Annual Report 2017

VIG Re

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Our Business is Energising

It starts with a single charge that runs through every aspect of our business – from our company values, to the hard work of our team of talented professionals, to our relationships with our partners and clients.

Opening New Doors

By providing made-to-measure reinsurance to more than 300 insurance companies in 35 countries, our team of professionals intuitively understands the challenges our partners face in managing their risk and capital.

A+ Rating From S&P Since 2008

STANDARD & POOR'S

Since our founding in 2008, Standard & Poor's Financial Services LLC have given us a long-term public issuer rating of "A+" and a financial strength rating of "A+", both with a "stable outlook". The rating was most recently reconfirmed on August 18, 2017.

The Wire of Our History

As part of the Vienna Insurance Group, whose history reaches back to 1824, VIG Re has been bringing energy to the industry since its founding in 2008 by establishing ourselves as a core player in the reinsurance market in Austria and CEE.

1824

VIG's roots in Austria date back to 1824 and to the foundation of Wechselseitige k.k. private Brandschaden-Versicherungsgesellschaft in Vienna.

1989

VIG treated the fall of the iron curtain as an opportunity to achieve the number one position as the leading insurance group in Austria and the CEE region.

2008

On 8 August 2008 the Czech National Bank grants reinsurance license to VIG Re. In October the Company receives an A+ FSR rating from Standard & Poor's, which is unaltered until today.

2009

VIG Re assumes treaty reinsurance for all major Property & Casualty and Life & Health lines of business, both from VIG companies and third parties. By end of the first full year of its operation, the company underwrites a book of EUR 257.2 million.

2010

VIG Re acquires 99.2% shares of Wiener Re Beograd, a Serbian reinsurance company. The Company starts to offer facultative services in property and engineering lines.

2011

Kazakhstan, Azerbaijan, and Armenia are added to the underwriting territories. Karl Fink succeeds Peter Hagen as 2nd CEO of the Company.

2012

VIG Re grows its assumed business from VIG companies to EUR 417.9 million, a growth of 65% premium compared to the prior year.

2013

Johannes Martin Hartmann takes the helmet as the Company's 3rd CEO. The underwriting activities with third Parties in CEE are intensified. In the same year a severe flooding hits VIG Re key markets Austria and CEE.

2014

Despite VIG companies report a number of large man-made losses to the Company, the net combined ratio comes in still below 98% and a profit before tax to EUR 19.9 million is generated. Jan Hrevuš is appointed as Head of the newly established Actuarial Analytics team.

2015

A continued competitive market environment calls for underwriting discipline. The Property & Casualty book is reduced by 6%. Olaf Dietrich heads the Non-Life Underwriting. The net combined ratio improves to 95.5% and pre-tax profit soars to EUR 22.7 million.

2016

Ivana Jurčíková joins the Board of VIG Re and is appointed as a Chief Financial Officer. BSS, VIG Re's integrated underwriting, claims and accounting software, goes live. The net combined ratio further improves to 93.2%.

2017

Tomasz Rowicki joins VIG Re's Board of Directors. The first branch office in Frankfurt am Main in Germany opens on 29 September, headed by Fabian Christoph. Katarzyna Gałan takes the lead of the Life Underwriting Team and Patrick Chevrel joins to head the expansion of the underwriting activities in Western Europe.

VIG Re – Part of Vienna Insurance Group

Vienna Insurance Group (VIG) provides its customers in Austria and CEE with custom products and services tailored to their needs. Its strategy is geared towards long-term profitability and steady earnings growth, making VIG a reliable partner in rapidly changing times.

Over 25,000 employees work for the Vienna Insurance Group, at around 50 companies in 25 countries. VIG develops insurance solutions in line with personal and local needs, which has made the Company one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

Expertise and Stability

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

Focus on Central and Eastern Europe

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

Local Market Presence

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

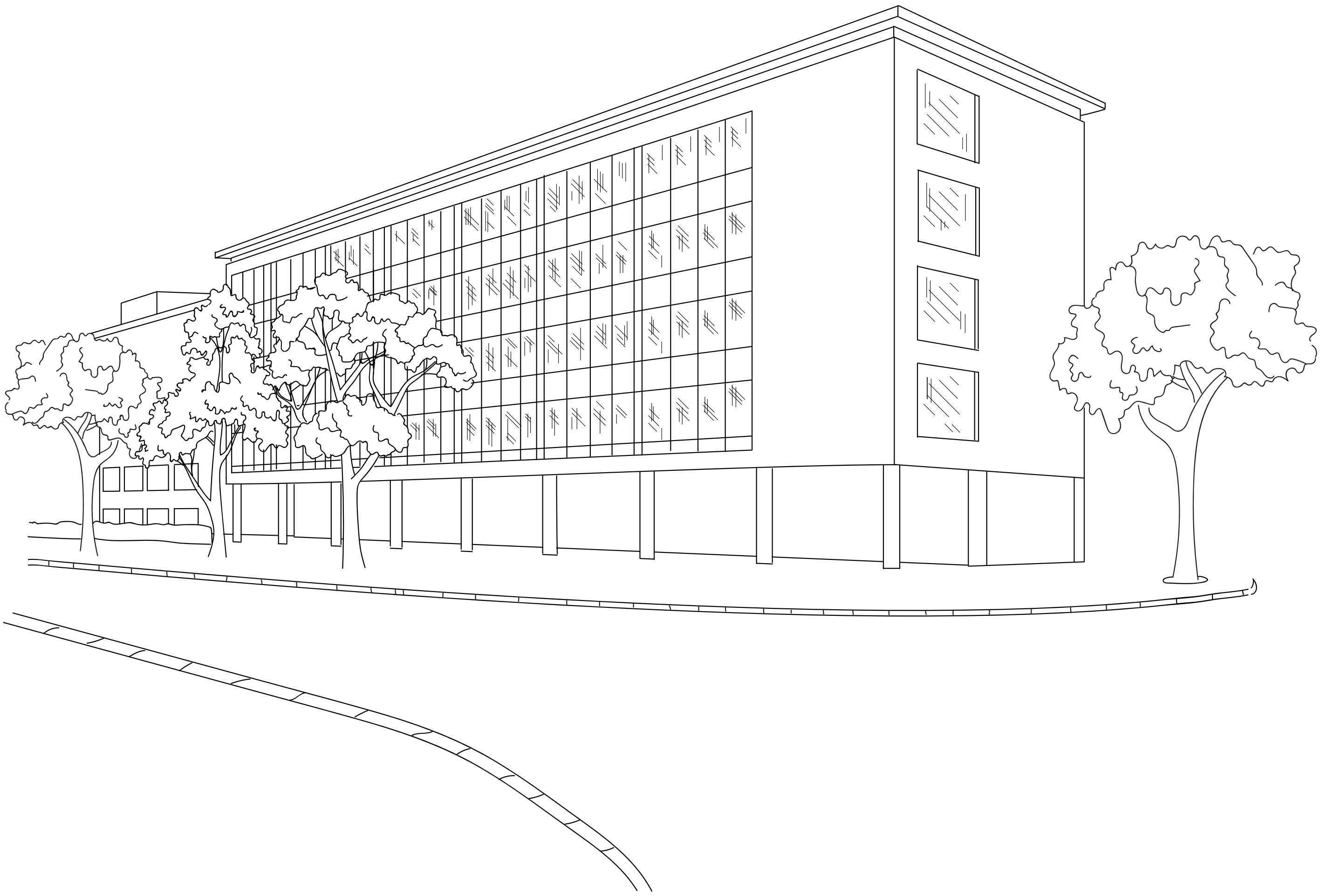
Strong Finances and Credit Rating

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

Further information on Vienna Insurance Group is available at www.vig.com, or in the VIG Group Annual Report.

Underwriting Territories

The New Branch Germany



In order to strengthen its marketing activities in the German speaking markets, VIG Re established a permanent office in Frankfurt am Main on 29 September 2017. Up to this date the company has been writing German business already on a freedom of service basis. The new branch office has been set up in order to serve our clients locally and is a token of VIG Re's long term commitment to the market.

The German branch office, headed by Fabian Christoph, is responsible for business origination and account management of Non-Life obligatory reinsurance business in Germany, Austria and Switzerland. Other activities, especially technical underwriting, reinsurance accounting, claims management and other central functions are handled out of Prague.

Market Views

VIG Re at a Glance

We are proud of what we achieved at VIG Re over the past ten years. Today, VIG Re is not managing only the outgoing reinsurance of Vienna Insurance Group, but has established itself as a leading, specialised reinsurance company in Central & Eastern Europe beyond the boundaries of local VIG entities. With an unrivalled nimble and lean operating model we match the demand of our clients looking for a partner who listens to their needs and trusts in long term relationship. Over the next years to come, we will further enhance our underwriting capabilities and extend our value proposition to new markets.

Johannes Martin Hartmann

Chairman of the Board of Directors

Olaf Dietrich

Head of Non-Life Underwriting

Central and Eastern Europe – Our Core Markets

We continue to grow our client base in Central & Eastern Europe and work now with more than 200 insurance companies in this region; this is excluding VIG Group business. We achieved to become one of the leading reinsurers in the region.

In order to foster our position we significantly invest in people and technology. This supports our ambitions to maintain or even improve our agility, our high standards and know-how providing very good service to our clients and brokers.

Germany, Austria, Switzerland – Our Commitment to Long Term Partnership

We at VIG Re are pleased to look back on a successful year 2017 with our clients in Germany, Austria and Switzerland. The very positive feedback from our business partners on our new strategy has shown that we have successfully laid a strong and reliable foundation for our forthcoming business.

In September 2017 we opened a branch office in Germany. Since then, we could further substantially grow our business in the region beyond the boundaries of VIG Group. Offering reinsurance solutions in all standard Non-Life lines, we have now a well-balanced portfolio of 44 clients making up for premium income of EUR 33 million with third party clients.

We want to thank to our business partners for their continued support. We are excited to build on the success of the past year and we are committed to keep fostering the trust you have placed in us.

Fabian Christoph

Head of VIG Re Niederlassung Deutschland

Western Europe – A Successful Kick-off

We had an excellent start with the January 1st renewal; our client base has been enhanced with 11 new French and Belgian customers. Our intention is to pursue our expansion in an orderly manner by sustainably developing these relationships across a broad range of products and lines of business and bringing our customers a meaningful support.

We would like to thank all our trustful business partners who share with us the value and the mutual benefit of a long-term relationship!

Patrick Chevrel

Head of Western Europe

Life Reinsurance – An Enhanced Value Proposition

We enjoy a growing demand from our life insurance clients for reinsurance solutions both in respect of biometric risk and capital management.

As a consequence we scaled up our underwriting team in 2017 to serve our new and existing clients. A strong pipeline of opportunities has been fuelling our new business stream, reaching from critical illness to mass lapse risk solutions.

In the future, we want to make sure that needs of our clients remain our priority and they will benefit from our risk expertise and our strong partnership.

Katarzyna Gałan

Head of Life Underwriting

Jan Hrevuš

Head of Actuarial Analytics

Actuarial Analytics – Upscaling Underwriting Capabilities

We are thrilled about a deep underwriting dive into your business specifics. Within our refined stochastic pricing models, we integrate both the hard data and expert judgements. In 2017 we also launched the pre-application phase of our Partial Internal Model. The results of our analysis allowed us to optimise our retrocession structure and enhance the assessment of our natural perils exposure on a cross-country basis. Together with the confirmed A+ rating from Standard & Poor's this ultimately leads to an even higher security for our clients.

What We Achieved in 2017

Financial Results

Individual Financial Statements

Unlike most other reinsurance companies, VIG Re has not been affected by the large scale natural disasters in 2017. Hence VIG Re was able to add another successful year to its 10 years history. Gross written premium income increased by nearly 11% to EUR 423.7 million. The net combined ratio came in at 94.8%. The slightly higher combined ratio was driven by a higher frequency of losses both from weather related risks and man-made losses, but still within the expected range. Profit for the period was EUR 20.4 million, EUR 3.4 million above 2016 level.

	Individual		Consolidated	
Income statement* in EUR '000	**2016**	**2017**	**2016**	**2017**
Premiums written	**383 058**	**423 650**	**417 432**	**459 938**
Property & Casualty	339 329	386 098	373 703	422 386
Life	19 021	16 560	19 021	16 560
Health	24 708	20 992	24 708	20 992
Combined ratio*	**93.2%**	**94.8%**	**93.2%**	**94.9%**
Result from investments	11 279	**13 777**	**11 195**	**13 404**
Profit before tax	**22 279**	**23 629**	**22 404**	**23 435**
Profit for the period	**17 028**	**20 397**	**17 083**	**20 228**

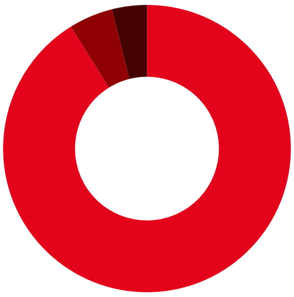
Balance sheet in EUR '000	**2016**	**2017**	**2016**	**2017**
Investments	**449 744**	**479 812**	**451 262**	**480 822**
Total assets	**731 005**	**822 536**	**762 532**	**860 635**
Shareholders' equity	**138 795**	**169 614**	**139 132**	**170 078**
Claims provisions	**500 242**	**521 567**	**510 406**	**531 959**

* Combined ratio is calculated for P&C and Health business segments

Premium Income

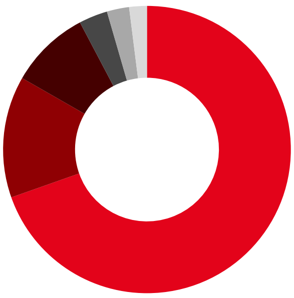
In line with the growth strategy, our gross written premium increased to EUR 423.7 million in 2017. P&C business segment contributed by EUR 386.1 million, Health segment by EUR 21.0 million and Life business segment contributed by total volume of EUR 16.6 million.

Market conditions in 2017 remained challenging in the industry, with premium levels flattening out on low level across most lines of business and markets. VIG Re adhered to its strict underwriting discipline, withdrawing from business where the renewal terms were not in line with VIG Re's technical standards. On the other hand, the strong franchise of VIG Re in its core markets and increased marketing activities with selected clients enabled VIG Re to originate new business at sufficient technical margins.



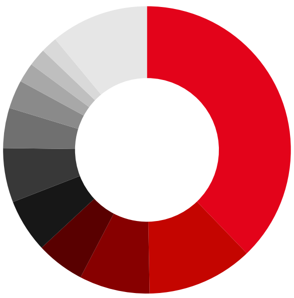
GWP per Segment (in EUR '000)

Property / Casualty	386 098
Health	20 992
Life	16 560
Total	**423 650**



GWP P&C per Line of Business (in EUR '000)

Property	268 717
Motor Third Party Liability	52 848
Motor Own Damage	34 753
General Third Party Liability	12 442
Marine	9 657
Personal Accident	7 681
Total	**386 098**



GWP P&C per Country (in EUR '000)

Austria	145 907
Czech Republic	46 017
Germany	30 616
Turkey	21 010
Poland	23 208
Italy	23 576
Slovakia	17 459
Romania	12 407
Lithuania	8 542
Serbia	7 736
Hungary	7 144
Other*	42 476
Total	**386 098**

*Other represents the following countries: Albania, Armenia, Belgium, Bosnia, Bulgaria, Croatia, Estonia, France, Georgia, Japan, Kazakhstan, Kosovo, Latvia, Macedonia, Moldova, Montenegro, Russia, Slovenia, Spain, Switzerland and Ukraine.

Claims Payments

In 2017, VIG Re was affected by a number of local events on adverse weather conditions. The most significant event was the European windstorm “Herwart” that affected Germany, Austria, Czech Republic, Slovakia and Poland in October. Gross incurred loss for VIG Re was EUR 16.7 million. A second notable event was a hailstorm that occurred in Austria in July with a gross incurred loss of EUR 6 million. In respect of the hurricanes in USA & Caribbean, namely Harvey, Irma and Maria, VIG Re noticed no material losses.

The total burden of large man-made losses (VIG Re’s gross share above EUR 1 million) increased in 2017 compared to 2016. For 2017, 14 large claims were reported for VIG Re with a total gross loss of EUR 38.9 million, compared to 10 large losses in 2016 with a total gross loss of EUR 31.1 million.

Financial Investment Results

As for previous years, also the year 2017 was characterized by continued low interest rates. Interest rates started to increase in the second half of the year but to a lesser extend as expected by most market participants. On the other hand equity markets achieved several historical maximums.

Despite of the challenging market conditions, VIG Re succeeded to achieve planned investment result. The ordinary investment income was EUR 8.2 million. In addition an extraordinary income was realised in the amount of EUR 1.6 million. Additional EUR 4.4 million was earned from the net funds deposited with cedents in respect of Life Reinsurance contracts. After deduction of investment related expenses total investment income was EUR 13.8 million.

Conservative Investment Strategy

The financial investment strategy of the company remained unchanged based on a conservative risk / return profile of a diversified portfolio and a disciplined risk management. The planned investment yield was adjusted in order to reflect the low new investments yields.

Protection Programme

VIG Re takes a prudent approach to buying reinsurance and excels VIG Group’s rule of retaining a maximum of 3% of equity on any underwritten risk. Natural catastrophe coverage is secured on a 250-year event basis. The diversified reinsurance panel is carefully chosen following strict security guidelines and avoiding concentrating risk on single counterparties. In 2017 the company restructured parts of its retrocession program in order to support the further development of the company in line with the new strategy and entrance to new markets.

Risk Management

VIG Re operates on principles defined by the framework of the Company's risk policy, in compliance with Solvency II and VIG Group Risk Policy.

These risk management principles are:

- integrity and ethical value,
- avoiding conflicts of interests,
- unique allocation of responsibilities,
- aligning motivation with the Company's objectives,
- the four eyes principle.

These principles ensure effective performance of all activities at VIG Re and form the basis of a general culture in which risk management plays an essential role. The principles are applied in all Company activities regardless of whether such activities are carried out directly by the company or are outsourced.

The internal structure of the risk management system is laid out in three lines of defence that reflect and require compliance with the Company's principles. The essence of this structure lies in transparent segregation of employee responsibilities into each line of defence, i.e. avoiding conflicts of interests, and ensures prevention and effective controls.

In 2017 VIG Re reviewed its Risk Strategy in view of the new strategic initiatives. Focus was given on the continuous improvement of the risk management and on an integrated planning and decision making process within the Company.

Risk management activities in 2017 included among others:

- risk assessment of new German branch office,
- strengthening the risk management in the forward-looking Own Risk and Solvency Assessment (ORSA),
- contribution to PIM (partial internal model) development.

Corporate Social Responsibility (CSR)

As a responsibly-minded and forward-looking company, we feel particularly committed to the principle of sustainability. VIG Re adheres to the sustainability strategy defined by Vienna Insurance Group while focusing on long-term thinking and responsible actions in all strategic areas.

Sustainable Business Practices

Forward-thinking management, profitable growth and financial stability are basic prerequisites for the long-term stability of the company. We combine our economic objectives with social and environmental aspects by integrating them in our general business strategy and in our investment processes.

In VIG Re we ask for transparent and ethical behaviour consistent with sustainable development and society welfare, we emphasize the importance and expectations of our stakeholders and ensure that all activities are compliant with applicable laws and consistent with the norms of behaviour.

Building on Trust and Dedication

We in VIG Re are striving for maximum customer satisfaction. We want to ensure the access to our services to a wide range of clients and offer the products that provide added value.

Due to our strong market know how, efficient operating model, our dedicated team of professionals and superior technical underwriting capabilities we are able to deliver innovative solutions tailored specifically to our customers. Our cooperation is based on the principle of sustainable relationships. We want to ensure a high level of customer satisfaction, therefore our ambition is to deliver original products and services in accordance with clients' needs, taking into the consideration protection of customers' privacy. We act ethically and with integrity.

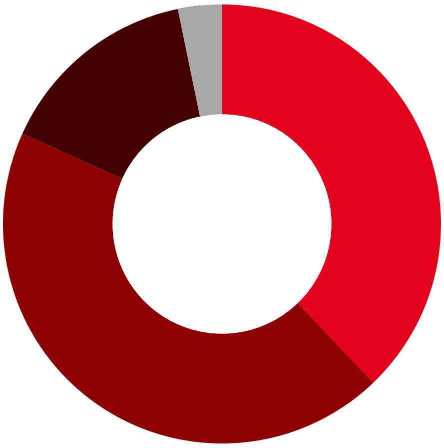
Empowering Our People

The success of VIG Re depends greatly on its employees, their qualification, commitment and expertise. Thus we aim to build an open, diverse, trusting and professional team where we encourage discussions and exchange of opinions. It is vital to us that our employees stay curious, are eager to learn, and see more than one way to solve a problem in a team and to create new opportunities. In VIG Re we understand the importance of team spirit. To enhance collaboration we organize cross department workshops and team activities on a regular basis.

We believe in the importance of diversity when it comes to age, gender or working styles. We are an international company with different age groups and we support women to develop into managerial roles. We want our people to be passionate about their work and create a work environment which encourages team work, encourages diversity and allows a high degree of flexibility.

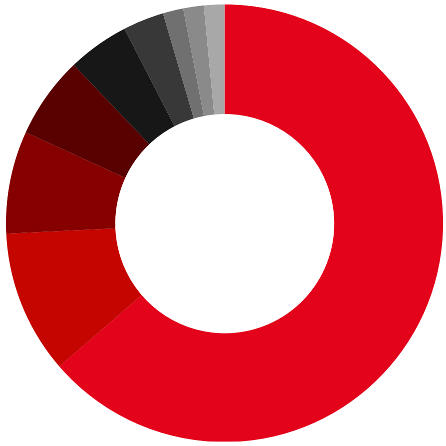
We make sure that our employees receive regular feedback from their managers in regards to their performance and professional development. The feedback is documented in the annual appraisal process. We encourage our employees to grow their professional expertise and promote their strengths and talents. Technical and finance trainings for reinsurance, attending local and international conferences and seminars, as well as language courses and soft-skills seminars are part of each employee's member's yearly development plan.

