



UNIQA Insurance Group AG

# Group Economic Capital Report 2016

## Table of Contents

1	Executive Summary .....	3
2	Risk Strategy – UNIQA Group .....	4
3	Risk Management Framework .....	5
4	Own Funds .....	5
4.1	Own Funds Development.....	5
4.2	Reconciliation with IFRS Equity .....	6
5	Risk Profile.....	7
5.1	Economic Capital Requirement.....	7
5.1.1	Risk Profile Results .....	7
5.1.2	Market Risk .....	9
5.1.3	Underwriting Risk Life .....	9
5.1.4	Underwriting Risk Non – Life.....	10
5.1.5	Underwriting Risk Health SLT .....	12
5.2	Other Risk Categories.....	13
6	Capital Adequacy.....	13
7	External Review .....	15
8	Appendix.....	17
8.1	Methodology .....	17
8.1.1	Own Funds.....	17
8.1.2	ECR Methodology .....	18
8.2	Assumptions .....	21
8.2.1	Economic Assumptions.....	21
8.2.2	Other Economic Assumptions .....	23
8.2.3	Operating Assumption.....	23
8.3	Glossary and Abbreviations .....	26
8.4	Disclaimer .....	27

## 1 Executive Summary

- The risk management approach of UNIQA Group is designed to add value by focusing on risk, return and revenue.
- The capitalization level of UNIQA Group is high, due primarily to the impact of the disposal of the Italian businesses.
- UNIQA Group is developing an internal model for all market risks.

As an insurance company carrying on life, health and non-life business lines, UNIQA Group is exposed to various risks. The risks that require the highest portion of the risk capital are:

- Market Risk, especially spread risk due to assets backing long-term and saving products
- Underwriting Risks Non-Life, dominated by reserve risk in long-tail lines of business (Motor TPL, TPL) and by non-CAT premium risk in property lines of business
- Underwriting Risks Life, driven by Lapse and Expense Risk

Due to the high share of life business mainly in the Austrian company, the low interest rate environment continues to be one of the main challenges for UNIQA Group. Interest Rate Risk, driven by the duration and matching gap between assets and liabilities, and the margins achievable on traditional business with interest rate guarantees have been and remain key issues. Measures in product development and ALM are continuing in order to manage the risks actively. Due to a high portion in traditional life business the management of the existing in-force book and the investment margins achievable are key issues. Once again the Group's ALM activities resulted in a reduction of the duration gap between assets and liabilities and consequently the Interest Rate Risk itself.

Additionally the Group puts its focus on Spread Risk from a qualitative and quantitative risk management approach and established responsible functions and committee meetings to create appropriate awareness. UNIQA assumes that EEA (European Economic Area) government bonds denominated in the local currency also carry Spread and Concentration Risk and allows for a risk capital charge in its ECR. In this respect the Group's approach is more conservative than the Solvency II standard formula. UNIQA will continue to monitor and investigate its approach to analyzing its Spread Risk profile.

The solvency position increased considerably in 2016. The Economic Capital Requirement (ECR) Quota is 215% as at year-end 2016 compared to 182% as at year-end 2015.

(in EUR millions)	2016	2015
Economic Capital Requirement	2,509	2,857
Own Funds	5,382	5,205
Economic Capital Ratio	215%	182%

**Table 1 Economic Capital Ratio**

The increase of the ECR Quota is driven by the decrease of ECR, primarily due to the impact of the disposal of the Italian businesses. The Own Funds increased by EUR 177 millions to EUR 5,382 millions.

The decrease of ECR by EUR 348 millions is mainly driven by a decrease in Market Risks (EUR 340 millions) due to reduced exposures following the disposal of the Italian businesses. Within the Market Risk the main decreases relate to Spread Risk and Concentration Risk (c.f. chapter 5.1.2).

The following measures are defined to manage the development of the ECR Quota:

- Asset Liability Management (ALM)
- Steering life business in line with defined economic principles
- Continual in-force management

The methodology for the calculation of Own Funds and ECR is based on the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 ("Level 2 Delegated Acts" or "Technical Specifications") and is described in section 8.

B&W Deloitte GmbH, Cologne has been retained to review the ECR methodology, assumptions and the derivation of the results as set out in sections 4, 5 and 6 of this report. They have not reviewed the Risk Strategy or Risk Management Framework. The scope and the results of this independent review are set out in section 7.

