with voting rights. The contingent capital increase will only be implemented to the extent that holders of convertible bonds issued on the basis of the general meeting resolution of 12 May 2017 exercise the subscription or exchange rights they were granted.

The Managing Board has not adopted any resolutions to date concerning the issuance of convertible bonds based on the authorisation granted on 12 May 2017.

The general meeting of 12 May 2017 further authorised the Managing Board to issue, subject to Supervisory Board approval, one or more tranches of bearer income bonds with a total nominal value of up to EUR 2,000,000,000.00 on or before 11 May 2022, with or without exclusion of shareholder pre-emptive rights. The Managing Board has not adopted any resolutions to date regarding the issuance of income bonds based on this authorisation.

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

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

The Managing Board may choose to make the purchase on the stock exchange, through a public offer or in any other legally permissible and expedient manner. The General Meeting of 12 May 2017 also authorised the Managing Board to use own shares

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

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

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

The Managing Board has not made use of this authorisation to date. The Company held no own shares as of 31 December 2018.

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

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

On 9 October 2013 the Company issued a subordinated bond with a nominal value of EUR 500,000,000.00 and a maturity of 30 years. The Company can call the bond in full for the first time on 9 October 2023 and on each following coupon date.

The subordinated bond bears interest at a fixed rate of 5.5 % p.a. during the first ten years of its term and variable interest after that. The subordinate bond satisfies the tier 2 requirements of Solvency II. The bonds are traded on the Vienna Stock Exchange.

On 2 March 2015 the Company issued a subordinated bond with a nominal value of EUR 400,000,000.00 and a maturity of 31 years. The Company can call the bond in full for the first time on 2 March 2026 and on each following coupon date.

The subordinated bond bears interest at a fixed rate of 3.75 % p.a. during the first eleven years of its term and variable interest after that. The subordinate bond satisfies the tier 2 requirements of Solvency II. The bond is listed on the Luxembourg Stock Exchange.

A EUR 200,000,000.00 subordinated bond with a term of 30 years was privately placed with international institutional investors on 6 April 2017. The subordinated bond can be called for the first time after 10 years by VIG and satisfies the tier 2 requirements of Solvency II. Inclusion for trading in the Third Market of the Vienna Stock Exchange will take place on 13 April 2017. The interest rate is 3.75 % p.a. until 13 April 2027, after which the bond pays variable interest.

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe called the hybrid capital bond with ISIN AT0000A09SA8 effective 12 September 2018 for early repayment at its redemption amount of 100 % of nominal value plus all accrued interest up to (but not including) the repayment date.

All approvals were granted by the Austrian Financial Market Authority.

Erste Group Bank AG, Am Belvedere 1, 1100 Vienna, acted as the paying agent.

The Supervisory Board had the following members in financial year 2018:

Chair:
Günter Geyer

1st Deputy Chair:
Rudolf Ertl

2nd Deputy Chair:
Maria Kubitschek

Members:
Bernhard Backovsky
Martina Dobringer
Gerhard Fabisch
Heinz Öhler
Georg Riedl
Gabriele Semmelrock-Werzer
Gertrude Tumpel-Gugerell

THE MANAGING BOARD HAS THE FOLLOWING MEMBERS:

Chair:
Elisabeth Stadler

Members:
Franz Fuchs
Judit Havasi
Liane Hirner (since 1 February 2018)
(CFO since 1 July 2018)
Peter Höfinger
Martin Simhandl (until 30 June 2018)
Peter Thirring (since 1 July 2018)

Substitute members of the Managing Board:
Gábor Lehel
Gerhard Lahner (since 1 January 2019)

The average number of employees was 251 (231). These employees were employed in the insurance business and resulted in personnel expenses of EUR 31,657,000 (EUR 25,170,000).

There were no loans outstanding to members of the Managing Board or members of the Supervisory Board as of 31 December 2018 (EUR 0).

No guarantees were outstanding for members of the Managing Board or Supervisory Board as of 31 December 2018.

In 2018, the total expenses for severance pay and pensions of EUR 3,395,000 (EUR 234,000) included severance pay and pension expenses of EUR 2,380,000 (EUR 1,046,000) for members of the Managing Board and senior management in accordance with § 80(1) of the Austrian Stock Corporation Act (AktG).