We introduced an "Expert" career model for functions of strategic importance to the company that promotes the professional skill set and provides employees who do not strive for a management position with the opportunity for an alternative career path.



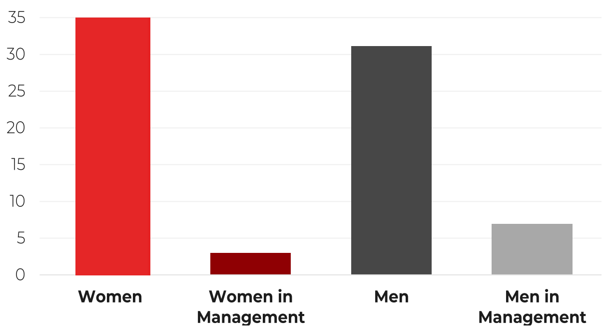
Age of Employees*

to 29 30-39
40-49 50+

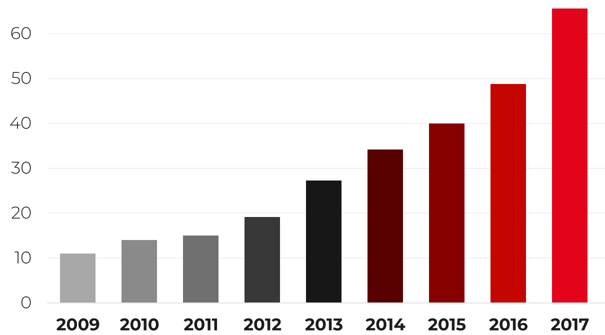


Employees coming from*

CZ RUS PL
SK DE FR
AT BG RS



Gender*



Number of Employees*

**Based on the Headcount as of 31.12.2017*

Society

Respectful interaction with our stakeholders and paying attention to their interest are serious matters for us. This includes our employees, clients, partners, as well as the organizations we work with, and the communities in which we operate. We understand that if we want to work successfully, we must gain the trust of our shareholders. Therefore we maintain regular, open and transparent dialogue with them. In addition, VIG Re promotes the development of a fair and just society.

Our social commitment can be seen in our support of local communities and social initiatives.
We empower our employees to volunteer with non-profit organization as we believe it is an essential part of our company culture. Every year VIG Re organizes a Social Active Day, where our employees have the chance to spend one working day focusing on social commitment.

We support specialised programs and organisations that focus on environment, on helping disabled, elderly and children. We believe that participating in regular Social Active Days helps to improve the quality of life in local communities.

In 2017 we supported the non-profit organization "Andromeda" which engages with socially weak families and lonely people as well as promotes ecological thinking. We dedicated our Social Active Day to improve the environment and facilities that Andromeda provides to socially weak groups and we helped with renovations, cleaning, tree planting and gardening.

The World We Live In

Climate risks – increasing intensity and frequency of natural disasters – have a significant impact on the reinsurance market. VIG Re understands that in today's world it is important to participate in the global problem solving. As part of our business, we provide protection to mitigate the financial impact. But we also have a responsibility to act.

We consider and aim to further reduce the environmental impact of our day-to day activities. In 2017, VIG Re has implemented the first modules of a workflow system aimed at creating a paperless office. The Company meets all environmental requirements prescribed by Czech law.

In parallel with our paperless office approach we implemented monitoring of energy and water consumption to make sure that activities within the company are efficient. Comparing to the previous year the total energy consumption was reduced by 16.0%.

In VIG Re, we are promoting the importance of sustainability and responsibility, which we reflect in our travelling policies. We promote to use the most efficient means of transportation during the business trips such as trains over planes where reasonable. In addition we encourage our employees to shift their daily commuting to work from cars to public transportation by subsidizing the costs for public transportation.

Moreover we entered a long-term cooperation with the non-profit organization Čistá Řeka Sázava which focuses on the improvement of the environment. The organisation of volunteers deals with cleaning of the Czech River Sázava and with educating the public about importance of clean environment.

Statutory Bodies

Board of Directors

Dušan Bogdanović
Member of the Board of Directors

Main Responsibilities:
Retrocession
Actuarial Analytics
VIG Re Subsidiaries

Ivana Jurčíková
Member of the Board of Directors

Main Responsibilities:
Finance
Investments
Controlling
Planning & Reporting
Reinsurance Accounting
Operations

Johannes Martin Hartmann
Chairman of the Board of Directors

Main Responsibilities:
Active Reinsurance
Human Resources
Public Relations & Communication

Tomasz Rowicki
Member of the Board of Directors
(Since 1 March 2017)

Main Responsibilities:
VIG Group Business
Claims Management

Changes after 31.12.2017:
Resigned from the Board of Directors as of 31 March 2018: ***Dušan Bogdanović***

Supervisory Board

Karl Fink
Chairman of the Supervisory Board

Elisabeth Stadler
Vice-Chairwoman of the Supervisory Board

Peter Thirring
Member of the Supervisory Board

Alain Flandrin
Member of the Supervisory Board
(Since 1 May 2017)

Peter Höfinger
Member of the Supervisory Board

Vladimír Bakeš
Member of the Supervisory Board

Gerhard Lahner
Member of the Supervisory Board
(Since 4 September 2017)

Gary Wheatley Mazzotti
Member of the Supervisory Board
(Resigned from the office of Supervisory Board as of 31 May 2017)

Audit Committee

František Dostálek
Chairman of the Audit Committee
(Member since 1 May 2017 until 6 October 2017, Chairman since 6 October 2017)

Elisabeth Stadler
Vice-Chairwoman of the Audit Committee
(Chairwoman until 6 October 2017, Vice-Chairwoman since 6 October 2017)

Karl Fink
Member of the Audit Committee

Hynek Vodička
Member of the Audit Committee
(Resigned from the office of Audit Committee as of 30 April 2017)

Alain Flandrin
Member of the Audit Committee
(Since 4 September 2017)

Research and Development

In order to further improve the data quality management we introduced a number of new IT solutions and automated processes, mainly:

- further enhancement of the data warehouse in order to capture enhanced business needs in data reporting and management reporting, as well as for internal control purposes,
- improvement of the underwriting administration system,
- analytics of the retrocession programs,
- Solvency II capital usage calculation tool for new business evaluation,
- preparation of the new reporting tool.

Further process improvements and automation are scheduled for 2018.

Wiener Re

Full Consolidation

Since its founding in 2008, Wiener Re Belgrade has established business with a significant number of insurance companies in Serbia and Western Balkans. It is currently active in Serbia and neighbouring countries Bosnia and Herzegovina, Montenegro and Macedonia. In 2010 VIG Re acquired majority of Wiener Re shares. In 2017 the Company acquired the remaining shares and is now 100% owner of Wiener Re.

Market Leader

Wiener Re is the number one reinsurer in Serbia, with more than 40% market share and more than 20 cedents from the region, such as Wiener Städtische Insurance Belgrade, Wiener Insurance BiH, Uniqa Insurance RS, Triglav Insurance RS, Dunav Re, Sava RS and Lovćen MNE.

Wiener Re Financial Performance in 2017

2017 continued to be a successful year for Wiener Re. Gross written premium increased by 12.5% to EUR 45.8 million. In 2017 Wiener Re focused on the growth of its external book, which now accounts for more than 40% of its business. The Company achieved an excellent combined ratio of 94.2%. The ordinary result in local currency remained stable. Wiener Re's profit before tax has been negatively impacted by currency effects and slightly reduced to EUR 0.2 million.

Reinsurance Services

VIG Re offers reinsurance solutions for the following lines and types of business:

Property & Casualty Reinsurance

Obligatory

- Property
- Engineering
- Motor Third-Party Liability
- Motor Own Damage
- General Third-Party Liability
- Marine

Facultative

- Property
- Engineering
- General Third-Party Liability

Accident & Health Reinsurance

Obligatory

- Personal Accident
- Health Treaty

Facultative

- Personal Accident

Life Reinsurance

Obligatory

- Protection Business
- Capital and Financial Solutions

Facultative

- Protection Business

Charged by Our Values

By maintaining a convivial, yet professional relationship with our clients, they experience our company values personally and trust us for them.

1

Ethical Behaviour

Respect, integrity, and transparency are our fundamental principles.

2

Stability and Security

We're in it for the long haul.

3

Performance Matters

We grow our profits through expertise.

4

Professional Infrastructure

We invest in smart tools without over-engineering.

5

People Development

We create an environment in which people take responsibility.

6

A Colourful Company Culture

We add freshness to reinsurance.

Market Overview

Macroeconomics

According to IMF the year 2017 has shown a real global GDP growth of 3.6%, up from 3.2% in 2016. Main driver of growth was the acceleration of international trade (+4.2% compared to +2.4% in 2016). For the CEE markets, the positive economic development has been even more pronounced: real GDP growth was +4.1%, outpacing the moderate growth in EU 15 countries of +2.1%. Hence the performance of CEE economies continues to converge to Western European levels.

Major economies in the CEE region, such as Poland or Czech Republic have been growing in 2017 according to WIIW data by +3.7% and 3.8%, respectively. Even higher growth has been achieved in Romania (+5.7%), Turkey (+5.4%), Hungary, Slovenia and the Baltic countries (all +4.0%). The positive macroeconomic development had overall a possible impact on the demand for insurance products, although effects differ by country.

For the years 2018 and 2019 the WIIW forecasts a continued positive economic development for the CEE countries, especially for the smaller economies in the region. The real growth for the region is forecasted at above 3% and will continue to outperform Western European economies. Forecast for Poland is 3.5%, for Czech Republic 3.2%, Romania 4.5% and Turkey 3.9%. The positive economic development in CEE will be driven by a combination of various factors such as decreasing unemployment rates, wage increases, which will fuel growing domestic demand and the slowly recovering investments as well as increased exports in the region. CEE countries will be able to leverage the economic growth forecasted for Western Europe, as by now the CEE economies have been well integrated in the value added chain of European and international industries.

Outlook

Industry Challenges

While global political and economic challenges still continue, such as low interest environment, the outcome of the Brexit negotiation, stabilization of the Euro zone, and the trade and financial politics of the United States and China, it appears that markets have taken actions and priced in these uncertainties.

A continuous challenge to the industry remains the introduction of various new regulations. Not only that Solvency II will be already subject to a review process and still in view of lacks of cohesion in the interpretation by the different national regulators, but the implementation of new regulations such as IFRS 17, GDPR or IDD will impose additional burden on the insurance industry.

Beyond this, the insurance industry is facing the challenges of technological innovations and socio-economic developments which will drive fundamental changes in the way insurance companies will interact with their clients and intermediaries, assess risk, manage their services and organise their workflow. It remains to be seen, to which extent the prediction that this digital revolution will emerge into a disruptive change of the industry model, or if the incumbent insurance provider will be able to embrace new technologies and innovate their business models.

We believe that ultimately the technological innovation and social economic trends represent significant opportunities for reinsurance through extending its value proposition and improving the efficiency of the industry.

Reinsurance

Terms and conditions for most lines of reinsurance business have been developing in favour of reinsurance buyers in past years, mainly driven by an abundance of capital in the reinsurance industry and relative benign loss activity. However the year 2017 has seen significant loss activities with insured losses from natural disasters well beyond USD 100 billion and denting the underwriting results of global insurers and reinsurers significantly. VIG Re expects that reinsurance market terms in 2018 will reflect the weak underwriting performance of the industry in 2017. The continued high level of available capital, both traditional reinsurance and so-called alternative capital, will likely not allow for a significant improved terms and conditions, especially in those markets that have not been affected by the major events in 2017 and have shown a solid performance in recent years. While interest rates on bonds appear to slowly be picking up, interest rates remain at a historically low level. In this context, adherence to remain key principles in our business.

Growth Ahead in CEE

The rising purchasing power of a growing middle class in Central and Eastern Europe will trigger an increased demand for insurance solutions from private households, which will consequently increase insurance density. As a result, mid to long-term macroeconomic trends provide strong growth potential for insurance and reinsurance companies in the region. Still, the future development of the insurance market will also depend on CEE countries implementing reforms in social, health and pension insurance.

VIG Re Strategy 2020

In the first years of its operation, VIG Re focused on accepting business from VIG companies. However, from the beginning the Company has built a value proposition for clients outside of VIG Group, which gained momentum since 2013. In the following years VIG Re has been gradually building its franchise beyond VIG core insurance markets, such as Germany, Italy, Russia and Turkey. As part of its new strategy 2020, VIG Re aims to strengthen its underwriting activities in Germany and to enter additional markets in a careful and controlled way. There, VIG Re will focus on those business segments and client relations that provide opportunities for profitable and sustainable growth with selected clients. In combination with the further development of its established business segments, the company is aiming to grow its profits before tax continuously until 2020, while maintaining a combined ratio below 100% and its internal cost ratio below 3% in any year.

In 2018 and beyond, VIG Re will adhere to its policy of strict risk management, underwriting discipline and conservative investment and protection policy. Together with the superior financial security, its lean and nimble operating model, its ability to offer broad risk solutions across all main lines of business, these are the factors that enable the company to seize opportunities in its Central and Eastern core markets and beyond.

Financial Statements

Auditor's Report

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Czech Republic
+420 222 123 111
www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of VIG RE zajišťovna, a.s.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of VIG RE zajišťovna, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note A.1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 for the year ending 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of provision for outstanding claims

Key audit matter	**How the audit matter was addressed**
The Company recognises a provision for claims incurred but not reported by the end of the period (IBNR provision) and a provision for claims incurred and reported but not settled by the end of the period (RBNS provision). Both provisions as a whole form the Provision for outstanding claims item. As at 31 December 2017 the Company recognises a provision for outstanding claims of EUR 429 453 ths. We determined the above area to be a key audit matter as the Company makes subjective and complex assumptions and judgements when determining the provision for outstanding claims. The IBNR provision is subject to actuarial calculations. Its determination is influenced by a range of factors based on the judgment of the Company regarding the used methodology, the distribution of data among homogeneous groups, the risk margin over the best estimate, treatment with non-standard values in historical data and the expected ultimate loss ratio. The RBNS provision is set based on the information about the status of claims from the confirmations or other information provided by insurers (cedents). Subsequently, employees of the Company manually retype the values from confirmations to the operating system of the Company. The risk of inaccuracy then arises for the value of the RBNS provision, stemming from potential manual errors when retyping the figures from confirmations into the system. Additional information is disclosed in Note B.11 and F.13 of the Company´s financial statements.	Among other things, we performed the procedures outlined below to address this key audit matter: In cooperation with our actuarial specialist, we critically evaluated the methodology, models and assumptions used by the Company for the measurement of provisions against our knowledge of the best practice in the market and assessed any changes since the previous year. We tested the correctness of the IBNR provision calculation, critically evaluated the assumptions applied by the Company´s management and discussed significant relevant year-to-year variations from our expected values. We also performed own independent analytical tests over the IBNR provision. For a sample of confirmations and other information, we reconciled the level of the RBNS provision reported by the cedents to the amount booked in the operating system of the Company. As part of our testing of the provision for outstanding claims we analysed in detail the result of the claim run-off test. In relation to that we assessed the sufficiency of the whole provision for outstanding claims and evaluated the adequacy of the methodology used for its determination. In addition, we assessed the adequacy of the Company's disclosures in the notes to the financial statements of the Company.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is 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 the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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 opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body'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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our 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.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 28 April 2017 and our uninterrupted engagement has lasted for 10 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 28 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of VIG RE zajišťovna, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague
29 March 2018

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Jindřich Vašina
Partner
Registration number 2059

Separate Financial Statements

TABLE OF CONTENT:

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

ASSETS		2017	2016
In EUR '000			
Intangible assets	**F.1**	**2 111**	**1 765**
Property, plant and equipment	**F.2**	**442**	**252**
Investment in subsidiaries	**F.3**	**6 758**	**6 722**
Financial investments	**F.4**	**473 054**	**443 022**
Financial assets held to maturity		120 320	128 446
Financial assets available for sale		249 605	173 084
Loans – Term deposits		177	423
Deposits due from cedents		102 952	141 069
Trade and other receivables	**F.5**	**78 782**	**56 565**
Ceded share of reinsurance liabilities	**F.6**	**244 085**	**210 687**
Deferred tax assets	**F.7**	**172**	**53**
Current tax assets	**F.25**	**1 691**	**0**
Other assets	**F.8**	**259**	**249**
Deferred acquisition costs	**F.9**	**5 370**	**4 390**
Cash and cash equivalents	**F.10**	**9 812**	**7 300**
Total ASSETS		**822 536**	**731 005**

EQUITY AND LIABILITIES			
Shareholders' equity	**F.11**		
Share capital		126 850	101 958
Other components of equity		5 370	5 367
Retained earnings		37 394	31 470
Total EQUITY		**169 614**	**138 795**
Reinsurance liabilities		**539 018**	**521 138**
Unearned premiums	**F.12**	17 451	20 896
Outstanding claims	**F.13**	429 453	368 747
Life reinsurance provision	**F.14**	92 114	131 495
Payables	**F.15**	**112 379**	**68 429**
Current tax liabilities	**F.25**	**0**	**1 399**
Other liabilities	**F.16**	**1 525**	**1 244**
Total LIABILITIES		**652 922**	**592 210**
Total EQUITY AND LIABILITIES		**822 536**	**731 005**

INCOME STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2017

Income Statement	Notes	2017	2016
In EUR '000			
Premiums	**F.17**		
Premiums written – Gross		423 650	383 058
Premiums written – Ceded		-171 166	-160 976
Premiums written – Retention		**252 484**	**222 082**
Change due to provision for unearned premiums – Gross		2 075	-4 612
Change due to provision for unearned premiums – Ceded		1 402	4 894
Net earned premiums		**255 961**	**222 364**
Investment and interest income		15 350	13 736
Investment and interest expenses		-1 573	-2 457
Total investment result	**F.18**	**13 777**	**11 279**
Other income	**F.19**	**12**	**1**
Claims and insurance benefits	**F.20**		
Expenses for claims and insurance benefits – Gross		-233 116	-205 699
Expenses for claims and insurance benefits – Ceded		69 726	79 205
Claims and insurance benefits – retention		**-163 390**	**-126 494**
Change in claims and other reinsurance liabilities – Gross		-64 393	-10 895
Change in claims and other reinsurance liabilities – Ceded		36 958	-2 020
Total expenses for claims and insurance benefits		**-190 825**	**-139 409**
Acquisition expenses			
Commission expenses	**F.21**	-74 489	-91 056
Other acquisition expenses		-4 051	-1 313
Change in deferred acquisition expenses	**F.21, F.22**	1 015	186
Commission income from retrocessionaires	**F.22**	26 430	24 239
Reimbursement of administrative cost	**F.22**	1 362	983
Total acquisition expenses		**-49 733**	**-66 961**
Other operating expenses	**F.23**	**-4 358**	**-3 903**
Other expenses	**F.24**	**-1 205**	**-1 092**
Profit before tax		**23 629**	**22 279**
Tax expense	**F.25**	**- 3 232**	**- 5 251**
Profit for the period		**20 397**	**17 028**
Attributable to owners of the Company		**20 397**	**17 028**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDING 31 DECEMBER 2017

Statement of comprehensive income	2017			2016		
In EUR ‘000	Gross	Tax *	Net	Gross	Tax *	Net
Profit for the period	**23 629**	**- 3 232**	**20 397**	**22 279**	**- 5 251**	**17 028**
Other comprehensive income						
Gains (losses) recognized in equity – Available for sale financial assets	-57	11	-46	3 774	-717	3 057
Other comprehensive income for the year	**-57**	**11**	**-46**	**3 774**	**-717**	**3 057**
Comprehensive income for the period	**23 572**	**-3 221**	**20 351**	**26 053**	**-5 968**	**20 085**

* Consists of both current tax and deferred tax directly recognized in the statement of comprehensive income.

SHAREHOLDERS’ EQUITY AS OF 31 DECEMBER 2017

	Share capital	Share premium	Available for sale reserve	Retained earnings	Shareholders’ equity
In EUR ’000					
As of 1 January 2017	101 958	0	5 367	31 470	138 795
Total comprehensive income for the period			-46	20 397	20 351
Capital increase	24 892	49			24 941
Dividends				-14 473*	-14 473
As of 31 December 2017	**126 850**	**49**	**5 321**	**37 394**	**169 614**

	Share capital	Share premium	Available for sale reserve	Retained earnings	Shareholders’ equity
In EUR ’000					
As of 1 January 2016	101 958	0	2 310	30 517	134 785
Total comprehensive income for the period			3 057	17 028	20 085
Dividends				-16 075*	-16 075
As of 31 December 2016	**101 958**	**0**	**5 367**	**31 470**	**138 795**

* dividend per share was EUR 459 (in 2016: EUR 643)

CASH FLOW STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2017

Cash flow statement	Notes	2017	2016
In EUR '000			
Profit before tax		**23 629**	**22 279**
Adjustments to profit before tax			
- net interest and other investment income		- 8 373	- 6 788
- exchange differences		1 121	247
- depreciation		772	398
- change in deferred acquisition costs		-980	-222
- dividends		-901	-913
Cash flows from operating activities			
Change in reinsurance liabilities		56 570	19 913
Change in ceded share of reinsurance liabilities		-33 398	- 3 872
Change in receivables		-22 217	-8 574
Change in deposits due from cedents and Loans – Term deposits		-1731	-1 975
Change in payables		43 950	-3 164
Change in other assets and liabilities		271	364
Income tax paid		-6 367	-4 286
Net cash flow from operating activities		**52 346**	**13 407**
Cash flows from investing activities			
Interest received		8 829	9 148
Dividends received		835	851
Payment for acquisition of intangible assets and property, plant and equipment		-1 319	-1 010
Cash proceeds from the sale of intangible assets and property, plant and equipment		19	-215
Payment for acquisition of investment in subsidiaries		-36	0
Payment for acquisition of available for sale financial assets		-98 053	-44 322
Cash proceeds from the sale of available for sale financial assets		21 797	34 527
Cash proceeds from the maturity/sale of held to maturity financial assets		7 748	8 511
Net cash flow from investing activities		**-60 180**	**7 490**
Cash flows from financing activities			
Change in share capital		24 941	0
Dividend payment		-14 473	-16 075
Net cash flow from financing activities		**10 468**	**-16 075**
Net change in cash and cash equivalents		**2 634**	**4 822**
Reconciliation of cash and cash equivalents			
Cash and cash equivalents at beginning of period		**7 300**	**2 531**
Foreign currency translation differences on cash balances		-122	-53
Net change in cash and cash equivalents		2 634	4 822
Cash and cash equivalents at end of period		**9 812**	**7 300**

SEGMENT REPORTING

The Company determines and presents operating segments based on the information that is internally provided to the Board of Directors, the Company's chief decision-making body. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other income, other expenses and income tax expenses.