## 2 Risk Strategy – UNIQA Group

### Risk Preferences

UNIQA's risk preference remain unchanged to the previous year. A further reduction of Market Risk as a proportion of the total ECR was achieved through the disposal of the Italian businesses. We clearly state our preferences towards risk categories, where it is defined, which risks we are willing to take and which we want to avoid. Risks that we are willing and committed to take are Underwriting Risks in the Non-Life, Health as well as in the Life segment, since these build the core of the insurance business.

On the other hand, we want to avoid any risks that cannot be influenced by our business conduct and based on misconduct such as Operational, Strategic and Reputational Risks.

A moderate preference is assigned to Market and Credit Risks, since a controlled amount of risk has to be taken here to fulfill our obligations towards our customers. Still those risk categories are monitored closely with a profound limit system to avoid excessive risk loading.

### Risk Appetite Statements

**Capital** – On Group level we aim to keep an ECR and SCR-ratio of at least 135%. Falling below this limit would initiate immediate short-term derisking measures or re-capitalisation. Setting a target of 170% ECR-ratio we consider a variance in the range of 155% to 190% capital ratio as appropriate based on the risk profile of the Group. The Group is currently significantly exceeding the target capital ratio due to the disposal of the Italian businesses. Actions according the business strategy will be taken within the upcoming months to move the Group back within the defined limits.

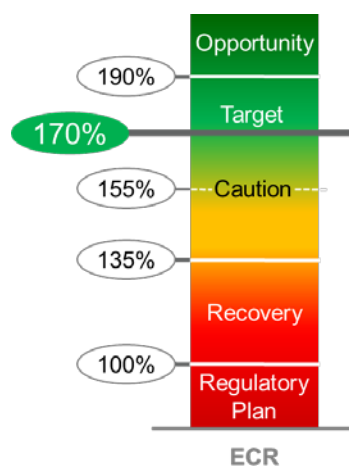


Figure 1 Solvency Steering Rules

**Risk & Return** – We aim to steer the overall portfolio development on an economic modelling basis. Quantitative results are part and input of product review, planning and steering processes.

**Non-Life Underwriting Risk** – We aim for a high diversification through a modern multiple line insurance approach in terms of serving a wide field of coverages for retail business and building up a selective corporate business portfolio. We seek a sound retail portfolio mix with an emphasis on profitable non-motor business.

We have a clear profit testing process, proper underwriting guidelines and approval processes in place to ensure selective and prudent underwriting. By pooling our risks through UNIQA Re we aim to maximize the risk-adjusted

profit via the use and target-oriented steering of diversification effects. Group wide Nat Cat cover contributes to optimize our reinsurance portfolio and to obtain a well-balanced risk return profile. We perform an analysis of our flood, wind, earthquake and hail exposures on a yearly base.

**Health Underwriting Risk** – Short term health products show excellent risk/return relations. Long term health is the major growth segment in mature markets. Cost inflation and regulatory changes are monitored closely.

**Life Underwriting Risk** – We seek a sound balance between traditional life and unit-linked products in our life portfolio. We focus on strengthening biometric risks. A clear profit testing process, based on our MCEV methodology, is implemented in order to assure the profitability of our new life insurance products, where a minimum profit margin is required.

**Market Risk** – We accept Market Risk to fulfill our obligations towards our customers. A stringent implementation of our ALM approach ensures an appropriate return to serve our promises towards our clients and limits our risk consumption to a required minimum. As a liability driven investor we aim to match our asset structure to our liabilities. We clearly want to optimize our Concentration, Interest Rate and Liquidity Risk. To assure the sufficiency of our risk capacity we evaluate their adequacy under stressed scenarios. The Group is currently implementing a partial internal model for Market Risk.

**Credit Risk** – We accept Credit Risk to fulfill our obligations towards our customers. We manage our Credit and Counterparty Default Risk by a selective and prudent selection of counterparties. We set limits in our internal Policy.

**Operational Risk** – A clear Group Governance model, Group Compliance, Group (IT) Security and our internal control framework act together to limit operational risks exposures. Operational Risk contains a broad range of risks that are reported and monitored monthly in a heat map. Measures are implemented to manage our highest risks and monitor those which are not in focus.

**Strategic Risk** - We review our business strategy at least on a yearly basis and challenge our assumptions regularly. We assess our long term options and risks regularly to assure an achievable and meaningful strategic process.

### 3 Risk Management Framework

UNIQA's Risk Management System, specifically its organisational structure and Risk Management process, are described in the Risk Report part of UNIQA Group Report 2016 (Notes to the Group Financial Statements).