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

The members of the Managing Board received EUR 5,031,000 (EUR 4,511,000) from the Company during the reporting period for their services. Members of the Managing Board are provided a company car for both business and personal use.

The members of the Managing Board received EUR 278,000 (EUR 115,000) from affiliated companies for their operational services for the Company, or as a manager or employee of an affiliated company.

Former members of the Managing Board received EUR 1,650,000 (EUR 719,000). Former members of the Managing Board received EUR 1,005,000 (EUR 659,000) from affiliated companies for their services to the Company, or as a manager or employee of an affiliated company during the reporting period; this compensation was paid in full by affiliated companies.

The **members of the Supervisory Board** received EUR 461,000 (EUR 494,000) in remuneration for their services to the Company in 2018.

The Company is a group member within the meaning of § 9 of the Austrian Corporate Income Tax Act (KStG) of the Wiener Städtische Versicherungsverein, Vienna, group of companies.

The taxable earnings of group members are attributed to the parent company.

The parent company has entered into agreements with each group member governing the allocation of positive and negative tax amounts for the purpose of allocating corporate income tax charges according to origin.

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

A receivable of EUR 100,963,000 (EUR 81,211,000) is owed by the parent company.

VI. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Vienna Insurance Group completes acquisition of Gothaer TU in Poland

Vienna Insurance Group (VIG) acquires 100 percent of the shares of Gothaer Towarzystwo Ubezpieczeń (Gothaer TU). The transaction was closed on 28th February 2019 following approval by the local authorities. The company generated a solid premium volume of around EUR 170 million in 2018.

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

PROPOSED APPROPRIATION OF PROFITS

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG Holding) ended financial year 2018 with net retained profits of EUR 233,117,387.05. The following appropriation of profits will be proposed in the Annual General Meeting:

The 128 million shares will receive a dividend of EUR 1.00 per share. The payment date for this dividend will be 29 May 2019, the record date 28 May 2019, and the ex-dividend date 27 May 2019.

A total of EUR 128,000,000.00 will therefore be distributed. The net retained profits of EUR 105,117,387.05 remaining for financial year 2018 after distribution of the dividend is to be carried forward.

Vienna, 20 March 2019

The Managing Board:

Elisabeth Stadler
General Manager,
Chair of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
CFO, Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Peter Thirring
Member of the Managing Board

AUDITOR'S REPORT

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Audit opinion
We have audited the financial statements of

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe,Vienna, Austria,
which comprise the Balance Sheet as of 31 December 2018, the Income Statement for the year then ended, and the Notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance for the year then ended, in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements for insurance companies.

Basis for our Opinion
We conducted our audit in accordance with Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements.

These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

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

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

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

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

Our Response
In cooperation with our valuation experts, we have assessed the appropriateness of key assumptions, of discretionary decisions and of the valuation method applied for investments in affiliated insurance companies. We have reconciled the expected future cash flows used in the calculation with the strategic business planning approved by the management.

We have reconciled the assumptions regarding the market development with general and sector-specific market expectations. We have analyzed the consistency of planning data using information from prior periods.

Given that minor changes in the applied costs of capital rate significantly impact the determined fair value, we have compared the parameters used for derivation of the applied costs of capital with those used by a group of comparable companies (Peer-Group).

Responsibilities of Management and the Audit Committee for the Financial Statements

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

Management is also responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities

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

Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Moreover:

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

– We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

– We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

REPORT ON OTHER LEGAL REQUIREMENTS

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

Management is responsible for the preparation of the management report in accordance with Austrian company law and other legal or regulatory requirements for insurance companies.

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

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

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

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

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

Additional Information in accordance with Article 10 EU Regulation
At the Annual General Meeting dated 12 May 2017, we were elected as auditors. We were appointed by the supervisory board on 22 May 2017.

We have been the Company's auditors from the year ended 31 December 2013 without interruption.

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

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

Engagement Partner
The engagement partner is Mr Michael Schlenk.