The Company has three reportable segments, as described below, which are the Company's strategic business units and are managed separately. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Company's reportable segments:

- Property/Casualty: car, property and liability, catastrophe and personal accident reinsurance
- Life
- Health

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The disclosures under segment reporting should be read in conjunction with additional disclosures under F.17.

SEGMENT REPORTING

INCOME STATEMENT BY LINES OF BUSINESS

INCOME STATEMENT	Property/Casualty		Health		Life		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
In EUR '000								
Premiums written – Gross	386 098	339 329	20 992	24 708	16 560	19 021	423 650	383 058
Premiums written – Ceded	-167 733	-156 872	-149	-1 421	-3 284	-2 683	-171 166	-160 976
Change due to provision for premiums – Net	3 363	106	-128	-46	242	222	3 477	282
1. Net earned premiums	**221 728**	**182 563**	**20 715**	**23 241**	**13 518**	**16 560**	**255 961**	**222 364**
Interest revenue	8 201	7 911	5	6	5 051	5 224	13 257	13 141
Other income and expense from investments	663	-1 542	0	-1	-143	-319	520	-1 862
2. Investment result	**8 864**	**6 369**	**5**	**5**	**4 908**	**4 905**	**13 777**	**11 279**
Expenses for claims and insurance benefits and change in claims and other reinsurance liabilities– Gross	-284 170	-195 855	-2 429	-4 813	-10 910	-15 926	-297 509	-216 594
Expenses for claims and insurance benefits and change in claims and other reinsurance liabilities – Ceded	106 282	74 363	72	1 748	330	1 074	106 684	77 185
3. Claims and insurance benefits	**-177 888**	**-121 492**	**- 2 357**	**- 3 065**	**-10 580**	**-14 852**	**-190 825**	**-139 409**
Commission expenses including change in deferred acquisition expenses	-65 412	-78 657	-2 998	-7 732	-4 834	-3 892	-73 244	-90 281
Other acquisition expenses	-3 336	-974	-181	-71	-534	-268	-4 051	-1 313
Commission income from retrocessionaires including change in deferred acquisition revenues	24 324	22 286	0	0	1 876	1 364	26 200	23 650
Reimbursement of administrative cost	1 362	983	0	0	0	0	1 362	983
4. Acquisition expenses	**-43 062**	**-56 362**	**-3 179**	**-7 803**	**-3 492**	**-2 796**	**-49 733**	**-66 961**
Operating profit measured on the segment basis	**9 642**	**11 078**	**15 184**	**12 378**	**4 354**	**3 817**	**29 180**	**27 273**
5. Other operating expenses	**-3 511**	**-2 989**	**-191**	**-217**	**-656**	**-697**	**-4 358**	**-3 903**
Operating profit	**6 131**	**8 089**	**14 993**	**12 161**	**3 698**	**3 120**	**24 822**	**23 370**
6. Other income							**12**	**1**
7. Other expenses							**-1 205**	**-1 092**
Profit before tax							**23 629**	**22 279**
Income tax							**-3 232**	**-5 251**
Profit after tax							**20 397**	**17 028**

Investment result was allocated among individual segments based on the balance of reinsurance liabilities as of 31 December 2017 **and 2016.**

NOTES TO THE FINANCIAL STATEMENTS

A. GENERAL INFORMATION

A.1. Description of the Company

VIG RE zajišťovna, a.s. ('Company' or 'VIG Re') is the first professional reinsurance company established in the Czech Republic and is part of Vienna Insurance Group ('VIG'). VIG Re was incorporated on 18 August 2008 (ID 28445589) and has its registered office at Templová 747/5, Prague 1, postcode 110 01. VIG Re received the license to carry out reinsurance business and related activities on 8 August 2008 and has conducted the reinsurance business in property/casualty, life and health since 2009. Company in line with its strategic investment within the Continental Europe reinsurance market opened its branch office in Frankfurt a. M., Germany starting operation on 29 September 2017. Economic data of the branch are, in accordance with the legislation of the Czech Republic, an integral part of the financial statements of the Company.

Structure of shareholders

At the General meeting on 4 September 2017, the shareholders resolved to increase the share capital by 650 MIO CZK (25 MIO EUR), issuing 6 500 shares with nominal value of CZK 100 000 CZK (EUR 3 829) each. Share premium amounts to TEUR 49. Consequently the registered capital consists of 31 500 shares in book form with a nominal value of 3 150 MIO CZK (127 MIO EUR). The booked value per share is 100 000 CZK (4 027 EUR). 100% of the registered capital was paid up as of 6 September 2017.

Shareholders as of 31 December 2017:

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	70%
DONAU Versicherung AG Vienna Insurance Group	10%
Kooperativa pojišťovna, a.s., Vienna Insurance Group	10%
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group	10%

The members of the Board of Directors were as of 31 December 2017 as follows:

Chairman:	Johannes Martin Hartmann
Member:	Dušan Bogdanović
Member:	Ivana Jurčíková
Member:	Tomasz Rowicki (since 1 March 2017)

Two members of the Board of Directors must always act together in the name of the Company.

The members of the Supervisory Board as of 31 December 2017 were as follows:

Chairman:	Karl Fink
Vice-Chairwoman:	Elisabeth Stadler
Member:	Peter Höfinger
Member:	Gary Wheatley Mazzotti (until 31 May 2017)
Member:	Vladimír Bakeš
Member:	Peter Thirring
Member:	Alain Flandrin (since 1 May 2017)
Member:	Gerhard Lahner (since 4 September 2017)

A.2. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations as adopted by the European Union (EU) in accordance with the IAS Regulation (EC 1606/2002).

The management has reviewed those standards and interpretations adopted by the EU since the date of issue of the financial statements that were not effective at that date. An assessment of the expected impact of these standards and interpretations on the Company is shown in note C.

A.3. Basis of Preparation

Based on the current legislation (563/Sb.1991, § 19a/7), the Company keeps accounts and prepares these separate financial statements in accordance with IFRS (as adopted by the EU – refer to A.2.).

The financial statements are presented in the functional currency of the Company in euros (EUR), rounded to the nearest thousand (TEUR or EUR '000).

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as available for sale. Financial assets and liabilities and non-financial assets and liabilities that are valued at historic cost are stated at amortized cost or historic cost, as appropriate, net of any relevant impairment.

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about the carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in both the period of the revision and future periods if the revision affects both the current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are as follows (reinsurance liabilities, impairment, income taxes) and discussed in the Notes.

B. SIGNIFICANT ACCOUNTING POLICIES

B.1. Intangible Assets

Purchased intangible assets are recognized in the balance sheet at acquisition cost less accumulated amortization and impairment losses. All intangible assets have a definite useful life. Amortization of an intangible asset is therefore performed over its period of use. The useful lives of significant intangible assets are between 4 and 10 years.

Intangible assets are amortized using the straight-line method.

B.2. Property, Plant and Equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation of property and equipment to residual values is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Item	Useful lives of assets
Vehicles	5
Other tangible assets and equipment	4 – 6

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually.

Leases through which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "Other income" or "Other expense" in profit or loss.

B.3. Investment in Subsidiaries

The carrying amount of investment in subsidiaries is recognized at acquisition cost less impairment.

B.4. Financial Investments

Financial investments include financial assets held to maturity, available for sale, loans and deposits due from cedents.

Financial investments are recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Upon their initial recognition, the corresponding investments are valued at acquisition cost, which equals fair value plus any directly attributable transaction costs at the time of acquisition. For regular purchases and sales of financial assets, the Company's policy is to recognize them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Company used trade date accounting.

For subsequent measurement of financial investments two valuation methods are used – amortized cost and fair value.

The fair value of financial instruments is based on their quoted market price on an active market at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available or if the market for an investment is not active, the fair value of the instrument is estimated using the discounted cash flow method.

Where discounted cash flow methods are used, estimated future cash flows are based on management estimates and the discount rate is derived from market rates at the balance sheet date for instruments with similar terms and conditions.

Financial Assets Held to Maturity

Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity, where the Company has the positive intent and ability to hold to maturity.

Financial assets held to maturity are valued at amortized cost using the effective interest method less any impairment losses. The amortization of premiums and discounts is recorded as interest income or expense.

Available for Sale Financial Assets

These financial investments are non-derivative financial assets that are designated as available for sale and are not classified as loans and deposits due from cedents and held to maturity financial investments. Subsequent to initial recognition, they are measured at fair value. Changes therein, other than impairment losses and foreign currency differences on available for sale monetary items, are recognized directly in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Loans – Term Deposits

Loans consist mainly of deposits with financial institutions, or with third party companies in the case of financial reinsurance (B.23.). Loans and receivables (B.5.) are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than being classified as available for sale. Loans and receivables are measured at amortized cost using the effective interest method and are reported net of allowances for loan losses to reflect the estimated recoverable amounts.

Deposits due from Cedents

Deposits due from cedents are receivables from cedents for cash deposits that have been retained under the terms of reinsurance agreements. Deposits due from cedents are accounted for at amortized cost less impairment.

B.5. Receivables

The receivables shown in the balance sheet primarily relate to the following receivables:

- Receivables from direct reinsurance business
- Receivables from ceded reinsurance business
- Other receivables

Receivables are recognized at fair value and subsequently measured at amortized costs less impairment.

B.6. Ceded Share of Reinsurance Liabilities

The ceded share of reinsurance liabilities is valued in accordance with contractual retrocession arrangements. The creditworthiness of each counterparty is taken into account when assessing the carrying amount of the assets. Any impairment loss is recognized in profit and loss.

B.7. Taxes

The income tax expense comprises current tax and deferred tax. The income tax associated with transactions recognized directly in Other comprehensive income (unrealized gains and losses from available for sale financial instruments) is also recognized directly in Other comprehensive income.

The current tax is calculated using the Company's taxable income and the tax rate enacted or substantially enacted by the end of reporting period.

Deferred tax is calculated using the balance sheet liability method for all temporary differences between the asset and liability values recognized in the IFRS separate financial statements and the Company tax bases for these assets and liabilities. Deferred tax is calculated using the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on the tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax assets are not recognized if it is not probable that the tax benefits they contain can be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

B.8. Other Assets

Other assets are valued at acquisition cost less impairment losses.

B.9. Deferred Acquisition Costs

Acquisition costs comprise reinsurance commissions, brokerage for reinsurance intermediaries and other variable costs directly connected with the acquisition or renewal of reinsurance policies. Deferred acquisition costs and deferred retrocession commission revenue represent the proportion of acquisition costs incurred and revenue received that corresponds to the unearned premium reserve. Deferred acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period. Deferred acquisition costs which are not deemed to be recoverable are charged to the income statement.

For deferred acquisition costs in life see point B.11. Reinsurance liabilities, Life reinsurance provision.

B.10. Cash and Cash Equivalents

Cash consists of cash on hand and demand deposits with banks and other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

B.11. Reinsurance Liabilities

Unearned Premiums

The provision for unearned premiums comprises that part of gross premiums written attributable to the following financial year or to subsequent financial years, computed separately for each reinsurance contract using the pro rata temporis method.

Outstanding Claims

The provision for outstanding claims represents the total estimated ultimate cost of settling all claims arising from events that occurred up to the end of the financial year and are covered by reinsurance contracts, whether reported or not, less amounts already paid in respect of such claims, including the related internal and external claims settlement expenses.

The provision for outstanding claims is for payment obligations arising from, covered by and calculated according to reinsurance contracts. Part of the provision is for known claims for which individually calculated provisions are raised (RBNS). Another part is for claims incurred but not reported (IBNR). The provision for outstanding claims is based on information provided by cedents and the Company's estimates. The amounts raised are the realistically estimated future amounts to be paid. They are calculated on the basis of past experience and assumptions about future developments using appropriate actuarial methods. With the exception of annuities, the Company does not discount its provisions for outstanding claims. Where applicable, provisions are disclosed net of prudent estimates for salvage and subrogation recoveries as assessed by individual cedents.

Whilst the Board of Directors considers the provision for outstanding claims and the related reinsurance recoveries to be fairly stated, the ultimate liability may differ as a result of subsequent information and events, and may result in significant adjustments to the amounts provided. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

Life Reinsurance Provision

Life reinsurance provisions are comprised of the reserves for guaranteed claims of ceding companies in life reinsurance. They are determined using actuarial methods on the basis of the present value of future payments to cedents less the present value of premium still payable by cedents. The calculation follows the reinsurance contracts and includes assumptions relating to mortality, disability, lapse rates and the guaranteed interest rate. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation.

The life reinsurance provision comprises the sum of the reinsured part of the provisions for individual life insurance policies. The Company accounts for the provision using the zillmerization method. The zillmerization method results in the deferral of acquisition costs for life assurance contracts. These costs are included within the life provision through actuarial methods after eliminating temporary negative balances, which are capitalized and presented as deferred acquisition costs. The acquisition costs are capitalized and deferred in accordance with the prudence principle and take into account the risk of lapses and cancellations.

The provision is initially measured employing the assumptions used for calculating the corresponding premiums and remain unchanged except where liability inadequacy occurs. A liability adequacy test (LAT) is performed at each reporting date by the Company's actuaries using current estimates of future cash flows under its insurance contracts (see D). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognized in the income statement with corresponding increase to the life reinsurance provision.

Other

Other reinsurance liabilities consist mainly of the ageing provision in health and reinsurance provision for contractual non-discretionary bonuses in the non-life business. These provisions are calculated according to reinsurance contracts. The assumptions used for the calculation of the provisions are very conservative so that they are sufficient and include enough safety margins. Furthermore, in the health insurance business, yearly premium indexations in case of increases in claims expenses are usually contractually agreed with policyholders.

The ageing provision is created for those classes of non-life reinsurance where the premium amount depends on the entry age or possibly the gender of the insured. This provision represents the value of the Company's liabilities calculated using actuarial methods.

The provision for contractual non-discretionary bonuses in the non-life business covers future benefits in the form of additional payments to original policyholders or reductions in policyholders' payments, which are a result of the past performance. This provision is not recognized for contracts where the future premium is reduced by bonuses resulting from favourable past policy claim experience and such bonus is granted irrespectively of whether the past claim experience was with the reporting entity. In such a situation, the reduction in the premium reflects the expected lower future claims, rather than the distribution of past surpluses.

B.12. Provisions

A provision is created when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will occur, and a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are discounted. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

B.13. Payables

Liabilities arise when the Company has a contractual obligation to deliver cash or another financial asset. They are measured at amortized cost, which will normally equal their nominal or repayment value.

B.14. Premiums

Premium written relates to business incepted during the year (irrespective of whether they relate in whole or in part to a later accounting period), together with any differences between booked premium for prior years and those previously recognized and includes estimates of premium due but not yet received or announced to the Company. Premium revenue is recognized as and when due in terms of the reinsurance contract.

Premiums are disclosed gross of reinsurance brokerage and reinsurance commissions and exclude taxes. Estimates are included for premiums not yet announced by year end.

Outward ceded premiums are recognized as an expense.

B.15. Investment Result

Interest income and interest expense are recognized in the income statement on an accrual basis, taking into account the effective yield of the asset or liability, or an applicable floating rate. Interest income and interest expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated using the effective interest method.

Other income and expenses from financial assets comprise realized gains/losses, dividends and impairment losses. A realized gain/loss arises on derecognition of financial assets. The amount of the realized gain/loss represents the difference between the carrying value of the financial asset and the sale price, adjusted for any cumulative gain or loss that had been recognized directly in the other comprehensive income.

B.16. Claims and Insurance Benefits

All payments to cedents arising from loss events, claims settlement expenses directly related to loss events (covered by reinsurance contracts) or internal costs attributable to claims settlement, are shown as expenses for claims. Expenses for claims are reduced by the income gained from recourses (this applies in particular to property/casualty reinsurance). Changes in provision for outstanding claims and other technical provisions are also shown in the expenses for claims item as well as bonuses and rebates.

Bonuses comprise all amounts chargeable for the financial year, representing the allocation of surplus or profit arising from the business as a whole or from a section of business, after the deducting amounts provided in previous years that are no longer required. Rebates comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

B.17. Acquisition Expenses

Acquisition expenses are expenses arising from the conclusion of reinsurance contracts, and include direct costs such as brokerage for reinsurance intermediaries, reinsurance commissions, and indirect costs such as the administrative expenses connected with the processing of proposals, renewals, and the issuing of policies.

Acquisition expenses that vary with and are directly related to the acquisition of reinsurance policies or the renewal of existing policies are deferred (namely brokerage for reinsurance intermediaries and reinsurance commissions) – see B.9.

Reinsurance commissions and profit participations include commissions paid and payable to cedents and profit participations based on reinsurance contracts.

B.18. Other Operating Expenses (Administrative Expenses)

Administrative expenses include expenses relating to the administration of the Company. These include personnel costs, office rental expenses and other operating expenses. Personnel costs include expenses arising from employee benefits, such as salaries and wages, management remuneration and bonuses, social insurance and the costs of premium collection, portfolio administration and the processing of inwards and outwards reinsurance.

B.19. Foreign Currency Transaction

A foreign currency transaction is a transaction denominated in, or which requires settlement in, a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the exchange rate effective at the date of the transaction. At each balance sheet date:

a) foreign currency monetary items are translated using the closing foreign exchange rate;

b) non-monetary items denominated in a foreign currency that are carried at historical cost are translated using the foreign exchange rate at the date of the original transaction;

c) and non-monetary items denominated in a foreign currency that are carried at fair value are translated using the foreign exchange rates valid at the dates the fair values were determined.

Exchange differences arising from the settlement of monetary items or from the translation of the Company's monetary items at rates different from those at which they were initially recorded or reported in previous financial statements, are recognized as 'Other income' or as 'Other expenses' in the period in which they arise.

B.20. Impairment

The carrying amounts of the Company's assets, other than deferred acquisition costs, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is measured annually, regardless of any indication of impairment, for intangible assets with an indefinite useful life and for intangible assets not yet available for use.

An impairment loss is recognized to the extent that the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Individual impairment losses are losses that are specifically identified. General impairment losses are losses that are present in a portfolio of loans or receivables but not specifically identified.

The carrying amount of the subsidiary is annually tested for impairment. The Company observes if there were any events or any changes in the subsidiary business that could result in any possible impairment. The Company considers the level of other comprehensive income of the subsidiary as a key indicator for potential impairment. An impairment loss in respect of the subsidiary is not reversed in a subsequent period.

The recoverable amount of the Company's investments in held to maturity securities, loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of an available for sale asset is its current fair value. When there is objective evidence that it is impaired, the decline in fair value that had been recognized directly in other comprehensive income is recognized in the income statement.

An impairment loss in respect of a held to maturity security, loan, advance, receivable, or available for sale debt instrument is reversed through the income statement (up to the amount of the amortized cost), if the subsequent increase in the recoverable amount can be attributed objectively to an event occurring after the impairment loss was recognized.

Loans and advances are reported net of allowances for loan losses to reflect the estimated recoverable amounts. Receivables and held to maturity investments are stated at their cost less impairment losses.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In respect of other assets, an impairment loss is reversed through the income statement if there has been an increase in the recoverable amount and the increase can be objectively related to an event occurring after the date of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

B.21. Classification of Reinsurance Contracts

A reinsurance contract, whereby the Company assumes a significant insurance risk from another party (an insurance company) as a result of a provision whereby the insurance company receives compensation if a specified uncertain future event (the insured event) adversely affects the insurance company, is treated as an insurance policy as defined in IFRS. A distinction is made between insurance risk and financial risk. Financial risk is the risk of a possible future change in specific interest rates, securities prices, price indices, interest rate indices, credit ratings, credit indices, or another variable, provided that, in the case of a non-financial variable, the variable is not specific to one counterparty. In many cases, particularly in the life insurance area, reinsurance policies as defined in IFRS also transfer financial risk.

Reinsurance contracts in property/casualty and health are considered as insurance contracts. Moreover, the life reinsurance contracts transfer significant insurance risk (death benefits) and therefore they are considered as insurance contracts as well.

Contracts that are legally treated as reinsurance contracts but do not transfer significant risk are presented as financial investment contracts or service contracts.

B.22. Novation

Where the Company assumes rights and obligations relating to a portfolio of insurance and co-reinsurance contracts from another reinsurer (novation), the assets and liabilities are recorded via the balance sheet only, and no premium income is recognized in respect of such transactions.

B.23. Financial Reinsurance

Financial reinsurance is a risk management tool, especially useful when the motivations of the ceding insurance company are focussed not only on managing underwriting risk but also on explicitly recognising and addressing other financially oriented risks. The use of financial reinsurance, which represents a combination of a transfer of an insignificant insurance risk and financing risk, adds value to an insurer's risk management by providing flexibility and liquidity.

B.24. Clean Cut

A clean cut agreement is usual for treaties with an accounting year based accounting system. At the end of the business year, or at the expiry of the reinsurance period, reserves are set up for losses that have been incurred but not yet finally settled, and for unearned premium. For treaties with a clean cut system, these reserves are set up in the form of portfolio bookings. Portfolio entries and withdrawals are financially effective, which means they result in cash flow. These bookings correspond to the technical reserves and therefore also influence a treaty's technical result.

C. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS

The following published amendments and interpretations to existing standards are mandatory and relevant for the VIG Re accounting periods and have been applied by VIG Re since 1 January 2017.

Amendments to IAS 7

(Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.)