### 4 Own Funds

The economic balance sheet at Group level uses the accounting consolidation methodology and Own Funds are presented on a consolidated basis. The entities consolidated under UNIQA's economic balance sheet are determined according to the principles as set out within the Solvency II Delegated Regulation. The value of the Italian businesses in the economic balance sheet has been included on the basis of the transaction value. The Group is treated as one entity and all intra-group transactions are eliminated for the determination of both Own Funds and Economic Capital Requirement.

#### 4.1 Own Funds Development

From 2015 to 2016 the amount of the Own Funds increased by EUR 177 millions. The economic profits generated net of the dividends payable led to the increased level of Own Funds. Profitable new business as well as favourable development of operating assumptions supported this development. Additionally the transaction price of the Italian businesses was in excess of the Own Funds contribution from the business.

According to Solvency II requirements, there are defined limits for the allowance of different capital classes. Tier 1 is the capital of the highest quality and can be fully used to cover the ECR. The composition of Own Funds has changed compared to last year due to the repayment of EUR 250 millions of restricted Tier 1 subordinated debt. As both Tier 1 restricted (20% of the total Tier 1 capital) and Tier 2 / Tier 3 (50% of ECR in total, 15% of ECR Tier 3 capital) allowance limits are not exceeded, the whole amount of available Own Funds can be used to cover the ECR.

Position	2016		2015	
	(in EUR millions)	in %	(in EUR millions)	in %
Tier 1	4,449	83%	4,360	84%
Tier 1 unrestricted	4,449	100%	4,110	94%
Tier 1 restricted	0	0%	250	6%
Tier 2	929	17%	846	16%
Tier 3	4	0%	0	0%
Total	5,382	100%	5,205	100%

Table 2 Composition of Own Funds

## 4.2 Reconciliation with IFRS Equity

As at 31 December 2016 the IFRS equity including minorities amounted to EUR 3,213 millions (thereof EUR 27 millions minorities) and Own Funds amounted to EUR 5,382 millions.

The following table shows the reconciliation of IFRS equity including minorities to Own Funds.

Position (in EUR millions)	2016	2015
<b>IFRS Equity</b>	<b>3,213</b>	<b>3,175</b>
- Goodwill	-295	-429
- Intangible assets & VBI	-62	-63
- Deferred acquisition costs	-1,135	-980
+ Revaluation (after deferred taxes)	2,919	2,566
Revaluation of assets	1,266	851
Revaluation of net technical provisions	1,653	1,728
Contingent liabilities	0	-14
+ Subordinated liabilities	929	1,096
- Foreseeable dividends	-151	-145
- Capping of minority interests	-36	-14
<b>Own Funds</b>	<b>5,382</b>	<b>5,205</b>

Table 3 Reconciliation of IFRS Equity to Own Funds

The main differences between the IFRS equity including minorities and Own Funds are:

- Goodwill, deferred acquisition costs, value of business in-force (VBI) and intangible assets are valued at zero in Own Funds;
- Market values of participations, properties and loans (as shown in the notes to the Group's Consolidated Financial Statements) replace IFRS values;
- Technical provisions and reinsurance recoverables are valued on a discounted, best-estimate basis in the Own Funds;
- Subordinated liabilities are considered in the Own Funds;
- Foreseeable dividends are deducted in Own Funds.

## 5 Risk Profile

### 5.1 Economic Capital Requirement

The ECR is the level of Own Funds needed for protection against unexpected and extreme losses. UNIQA applies the methodology of the standard formula under Solvency II which is a Value-at-Risk (“VaR”) approach with a confidence level of 99.5% over a one-year time horizon. UNIQA’s Economic Capital Requirement is the consolidated result of the aggregated capital requirements for the individual risks, which takes into account diversification effects between individual risk modules. For lines of business where an internal model approach has been applied, also diversification effects between companies within the group are allowed for. More details of the methodology are included in the Appendix. The ECR for Market, Life and Health are net of the risk mitigation from future discretionary benefits, where applicable, but before the adjustment for deferred taxes.

#### 5.1.1 Risk Profile Results

Figure 2 shows the components of the ECR as well as the change in the components compared to 2015.