Vienna, 20 March 2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Michael Schlenk
Austrian Chartered Accountant

DECLARATION BY THE MANAGING BOARD

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

Vienna, 20 March 2019

The Managing Board:

Elisabeth Stadler
General Manager,
Chairwoman of the Managing Board

Franz Fuchs
Member of the Managing Board

Judit Havasi
Member of the Managing Board

Liane Hirner
CFO, Member of the Managing Board

Peter Höfinger
Member of the Managing Board

Peter Thirring
Member of the Managing Board

SUPERVISORY BOARD REPORT

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

In accordance with the Solvency II requirements, starting in 2016 non-financial aspects must be part of the performance expectations for variable remuneration of members of the Managing Board. VIG is committed to social responsibility and the importance of having employees drive forward performance, innovation and expertise. Goal fulfilment for Managing Board members also depended on both financial and non-financial criteria in financial year 2018.

The Supervisory Board has formed five committees from its members. Information on the responsibilities and composition of these committees is available on the Company's website and in the 2018 consolidated corporate governance report.

One regular general meeting and four Supervisory Board meetings distributed across the financial year were held in 2018. Four meetings of the Audit Committee (Accounts Committee) were also held.

The financial statement and consolidated financial statement auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, company number FN 269873y (KPMG), attended three Audit Committee meetings and the Supervisory Board meeting in 2018 that dealt with the audit of the 2017 annual financial statements and 2017 consolidated financial statements and formal approval of the 2017 annual financial statements, and also attended the Annual General Meeting. The financial statement auditor and consolidated financial statement auditor also informed the Audit Committee about the planning and procedure used to audit the financial statements and consolidated financial statements. The Committee for Urgent Matters (Working Committee) was contacted once in writing in 2018. Two meetings of the Committee for Managing Board Matters (Human Resources Committee) were held in 2018. The Nomination Committee and Strategy Committee did not meet in 2018. Strategic matters were handled by the Supervisory Board as a whole.

The 2018 consolidated corporate governance report presents detailed information on the principles underlying the remuneration system, and we refer to this information in the 2018 consolidated corporate governance report.

No agenda items were discussed in Supervisory Board meetings in 2018 without the participation of members of the Managing Board.

No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings. In order to ensure the effectiveness and efficiency of its activities and procedures, the Supervisory Board performed a self-evaluation of its procedures. The Supervisory Board's evaluation of its activities found that its organisational structure and procedures were satisfactory in terms of efficiency and in compliance with the law. It found no need for change or desire for change in the practices followed to date.

Acting upon the proposal and motion of the Supervisory Board, the general meeting selected KPMG on 12 May 2017 to be the financial statements auditor and consolidated financial statements auditor for financial year 2018, and KPMG consequently performed these duties in financial year 2018.

The Supervisory Board Audit Committee mainly dealt with the following topics in 2018: During one meeting of the Audit Committee, the members of the committee consulted with the (consolidated) financial statements auditor on specification of two-way communications. By inspecting relevant documents, meeting with the Managing Board and discussions with the (consolidated) financial statements auditor, the Audit Committee was able to monitor the accounting process and the procedure used for auditing the financial statements and consolidated financial statements, and found no reasons for objection or any need to make recommendations to ensure reliability of the accounting process.

The Supervisory Board Audit Committee also reviewed and monitored independence of the auditor of the financial statements and consolidated financial statements, and after reviewing suitable documents and supporting records submitted to the Committee, particularly with respect to the appropriateness of the fee and the additional services provided to the Company, was satisfied of the auditor's independence status.

The Audit Committee also dealt with permitted non-audit services.

The Audit Committee also monitored the effectiveness of the internal control system, internal audit and the risk management system by obtaining descriptions of the processes and organisation of these systems from the Managing Board, the (consolidated) financial statements auditor and the individuals directly responsible for these areas.

The Audit Committee reported on these monitoring activities to the Supervisory Board and stated that no deficiencies had been identified.

The Supervisory Board was also given the opportunity during Supervisory Board meetings to verify the functional adequacy of the existing control and auditing systems. In addition, the audit plan and the quarterly reports prepared by the internal audit department were debated by the Audit Committee and the Supervisory Board and discussed with the head of the internal audit department and the Group internal audit department. The Supervisory Board found no grounds for objection.

The Audit Committee examined the Company's Solvency and Financial Condition Report (SFCR) and reported its findings to the Supervisory Board.

The Supervisory Board found no grounds for objection.

The Audit Committee also dealt with the selection of the financial statement and consolidated financial statement auditor for financial year 2019.