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

(Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

<u>Standards not yet in force</u>

IFRS 9 Financial Instruments (2014)

(Generally effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. The Entity, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and adopt it together with IFRS 17 for annual period beginning on 1 January 2021.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Entity's financial instruments are expected to change.

At this stage it is still unclear what portion of the Entity's debt securities will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test. It is expected that a significant portion of debt securities will be reclassified under IFRS 9 either into or out of FVOCI.

It is also possible that a number of equity instruments currently classified as available for sale will be measured at FVTPL under IFRS 9, but this determination will depend on an election to be made by the entity at the date of initial application. The Entity has not yet decided how it will classify these instruments.

The entity is not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its IFRS statements.

IFRS 15 Revenue from Contracts with Customers

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard´s requirements and provide additional transitional relief for companies that are implementing the new Standard.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Entity's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Entity's financial statements. The timing and measurement of the Entity's revenues are not expected to change under IFRS 15 because of the nature of the Entity's operations and the types of revenues it earns.

IFRS 16 Leases

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Entity does not expect that the new Standard, when initially applied, will have material impact on the financial statements as the Entity is party to a contractual arrangement that would be in the scope of IFRS 16, which are not significant to the whole business model of the Entity.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Entity, as an insurance provider, intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on the financial statements of the Entity.

IFRS 17 Insurance Contracts

(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted. The entity does not intend to apply the standard earlier than on 1 January 2021.)

This pronouncement is not yet endorsed by the EU.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements. There could be greater volatility in financial results and equity due to the use of current market discount rates. Company may also need to revisit the design of their products and other strategic decisions, such as investment allocation.

Implementing will require substantial effort, and new or upgraded systems, processes and controls.

The entity is currently not yet able to quantify the expected impact that the initial application of IFRS 17 will have on its IFRS statements.

Other standards, interpretations and amendments to published standards as adopted by EU that are not yet effective for annual periods beginning on 1 January 2017 will have no material impact on the financial statements of the entity.

D. PRINCIPAL ASSUMPTIONS

For reported but not settled claims (RBNS), the separate case-by-case assessment with regard to the claim circumstances, information available from loss adjusters, and historical evidence of the size of similar claims provided by the cedents is used and checked. The Company's share of case reserves is reviewed regularly and is updated as and when new information arises.

The estimation of the Company's incurred but not reported claims (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Company's actuary using information provided by cedents and actuarial techniques such as chain ladder methods, whereby historical data is extrapolated in order to estimate the ultimate costs of claims.

For IBNR calculation the Company uses methods which reflect the most recent known information such as loss ratio methodology and Incremental Loss Ratio methodology (ILR), which was developed by prof. Mack.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

a) economic, legal, political and social trends (resulting in different than expected levels of inflation);

b) changes in the reinsurance contracts mix;

c) random fluctuations and large losses.

IBNR provisions are initially estimated as gross, and a separate calculation is carried out to estimate the size of reinsurance recoveries.

The Company calculates not only the IBNR on the estimated mean level, but also calculates an additional margin IBNR. The margin IBNR reflects the historical volatility embedded in the claims triangles and also serves as a security cushion balancing the uncertainty of estimations of the assumptions parameters.

The a priori estimated mean loss ratio and the estimated development factors are the two assumptions which have the greatest effect on setting of the IBNR level. To limit the volatility of the forecasted ultimate claims in time the Company systematically mitigates the uncertainty embedded in those assumptions.

The a priori estimated mean loss ratio is an estimated mean value which represents the ratio of expected ultimate claims incurred to premiums earned and is estimated for each new reinsurance contract acceptance on an individual basis. The Company has made significant investments into the pricing tools in the last years and for each reinsurance acceptance a stochastic actuarial model is created. The individual stochastic models are intended to serve as a basis for the future Solvency II partial internal model and also for that purpose the Company´s modelling approaches have been discussed regularly during technical meetings with the regulator. Due to the nature of reinsurance business a significant uncertainty is associated with the a priori estimated mean loss ratio on an individual contract level, however, this uncertainty is considerably mitigated on the whole portfolio level due to the more than one thousand accepted reinsurance contracts by the Company on an yearly basis.

The estimated development factors used for ILR reserving methodology are predominantly calculated on aggregated claims triangles based on accounting data. Each triangle is created for a homogenous group of reinsurance contracts with minimum split per Solvency II line of business. To limit the uncertainty on a whole portfolio level, the Company performs an in-depth segmentation analysis annually where the homogeneity of calculation groups is further reviewed in view of the nature of the reinsurance contracts (Clean Cut, Losses Occuring basis and Risk Attaching basis), country of cedent and any similarities in reserving and cash flow characteristics. As the first accounting data come from the underwriting year 2009, the Company also uses the renewal information from the individual cedents for estimations of the development factors wherever appropriate, this concerns especially to the long tail business.

The volatility of the Company´s estimated ultimate claims is also further protected against significant impact of changes in these key assumptions by the complex retrocession program.

Annuities

In MTPL reinsurance and other third party liability lines, part of the claims payment may be in the form of an annuity. The provision for such claims is established as the present value of expected future claims payments. The key assumptions involved in the calculation are the discount rate, the expected increase in wages and disability pensions, which influence the amount of annuities to be paid. The ultimate annuity claims are dependent on national legislation and the development of social and political factors beyond the Company's control.

Liability Adequacy Test of Unearned Premium Reserve – Non-Life

The liability adequacy test for unearned premium reserve is limited to the unexpired portion of existing contracts and is performed on the gross basis for all lines of business. This type of test is performed as a control of sufficient amount of unearned premium reserve less the corresponding expected costs. If the result is negative, it is necessary to create an additional provision for the unexpired risks. The test is performed on the level of granularity per SII line of business and underwriting year, the individual results in such granularity are mutually offset and the overall result serves as the criterion if an additional reserve needs to be built.

Liability Adequacy Test – Life

The liability adequacy test is performed gross of reinsurance. The best estimate gross of reinsurance is compared to the IFRS reserve net of IFRS DAC and gross of reinsurance. The best estimate gross of reinsurance is calculated as Statutory Reserve net of statutory DAC and gross of reinsurance less present value of future profits (gross of tax). Present value of future profits is calculated under the Market Consistent Embedded Value calculation.

Any excess of best estimate over the IFRS reserve net of IFRS DAC and gross of reinsurance leads to LAT reserve creation.

E. RISK REPORTING

E.1. Risk Management

E.1.1. Introduction

The Company is a member of VIG and is part of its risk management structure. The risk management processes apply to the entire VIG Group and thus to the Company.

The Company's core competence is dealing professionally with risk. The Company's primary business is assuming risks from its clients (insurance companies) using a variety of reinsurance contracts (both proportional and non-proportional) and financial reinsurance contract. The insurance companies' primary business then assumes risks from their customers using a variety of insurance packages, while part of the risk is subsequently transferred to the reinsurance company (VIG Re). The reinsurance business of the Company and the insurance business of the Company's clients consist of deliberately assuming diverse risks and managing them profitably. One of the primary responsibilities of risk management is to ensure that the obligations assumed under reinsurance contracts can be satisfied.

E.1.2. Risk Management Objectives and Methods

VIG Re is exposed to a number of other risks in addition to the underwriting risks of its reinsurance policy portfolio. A risk management process is used to identify, analyse, evaluate, monitor, report and control these risks. The risk control measures used are avoidance, reduction below an acceptable level, diversification, transfer, and acceptance of risks and opportunities.

The overall risk can be divided into the following risk categories as defined by the Company.

- *Underwriting (reinsurance business) risks:* The core business of VIG Re is the underwriting of insurance risks transferred from an insurance company to VIG Re. This also creates concentration risk, which is a single direct or indirect position or group of positions with the potential to significantly endanger the Company, its core business or key performance indicators.
- *Credit risk:* This risk quantifies the potential loss due to the deterioration of the situation of a contracting party owing receivables, or other financial investments arising from financial assets and reinsurance contracts.
- *Market risk:* Market risk is taken to mean the risk of changes in the value of investments caused by unforeseen fluctuations in interest rate curves, share prices and currency rates, and the risk of changes in the market value of ownership interests.
- *Liquidity risk:* Liquidity risk means the risk that insurance and reinsurance companies are unable to realize investments and other assets in order to settle their financial obligations when they fall due. It depends on how good the fit is between the financial investment portfolio and reinsurance commitments.
- *Strategic risks:* Strategic risk is a function of the incompatibility between two or more of the following components: a company's strategic goals, the business strategies developed, and the resources deployed to achieve these goals, the quality of implementation and the economic and legal situation of the markets the undertaking operates in. These can arise due to changes in the economic environment, case law, and the regulatory environment. VIG Re is subject to insurance/reinsurance law in the Czech Republic. The regulation governs such matters as capital requirements, solvency requirements, and limits on the placement of financial instruments.
- *Operational risks:* This covers risks that may result from deficiencies or errors in business processes, controls or projects caused by technology, personnel, organization or external factors.

As a rule, local companies in VIG and thus the Company are responsible for managing their own risks, while at the same time strict requirements are set in terms of investments and capital assets, as well as for reinsurance.

Risk management in VIG and VIG Re is governed by internal guidelines. Underwriting risks in property/casualty reinsurance are primarily managed using actuarial models for setting tariffs and monitoring the progress of claims, and guidelines for the assumption of insurance risks.

VIG Re limits its potential liability from its reinsurance business by passing on some of the risks it assumes to the international reinsurance market (retrocession). It spreads this reinsurance coverage over a large number of different international reinsurance companies that VIG Re believes have adequate creditworthiness in order to minimize the risk (credit risk) due to the insolvency of one reinsurer.

VIG Re monitors the various market risks in its security portfolio using fair value valuations, value-at-risk (VaR) calculations, sensitivity analyses and stress tests.

Liquidity risk is limited by matching the investment portfolio to reinsurance commitments. Operational and strategic risks that might be caused by deficiencies or errors in business processes, controls and projects, and changes in the business environment are also monitored continuously.

E.1.3. Departments Involved in Risk Monitoring and Control at VIG and VIG Re

Risk monitoring and control is in the competence of the Board of Directors. Asset Risk Management is supported by other VIG Group companies in the Czech Republic based on the Cost Sharing Agreement. The responsibilities for the risk categories are allocated as follows:

Actuarial Analytics: Underwriting risks are managed by internal resources of VIG Re. The Actuarial Analytics and Underwriting departments subject all reinsurance solutions to in-depth actuarial analysis covering all classes of the reinsurance business (life, health, property/casualty).

Risk management: VIG Re, with the support of the risk management department of VIG Group companies in the Czech Republic, prepares a quarterly risk budget for the investment area. Budget compliance at VIG Re is checked regularly. Compliance with securities guidelines and the Company's own limit system is monitored continuously. Periodic VaR calculations and analyses and detailed stress tests are performed for this monitoring. Furthermore, a risk and control assessment is performed once a year.

Controlling: Controlling, reporting and Planning department monitors and controls operational developments at domestic and foreign insurance companies. VIG Re regularly monitors and controls its business development by comparing plans and reinsurance contracts signed.

Audit: The Company uses the VIG internal audit department. The internal audit department systematically monitors operating and business processes, the internal controlling system of all operational corporate areas, and the functionality and adequacy of risk management. The internal audit department operates continuously and reports directly to the full Board of Directors.

E.2. Underwriting Risk

E.2.1. Introduction

VIG Re assumes both reinsurance from VIG Group companies and reinsurance from external parties. In 2017 the majority of reinsurance assumed was from VIG Group companies. VIG Re writes long tail as well as short tail business, both proportional and non-proportional reinsurance business, and also provides facultative reinsurance.

VIG Re limits its liability arising from the reinsurance business by ceding, as necessary, a portion of the risks assumed to the international reinsurance market.

E.2.2. Insurance Risks

The Company assumes insurance risk transferred from client to insurance and through reinsurance contract to VIG Re. The risk under any one reinsurance contract is the possibility that the insured event occurs. This risk can also include the uncertainty of the amount of the resulting claim. By the very nature of a reinsurance contract, this risk is random and therefore unpredictable. For a portfolio of reinsurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that VIG Re faces under its reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the reinsurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Claim events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Experience shows that the larger the portfolio of similar reinsurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its reinsurance underwriting strategy to diversify the type of insurance risks accepted and, within each of these categories, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Property/Casualty

Property reinsurance: For property reinsurance contracts frequency of large losses (for example Fire, Terrorism) and unknown accumulations (for example business interruption, CBI) are significant factors which can increase claims significantly. In respect of natural catastrophe reinsurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example river flooding, hurricanes, typhoons, etc.) and their consequences (for example subsidence claims). The Company usually assumes one-year reinsurance policies and thus has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Company has reinsurance cover for such damages in order to limit losses.

Casualty reinsurance: The frequency and severity of claims can be affected by several factors. The most significant are the increasing amounts of awards for damage suffered and the increasing numbers of cases coming to court that were inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period of time typically required to settle these cases.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements, and proactive claims management.

Life

For contracts where death is the insured risk, the most significant factors that could increase the overall mortality risk are pandemics or changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that increase longevity. Uncertainty in the estimation of future benefit payments and premium receipts for long-term reinsurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour. VIG Re uses appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides.

The most important underwriting risks in life reinsurance are primarily biometric ones, such as life expectancy, occupational disability, illness, and the need for nursing care. VIG Re has formed reserves for paying future insurance benefits to manage these underwriting risks transferred to the Company.

Life reserves are principally stated to cover maturity and surrender benefits. In the company's life portfolio currently no annuities with current payments are included, and therefore the risk of increase in longevity is not evident. Concerning the insured death risks, the risk rates used are prudent and adequate. Due to these margins, profit commission rules are in most of the cases included in reinsurance treaties to share parts of the expected positive underwriting results with the cedent.

Health

For contracts where health is the insured risk, the most significant factors that could increase the morbidity and therefore the overall frequency of claims are epidemics or changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements, and proactive claims management. The company's health portfolio consists only of health contracts which are providing cover on a yearly basis.

E.2.3. Reinsurance Guidelines

The approach to the Company's own reinsurance protection

The reinsurance guidelines and protection structure are jointly determined each year by the Board of Directors and approved by the Supervisory Board of VIG Re, following the overall guidelines and security policy of VIG.

The reinsurance guidelines govern the following matters:

- Retrocession is a prerequisite for providing reinsurance coverage. VIG Re may only make a binding commitment to reinsure a risk if sufficient reinsurance coverage from external reinsurers has already been ensured, if applicable.
- Retention: The maximum VIG Re retention per individual loss is less than 2 MIO EUR, and the retention per event of loss

due to natural catastrophe is less than 20 MIO EUR.

- Selection of reinsurers – diversification. VIG Re divides its reinsurance coverage among many different international reinsurance companies of appropriate credit quality so as to minimize the risk arising from a reinsurer being unable to pay. No significant default of a reinsurer has occurred in the history of VIG and VIG Re.
- Selection of reinsurers – rating. For business segments where claims take a long time to be settled, especially for motor third party liability and general liability, VIG Re uses as reinsurers companies with outstanding ratings (at least a Standard & Poor’s “A” rating and preferably “AA” or higher), which in all likelihood will continue to exist over the long term. Even for business segments with claims that are settled quickly (for example natural catastrophes, fire, technology, transportation, storm, burglary, household, water pipes, auto collision), where there is a larger number of reinsurers the preferred rating is Standard & Poor’s “A” or higher. Reinsurers with lower ratings are only accepted in a few cases – and for limited periods of time.

Approach to the reinsurance contracts assumed by the Company

VIG Re’s objective is to maintain strict underwriting policy that, in combination with its very solid financial security and its in-depth understanding of local market standards, provide a strong value proposition to its clients.

The aim of VIG Re’s underwriting strategy is to build up and maintain a well balanced portfolio of property / casualty, life and health reinsurance contracts, both obligatory reinsurance treaties and facultative acceptances, making use of the diversification advantage of the spread within CEE, Austria, Germany, Italy, Turkey and Western Europe.

In order to achieve this, VIG Re follows a disciplined underwriting policy which is defined in detail in VIG Re’s underwriting guidelines. As a principle, the Company does not assume any credit & surety, other financial risks, agriculture, or aviation. The Company monitors and controls its accumulation risks, especially in the area of natural catastrophe exposure. As part of the risk management strategy, underwriting limits are defined by class of business and underwriting authorities are allocated “ad personam” according to the level of the underwriter’s professional expertise.

In respect of business originating from VIG Group companies, VIG Re assumes up to 100% of the respective contracts. In the event of significant underlying exposures, for instance from natural catastrophe or motor third party liability treaties, VIG Re acts as an aggregator and transformer, while not retaining a material risk position. In addition to its strict portfolio management, VIG Re controls its net risk position through a very conservative retrocession policy.

E.2.4. Concentration Risk

In general, the Company writes business primarily in CEE region, Austria, Germany and Eastern Europe. See F.17 for geographical concentration measured by premium written. The tables also show premium split according to lines and classes of business. The concentration risk for VIG Re can mainly be detected in the property class of business, where the natural catastrophe risk is accounted. For natural catastrophes the main exposures are flood, storm and earthquake. These exposures are annually modelled by the actuaries of the retrocession brokers based on the actual status of all portfolios, including cross country exposures, and analysed by the Company. Based on this, the above mentioned full retrocession cover for VIG Re is determined and placed with a high number of reinsurers with security according to the guidelines, thus preventing concentration risk on the net base.

E.3. Credit Risk

Credit risk is the risk that the counterparty will fail to discharge an obligation and cause the Company to incur a financial loss.

E.3.1. Credit Risk from Financial Investments

The Company invests in debt securities, bond funds, equity funds and deposits (both term and due from cedents), taking into account the overall risk position of the Company and the investment strategy provided for this purpose. For more about the investment strategy, see below.

In managing risks related to credit quality, a distinction must be made between “liquid” or “marketable” risks (e.g. exchange-listed bonds) and “bilateral” risks such as, for example, time deposits and loans. Risks relating to the former are limited at the portfolio level by means of rating and diversification limits. Consideration is only given to those issuers or contracting parties whose credit quality or reliability can be assessed by VIG Re, whether on the basis of an analysis performed by the Company or credit assessments/ratings from recognized sources.

According to the Company investment guidelines, financial investments (debt securities and term deposits) are made almost exclusively in investments with a Standard & Poor’s rating of AAA to BBB (or with a Moody’s rating of Aaa to Baa). There are also specific limits for investments in bonds and investments in banks (term deposits, treasury notes etc.), which differ according to the level of rating (i.e. the better the rating, the higher the investment limit). Investments outside the limits sets in the guidelines are only made in individual cases and in accordance with decisions made by the Board of Directors and Supervisory Board. The credit risk (i.e. limits and ratings) is monitored daily.

The goals are to achieve the greatest possible diversification among individual issuers; to avoid accumulation risks; to ensure good average credit quality; to control foreign currency effects; and to make the majority of investments in mid- to long-term maturities.

Deposits retained on assumed reinsurance serve directly as collateral for technical provisions, covering business assumed from cedents in reinsurance. They do not trigger any cash flows and may not be used by the cedent independently. The credit risk is therefore limited. The amount of and changes in deposits retained on assumed reinsurance in the balance sheet year generally derive from the values for the changes in the related technical provisions for the reinsured business. Deposits retained on assumed reinsurance business thus do not have a fixed maturity date, as their release is generally dependent on run-off of the corresponding provisions.

E.3.2. Credit Risk – Receivables due from Cedents

Consideration is only given to those issuers or contracting parties whose credit quality or reliability can be assessed by the Company. Management believes that it has sufficient internal data to reliably assess the creditworthiness of the companies. The majority of premium received is from companies within VIG.

E.3.3. Credit Risk – Reinsurers Share in Reinsurance Liabilities and Amounts due from Reinsurers in Respect of Claims already Paid (Retrocession)

VIG Re follows a policy of ceding a portion of assumed risks to reinsurance companies (see E.2.3.) This transfer of risk to reinsurers does not, however, relieve VIG Re of its obligations to the insurance companies (cedents). VIG Re is therefore exposed to the risk of insolvency on the part of reinsurers. The Company follows a strict policy on reinsurer selection.

E.3.4. Credit Risk Exposure

The tables below provide a detailed analysis of the Company's exposure to credit risk.

	Trade and other receivables		Other financial assets	
	2017	2016	2017	2016
In EUR '000				
Individually impaired:				
Gross amount	821	737	0	0
Carrying amount	0	358	0	0
Collectively impaired:				
Gross amount	0	0	0	0
Carrying amount	0	0	0	0
Past due but not impaired:				
Gross amount				
Up to 30 days after maturity	566	90	0	0
31 days to 90 days after maturity	1 107	3 734	0	0
91 days to 180 days after maturity	2 759	3 156	0	0
181 days to 1 year after maturity	1 332	591	0	0
1 year to 2 years after maturity	1 317	2 356	0	0
Neither past due nor impaired – carrying amount	**71 701**	**46 280**	**726 951**	**661 009**
Total carrying amount	**78 782**	**56 565**	**726 951**	**661 009**

Receivable from broker Reunion AG has been impaired fully in 2017 due to financial difficulties of the company. VIG Re filed court proceedings in 2017 to recover the receivable.

The credit quality of neither past due nor impaired financial assets is monitored per individual case. The Company closely monitors each counter party and evaluates its credit quality. The majority of premiums received are from companies within VIG (see the related party disclosures F.26.) and therefore the Company has enough information to evaluate the quality of the counterparty.

Cash and cash equivalents are neither individually nor collectively impaired.