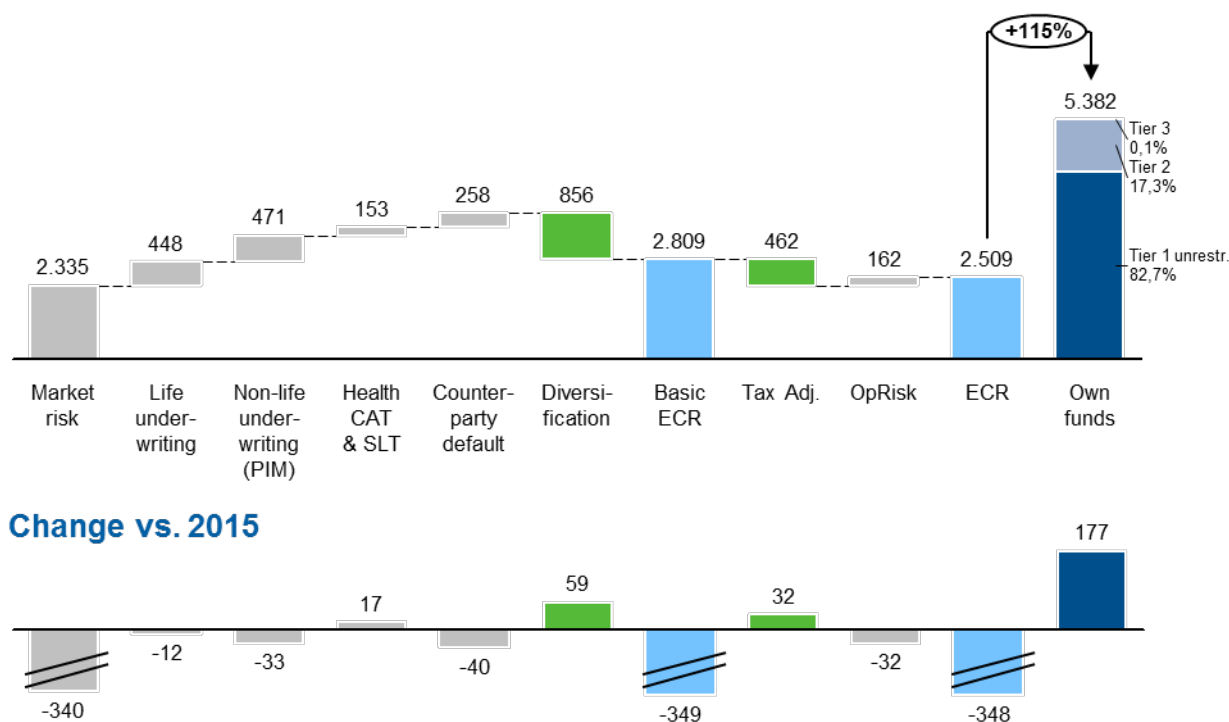


Figure 2 Risk Profile in 2016 and Change vs. 2015

In the following table the composition of ECR is presented. ECR figures are shown net of the risk mitigation from future discretionary benefits.

Position	2016		2015	
	(in EUR millions)	in %	(in EUR millions)	in %
<b>Economic Capital Requirement</b>	<b>2,509</b>		<b>2,857</b>	
<i>Basic ECR</i>	2,809		3,157	
ECR Market Risk	2,335	63.7%	2,674	65.7%
ECR CDR	258	7.1%	298	7.3%
ECR Life	448	12.2%	460	11.3%
ECR Non-Life <sup>1</sup>	471	12.9%	504	12.4%
ECR Health <sup>2</sup>	153	4.2%	136	3.3%
Diversification	-856		-915	
ECR Intangible	0		0	
<i>Operational risk</i>	162		194	
<i>Mitigation due to DT</i>	-462		-494	

**Table 4 Development of Risk Profile**

The ECR decreased from EUR 2,857 millions in 2015 to EUR 2,509 millions in 2016 (a decrease of EUR 348 millions). The main component of the ECR is the Market Risk which is mainly related to the assets backing the high portion of the traditional life insurance portfolio. Within UNIQA Group the proportion of Life, Non-Life and Health Underwriting Risks increased. In line with the risk strategy of the Group the share of Market Risk as percentage of the risk profile was reduced. Due to these changes within the risk profile a proportionally higher diversification effect could be generated. The analysis for each risk category is shown in chapters 5.1.2 to 5.1.5.

In the following tables the capital requirement per segment and region are represented. Compared to last year the share of capital requirement per segment shows a strong shift from the Life to the Non-Life and Health segment, simply driven by the disposal of the Italian business which has been life business to its major extent.

Segment	2016	2015
Life	44%	52%
Non – Life (incl. Health N-SLT)	31%	27%
Health SLT	25%	21%

**Table 5 Capital Requirement per Business Segment**

Table 6 shows that the highest portion of the capital requirement originates from the Austrian companies driven by the regional composition of business volumes.