It was determined that there were no grounds for exclusion of KPMG or circumstances that would give rise to concerns about impartiality, and that sufficient protective measures had been taken to ensure an independent and impartial audit.

The Audit Committee reported to the Supervisory Board on the 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. The General Meeting selected KPMG as auditor of the financial statements and consolidated financial statements for 2019.

The Audit Committee also received the 2018 annual financial statements, management report, 2018 consolidated corporate governance report and 2018 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined them.

The Managing Board's proposal for appropriation of profits was also reviewed with respect to capital adequacy and its effects on the solvency and financial position of the Company during the course of this examination.

The Supervisory Board Audit Committee also carefully examined the 2018 consolidated financial statements and Group management report.

In addition, the auditor's reports prepared by (consolidated) financial statements auditor KPMG for the 2018 annual financial statements and management report and the 2018 consolidated financial statements and Group management report were reviewed by the Audit Committee and debated and discussed with KPMG. As a result of this examination and discussion, a unanimous resolution was adopted to recommend to the Supervisory Board that they be accepted without qualification. The Supervisory Board found no reasons for objection.

The (consolidated) financial statements auditor provided the Audit Committee with an additional report in accordance with Art. 11 of the EU Audit Regulation on specific requirements regarding statutory audit of public-interest entities that explained the results of the financial statements audit and consolidated financial statements audit. This report prepared by the financial statement auditor was also provided to the Supervisory Board.

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

The 2018 annual financial statements together with the management report and 2018 consolidated corporate governance report, the 2018 consolidated financial statements together with the Group management report, and the Managing Board's proposal for appropriation of profits were subsequently taken up, thoroughly discussed and examined by the Supervisory Board. The appropriation of profits proposal was checked, in particular, to ensure that it was reasonable when capital requirements were taken into account.

The Supervisory Board also received the 2018 sustainability report (consolidated non-financial report) from the Managing Board, and reviewed and carefully examined it. As a result of this discussion and examination, it found that the 2018 sustainability report (consolidated non-financial report) had been prepared properly and was appropriate.

In addition, the auditor's reports prepared by (consolidated) financial statements auditor KPMG for the 2018 annual financial statements and management report and the 2018 consolidated financial statements and Group management report were reviewed by the Supervisory Board and discussed with KPMG.

KPMG's audit of the 2018 annual financial statements and management report and the 2018 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 2018, and of the results of operations of the Company for financial year 2018 in accordance with Austrian generally accepted accounting principles.

The management report is consistent with the annual financial statements. The disclosures pursuant to § 243a UGB (Austrian Commercial Code) are appropriate.

KPMG further determined that the consolidated financial statements also comply with statutory requirements and give a true and fair view of the net assets and financial position of the Group as of 31 December 2018, and of the results of operations and cash flows of the Group for financial year 2018 in accordance with IFRS and § 138 VAG (Austrian Insurance Supervision Act) in combination with § 245a UGB.

The Group management report is consistent with the consolidated financial statements. KPMG also reviewed the 2018 sustainability report (consolidated non-financial report) and determined in accordance with § 269 (3) UGB and § 273 UGB that the 2018 sustainability report (consolidated non-financial report) and 2018 consolidated corporate governance report had been prepared.

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

After a thorough examination, the Supervisory Board therefore adopted a unanimous resolution to approve the 2018 annual financial statements prepared by the Managing Board, to raise no objections to the management report, 2018 consolidated financial statements and Group management report, 2018 consolidated corporate governance report and 2018 sustainability report (consolidated non-financial report) and to declare its agreement with the Managing Board proposal for appropriation of profits.

The 2018 annual financial statements have therefore been approved in accordance with § 96(4) AktG (Austrian Stock Corporation Act).

The Supervisory Board proposes to the general meeting that it approves the Managing Board's proposal for appropriation of profits and formally approves the actions of the Managing Board and Supervisory Board.

Vienna, April 2019

The Supervisory Board:

Günter Geyer
(Chair)

Service

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ABBREVIATIONS USED IN THE TEXT

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

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

[2] Used when referring to the company itself

NOTICE

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

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

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

Our goal is to make the Annual Report as easy to read and as clear as possible. For this reason, formulations such as him/her, etc. have been avoided. It should be understood that the text always refers to women and men equally without discrimination.

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In case of doubt, the German version is authoritative.