Credit risk exposure	2017					
Standard & Poor's rating	**AAA**	**AA**	**A**	**B / BB / BBB**	**No Rating**	**Carrying value in balance sheet**
in EUR '000						
Financial investments*	34 424	74 779	164 244	24 690	71 965	370 102
Deposits due from cedents	0	92 975	8 335	0	1 642	102 952
Cash and cash equivalents	0	0	0	0	9 812	9 812
Receivables from reinsurance and ceded share of reinsurance liabilities	0	138 757	144 929	6 933	32 038	322 657
Other receivables	0	0	0	0	210	210
Total	**34 424**	**306 511**	**317 508**	**31 623**	**115 667**	**805 733**
In %	*4.27*	*38.04*	*39.41*	*3.92*	*14.36*	*100*

* Except for deposits due from cedents

Credit risk exposure	2016					
Standard & Poor's rating	**AAA**	**AA**	**A**	**B / BB / BBB**	**No Rating**	**Carrying value in balance sheet**
in EUR '000						
Financial investments*	35 539	45 001	153 968	21 366	46 079	301 953
Deposits due from cedents	0	95 586	45 480	0	3	141 069
Cash and cash equivalents	0	0	0	0	7 300	7 300
Receivables from reinsurance and ceded share of reinsurance liabilities	1 156	124 025	114 785	2 491	24 500	266 957
Other receivables	0	0	0	0	295	295
Total	**36 695**	**264 612**	**314 233**	**23 857**	**78 177**	**717 574**
In %	*5.11*	*36.88*	*43.79*	*3.32*	*10.90*	*100*

* Except for deposits due from cedents

The most important financial investment holdings are in bonds issued or guaranteed by the governments of the EU countries where VIG Re operates (Czech Republic, Slovakia, Poland and Austria). Nevertheless, it could be exposed to credit-related losses that may occur as a result of future negative development in the European Union and/or of any of the bond portfolio issuers.

E.4. Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may arise because the actual payout structure of our liabilities differs from that assumed in our asset-liability management, for example due to a lengthening or acceleration of the period to pay claims in a line of business or in a particular region.

An important aspect of the Company's management of assets and liabilities is ensuring that cash is available to settle liabilities as they fall due. The Company maintains cash and liquid deposits to meet these demands on a daily basis. The majority of claims are settled with the cash deposit under normal circumstances.

Over the longer term, the Company monitors its forecast liquidity position by estimating the cash outflows from its reinsurance contracts and purchasing assets with similar durations to meet these obligations. The liquidity is monitored daily.

The contractual maturities of relevant assets (measured in the same way as in the financial statements) as monitored by the Company are provided below:

Expected remaining contractual maturities of assets:	2017					
	Up to one year	**From one to five years**	**From five to ten years**	**More than ten years**	**Not specified**	**Carrying value in balance sheet**
In EUR '000						
Financial investments	**51 784**	**122 513**	**172 760**	**48 207**	**77 790**	**473 054**
Financial assets held to maturity	32 166	60 581	27 573	0	0	120 320
Financial assets available for sale	8 120	41 783	119 455	2 457	77 790	249 605
Loans – Term deposits	0	177	0	0	0	177
Deposit due from cedents *	11 498	19 972	25 732	45 750	0	102 952
Receivables from reinsurance	**78 571**	**0**	**0**	**0**	**0**	**78 571**
Ceded share of reinsurance liabilities *	**114 799**	**46 595**	**47 448**	**35 243**	**0**	**244 085**
Cash and cash equivalents	**9 812**	**0**	**0**	**0**	**0**	**9 812**
Current tax assets	**1 691**	**0**	**0**	**0**	**0**	**1 691**
Other receivables	**210**	**0**	**0**	**0**	**0**	**210**
Total	**256 867**	**169 108**	**220 208**	**83 450**	**77 790**	**807 423**

*expected timing of cash flows

The following table provides details of the expected maturity profile of the Company's obligations with respect to its financial liabilities and estimated cash flows of recognized insurance contract liabilities. The table includes both interest and principal cash flows.

	2017				
	Up to one year	From one to five years	From five to ten years	More than ten years	Carrying value in balance sheet
In EUR '000					
Reinsurance liabilities*	**209 595**	**114 329**	**110 916**	**104 178**	**539 018**
Unearned premiums	17 451	0	0	0	17 451
Outstanding claims	185 215	95 911	87 893	60 434	429 453
Life reinsurance provision	6 929	18 418	23 023	43 744	92 114
Payables	107 505	1 080	2 077	1 717	112 379
Other liabilities	1 525	0	0	0	1 525
Total	**318 625**	**115 409**	**112 993**	**105 895**	**652 922**

*expected timing of cash flows

The contractual maturities of relevant assets (measured in the same way as in the financial statements) as monitored by the Company are provided below:

Expected remaining contractual maturities of assets:	2016					
	Up to one year	From one to five years	From five to ten years	More than ten years	Not specified	Carrying value in balance sheet
In EUR '000						
Financial investments	**26 933**	**160 387**	**139 671**	**66 424**	**49 607**	**443 022**
Financial assets held to maturity	7 915	92 976	27 555	0	0	128 446
Financial assets available for sale	3 988	39 614	77 339	2 536	49 607	173 084
Loans – Term deposits	0	423	0	0	0	423
Deposit due from cedents *	15 030	27 374	34 777	63 888	0	141 069
Receivables from reinsurance	**56 270**	**0**	**0**	**0**	**0**	**56 270**
Ceded share of reinsurance liabilities *	**91 630**	**43 269**	**43 456**	**32 332**	**0**	**210 687**
Cash and cash equivalents	**7 300**	**0**	**0**	**0**	**0**	**7 300**
Other receivables	**295**	**0**	**0**	**0**	**0**	**295**
Total	**182 428**	**203 656**	**183 127**	**98 756**	**49 607**	**717 574**

*expected timing of cash flows

The following are the contractual maturities of relevant liabilities (measured in the same way as in the financial statements) as required by IFRS:

Expected contractual maturities of liabilities:	2016				
	Up to one year	From one to five years	From five to ten years	More than ten years	Carrying value in balance sheet
In EUR '000					
Reinsurance liabilities*	**195 743**	**116 171**	**100 865**	**108 359**	**521 138**
Unearned premiums	20 896	0	0	0	20 896
Outstanding claims	164 985	89 872	67 991	45 899	368 747
Life reinsurance provision	9 862	26 299	32 874	62 460	131 495
Payables	65 228	709	1 349	1 143	68 429
Tax liabilities	1 399	0	0	0	1 399
Other liabilities	1 244	0	0	0	1 244
Total	**263 614**	**116 880**	**102 214**	**109 502**	**592 210**

*expected timing of cash flows

E.5. Market Risk

The Company invests in debt securities, bond and equity funds and term deposits using a prudent investment strategy, following the VIG investment strategy. When determining exposure volumes and limits, the risk inherent in the specified categories and the market risks are of fundamental importance. Investment guidelines are laid down on a centralized basis and are mandatory for all VIG Group companies.

The investment strategy of the Company can be summarized as follows

- VIG Re practices a conservative investment policy designed for the long term.
- VIG Re maintains a high liquidity position with money market and short term bond funds and liquid AFS securities
- The management of the market risk on securities is aimed at providing a transparent view of the risk exposure arising from price, interest-rate, and currency fluctuations as they affect profitability and the value of securities investments, and at limiting these risks. Risks are limited by setting position limits and by means of a two-tier limit system for risk exposure.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

- Currency risk
- Interest rate risk
- Equity risk

E.5.1. Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk arises from recognized assets and liabilities denominated in another currency than the functional currency.

The Company exposure to foreign currency risk within the investment portfolios supporting the Company’s euro zone reinsurance and investment operations arises primarily from purchased investments and reinsurance contracts that are denominated or payable in currencies other than Euros.

The tables below summarize the Company’s exposure to foreign currency exchange rate risk as of 31 December. The Company’s assets and liabilities at carrying amounts are included in the table, categorized by currency at their carrying amount:

		2017	
Currency	**Total Assets**	**Total Liabilities**	**Net Amount**
In EUR ‘000			
EUR	735 807	572 068	163 739
PLN	23 481	20 967	2 514
CZK	21 491	18 180	3 311
USD	15 791	14 021	1 770
TRY	13 621	14 624	-1 003
Other	12 345	13 062	-717
Total	**822 536**	**652 922**	**169 614**

A 10% negative movement in exchange rates against EUR can cause a total loss of 588 TEUR.

Such a EUR/CZK change can cause a loss of 331 TEUR, and in EUR/PLN a loss of 252 TEUR.

	2016		
Currency	Total Assets	Total Liabilities	Net Amount
In EUR '000			
EUR	648 441	496 398	152 043
PLN	21 900	27 080	-5 180
USD	20 867	19 524	1 343
CZK	16 146	21 151	-5 005
TRY	12 801	15 612	-2 811
Other	10 850	12 445	-1 595
Total	**731 005**	**592 210**	**138 795**

E.5.2. Interest Rate Risk

For VIG Re, interest rates are the most relevant parameters for market risk. The Company's investments consist largely of fixed interest securities. The majority of these securities are denominated in Euro. As a result, interest rate fluctuations in the euro zone have a significant effect on the value of these financial assets.

The Company is exposed to interest rate price risk to the extent that it holds fixed interest rate instruments in the form of government securities and stock in local authorities and public bodies. The Company is exposed to interest rate cash flow risk to the extent that it holds variable interest rate instruments in the form of cash.

The tables below summarize the Company's exposure to interest rate risk as of 31 December.

2017	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Not specified	Total
In EUR '000								
Financial instruments								
Financial assets available for sale – debt securities	1,24%	5 634	2 486	7 327	34 455	121 913	0	171 815
Financial assets available for sale – investment funds and shares in other related parties		0	0	0	0	0	77 790	77 790
Financial assets held to maturity – debt securities	4,4%	0	32 166	9 296	51 285	27 573	0	120 320
Loans – Term deposits	6,3%	0	0	0	177	0	0	177
Deposit due from cedents	3,88%	0	11 498	19 972	0	71 482	0	102 952
Cash and cash equivalents		9 812	0	0	0	0	0	9 812
Total financial assets		**15 446**	**46 150**	**36 595**	**85 917**	**220 968**	**77 790**	**482 866**

2016	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Not specified	Total
In EUR '000								
Financial instruments								
Financial assets available for sale – debt securities	1,58%	914	3 074	13 316	26 299	79 874	0	123 477
Financial assets available for sale – investment funds		0	0	0	0	0	49 607	49 607
Financial assets held to maturity – debt securities	4,41%	0	7 915	41 803	51 174	27 554	0	128 446
Loans – Term deposits	6,3%	0	0	0	423	0	0	423
Deposit due from cedents	3,52%	0	15 030	27 374	0	98 665	0	141 069
Cash and cash equivalents		7 300	0	0	0	0	0	7 300
Total financial assets		**8 214**	**26 019**	**82 493**	**77 896**	**206 093**	**49 607**	**450 322**

E.5.3. Equity Risk

The Company also invests small part of its investment portfolio in equity funds. The equity risk is included in the sensitivity analysis.

E.5.4. Sensitivity Analysis:

The market risk of the Company's financial assets is monitored and measured on a continuous basis using a Value at Risk ('VaR') analysis. Value at Risk takes into account the interdependencies between market risk variables.

VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level. This approach calculates the VaR using a parametric method. The VaR is calculated daily at a 99% confidence level and for a period of 60 working days.

The assumptions on which the VaR model is based give rise to certain limitations, especially the following:

- A 99 percent confidence level does not reflect losses that may occur beyond this level.
- VaR is a statistical estimation and therefore it is possible that there could be a greater number of days in any given period in which losses could exceed the calculated VaR implied by the confidence level.
- The measure is a 'point in time' calculation reflecting positions recorded as of 31 December.
- The methodology is applicable to instruments with a linear relationship between position value and market rates.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The VaR measure is dependent upon the Company's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines, and vice versa.

The VaR positions of the financial investments were as follows:

VaR including HTM as of 31 December	2017	2016
In EUR '000		
Market value of portfolio	418 861	331 688
Parametrical VaR 60d; 99%	6 607	8 703
Relative VaR (%) 60d; 99%	1,58%	2,62%

The VAR including HTM is calculated on the total portfolio including held to maturity positions. The HTM positions do not have a direct impact on market risk exposure.

VaR excluding HTM as of 31 December	2017	2016
In EUR '000		
Market value of portfolio	244 562	164 382
Parametrical VaR 60d; 99%	4 931	5 515
Relative VaR (%) 60d; 99%	2,02%	3,35%

The VaR excluding HTM is calculated on the available for sale portfolio. The positions in the AFS portfolio have a direct impact on the market risk exposure of the Company.

The VaR figures can be interpreted as giving a 1% probability that the portfolio will fall in value by more than 6 607 TEUR or 4 931 TEUR over a 60 day period, assuming markets are normal and there is no trading. The accuracy of the VaR model is regularly monitored.

E.6. Capital Management

The Company operates in the insurance/reinsurance sector, which is a regulated industry. The Company has to comply with all regulations stipulated through the Insurance Act No. 277/2009 Coll. And Regulation No. 306/2016 Coll., including the prudential rules relating to capital. The prudential rules set the method for calculating the required solvency margin and available solvency elements.

The industry's lead regulator is the Czech National Bank, which sets and monitors the capital requirements for the Company.

The Company closely monitors its compliance with the regulatory capital requirements. The current calculation base with respect to capital requirements is based on the Solvency II principles, which replaced the system of regulatory capital calculation – Solvency I in 2016.

F. NOTES ON THE FINANCIAL STATEMENTS

F.1. Intangible Assets

Intangible assets	2017	2016
In EUR '000		
Software and licenses	2 111	1 765
Total intangible assets	**2 111**	**1 765**

2017	Software	License	Other intangible assets	Total
In EUR '000				
Balance as of 1 January	424	1 778	1 445	3 647
Additions	56	0	982	1 038
Balance as of 31 December	**480**	**1 778**	**2 427**	**4 685**
Balance as of 1 January	372	1 208	302	1 882
Amortization	15	206	471	692
Balance as of 31 December	**387**	**1 414**	**773**	**2 574**
Book value as of 1 January	**52**	**570**	**1 143**	**1 765**
Book value as of 31 December	**93**	**364**	**1 654**	**2 111**

2016	Software	License	Other intangible assets	Total
In EUR '000				
Balance as of 1 January	394	1 738	498	2 630
Additions	30	40	947	1 017
Balance as of 31 December	**424**	**1 778**	**1 445**	**3 647**
Balance as of 1 January	344	1 026	148	1 518
Amortization	28	182	154	364
Balance as of 31 December	**372**	**1 208**	**302**	**1 882**
Book value as of 1 January	**50**	**712**	**350**	**1 112**
Book value as of 31 December	**52**	**570**	**1 143**	**1 765**

F.2. Property, Plant and Equipment

Property, plant and equipment – 2017	Vehicles	Other	Total
In EUR '000			
Balance as of 1 January	**74**	**358**	**432**
Additions	35	236	271
Disposals	0	19	19
Balance as of 31 December	**109**	**575**	**684**
Balance as of 1 January	**74**	**106**	**180**
Depreciation	8	62	70
Disposals	0	8	8
Balance as of 31 December	**82**	**160**	**242**
Book value as of 1 January	**0**	**252**	**252**
Book value as of 31 December	**27**	**415**	**442**

Property, plant and equipment – 2016	Vehicles	Other	Total
In EUR ‘000			
Balance as of 1 January	**74**	**143**	**217**
Additions	0	215	215
Disposals	0	0	0
Balance as of 31 December	**74**	**358**	**432**
Balance as of 1 January	**66**	**79**	**145**
Depreciation	8	27	35
Disposals	0	0	0
Balance as of 31 December	**74**	**106**	**180**
Book value as of 1 January	**8**	**64**	**72**
Book value as of 31 December	**0**	**252**	**252**

F.3. Investments in Subsidiaries

Investment in subsidiaries	31.12.2017	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership	Proportion of voting power
In EUR ‘000							
Wiener Re a.d.o. Serbia	6 758	Serbia	6 758		6 758	100%	100%
Total	**6 758**		**6 758**				

Investment in subsidiaries	31.12.2016	Country	Cost of investment	Impairment losses	Net cost of investment	Proportion of ownership	Proportion of voting power
in ‘000 EUR							
Wiener Re a.d.o. Serbia	6 722	Serbia	6 722		6 722	99%	99%
Total	**6 722**		**6 722**				

Investment in subsidiaries	Date of acquisition	Proportion of ownership	Assets acquired	Liabilities acquired
in ‘000 EUR				
Wiener Re a.d.o. Serbia	22.7.2010	99%	20 445	14 137
Total			**20 445**	**14 137**

Wiener Re a.d.o. Serbia was acquired in 2010 from WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group.

F.4. Financial Investments

Financial investments	2017	2016
In EUR ‘000		
Available for sale financial assets	249 605	173 084
Held to maturity financial assets	120 320	128 446
Loans and receivables	103 129	141 492
Total	**473 054**	**443 022**

F.4.1. Financial Assets Available for Sale

Financial assets available for sale	2017	2016
In EUR '000		
Debt securities		
Government bonds	136 637	97 699
Covered bonds	10 271	10 406
Corporate bonds	9 349	6 210
Bonds from banks	15 558	9 162
Investment funds	72 787	44 604
Shares in other related parties	5 003	5 003
Total	**249 605**	**173 084**

Government bonds consist of government bonds and other bonds guaranteed by the government.

Amortized value – 2017	Amortized value/ Purchase price	FX differences	Unrealized gains or losses	Impairment	Fair value
Debt securities	168 189	406	3 220		171 815
Investment funds	69 439		3 348		72 787
Shares in affiliated non-consolidated companies	5 003				5 003
Total	**242 631**	**406**	**6 568**		**249 605**

Amortized value – 2016	Amortized value/ Purchase price	FX differences	Unrealized gains or losses	Impairment	Fair value
Debt securities	118 965	-382	4 894		123 477
Investment funds	42 872		1 732		44 604
Shares in affiliated non-consolidated companies	5 003				5 003
Total	**166 840**	**-382**	**6 626**		**173 084**

Fair value hierarchy – 2017	Level 1	Level 2	Level 3	Total
In EUR '000				
Balance as of 1 January	**157 382**	**6 019**	**9 683**	**173 084**
Reclassification to level	1 005	0	5 285	**6 290**
Reclassification from level	0	5 285	1 005	**6 290**
Additions	95 494	0	1 392	**96 886**
Disposals	19 987	727	0	**20 714**
Changes in value recognised in profit and loss	-4	0	411	**407**
Changes in value recognised directly in equity	215	-7	-266	**-58**
Balance as of 31 December	**234 105**	**0**	**15 500**	**249 605**

Fair value hierarchy – 2016	Level 1	Level 2	Level 3	Total
In EUR '000				
Balance as of 1 January	**149 349**	**7 460**	**5 003**	**161 812**
Reclassification to level	7 459	750	0	8 209
Reclassification from level	750	7 459	0	8 209
Additions	32 811	5 247	4 671	42 729
Disposals	35 035	0	0	35 035
Changes in value recognised in profit and loss	-202	7	0	-195
Changes in value recognised directly in equity	3 750	14	9	3 773
Balance as of 31 December	**157 382**	**6 019**	**9 683**	**173 084**

Level 1 represents quoted prices in active markets for identical assets or liabilities (close/traded exchange prices, net asset values for opened-ended funds that are redeemable at any time, that report a daily NAV and that can be redeemed at this NAV)

Level 2 represents marked-to-market – the comparable financial instrument is calculated using valuation techniques for which all significant inputs are based on observable market data.

Level 2 *Pricing method*	Used for	Fair value	Input parameters observable
Present value method	Bonds	Theoretical price	Issuer, sector and rating-dependent yield curves
Hull-White present value method	Bonds	Theoretical price	Maturity dependent implied volatilities
Hull-White present value method	Bonds	Theoretical price	Issuer, sector and rating-dependent yield curves

Level 3 represents an investment where the inputs for the asset valuation are not observable market data (issuer, sector and rating-dependent yield curves of non-government bonds).

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. The financial instruments allocated to this level of the fair value hierarchy include AFS bonds (10 497 TEUR in 2017, 4 671 TEUR in 2016) and an investment share in an unlisted real estate company (5 003 TEUR in 2017; 5 003 TEUR in 2016) measured in purchase price (as its fair value cannot be reliably measured).

Level 3 *Pricing method*	Used for	Fair value	Input parameters unobservable
Present value method	Bonds	Theoretical price	Issuer, sector and rating-dependent yield curves
Hull-White present value method	Bonds	Theoretical price	Maturity dependent implied volatilities
Hull-White present value method	Bonds	Theoretical price	Issuer, sector and rating-dependent yield curves

Unobservable inputs

In EUR '000	Fair value as at 31 December 2017	Non-market observable inputs	Range
Corporate bonds (clean value)	10 426	level of credit spread	0,0555 - 0,7930

For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would significantly change the fair value, then the entity states that fact and discloses, through the class of financial instruments, the effect of those changes. For this purpose, significance is judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, total equity. In our view, reasonably possible alternative assumptions are those that could reasonably have been included in the valuation model as of the reporting date based on the circumstances at the reporting date.

For level 3 investments specified in the table Company is able to perform a sensitivity analysis on the basis of the methodology outlined above. Changing unobservable valuation inputs about 50 bps would result in a change in fair value by TEUR ± 362.

Due to lack of available data, no sensitivity analysis information can be provided for new bonds in level 3 whose fair value as at 31 December 2016 has been determined by independent third parties.

Reclassification – 2017	**Level 2 to Level 3**	**Level 3 to Level 1**
In EUR '000		
Debt securities		
Amortized value	5 273	1 000
FX differences	-7	-3
Unrealized gains or losses	19	8
Total	**5 285**	**1 005**
Number	**2**	**1**

The assessment of the impact of non-observable inputs (sector and rating specific spreads) has changed in the year 2017 which lead to change in classification (level 2 to level 3).

Reclassification from level 3 to level 1 was performed due to change in trading frequency in the year 2017.

Reclassification – 2016	**Level 1 to Level 2**	**Level 2 to Level 1**
In EUR '000		
Debt securities		
Amortized value	761	7 014
FX differences	-22	0
Unrealized gains or losses	11	445
Total	**750**	**7 459**
Number	**1**	**2**

Reclassifications between level 1 and 2 primarily occur if liquidity, trading frequency or trading activity of the particular financial instrument no longer allows one to conclude an active market exists.

There were no reclassifications into and out of level 3 in the year 2016.