Region	2016	2015
AT	77%	73%
WEM	8%	13%
CEE	5%	5%
SEE	8%	8%
EEM	2%	1%

**Table 6 Capital Requirement per Region**

The high share of risk in the region WEM shows the internal transfer of risk to UNIQA Re and includes the business in Liechtenstein.

<sup>1</sup> The ECR Non-Life comprises of the underwriting risk calculated by the Partial Internal Model, scaled from the modelled business to the whole business.

<sup>2</sup> ECR Health includes the ECR for Health SLT and Health CAT risk (Health NSLT is included in ECR-Non Life)



### 5.1.2 Market Risk

The liability driven investment approach by UNIQA Group remained in force in 2016. Therefore the portion of fixed income investments backing especially the Life and Health SLT business remained the major part of the Groups asset allocation, followed by investments in real estate. Despite the disposal of the Italian business the decomposition of the asset allocation remained rather unchanged. While further disinvestments in ABS took place, first steps in building up a portfolio on infrastructure investments were made.

The disposal of the Italian businesses was the main driver of change in the Market Risk. The overall Market Risk decreased by EUR 340 millions to EUR 2,335 millions in 2016. The overall share of Market Risk declined from 66% to 64% as a consequence, but remains the major risk driver for UNIQA. The composition of the individual Market Risk sub-categories is summarized in table 8.

Position	2016		2015	
	ECR in EUR millions	in %	ECR in EUR millions	in %
<b>Market Risk</b>	<b>2,335</b>		<b>2,674</b>	
Interest Rate Risk	349	11.4%	394	10.9%
Equity Risk	405	13.3%	351	9.7%
Property Risk	598	19.5%	561	15.5%
Spread Risk	1,250	40.9%	1,650	45.5%
Concentration Risk	108	3.5%	326	9.0%
Currency Risk	349	11.4%	347	9.6%
<i>Diversification</i>	-724		-954	

**Table 7 Capital Requirement for Market Risks**

Spread Risk, which is determined by the risk metrics rating and modified duration, remains the dominant Market Risk component. The proportion of Spread Risk decreased by 4.6 percentage points (or EUR 400 millions in absolute terms) compared to the year 2015. The main reason for this positive development was the removal of the proportionally higher Spread Risk allocated to the Italian businesses and the reduction in exposure to long dated callable bonds. Government bonds accounted for the majority share of spread risk.

The impact of the disposal of the Italian businesses outweighed the impact of the decrease to the general level of interest rates and led to the further decline in Interest Rate Risk from EUR 394 millions to EUR 349 millions in 2016. Interest Rate Risk is generally caused by both assets and liabilities whose values react sensitively to changes in interest rates. The main driver of Interest Rate Risk is the difference in the duration between assets and liabilities.

Both Equity Risk and Property Risk increased in 2016, due to the increased absolute levels of exposures. The proportion of these risks within the Market Risk module increased, primarily due to the decreased levels of Spread Risk and Interest Risk.

Concentration Risk was also greatly reduced due to the decrease in underlying exposures, particularly Italian government bonds. The share decreased from 9.0 to 3.5 percentage points (EUR 218 millions).

### 5.1.3 Underwriting Risk Life

The ECR and risk absorbing capacity of future discretionary benefits for Life Underwriting Risks is calculated by applying the standard risk factors described in the Technical Specifications for each sub risk module. The ECR per sub risk module is derived as the change in Best Estimate for guaranteed benefits under shock. The ECR allowing for risk absorbing capacity of future discretionary benefits is derived as the change in Best Estimate for benefits including future profit sharing under shock.

For Lapse Risk the stress is only applied where the best estimate increases due to the risk scenario (for each of the scenarios lapse up, lapse down or mass lapse).

To determine the group's ECR for Life Underwriting Risks the results of the sub risk modules are aggregated by applying the correlation factors described in the Technical Specifications.

The ECR for Life Underwriting Risks are mainly driven by the Lapse Risk and Expense Risk.

Position	2016		2015	
	ECR in EUR millions	in %	ECR in EUR millions	in %
<b>Life Underwriting Risk</b>	<b>448</b>		<b>460</b>	
Mortality Risk	27	4.7%	30	5.1%
Longevity Risk	49	8.4%	43	7.3%
Disability Risk	8	1.4%	8	1.3%
Lapse Risk	336	58.3%	356	60.9%
Expense Risk	139	24.2%	133	22.7%
Revision Risk	0	0.1%	1	0.1%
CAT Risk	16	2.8%	15	2.5%
<i>Diversification</i>	-128		-124	

**Table 8 Capital Requirement for Life Underwriting Risks**

The relevant Lapse Risk is the downward shock within the Standard Approach (as it was in 2015). The main contributor to this is the traditional life business in Austria, as a consequence of the low interest rates.