F.4.2. Financial Assets Held to Maturity

Financial assets held to maturity	**2017**	**2016**
In EUR '000		
Debt securities		
Government bonds	109 604	117 714
Corporate bonds	10 716	10 732
Total	**120 320**	**128 446**

Financial assets held to maturity – 2017	Carrying amount	Fair value
In EUR '000		
Debt securities		
Government bonds	109 604	121 470
Corporate bonds	10 716	12 116
Total	**120 320**	**133 586**

Financial assets held to maturity – 2016	Carrying amount	Fair value
In EUR '000		
Debt securities		
Government bonds	117 714	133 377
Corporate bonds	10 732	12 564
Total	**128 446**	**145 941**

All financial assets held to maturity are allocated to the Level 1 of the fair value hierarchy.

F.4.3. Loans and Deposits

Loans and deposits	2017	2016
In EUR '000		
Loans – Term deposits	177	423
Deposits due from cedents	102 952	141 069
Total	**103 129**	**141 492**

Deposits due from cedents in relation to reinsurance liabilities			2017
In EUR '000			
Assets		**Liabilities**	
Deposits due from cedents	102 952	Unearned premiums	4 381
		Outstanding claims	6 478
		Life reinsurance provision	92 093
Total gross	**102 952**		**102 952**

Deposits due from cedents serve directly as collateral for technical provisions covering business assumed from cedents in reinsurance. They do not trigger any cash flows and may not be used by the cedent independently. The credit risk is therefore limited. The amount of and changes in deposits retained on assumed reinsurance during the period generally derive from the values for the changes in the related technical provisions for the reinsured business.

In 2017, contract with the company Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb (ex Kvarner) was commuted. Subsequently, the deposits due from cedents decreased by 38 690 TEUR.

Deposits due from cedents thus do not have a fixed maturity date, their release generally being dependent on the run-off of the corresponding provisions.

F.5. Trade and Other Receivables

Receivables	2017	2016
In EUR '000		
Receivables arising out of assumed reinsurance – cedents	52 159	33 861
Receivables arising out of reinsurance operations – retrocession	27 233	22 788
Trade and other receivables	27	9
Prepayments	184	286
Total gross	**79 603**	**56 944**
Impairment	821	379
Total net	**78 782**	**56 565**

F.6. Ceded Share of Reinsurance Liabilities

Ceded share of reinsurance liabilities	2017	2016
In EUR '000		
Unearned premiums	8 092	6 175
Outstanding claims	235 437	204 055
Life reinsurance provision – retrocession	556	457
Total	**244 085**	**210 687**

F.7. Deferred Tax

The deferred tax credits and liabilities recognized relate to the amounts of temporary differences in balance sheet items listed in the following table. The differences were already valued using applicable tax rates.

Deferred tax	2017		2016	
Balance sheet position	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	0	1	0	4
Intangible assets	0	43	0	59
Provisions	216	0	116	0
Total	**216**	**44**	**116**	**63**
Net Balance	**172**		**53**	

Movement in deferred tax	2017	2016
Net deferred tax assets/(liability) – opening balance	53	-9
Deferred tax (expense)/income for the period	119	62
Net deferred tax asset/(liability) – closing balance	**172**	**53**

In accordance with the accounting method described in B.7., the amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date which is 19% for the year in question (2016: 19%).

F.8. Other Assets

Other Assets	2017	2016
In EUR '000		
Prepaid expenses	259	249
Total	**259**	**249**

F.9. Deferred Acquisition Costs

Development of DAC	2017	2016
In EUR '000		
Book value – opening balance	4 390	4 168
Costs deferred during the current year	3 340	3 407
DAC released during the current year	2 325	3 221
FX translation	-35	36
Book value – closing balance	**5 370**	**4 390**

F.10. Cash and Cash Equivalents

Cash and cash equivalents	2017	2016
in '000 EUR		
Cash and cash equivalents	6	4
Cash at bank	9 806	7 296
Total	**9 812**	**7 300**

F.11. Shareholders' Equity

Share capital	2017	2016
In EUR '000		
Authorized number of shares		
25 000 of 4 078.32 EUR shares	101 958	101 958
6 500 of 3 829.66 EUR shares	24 892	0
Issued number of shares		
25 000 of 4 078.32 EUR shares	101 958	101 958
6 500 of 3 829.66 EUR shares	24 892	0

Share capital was increased in September 2017, as described in section A.1.

F.12. Unearned Premiums

Unearned premium provision – 2017	Gross	Reinsurance	Net
In EUR '000			
Book value – opening balance	**20 896**	**6 175**	**14 721**
Premium written during the current year	423 650	171 166	252 484
Less premium earned during the current year	-425 725	-169 764	-255 961
Effect of clean cut	-1 416	435	-1 851
FX translation	46	80	-34
Book value – closing balance	**17 451**	**8 092**	**9 359**

The Company booked portfolio entries of provisions as explained in B.24.

Unearned premium provision – 2016	Gross	Reinsurance	Net
In EUR '000			
Book value – opening balance	**18 020**	**2 324**	**15 696**
Premium written during the current year	383 058	160 976	222 082
Less premium earned during the current year	-378 446	-156 082	-222 364
Effect of clean cut	-1 819	-904	-915
FX translation	83	-139	222
Book value – closing balance	**20 896**	**6 175**	**14 721**

F.13. Outstanding Claims

Provisions (RBNS, IBNR) – 2017	Gross	Reinsurance	Net
In EUR '000			
Book value – opening balance	**368 747**	**204 055**	**164 692**
Claims incurred and reported	298 147	106 586	191 561
Less claims paid	-233 116	-69 726	-163 390
Effect of clean cut	-2 519	-3 218	699
FX translation	- 1 806	-2 260	454
Book value – closing balance	**429 453**	**235 437**	**194 016**

Claims development table – Property/casualty on a gross basis	UY 2017	UY 2016	UY 2015	UY 2014	UY 2013	UY 2012	UY 2011	UY 2010	UY 2009	Total
In EUR '000										
Estimate of total cumulative claims at the end of the year	293 745	190 331	205 507	225 203	248 954	99 028	69 418	206 227	155 120	
One year later		178 940	236 188	251 289	257 699	115 795	82 973	214 401	175 798	
Two years later			239 441	237 267	254 582	115 588	79 040	217 175	177 081	
Three years later				258 181	249 393	112 777	75 586	209 765	167 027	
Four years later					247 119	109 294	74 521	206 395	161 648	
Five years later						107 477	74 039	206 019	159 069	
Six years later							70 630	204 691	156 883	
Seven years later								203 769	156 221	
Eight years later									154 235	
Estimate of cumulative claims	293 745	178 940	239 441	258 181	247 119	107 477	70 630	203 769	154 235	1 753 537
Cumulative payment	131 562	121 943	176 276	201 720	223 905	89 823	58 522	177 158	141 852	1 322 761
Value recognized in balance sheet	**162 183**	**56 997**	**63 165**	**56 461**	**23 214**	**17 654**	**12 108**	**26 611**	**12 383**	**430 776**

The Company booked portfolio entries of provisions as explained in B.24. Existing portfolio transfers from novation are considered to be in the underwriting year in which they come into the Company's portfolio.

Outstanding claims relating to health (324 TEUR), life (2 907 TEUR) and FX differences (-4 569 TEUR) are not included in the above table due to their relative insignificance.

Provisions (RBNS, IBNR) – 2016	Gross	Reinsurance	Net
In EUR '000			
Book value – opening balance	**352 435**	**204 029**	**148 406**
Claims incurred and reported	215 859	77 191	138 668
Less claims paid	-205 699	-79 205	-126 494
Effect of clean cut	6 115	2 596	3 519
FX translation	37	-556	593
Book value – closing balance	**368 747**	**204 055**	**164 692**

Claims development table – Property/casualty on a gross basis	UY 2016	UY 2015	UY 2014	UY 2013	UY 2012	UY 2011	UY 2010	UY 2009	Total
In EUR '000									
Estimate of total cumulative claims at the end of the year	190 331	205 507	225 203	248 954	99 028	69 418	206 227	155 120	
One year later		236 188	251 289	257 699	115 795	82 973	214 401	175 798	
Two years later			237 267	254 582	115 588	79 040	217 175	177 081	
Three years later				249 393	112 777	75 586	209 765	167 027	
Four years later					109 294	74 521	206 395	161 648	
Five years later						74 039	206 019	159 069	
Six years later							204 691	156 883	
Seven years later								156 221	
Estimate of cumulative claims	190 331	236 188	237 267	249 393	109 294	74 039	204 691	156 221	1 457 424
Cumulative payment	76 732	147 507	184 667	220 461	86 660	56 010	175 354	141 577	1 088 968
Value recognized in balance sheet	**113 599**	**88 681**	**52 600**	**28 932**	**22 634**	**18 029**	**29 337**	**14 644**	**368 456**

Outstanding claims relating to health (209 TEUR), life (2 844 TEUR) and FX differences (-2 741 TEUR) are not included in the above table due to their relative insignificance.

F.14. Life Reinsurance Provision

Development in 2017	Gross	Reinsurance	Net
In EUR '000			
Book value – opening balance	131 495	457	131 038
Additions	1 673	99	1 574
Disposals	-41 054	0	-41 054
Book value – closing balance	**92 114**	**556**	**91 558**

Development in 2016	Gross	Reinsurance	Net
In EUR '000			
Book value – opening balance	130 770	462	130 308
Additions	725	0	725
Disposals	0	-5	-5
Book value – closing balance	**131 495**	**457**	**131 038**

F.15. Payables

Payables	2017	2016
In EUR '000		
Payables arising out of reinsurance operations – cedents	90 671	52 574
Payables arising out of reinsurance operations – retrocession	20 619	13 902
Trade payables	334	417
Wages and salaries	210	151
Social security and health insurance and tax payables	127	96
Other payables	418	1 289
Total	**112 379**	**68 429**

F.16. Other Liabilities

Other liabilities	2017	2016
In EUR '000		
Accruals	1 525	1 244
Total	**1 525**	**1 244**

F.17. Premium

Premium written – Reinsurance premium	Property/Casualty 2017	Health 2017	Life 2017	Total 2017
In EUR '000				
Gross				
Austria	145 907	15 470	9 870	171 247
Czech Republic	46 017	0	61	46 078
Germany	30 616	1 850	2 345	34 811
Turkey	21 010	2 981	0	23 991
Poland	23 208	0	562	23 770
Italy	23 576	4	0	23 580
Slovakia	17 459	0	1 507	18 966
Romania	12 407	0	237	12 644
Lithuania	8 542	0	0	8 542
Serbia	7 736	186	37	7 959
Hungary	7 144	16	391	7 551
Other*	42 476	485	1 550	44 511
Premium written	**386 098**	**20 992**	**16 560**	**423 650**
Retroceded premium	**-167 733**	**-149**	**-3 284**	**-171 166**
Premium written – Retained	**218 365**	**20 843**	**13 276**	**252 484**

*) Other represents the following countries: Albania, Armenia, Belgium, Bosnia, Bulgaria, Croatia, Estonia, France, Georgia, Japan, Kazakhstan, Kosovo, Latvia, Macedonia, Moldova, Montenegro, Russia, Slovenia, Spain, Switzerland, Ukraine.

Premium written – Reinsurance premium	Property/Casualty 2016	Health 2016	Life 2016	Total 2016
In EUR '000				
Gross				
Austria	129 094	18 165	10 367	157 626
Czech Republic	46 134	0	56	46 190
Germany	18 833	1 524	1 800	22 157
Turkey	21 474	4 810	0	26 284
Poland	20 919	0	477	21 396
Italy	11 423	0	0	11 423
Slovakia	23 223	0	1 060	24 283
Romania	12 040	0	65	12 105
Lithuania	4 350	0	0	4 350
Serbia	5 245	3	31	5 279
Hungary	7 485	0	341	7 826
Other*	39 109	206	4 824	44 139
Premium written	**339 329**	**24 708**	**19 021**	**383 058**
Retroceded premium	**-156 872**	**-1 421**	**-2 683**	**-160 976**
Premium written – Retained	**182 457**	**23 287**	**16 338**	**222 082**

*) Other represents the following countries: Albania, Armenia, Belgium, Bosnia, Bulgaria, Croatia, Estonia, France, Georgia, Japan, Kazakhstan, Kosovo, Latvia, Macedonia, Moldova, Montenegro, Russia, Slovenia, Spain, Switzerland, Ukraine.

In 2017 the Company wrote premium of 315 962 TEUR from VIG Group companies and 107 687 TEUR from external parties (in 2016 305 452 TEUR from VIG Group companies and 77 606 TEUR from external parties).

Premium written – Reinsurance premium	Gross 2017	Ceded 2017	Net 2017
In EUR '000			
Property/Casualty			
Motor Third Party Liability	52 848	-20 866	31 982
Motor Own Damage	34 753	-327	34 426
Personal Accident	7 681	-4 855	2 826
General Third Party Liability	12 442	-1 595	10 847
Property	268 717	-134 021	134 696
Marine	9 657	-6 069	3 588
Premium written	**386 098**	**-167 733**	**218 365**

Premium written – Reinsurance premium	Gross 2016	Ceded 2016	Net 2016
In EUR '000			
Property/Casualty			
Motor Third Party Liability	39 189	-20 779	18 410
Motor Own Damage	33 727	-248	33 479
Personal Accident	7 201	-4 998	2 203
General Third Party Liability	11 899	-1 116	10 783
Property	237 392	-123 204	114 188
Marine	9 921	-6 527	3 394
Premium written	**339 329**	**-156 872**	**182 457**

F.18. Investment Result

Investment Income	2017	2016
In EUR '000		
Interest income		
Loans and term deposits	14	71
Deposits due from cedents	5 089	4 852
Financial investments held to maturity	5 248	5 581
Financial investments available for sale	2 906	2 637
Total current income	**13 257**	**13 141**
Gains from the disposal of financial investments		
Financial investments held to maturity	50	0
Financial investments available for sale	1 615	570
Loans and term deposits	0	13
Total gains from disposals of investments	**1 665**	**583**
FX gains	**412**	**0**
Kick-back and other fees	**16**	**12**
Total	**15 350**	**13 736**

Investment Expense	2017	2016

In EUR '000		
Losses from disposal of investments	500	1 078
Management fees	370	752
FX losses	0	210
Interests from retrocession operations	703	417
Total	**1 573**	**2 457**

F.19. Other Income

Other income	2017	2016
In EUR '000		
Foreign currency gains	12	0
Income from sale of inventory	0	1
Total	**12**	**1**

F.20. Claims and Insurance Benefits

Expenses for claims and insurance benefits – 2017	Gross	Retrocession	Net
In EUR '000			
Property/casualty/health			
Expenses for insurance claims			
Claims and benefits	221 556	69 543	152 013
Changes in provision for outstanding claims	64 968	36 811	28 157
Subtotal	**286 524**	**106 354**	**180 170**
Changes in mathematical reserve	21	0	21
Changes in other insurance liabilities	54	0	54
Total non-life expenses for claims and insurance benefits	**286 599**	**106 354**	**180 245**
Life			
Expenses for insurance claims			
Claims and benefits	11 560	183	11 377
Changes in provision for outstanding claims	63	48	15
Subtotal	**11 623**	**231**	**11 392**
Changes in mathematical reserve	-713	99	-812
Changes in other insurance liabilities	0	0	0
Total life expenses for claims and insurance benefits	**10 910**	**330**	**10 580**
Total	**297 509**	**106 684**	**190 825**

Expenses for claims and insurance benefits – 2016	Gross	Retrocession	Net
In EUR '000			
Property/casualty/health			
Expenses for insurance claims			
Claims and benefits	190 703	78 425	112 278
Changes in provision for outstanding claims	9 956	-2 314	12 270
Subtotal	**200 659**	**76 111**	**124 548**
Changes in other insurance liabilities	9	0	9
Total non-life expenses for claims and insurance benefits	**200 668**	**76 111**	**124 557**
Life			
Expenses for insurance claims			
Claims and benefits	14 996	780	14 216
Changes in provision for outstanding claims	204	299	-95
Subtotal	**15 200**	**1 079**	**14 121**
Changes in mathematical reserve	726	-5	731
Changes in other insurance liabilities	0	0	0
Total life expenses for claims and insurance benefits	**15 926**	**1 074**	**14 852**
Total	**216 594**	**77 185**	**139 409**

F.21. Acquisition Expenses

	2017				2016			
Commission expenses	**Property/ Casualty**	**Health**	**Life**	**Total**	**Property/Casualty**	**Health**	**Life**	**Total**
in EUR '000								
Reinsurance commission – Fix	38 579	1 541	4 201	44 321	31 867	1 023	1 404	34 294
Reinsurance commission – Sliding scale	20 328	1 397	0	21 725	25 251	993	0	26 244
Reinsurance commission – Profit commission	5 267	730	2 446	8 443	21 988	5 694	2 836	30 518
Deferred acquisition expenses	1 237	-669	-1 813	-1 245	-449	23	-349	-775
Total	**65 411**	**2 999**	**4 834**	73 244	**78 657**	**7 733**	**3 891**	**90 281**

F.22. Commission Income from Retrocessionaires

Commission income from retrocessionaires	2017	2016
In EUR '000		
Reinsurance commissions	26 077	23 585
Profit commissions	353	654
Reimbursement of administrative costs*	1 362	983
Deferred acquisitions revenues	-230	-589
Total	**27 562**	**24 633**

* Reimbursement of administrative costs is paid by retrocessionaires in order to compensate VIG Re for the administration of the portfolio quota share reinsurance agreements.

F.23. Other Operating Expenses

Other operating expenses	2017	2016
in EUR '000		
Personnel expenses	629	1 817
Mandatory social security contributions and expenses	282	393
Depreciation of property, plant and equipment	70	34
Amortization of intangible assets	702	364
Rental expenses	284	169
Services	53	63
Allocation of receivable adjustments	442	379
Other administrative and IT expenses	1 896	684
Total	**4 358**	**3 903**

Information about fees paid to auditors for statutory audit services are disclosed in consolidated financial statements of parent company VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe.

Management and employee statistics	2017	2016
Number of members		
Management – BoD	4	3
Other employees	59	49
Total	63	52

Personal expenses	2017	2016
in EUR '000		
Wages and salaries	588	1 790
Mandatory social security contribution expenses	282	393
Other social security expenses	41	27
Total	**911**	**2 210**

Decrease of personal expenses in 2017 resulted from reallocation of employees from administration to acquisition field.

Board of Directors and Supervisory Board compensation	2017	2016
in EUR '000		
Board of Directors compensation	843	535
Supervisory Board compensation	63	51
Total	**906**	**586**

F.24. Other Expenses

Other expenses	2017	2016
in EUR '000		
Foreign currency losses	1 159	1 081
Gifts	9	9
Losses from disposal of inventory	0	2
Court fees	36	0
Payment differences	1	0
Total	**1 205**	**1 092**

F.25. Tax Expense

Tax expense	2017	2016
In EUR '000		
Current taxes		
- Actual taxes current period	3 194	5 230
- Actual taxes related to other periods	102	21
Total current taxes	**3 296**	**5 251**
Deferred taxes (F.7)	**-119**	**-62**
Other income tax	**55**	**62**
Total taxes	**3 232***	**5 251***

* Tax calculated based on tax base in CZK (currency used for tax purposes). The final tax is then recalculated using the EUR/CZK FX rate as of 31 December 2017 and 31 December 2016.

Tax rate reconciliation	2017	2016
In EUR '000		
Expected tax rate in %	19	19
Profit before tax	23 629	22 279
Expected tax expense	**4 490**	**4 233**
Adjusted for tax effects due to:		
- Tax exempt income	-1 750	-707
- Non-deductible expenses – other	1 705	1 460
- Income exempted from tax	0	0
- Expense exempted from tax	126	124
- Taxes from previous years	102	21
- Changes in tax rates	0	0
Other adjustments	0	0
- FX differences**	-1 441	120
Income tax expense	**3 232**	**5 251**
Effective tax rate in %	13.68	23.57

** FX effect caused by difference between functional currency (EUR) and currency used for calculating tax duty and preparing the tax return (CZK).

F.26. Related Parties

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

F.26.1. Shareholders

Shareholders as of 31 December 2017:

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe	70%
DONAU Versicherung AG Vienna Insurance Group	10%
Kooperativa pojišťovna, a.s., Vienna Insurance Group	10%
KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group	10%

The ultimate parent of the Company is VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (VIG).

Transactions with the parent company	2017	2016
In EUR '000		
Balance sheet		
Receivables	52	2 423
Outstanding claims	56 487	41 790
Liabilities	3 950	2 383
Income statement		
Premiums written	16 559	15 477
Change due to provision for premiums	-49	-39
Expenses for claims and insurance benefits	-10 232	-10 093
Change in claims and other reinsurance liabilities	-14 884	180
Commission expenses	-922	-1 988
Other operating expenses	-873	-363

Transactions between the Company and its parent relate to reinsurance/retrocession contracts and servicing contracts related to back office.

Transactions with other entities with joint control or significant influence*	2017	2016
In EUR '000		
Balance sheet		
Deposits due from cedents	332	369
Receivables	5 673	4 735
Unearned premiums	2 828	2 626
Premium reserve	332	369
Outstanding claims	63 824	52 136
Liabilities	33 922	20 414
Income statement		
Premiums written	86 710	74 830
Change due to provision for premiums	-1 661	23
Investment and interest income/expense	-16	-25
Expenses for claims and insurance benefits	-42 023	-26 187
Change in claims and other reinsurance liabilities	-14 439	-556
Commission expenses	-8 359	-15 897
Intergroup outsourcing	-490	-541

**Donau Versicherung AG, Kooperativa pojišťovna, a.s., Kooperativa poisťovna, a.s.*

Transactions between the Company and entities with joint control relate to reinsurance/retrocession contracts and servicing contracts related to back office.

F.26.2. Subsidiaries

The Company has one subsidiary: Wiener Re a.d.o. Serbia (for details B.3.).