#### 5.1.4 Underwriting Risk Non-Life

Underwriting Risk Non-Life and Health NSLT is quantified by means of the partial internal model, which covers both premium (including CAT and business risk) and reserve risks. The crucial benefit of the model compared to the standard formula is a more accurate consideration of the specific risks in the UNIQA portfolio and better application of the non-proportional reinsurance program.

The ECR for Non-Life amounts to EUR 666 millions and is mitigated to EUR 471 millions after the application of reinsurance. The lines of business with the highest risk (before reinsurance) are those with the highest CAT exposure (Property and Other with predominant premium risk) followed by the long tail business with high volume (Motor TPL and TPL with a significant role of the reserve risk). Fronting business has a special role with a significant amount of capital requirement gross of reinsurance which is almost completely mitigated by reinsurance.

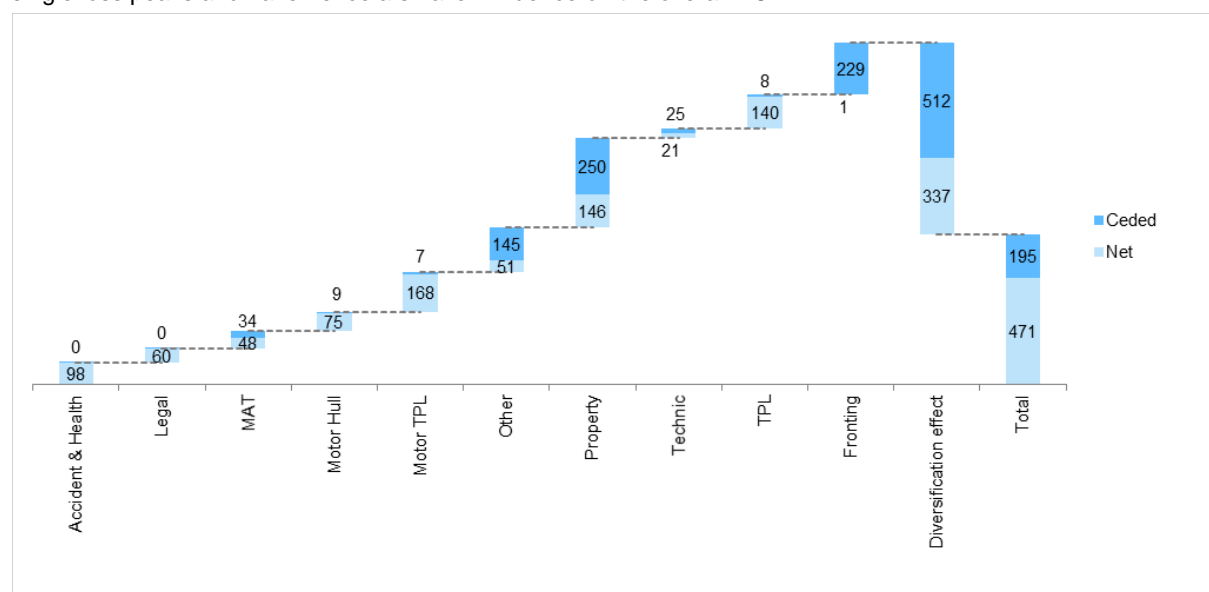
In comparison to the previous year the most significant changes in the ECR for Non-Life, apart from the ordinary portfolio developments, are:

- The total ECR decrease is mainly driven by structural changes, i.e. the exclusion of the Italian businesses and the merger of the three Austrian companies.
- These impacts also resulted in changes of the stand-alone figures for a number of lines of business, e.g. the ECR decrease in MTPL is mainly caused by the exclusion of the Italian businesses.

ECR in EUR millions	Stand Alone 2016		Stand Alone 2015	
	Gross	Net	Gross	Net
<b>Non-Life Underwriting Risk</b>	<b>666</b>	<b>471</b>	<b>677</b>	<b>504</b>
Accident	98	98	90	89
Legal	60	60	49	48
MAT	82	48	83	59
Motor Hull	84	75	82	73
Motor TPL	175	168	190	183
Other	196	51	181	48
Property	396	146	386	153
Technic	46	21	55	25
TPL	148	140	137	131
Fronting	230	1	209	1
<i>Diversification</i>	-849	-337	-785	-307

**Table 9 Risk Profile Non-Life Underwriting Risk**

External reinsurance coverage of the UNIQA Group is organized by UNIQA Re and consists mostly of non-proportional treaties provided by numerous external reinsurers. A significant capital release on the net side can be seen in the lines of business with large amount of Nat Cat risk. The Nat Cat excess of loss coverage brings the highest capital release. The remaining excess of loss treaties have the purpose of protecting the group against single loss peaks and have hence a smaller influence on the overall ECR.