Transactions with subsidiaries	**2017**	**2016**
In EUR '000		
Balance sheet		
Receivables	1 161	817
Unearned premiums	695	546
Outstanding claims	1 499	2 319
Liabilities	411	324
Income statement		
Premiums written	9 551	6 205
Change due to provision for premiums	-149	59
Investment and interest income	364	465
Expenses for claims and insurance benefits	-4 631	-3 532
Change in claims and other reinsurance liabilities	820	-753
Commission expenses	-3 110	-1 900

Transactions between the Company and its subsidiaries relate to reinsurance/retrocession contracts and servicing contracts related to back office.

F.26.3. Key Management Personnel of the Entity and its Parent

Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The key management personnel are comprised of the Board of Directors and the Supervisory Board, together with members of the Board of Directors of VIG. Close family members of key management personnel are also deemed to be related parties. The Company has no transactions with family members of key management personnel and key management personnel except for the compensation mentioned in F.23.

F.26.4. Other Related Parties

Other related parties comprise fellow subsidiaries, associates and joint ventures of the ultimate parent company.

Transactions between the Company and other related parties are based only on reinsurance contracts.

Transactions with other related parties	2017	2016
In EUR '000		
Balance sheet		
Deposits due from cedents	12 378	48 673
Receivables	33 613	35 109
Unearned premiums	10 263	13 090
Premium reserve	602	39 190
Outstanding claims	146 188	132 813
Liabilities	69 691	54 898
Income statement		
Premiums written	193 847	200 601
Change due to provision for premiums	2 344	-4 127
Miscellaneous earnings/expenditures of investment	73	-1 061
Expenses for claims and insurance benefits	-150 446	-115 593
Change in claims and other reinsurance liabilities	-56 709	9 031
Commission expenses	-38 281	-57 127

Transactions between the Company and other related parties relate to reinsurance/retrocession contracts and actuarial services.

F.27. Fair Value of Financial Assets and Liabilities

	31.12.2017		31.12.2016	
Financial assets	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
In EUR '000				
Financial investments	**383 368**	**370 102**	**319 448**	**301 953**
Financial assets held to maturity	133 586	120 320	145 941	128 446
Financial assets available for sale	249 605	249 605	173 084	173 084
Loans – Term deposits	177	177	423	423
Receivables	**78 782**	**78 782**	**56 565**	**56 565**
Cash and cash equivalents	**9 812**	**9 812**	**7 300**	**7 300**
Total financial assets	**471 962**	**458 696**	**383 313**	**365 818**

Financial liabilities	Fair value	Carrying amount	Fair value	Carrying amount
Payables	112 379	112 379	68 429	68 429
Other liabilities	1 525	1 525	1 244	1 244
Total financial liabilities	**113 904**	**113 904**	**69 673**	**69 673**

The fair value of financial assets besides loans is determined through either an observable market price or a price calculated by discounting cash flow. The price calculated by discounting cash flow is equal to the present value of future cash flows discounted by a risk free yield curve and an appropriate credit spread. The appropriate credit spread is obtained from a reference bond with the same rating, from the same industry sector, and with similar maturity, seniority and issuer.

The deposits due from cedents amounting to 102 952 TEUR (in 2016 amounting to 141 069 TEUR), which are part of the financial investments, serve directly as an advance payment of future liabilities covering assumed business from cedents. These deposits do not trigger any cash flows and may not be used by the cedent independently. The credit risk is therefore limited and stating the fair value is not relevant. Furthermore, the deposits due from cedents do not have a fixed maturity date and their release depends on the corresponding provision.

The expected contractual maturities of other financial assets and liabilities are up to 1 year. Therefore, the fair value of these assets and liabilities represents their carrying amount.

Financial assets and liabilities except for HTM and part of AFS investments are classified to level 3 in fair value hierarchy. The instruments are measured by valuation technique which includes inputs not based on observable data.

F.28. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. Therefore, accounting estimates might not be equal to the actual results. Significant estimates and assumptions are summarized below.

F.28.1. Assumptions Used in Reinsurance Liabilities

The Company uses certain assumptions when calculating its insurance liabilities. The process used to determine the assumptions that have the greatest effect on the measurement of the items in the Company's financial statements, and the effects of changes in the assumptions that would have a material effect on the recognized amounts, are discussed in part D.

F.28.2. Impairment of Loans and Receivables

At each balance sheet date the Company assesses whether there is objective evidence that any loan, receivable or reinsurance assets are impaired. They are impaired if there is objective evidence of impairment as a result of one or more events that have occurred since their initial recognition and the resulting loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated (e.g., significant financial difficulty for the issuer or obligor; a breach of contract, such as default on interest or principal payments).

The Company first individually assesses whether objective evidence of impairment exists for any loans or receivables that are individually significant, and individually or collectively for any loans, receivables and reinsurance assets that are not individually significant. For the purposes of the collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics.

F.28.3. Income Taxes

Judgement is required in determining the provision for income taxes. If the final tax outcome is different from the amounts that were initially recorded, such difference impacts the income tax and deferred tax in the period in which such determination is made.

F.28.4. Fair value of Financial Instruments

The fair value of financial instruments that are not traded on an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on the market conditions existing at each balance sheet date.

F.28.5. Contract Classification

When entering into an arrangement, certain judgement is used to determine the appropriate classification of the contracts entered in terms of International Financial Reporting Standards. In the application of management's judgement, the management considers the substance of the contractual arrangement rather than the legal terms, especially with regard to contractual arrangements that are complex in nature. The application of the substance of the arrangement includes the consideration of all information available when the contract becomes binding.

F.29. Consolidated Statements

Based on Act on Accounting No. 563/1991 Coll, as amended, par. 22aa, the Company does not have to prepare its consolidated financial statements, as the Company is fully consolidated by VIG holding. However, as in previous years, the Company would like to present its stakeholders basic consolidated figures. The stated figures represent the Company's calculation and serve only for illustrative purposes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

ASSETS	2017	2016
In EUR '000		
Intangible assets	**2 304**	**1 932**
Property, plant and equipment	**569**	**352**
Financial investments	**480 822**	**451 262**
Financial assets held to maturity	120 320	128 446
Financial assets available for sale	256 761	180 438
Loans – Term deposits	177	901
Deposits due from cedents	103 564	141 477
Trade and other receivables	**92 904**	**67 900**
Ceded share of reinsurance liabilities	**262 348**	**227 261**
Deferred tax assets	**195**	**53**
Current tax assets	**1 727**	**0**
Other assets	**1 876**	**1 647**
Deferred acquisition costs	**5 135**	**4 408**
Cash and cash equivalents	**12 755**	**7 717**
Total ASSETS	**860 635**	**762 532**

EQUITY AND LIABILITIES		
Shareholders' equity		
Shareholders' equity attributable to the Group	**170 078**	**139 084**
Share capital	126 850	101 958
Other components of equity	4 997	4 662
Retained earnings	38 231	32 464
Shareholders' equity attributable to minority interests	**0**	**48**
Total EQUITY	**170 078**	**139 132**
Reinsurance liabilities	**558 586**	**538 855**
Unearned premiums	26 595	28 429
Outstanding claims	439 845	378 911
Life reinsurance provision	92 114	131 495
Other	32	20
Provisions	**6**	**5**
Payables	**128 865**	**80 224**
Deferred tax liabilities	**0**	**2**
Current tax liabilities	**0**	**1 399**
Other liabilities	**3 100**	**2 915**
Total LIABILITIES	**690 557**	**623 400**
Total EQUITY AND LIABILITIES	**860 635**	**762 532**

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2017

Income Statement	Notes	2017	2016
In EUR '000			
Premiums			
Premiums written – Gross		459 938	417 432
Premiums written – Ceded		-202 800	-191 415
Premiums written – Retention		**257 138**	**226 017**
Change due to provision for premiums – Gross		838	-4 463
Change due to provision for premiums – Ceded		2 598	4 742
Net earned premiums		**260 574**	**226 296**
Investment and interest income		15 337	14 152
Investment and interest expenses		-1 933	-2 957
Total investment result		**13 404**	**11 195**
Other income		**34**	**4**
Claims and insurance benefits			
Expenses for claims and insurance benefits – Gross		-246 737	-217 783
Expenses for claims and insurance benefits – Ceded		81 243	89 410
Claims and insurance benefits – retention		**-165 494**	**-128 373**
Change in claims and other reinsurance liabilities – Gross		-64 130	-10 511
Change in claims and other reinsurance liabilities – Ceded		36 627	-2 535
Total expenses for claims and insurance benefits		**-192 997**	**-141 419**
Acquisition expenses			
Commission expenses		- 85 095	-99 809
Other acquisition expenses		-4 219	-1 452
Change in deferred acquisition expenses		1 243	329
Commission income from retrocessionaires		35 557	31 961
Reimbursement of administrative cost		1 362	983
Total acquisition expenses		**-51 152**	**-67 988**
Other operating expenses		**-5 154**	**-4 496**
Other expenses		**-1 274**	**-1 188**
Profit before tax		**23 435**	**22 404**
Tax expense		**-3 207**	**-5 317**
Profit for the period		**20 228**	**17 087**
Attributable to owners of the Group		**20 228**	**17 083**
Attributable to owners of non-controlling interest		**0**	**4**

CONSOLIDATED INCOME STATEMENT BY LINES OF BUSINESS

INCOME STATEMENT	Property/Casualty		Health		Life		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
In EUR '000								
Premiums written – Gross	422 386	373 703	20 992	24 708	16 560	19 021	459 938	417 432
Premiums written – Ceded	-199 367	-187 311	-149	-1 421	-3 284	-2 683	-202 800	-191 415
Change due to provision for premiums – Net	3 322	103	-128	-46	242	222	3 436	279
1. Net earned premiums	**226 341**	**186 495**	**20 715**	**23 241**	**13 518**	**16 560**	**260 574**	**226 296**
Interest revenue	8 189	7 837	5	6	5 051	5 224	13 245	13 067
Other income and expense from investments	302	-1 552	0	-1	-143	-319	159	-1 872
2. Investment result	**8 491**	**6 285**	**5**	**5**	**4 908**	**4 905**	**13 404**	**11 195**
Expenses for claims and insurance benefits and change in claims and other reinsurance liabilities– Gross	-297 528	-207 555	-2 429	-4 813	-10 910	-15 926	-310 867	-228 294
Expenses for claims and insurance benefits and change in claims and other reinsurance liabilities – Ceded	117 468	84 053	72	1 748	330	1 074	117 870	86 875
3. Claims and insurance benefits	**-180 060**	**-123 502**	**-2 357**	**-3 065**	**-10 580**	**-14 852**	**-192 997**	**-141 419**
Commission expenses including change in deferred acquisition expenses	-75 790	-87 267	-2 998	-7 732	-4 834	-3 892	-83 622	-98 891
Other acquisition expenses	-3 504	-1 113	-181	-71	-534	-268	-4 219	-1 452
Commission income from retrocessionaires	33 451	30 008	0	0	1 876	1 364	35 327	31 372
Reimbursement of administrative cost	1 362	983	0	0	0	0	1 362	983
4. Acquisition expenses	**-44 481**	**-57 389**	**-3 179**	**-7 803**	**-3 492**	**-2 796**	**-51 152**	**-67 988**
Operating profit measured on the segment basis	**10 291**	**11 889**	**15 184**	**12 378**	**4 354**	**3 817**	**29 829**	**28 084**
5. Other operating expenses	**-4 307**	**-3 581**	**-191**	**-218**	**-656**	**-697**	**-5 154**	**-4 496**
Operating profit	**5 984**	**8 308**	**14 993**	**12 160**	**3 698**	**3 120**	**24 675**	**23 588**
6. Other income							**34**	**4**
7. Other expenses							**-1 274**	**-1 188**
Profit before tax							**23 435**	**22 404**
Income tax							**-3 207**	**-5 317**
Profit after tax							**20 228**	**17 087**
Profit after tax attributable to owners of the Group							**20 228**	**17 083**
Profit after tax attributable to owners of non-controlling							**0**	**4**

F.30. Subsequent Events

Effective 1 April 2018, Mr. Dušan Bogdanović takes over the lead on the new unit "Foreign Operations", coordinating the back office operations in the current and newly planned branch offices and the subsidiary of the Company. In order to focus on his new assignments, Mr. Bogdanović stepped down from his current position as member of the Board of Directors effective as of 31 March 2018.

The Company's management is not aware of any other event that has occurred since the balance sheet date that would have a material impact on the financial statements.

The financial statements were approved by the Board of Directors of the Company on 23 March 2018.

Johannes Martin Hartmann
Chairman of the Board of Directors

Ivana Jurčíková
Member of the Board of Directors

Report on Related Parties

on relationships among related entities pursuant to Section 82
of Act No. 90/2012 Coll., the Corporations Act.

I. Structure of Relationships

VIG RE zajišťovna, a.s., a company with its registered office at Templová 747/5, 110 01 Prague 1, Id. No.: 28445589, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 14560 (hereinafter "**VIG Re**"), is the **controlled person**.

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, a company with its registered office at Schottenring 30, Vienna 1010, Austria, registered in the Commercial Register kept by the Commercial Court in Vienna, Section FN, File 75687 F (hereinafter "**VIG AG**"), is the **controlling person**.

II. Role of the Company in the Group

VIG AG is the leading person of the Vienna Insurance Group (hereinafter „**VIG Group**"), having the legal form of a joint-stock company.

VIG Re is a part of the VIG Group and engages especially in reinsurance activities under the Insurance Act.

III. Method and Means of Control

VIG AG holds shares of VIG Re in the aggregate nominal value of 70 % of the registered capital, whereby it fully controls VIG Re, especially by making decisions at the General Meeting.

VIG AG's shares in other subsidiaries, expressed in per cent of the registered capital, are specified in Annex 2 to this Report (hereinafter "**VIG Group Companies**").

IV. Overview of Mutual Agreements Between VIG Re and VIG Group Companies Valid in the Year 2017

The list of agreements between VIG Re and VIG Group Companies is given in Annex 1 to this Report.

V. Overview of Steps Taken during the Last Accounting Period at the Instigation or in the Interest of VIG AG or other VIG Group Companies

In 2017, no legal acts or other measures were taken in the interest or at the initiative of related parties. VIG Re only paid off the relevant dividend to the mother company and other shareholders.

VIG AG's shares in other subsidiaries, expressed in per cent of the registered capital, are specified in Annex 2 to this Report (hereinafter "VIG Group Companies").

VI. Capital Increase

In 2017 the registered capital of VIG Re was increased by CZK 650,000,000 to the amount of CZK 3,150,000,000.

VII. Assessment of the Harm Incurred and its Compensation

VIG Re did not suffer any harm in 2017 based on agreements concluded between VIG Re on the one hand and VIG AG and other VIG Group Companies on the other.

VIII. Confidentiality

Information and facts that form business secrets of the VIG Group Companies as well as information that has been designated as confidential by any VIG Group Company are deemed confidential within the VIG Group. Furthermore, confidential information also includes any information obtained in the course of trade that could be, in itself or in connection with other information or facts, to the detriment of any of the VIG Group Companies.

With a view to avoiding any harm to VIG Re, this Report does not comprise financial details of any performance or counter-performance under the concluded contracts and agreements.

IX. Evaluation of the Relations and Risks within the VIG Group

The VIG Group is one of the leading insurance and reinsurance operators on the European market. VIG Re thus has access to know-how, inter alia, in the fields of Solvency II, audit, compliance and information technology. It is possible to conclude that VIG Re prevailingly benefits from the relationships within the VIG Group.

X. Conclusion

This Report was drawn up by the Board of Directors of the controlled person, VIG RE zajišťovna, a.s., for the period from 1 January 2017 to 31 December 2017 and will be presented for review to the Supervisory Board. Given that VIG Re is required by law to prepare an annual report, this Report will be attached to it as its integral part. The annual report will be submitted for audit to audit firm KPMG Česká republika Audit, s.r.o.

In Prague, on 29.3.2018

Johannes Martin Hartmann, Chairman of the Board of Directors	Ing. Ivana Jurčíková, Member of the Board of Directors

Annex 1 to the Report on Related Parties

Overview of mutual agreements between VIG Re and VIG Group Companies.

Contracts and Agreements in effect for VIG AG and VIG Re in 2017
Re-insurance contracts between VIG Re and VIG AG
Contracts and Agreements in effect for VIG Re and other Controlled Parties, where the Controlling party is VIG AG in 2017
Agreement on sharing of costs between VIG Re and Kooperativa pojišťovna, a.s., Vienna Insurance Group
Agreement on sharing of costs between VIG Re and VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe
Agreement on sharing of costs between VIG Re and InterRisk Versicherungs-AG Vienna Insurance Group
Lease contract between VIG Re and Kooperativa pojišťovna, a.s., Vienna Insurance Group
Lease contract between VIG Re and InterRisk Versicherungs-AG Vienna Insurance Group
Insurance contracts between VIG Re and Kooperativa pojišťovna, a.s., Vienna Insurance Group
Re-insurance contracts between VIG Re and BTA Baltic Insurance Company AAS, Riga
Re-insurance contracts between VIG Re and ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest
Re-insurance contracts between VIG Re and "BULSTRAD LIFE VIENNA INSURANCE GROUP" EAD, Sofia
Re-insurance contracts between VIG Re and INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia
Re-insurance contracts between VIG Re and Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chisinau
Re-insurance contracts between VIG Re and Compensa Life Vienna Insurance Group SE, Tallinn
Re-insurance contracts between VIG Re and Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw
Re-insurance contracts between VIG Re and Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw
Re-insurance contracts between VIG Re and Compensa Vienna Insurance Group, akcine draudimo bendrove, Vilnius
Re-insurance contracts between VIG Re and Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group, Prague
Re-insurance contracts between VIG Re and DONAU Versicherung AG Vienna Insurance Group, Vienna
Re-insurance contracts between VIG Re and ERSTE Osiguranje Vienna Insurance Group d.d., Zagreb
Re-insurance contracts between VIG Re and ERSTE Vienna Insurance Group Biztosító Zrt., Budapest
Re-insurance contracts between VIG Re and CAL ICAL "Globus", Kiev

Re-insurance contracts between VIG Re and Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group, Skopje
Re-insurance contracts between VIG Re and Joint Stock Company International Insurance Company IRAO, Tbilisi
Re-insurance contracts between VIG Re and InterRisk Lebensversicherungs-AG Vienna Insurance Group, Wiesbaden
Re-insurance contracts between VIG Re and InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw
Re-insurance contracts between VIG Re and InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden
Re-insurance contracts between VIG Re and INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana
Re-insurance contracts between VIG Re and Joint Stock insurance company WINNER - Vienna Insurance Group, Skopje
Re-insurance contracts between VIG Re and Joint Stock Company Insurance Company GPI Holding, Tbilisi
Re-insurance contracts between VIG Re and Komunálna Poistovna a.s. Vienna Insurance Group, Bratislava
Re-insurance contracts between VIG Re and KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group, Bratislava
Re-insurance contracts between VIG Re and Kooperativa pojišt'ovna, a.s. Vienna Insurance Group, Prague
Re-insurance contracts between VIG Re and Insurance Company Nova Ins EAD, Sofia
Re-insurance contracts between VIG Re and OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest
Re-insurance contracts between VIG Re and Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev
Re-insurance contracts between VIG Re and PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev
Re-insurance contracts between VIG Re and Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev
Re-insurance contracts between VIG Re and Poisťovňa Slovenskej sporiteľne, a.s. Vienna Insurance Group, Bratislava
Re-insurance contracts between VIG Re and Ray Sigorta Anonim Sirketi, Istanbul
Re-insurance contracts between VIG Re and BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest
Re-insurance contracts between VIG Re and Sigma Interalbanian Vienna Insurance Group Sh.a., Prishtinë
Re-insurance contracts between VIG Re and Sigma Interalbanian Vienna Insurance Group Sh.a., Tirana
Re-insurance contracts between VIG Re and Sparkassen Versicherung AG Vienna Insurance Group, Vienna
Re-insurance contracts between VIG Re and UNION Vienna Insurance Group Biztosító Zrt., Budapest
Re-insurance contracts between VIG Re and Vienna Life Vienna Insurance Group Biztositó Zártkörüen Müködö Részvénytársaság, Budapest
Re-insurance contracts between VIG Re and Wiener Osiguranje Vienna Insurance Group ad, Banja Luka
Re-insurance contracts between VIG Re and Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb

Re-insurance contracts between VIG Re and WIENER RE akcionarsko društvo za reosiguranje, Beograd, Belgrade
Re-insurance contracts between VIG Re and WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna
Re-insurance contracts between VIG Re and WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje Beograd, Belgrade
Re-insurance contracts between VIG Re and Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group, Skopje

Annex 2 to the Report on Related Parties

Related Parties and Equity of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe

Company	Country	The current capital share in %
Consolidated companies		
"BULSTRAD LIFE VIENNA INSURANCE GROUP" EAD, Sofia	Bulgaria	100.00
"Grüner Baum" Errichtungs- und Verwaltungsges.m.b.H., Vienna	Austria	100.00
"POLISA-ZYCIE" Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	99.90
Alpenländische Heimstätte, gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H., Innsbruck	Austria	94.84
Andel Investment Prague s.r.o., Prague	Czech Republic	100.00
Anif-Residenz GmbH & Co KG, Vienna	Austria	100.00
Arithmetica Versicherungs- und Finanzmathematische Beratungs-Gesellschaft m.b.H., Vienna	Austria	100.00
ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A., Bucharest	Romania	99.65
ATBIH GmbH, St.Pölten	Austria	100.00
AXA Life Insurance S.A., Bucharest	Romania	100.00
BCR Asigurari de Viata Vienna Insurance Group S.A., Bucharest	Romania	93.98
Blizzard Real Sp. z o.o., Warsaw	Poland	100.00
BML Versicherungsmakler GmbH, Vienna	Austria	100.00
BTA Baltic Insurance Company AAS, Riga	Latvia	90.83
Bulgarski Imoti Asistans EOOD, Sofia	Bulgaria	100.00
Businesspark Brunn Entwicklungs GmbH, Vienna	Austria	100.00
CAL ICAL "Globus", Kiev	Ukraine	100.00
CAPITOL, akciová spolocnost', Bratislava	Slovakia	100.00
CENTER Hotelbetriebs GmbH, Vienna	Austria	80.00
Central Point Insurance IT-Solutions GmbH, Vienna	Austria	100.00
Česká podnikatelská pojist'ovna, a.s., Vienna Insurance Group, Prague	Czech Republic	100.00
Compania de Asigurari "DONARIS VIENNA INSURANCE GROUP" Societate pe Actiuni, Chisinau	Moldova	99.99
COMPENSA Holding GmbH, Wiesbaden	Germany	100.00
Compensa Life Vienna Insurance Group SE, Tallinn	Estonia	100.00