**Figure 3 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance (in EUR millions)**

Exclusion of the CAT risk allows analysing the non-CAT risks as well as the influence of the remaining reinsurance treaties. The gross ECR for Non-Life reduces without consideration of CAT risk by 25.4%. The main risk driver is Motor TPL followed by Property and TPL.

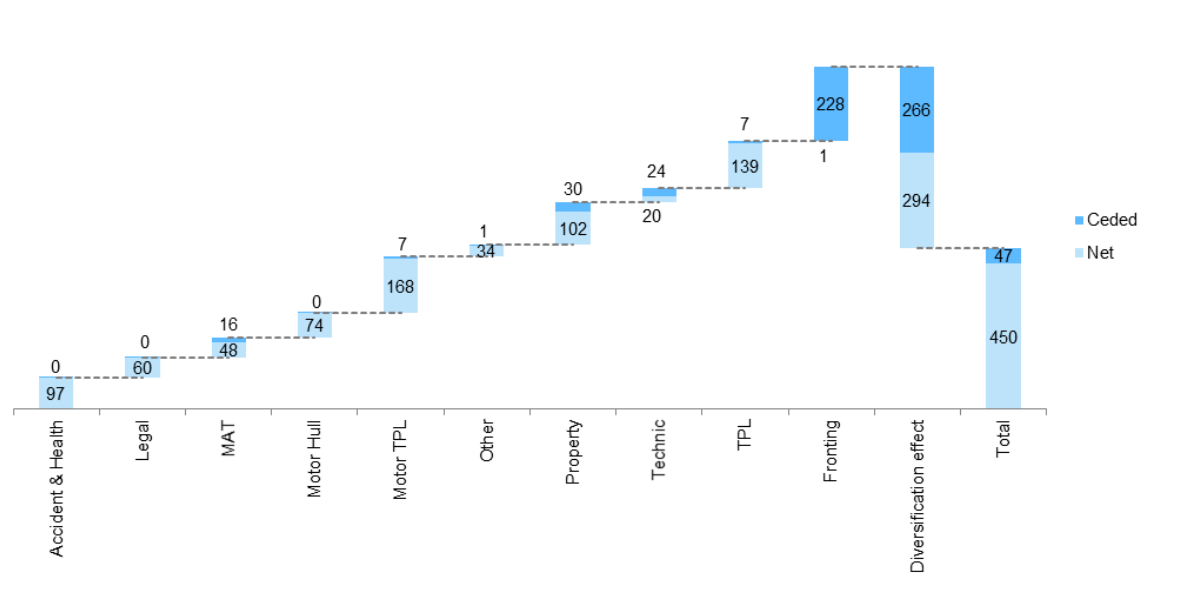


Figure 4 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance without CAT (in EUR millions)

### 5.1.5 Underwriting Risk Health SLT

The ECR for Health SLT Underwriting Risks is calculated by applying the standard risk factors described in the Technical Specifications for each sub risk module. The ECR per sub risk module is derived as the change in Best Estimate for guaranteed benefits under shock. The ECR allowing for risk absorbing capacity of future discretionary benefits is derived as the change in Best Estimate for benefits including future profit sharing under shock. As specified in the Technical Specifications for Lapse and Disability-Morbidity Risk the scenarios are only applied when that leads to an increase of Best Estimate. The figures shown in this section only cover the Health SLT underwriting risk. Health CAT risk is not included in the following table.

Position	2016		2015	
	ECR in EUR millions	in %	ECR in EUR millions	in %
<b>Health SLT Underwriting Risk</b>	<b>143</b>		<b>126</b>	
Mortality Risk	70	30.8%	42	21.2%
Longevity Risk	0	0.0%	0	0.0%
Disability Risk	52	23.0%	75	38.0%
Lapse Risk	91	39.8%	70	35.1%
Expense Risk	15	6.4%	11	5.6%
Revision Risk	0	0.0%	0	0.0%
<i>Diversification</i>	-84		-72	

Table 10 Capital Requirement for Health SLT Underwriting Risks

To derive the group's ECR for Health SLT Underwriting Risks the results of the sub risk modules are aggregated by applying the correlation factors described in the Technical Specifications.