Compensa Towarzystwo Ubezpieczen Na Zycie Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	100.00
Compensa Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	99.94
Compensa Vienna Insurance Group, akcine draudimo bendrove, Vilnius	Lithuania	100.00
CP Solutions a.s., Prague	Czech Republic	100.00
DBLV Immobesitz GmbH & Co KG, Vienna	Austria	100.00
DBLV Immobesitz GmbH, Vienna	Austria	100.00
DBR-Liegenschaften GmbH & Co KG, Stuttgart	Germany	100.00
DBR-Liegenschaften Verwaltungs GmbH, Stuttgart	Germany	100.00
Deutschmeisterplatz 2 Objektverwaltung GmbH, Vienna	Austria	100.00
Donau Brokerline Versicherungs-Service GmbH, Vienna	Austria	100.00
DONAU Versicherung AG Vienna Insurance Group, Vienna	Austria	99.24
DVIB GmbH, Vienna	Austria	100.00
ELVP Beteiligungen GmbH, Vienna	Austria	100.00
Erste gemeinnützige Wohnungsgesellschaft Heimstätte Gesellschaft m.b.H., Vienna	Austria	99.77
Erste osiguranje Vienna Insurance Group d.d., Zagreb	Croatia	100.00
ERSTE Vienna Insurance Group Biztositó Zrt., Budapest	Hungary	95.00
Floridsdorf am Spitz 4 Immobilienverwertungs GmbH, Vienna	Austria	100.00
Gemeinnützige Industrie-Wohnungsaktiengesellschaft, Leonding	Austria	55.00
Gemeinnützige Mürz-Ybbs Siedlungsanlagen-GmbH, Kapfenberg	Austria	99.92
Gesundheitspark Vienna-Oberlaa Gesellschaft m.b.H., Vienna	Austria	100.00
Insurance Company Nova Ins EAD, Sofia	Bulgaria	100.00
INSURANCE JOINT-STOCK COMPANY "BULSTRAD VIENNA INSURANCE GROUP", Sofia	Bulgaria	100.00
InterRisk Lebensversicherungs-AG Vienna Insurance Group, Wiesbaden	Germany	100.00
InterRisk Towarzystwo Ubezpieczen Spolka Akcyjna Vienna Insurance Group, Warsaw	Poland	99.99
InterRisk Versicherungs-AG Vienna Insurance Group, Wiesbaden	Germany	100.00
INTERSIG VIENNA INSURANCE GROUP Sh.A., Tirana	Albania	89.98
Joint Stock Company Insurance Company GPI Holding, Tbilisi	Georgia	90.00
Joint Stock Company International Insurance Company IRAO, Tbilisi	Georgia	100.00
Joint Stock Insurance Company WINNER-Vienna Insurance Group, Skopje	Macedonia	100.00
Kaiserstraße 113 GmbH, Vienna	Austria	100.00
KÁLVIN TOWER Ingatlanfejlesztési és Beruházási Korlátolt Felelősségű Társaság, Budapest	Hungary	100.00
Kapitol pojist'ovací a financní poradenství, a.s., Brno	Czech Republic	100.00
KOMUNÁLNA poistovna, a.s. Vienna Insurance Group, Bratislava	Slovakia	100.00
KOOPERATIVA poist'ovna, a.s. Vienna Insurance Group, Bratislava	Slovakia	100.00

Kooperativa, pojišt'ovna, a.s. Vienna Insurance Group, Prague	Czech Republic	98.39
Limited Liability Company "UIG Consulting", Kiev	Ukraine	100.00
LVP Holding GmbH, Vienna	Austria	100.00
MAP Bürodienstleistung Gesellschaft m.b.H., Vienna	Austria	100.00
MH 54 Immobilienanlage GmbH, Vienna	Austria	100.00
NEUE HEIMAT Oberösterreich Gemeinnützige Wohnungs-und SiedlungsgesmbH, Linz	Austria	99.82
Neuland gemeinnützige Wohnbau-Gesellschaft m.b.H., Vienna	Austria	61.00
OMNIASIG VIENNA INSURANCE GROUP S.A., Bucharest	Romania	99.50
Palais Hansen Immobilienentwicklung GmbH, Vienna	Austria	56.55
Passat Real Sp. z o.o., Warsaw	Poland	100.00
Pension Insurance Company Doverie AD, Sofia	Bulgaria	92.58
PFG Holding GmbH, Vienna	Austria	89.23
PFG Liegenschaftsbewirtschaftungs GmbH & Co KG, Vienna	Austria	92.88
Poist'ovna Slovenskej sporitel'ne, a.s. Vienna Insurance Group, Bratislava	Slovakia	95.00
Pojist'ovna Ceské sporitelny, a.s. Vienna Insurance Group, Pardubice	Czech Republic	95.00
Porzellangasse 4 Liegenschaftsverwaltung GmbH & Co KG, Vienna	Austria	100.00
Private Joint-Stock Company "INSURANCE COMPANY "KNIAZHA LIFE VIENNA INSURANCE GROUP", Kiev	Ukraine	97.80
Private Joint-Stock Company "Insurance company" Ukrainian insurance group", Kiev	Ukraine	100.00
PRIVATE JOINT-STOCK COMPANY "UKRAINIAN INSURANCE COMPANY "KNIAZHA VIENNA INSURANCE GROUP", Kiev	Ukraine	99.99
PROGRESS Beteiligungsges.m.b.H., Vienna	Austria	60.00
Projektbau GesmbH, Vienna	Austria	100.00
Projektbau Holding GmbH, Vienna	Austria	90.00
Rathstraße 8 Liegenschaftsverwertungs GmbH, Vienna	Austria	100.00
Ray Sigorta Anonim Sirketi, Istanbul	Turkey	94.96
Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH & Co KG, Vienna	Austria	100.00
Schulring 21 Bürohaus Errichtungs- und Vermietungs GmbH, Vienna	Austria	100.00
SCHWARZATAL Gemeinnützige Wohnungs- und Siedlungsanlagen GmbH, Vienna	Austria	100.00
SECURIA majetkovosprávna a podielová s.r.o., Bratislava	Slovakia	100.00
Senioren Residenz Fultererpark Errichtungs- und Verwaltungs GmbH, Vienna	Austria	100.00
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	Austria	66.70
SIGMA INTERALBANIAN VIENNA INSURANCE GROUP Sh.A., Tirana	Albania	89.05
SOZIALBAU gemeinnützige Wohnungsaktiengesellschaft, Vienna	Austria	54.17
Sparkassen Versicherung AG Vienna Insurance Group, Vienna	Austria	95.00

Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje Vienna Insurance Group, Skopje	Macedonia	94.26
SVZ GmbH, Vienna	Austria	100.00
SVZI GmbH, Vienna	Austria	100.00
T 125 GmbH, Vienna	Austria	100.00
TBI BULGARIA EAD, Sofia	Bulgaria	100.00
twinformatics GmbH, Vienna	Austria	100.00
UNION Vienna Insurance Group Biztositó Zrt., Budapest	Hungary	100.00
Untere Donaulände 40 GmbH & Co KG, Vienna	Austria	100.00
Urbanbau Gemeinnützige Bau-, Wohnungs- und Stadterneuerungsgesellschaft m.b.H., Vienna	Austria	51.46
Vienibas Gatve Investments OÜ, Tallinn	Estonia	100.00
Vienibas Gatve Properties SIA, Riga	Latvia	100.00
Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group, Warsaw	Poland	100.00
Vienna Life Vienna Insurance Group Biztositó Zártkörüen Müködö Részvénytársaság, Budapest	Hungary	100.00
Vienna-Life Lebensversicherung AG Vienna Insurance Group, Bendern	Lichtenstein	100.00
VIG FUND, a.s., Prague	Czech Republic	100.00
VIG ND, a.s., Prague	Czech Republic	100.00
VIG Properties Bulgaria AD, Sofia	Bulgaria	99.97
VIG RE zajišt'ovna, a.s., Prague	Czech Republic	100.00
VIG REAL ESTATE DOO, Belgrade	Serbia	100.00
VIG Real Estate GmbH, Vienna	Austria	100.00
VIG Services Ukraine, LLC, Kiev	Ukraine	100.00
VIG-CZ Real Estate GmbH, Vienna	Austria	100.00
VITEC Vienna Information Technology Consulting GmbH, Vienna	Austria	51.00
VLTAVA majetkovosprávní a podílová spol.s.r.o., Prague	Czech Republic	100.00
WGPV Holding GmbH, Vienna	Austria	100.00
Wiener Osiguranje Vienna Insurance Group ad, Banja Luka	Bosnia and Herzegovina	100.00
Wiener osiguranje Vienna Insurance Group dioničko društvo za osiguranje, Zagreb	Croatia	97.82
WIENER RE akcionarsko društvo za reosiguranje, Beograd, Belgrade	Serbia	100.00
WIENER STÄDTISCHE Beteiligungs GmbH, Vienna	Austria	100.00
WIENER STÄDTISCHE Finanzierungsdienstleistungs GmbH, Vienna	Austria	100.00
WIENER STÄDTISCHE OSIGURANJE akcionarsko drustvo za osiguranje Beograd, Belgrade	Serbia	100.00
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	Austria	99.90
WIENER VEREIN BESTATTUNGS- UND VERSICHERUNGSSERVICE-GESELLSCHAFT M.B.H., Vienna	Austria	100.00

WILA GmbH, Vienna	Austria	100.00
WNH Liegenschaftsbesitz GmbH, Vienna	Austria	100.00
WOFIN Wohnungsfinanzierungs GmbH, Vienna	Austria	100.00
WSBV Beteiligungsverwaltung GmbH & Co KG, Vienna	Austria	100.00
WSV Immoholding GmbH, Vienna	Austria	100.00
WWG Beteiligungen GmbH, Vienna	Austria	87.07

Companies consolidated using the equity method	Country	The current capital share in %
AB Modřice, a.s., Prague	Czech Republic	100.00
AIS Servis, s.r.o., Brno	Czech Republic	100.00
Benefita, a.s., Prague	Czech Republic	100.00
Beteiligungs- und Immobilien GmbH, Linz	Austria	25.00
Beteiligungs- und Wohnungsanlagen GmbH, Linz	Austria	25.00
ČPP Servis, s.r.o., Prague	Czech Republic	100.00
CROWN-WSF spol. s.r.o., Prague	Czech Republic	30.00
ERSTE drustvo s ogranicenom odgovornoscu za upravljanje obveznim i dobrovljnim mirovinskim fondovima, Zagreb	Croatia	25.30
GLOBAL ASSISTANCE, a.s., Prague	Czech Republic	100.00
Gewista-Werbegesellschaft m.b.H., Vienna	Austria	33.00
Global Expert, s.r.o., Pardubice	Czech Republic	100.00
HOTELY SRNÍ, a.s., Prague	Czech Republic	100.00
KIP, a.s., Prague	Czech Republic	100.00
Main Point Karlín II., a.s., Prague	Czech Republic	100.00
Pražska softwarová s.r.o, Prague	Czech Republic	100.00
S - budovy, a.s., Prague	Czech Republic	100.00
S IMMO AG, Vienna	Austria	10.33
S-správa nemovitostí, a.s., Prague	Czech Republic	100.00
SURPMO, a.s., Prague	Czech Republic	100.00
Sanatorium Astoria, a.s., Carlsbad	Czech Republic	100.00
VBV - Betriebliche Altersvorsorge AG, Vienna	Austria	23.72
Österreichisches Verkehrsbüro Aktiengesellschaft, Vienna	Austria	36.58

Unconsolidated companies	Country	The current capital share in %
"Assistance Company "Ukrainian Assistance Service" LLC, Kiev	Ukraine	100.00
"Compensa Services" SIA, Riga	Latvia	100.00
"Eisenhof" Gemeinnützige Wohnungsgesellschaft m.b.H., Vienna	Austria	20.13
"Medical Clinic "DIYA" LLC, Kiev	Ukraine	100.00
"Neue Heimat" Stadterneuerungsgesellschaft m.b.H., Linz	Austria	79.51
ALBA Services GmbH, Vienna	Austria	49.95
AQUILA Hausmanagement GmbH, Vienna	Austria	99.90

AREALIS Liegenschaftsmanagement GmbH, Vienna	Austria	49.95
Amadi GmbH, Wiesbaden	Germany	100.00
Anif-Residenz GmbH, Vienna	Austria	99.90
Autosig SRL, Bucharest	Romania	99.50
B&A Insurance Consulting s.r.o., Moravian Ostrava	Czech Republic	48.15
Benefia Ubezpieczenia Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	99.94
Brunn N68 Sanierungs GmbH, Vienna	Austria	49.95
Bulstrad Trudova Meditzina EOOD, Sofia	Bulgaria	100.00
CAPITOL BROKER DE PENSII PRIVATE S.R.L., Bucharest	Romania	98.16
CAPITOL INTERMEDIAR DE PRODUSE BANCARE S.R.L., Bucharest	Romania	98.16
CAPITOL INTERMEDIAR DE PRODUSE DE LEASING S.R.L., Bucharest	Romania	98.16
CAPITOL Spolka z Ograniczona odpowiedzialnoscia, Warsaw	Poland	99.98
CARPLUS Versicherungsvermittlungsagentur GmbH, Vienna	Austria	99.90
Camelot Informatik und Consulting Gesellschaft m.b.H., Villach	Austria	90.18
Compensa Dystrybucja Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	99.99
DIRECT-LINE Direktvertriebs-GmbH, Vienna	Austria	99.90
DV Asset Management EAD, Sofia	Bulgaria	100.00
DV CONSULTING EOOD, Sofia	Bulgaria	100.00
DV Invest EAD, Sofia	Bulgaria	100.00
DVS Donau-Versicherung Vermittlungs- und Service-Gesellschaft m.b.H., Vienna	Austria	94.40
EBS Wohnungsgesellschaft mbH Linz, Linz	Austria	24.97
EBV-Leasing Gesellschaft m.b.H., Vienna	Austria	73.92
EGW Datenverarbeitungs-Gesellschaft m.b.H., Vienna	Austria	71.92
EGW Liegenschaftsverwertungs GmbH, Vienna	Austria	71.92
EGW Wohnbau gemeinnützige Ges.m.b.H., Wiener Neustadt	Austria	71.92
EXPERTA Schadenregulierungs-Gesellschaft mbH, Vienna	Austria	95.78
Erste Bank und Sparkassen Leasing GmbH, Vienna	Austria	48.95
Erste Biztositasi Alkusz Kft, Budapest	Hungary	95.00
European Insurance & Reinsurance Brokers Ltd., London	United Kingdom	85.00
Foreign limited liability company "InterInvestUchastie", Minsk	Belarus	100.00
Finanzpartner GmbH, Vienna	Austria	49.95
GC Liegenschaftsentwicklungs GmbH, Judenburg	Austria	24.98
GELUP GmbH, Vienna	Austria	33.30
GEO HOSPITALS LLC, Tbilisi	Georgia	93.50
GGVier Projekt-GmbH, Vienna	Austria	54.95
GLOBAL ASSISTANCE SERVICES SRL, Bucharest	Romania	99.70
GLOBAL ASSISTANCE SERVICES s.r.o., Prague	Czech Republic	100.00
GLOBAL ASSISTANCE SLOVAKIA s.r.o., Bratislava	Slovakia	100.00

Glamas Beteiligungsverwaltungs GmbH & Co "Beta" KG, Vienna	Austria	23.31
Glamas Beteiligungsverwaltungs GmbH in Liqu., Vienna	Austria	23.31
Global Services Bulgaria JSC, Sofia	Bulgaria	100.00
HORIZONT Personal-, Team- und Organisationsentwicklung GmbH, Vienna	Austria	98.58
Hausservice Objektbewirtschaftungs GmbH, Vienna	Austria	20.72
IMOVE Immobilienverwertung- und -verwaltungs GmbH, Vienna	Austria	20.72
Immodat GmbH, Vienna	Austria	20.72
InterRisk Informatik GmbH, Wiesbaden	Germany	100.00
JAHORINA AUTO d.o.o., Banja Luka	Bosnia and Herzegovina	100.00
Joint Stock Company "Curatio", Tbilisi	Georgia	90.00
Joint Stock Insurance Company WINNER LIFE - Vienna Insurance Group Skopje, Skopje	Macedonia	100.00
KUPALA Belarusian-Austrian Closed Joint Stock Insurance Company, Minsk	Belarus	98.26
KWC Campus Errichtungsgesellschaft m.b.H., Klagenfurt	Austria	49.95
LiSciV Muthgasse GmbH & Co KG, Vienna	Austria	23.31
MC EINS Investment GmbH, Vienna	Austria	49.95
Money & More Pénzügyi Tanácsadó Zártkörüen Müködö Részvénytársaság, Budapest	Hungary	100.00
Nuveen Management Austria GmbH, Vienna	Austria	34.97
Nußdorfer Straße 90-92 Projektentwicklung GmbH & Co KG, Vienna	Austria	94.93
PFG Liegenschaftsbewirtschaftungs GmbH, Vienna	Austria	73.76
People's Pharmacy LLC, Tbilisi	Georgia	45.00
Privat Joint-Stock Company "OWN SERVICE", Kiev	Ukraine	100.00
RISK CONSULT Sicherheits- und Risiko- Managementberatung Gesellschaft m.b.H., Vienna	Austria	50.44
Renaissance Hotel Realbesitz GmbH, Vienna	Austria	37.76
Risk Consult Bulgaria EOOD, Sofia	Bulgaria	50.44
Risk Consult Polska Sp.z.o.o., Warsaw	Poland	67.78
Risk Expert Risk ve Hasar Danismanlik Hizmetleri Limited Sirketi, Istanbul	Turkey	63.80
Risk Experts s.r.o., Bratislava	Slovakia	50.44
Risk Logics Risikoberatung GmbH, Vienna	Austria	50.44
S. C. SOCIETATEA TRAINING IN ASIGURARI S.R.L., Bucharest	Romania	98.45
S.C. CLUB A.RO S.R.L., Bucharest	Romania	99.68
S.C. Risk Consult & Engineering Romania S.R.L., Bucharest	Romania	50.44
S.O.S.- EXPERT d.o.o. za poslovanje nekretninama, Zagreb	Croatia	100.00
SB Liegenschaftsverwertungs GmbH, Vienna	Austria	40.26
SVZ Immoholding GmbH, Vienna	Austria	94.93
SVZ Immoholding GmbH & Co KG, Vienna	Austria	94.93

SVZD GmbH, Vienna	Austria	100.00
Senioren Residenzen gemeinnützige Betriebsgesellschaft mbH, Vienna	Austria	99.90
Slovexperta, s.r.o., Zilina	Slovakia	100.00
Soleta Beteiligungsverwaltungs GmbH, Vienna	Austria	23.31
Sparkassen-Versicherungsservice Gesellschaft m.b.H., Vienna	Austria	94.93
Spoldzielnia Uslugowa VIG EKSPERT W WARSZAWIE, Warsaw	Poland	99.96
Spoldzielnia Vienna Insurance Group IT Polska, Warsaw	Poland	99.97
TBI Info EOOD, Sofia	Bulgaria	98.62
TOGETHER CCA GmbH, Vienna	Austria	24.28
UAB "Compensa Life Distribution", Vilnius	Lithuania	100.00
UAB "Compensa Services", Vilnius	Lithuania	100.00
UNION-Informatikai Szolgáltató Kft., Budapest	Hungary	100.00
Untere Donaulände 40 GmbH, Vienna	Austria	97.70
VIG AM Services GmbH, Vienna	Austria	100.00
VIG Asset Management, a.s., Prague	Czech Republic	100.00
VIG Management Service SRL, Bucharest	Romania	98.45
VIG Services Bulgaria EOOD, Sofia	Bulgaria	100.00
VIG Services Shqiperi Sh.p.K., Tirana	Albania	89.52
VIG-AT Beteiligungen GmbH, Vienna	Austria	100.00
Versicherungsbüro Dr. Ignaz Fiala Gesellschaft m.b.H., Vienna	Austria	33.30
Vienna Insurance Group Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	99.99
Vienna International Underwriters GmbH, Vienna	Austria	100.00
VÖB Direkt Versicherungsagentur GmbH, Graz	Austria	49.95
WAG Immobilien Einsiedlergasse GmbH, Linz	Austria	24.98
WAG Immobilien Einsiedlergasse GmbH & Co OG, Linz	Austria	24.98
WAG Immobilien GmbH & Co OG, Linz	Austria	24.98
WAG Wohnungsanlagen Gesellschaft m.b.H., Linz	Austria	24.98
WINO GmbH, Vienna	Austria	99.90
WSBV Beteiligungsverwaltung GmbH, Vienna	Austria	99.90
WSV Beta Immoholding GmbH, Vienna	Austria	99.90
WSV Vermögensverwaltung GmbH, Vienna	Austria	99.90
Vienna 3420 Aspern Development AG, Vienna	Austria	24.44
Viennaer Städtische Donau Leasing GmbH, Vienna	Austria	99.90
Akcionarsko drustvo za zivotno osiguranje Wiener Städtische Podgorica, Vienna Insurance Group, Podgorica	Montenegro	100.00

Declaration by the Board of Directors

We declare that the information stated in this annual report corresponds to the actual situation and that no fundamental information that could influence a correct and precise assessment has been omitted.

29 March 2018

Johannes Martin Hartmann
Chairman of the Board of Directors

Dušan Bogdanović
Member of the Board of Directors

Ivana Jurčíková
Member of the Board of Directors

Tomasz Rowicki
Member of the Board of Directors