Due to the disposal of the Italian businesses, almost all of the risks relate to the Health portfolio in UNIQA Österreich Versicherungen AG. The increase of mortality risk in 2016 is caused by an update of mortality best estimate assumptions. Disability risk decreased compared to 2015 due to improved observed claims ratios. The lapse risk reflects the mass lapse of highly profitable business, which increases with improved in-force profitability.

Measures for risk reduction include maintaining strong operating earnings because of premium adjustments, monitoring new business development and the implementation of a liability-driven asset liability management approach.

## 5.2 Other Risk Categories

### Operational Risks

Operational Risks include losses that are caused by insufficient or failed internal processes, as well as losses caused by systems, personnel resources or external events. Operational Risk includes Legal Risk, but not Reputation and Strategic Risk. Legal Risk is the risk of uncertainty due to complaints or uncertainty in the applicability or interpretation of contracts, laws or other legal requirements.

Operational Risk capital requirements are calculated with the Solvency II standard formula. The calculation method is a factor-based approach, which derives the capital requirement for Operational Risk by a linear formula where the Operational Risk charge is limited to 30% of the overall basic capital requirement.

In order to assess the basic capital requirement for the Operational Risk charge the capital requirement for Operational Risks based on earned premiums and on technical provisions are calculated by applying a series of factors to these volumes, where the highest of these two capital charges is considered for the final calculation. To derive the final capital requirement an additional term denoting the amount of expenses incurred during the previous 12 months in respect of life insurance contracts where the investment risk is borne by policy holders is added.

UNIQA Group has in place risk management processes for Operational, Reputational and Strategic Risks in terms of methodology, monitoring and responsibilities. More information on the process and on the relevant risks can be found in the Risk Report part of UNIQA Group Report 2016 (Notes to the Group Financial Statements).

## 6 Capital Adequacy

On behalf of our shareholders and customers our aim is to have an adequate capital level. UNIQA's internal capital model plays a crucial role for capital management. Furthermore the requirements of supervisory authorities and rating agencies have to be considered. These requirements are also an essential part of our risk management strategy. Due to effective capital management UNIQA Group fulfilled both internal and external capital requirements.

		2016	2015
Economic Capital Model	Own Funds	5,382	5,205
	Economic Capital Requirement	2,509	2,857
	Economic Capital Ratio	215%	182%

Table 11 Capital Adequacy – Own Funds and Capital Requirement in EUR millions

### Regulatory Requirements

The regulatory solvency capital requirements and available capital are calculated according to Solvency II regulations since becoming effective as at 1 January 2016. UNIQA calculates the regulatory requirement based on the Solvency II standard formula methodology on the basis of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014<sup>3</sup> ("Level 2 Delegated Acts"). The regulatory capital position will be disclosed in the Solvency Financial Condition Report (SFCR) of UNIQA Group which will be disclosed end of May.

<sup>3</sup> The changes to Level 2 published on 1st April 2016 in the Commission Delegated Regulation (EU) 2016/467 have not been applied

---

### Economic Capital Base

UNIQA Group defines its risk appetite and risk management framework on the basis of an “Economic Capital Model” (ECM), an enhanced version of the Solvency II standard approach to allow for the Group’s internal risk assessment (see also 8.1.2). The target coverage of quantifiable risks with eligible Own Funds is within a range of 155% to 190%.

### Standard and Poor’s Model

In addition to regulatory and internal requirements, capital requirements of an external rating agency are also considered in order to present creditworthiness objectively and to enhance the comparability. Therefore, UNIQA Group is regularly rated by the rating agency Standard & Poor’s. UNIQA Group’s rating is “A-”. UNIQA Österreich Versicherungen AG and UNIQA Re AG are each rated at “A” and the hybrid capital bond at “BBB”. The outlook for all companies is “stable”. UNIQA Group considers the effects on its rating in its capital planning process with the aim of improving it in the future.

## 7 External Review

The Directors  
UNIQA Insurance Group AG  
Untere Donaustraße 21  
1029 Vienna  
Austria

19<sup>th</sup> April 2017

### **Review of the derivation of the UNIQA's Own Funds and Economic Capital Requirement as at 31<sup>st</sup> December 2016**

In accordance with our engagement letter B&W Deloitte GmbH has been engaged to review the derivation of the Own Funds and Economic Capital Requirement (ECR) for UNIQA Insurance Group AG (UNIQA) as at 31<sup>st</sup> December 2016. The values determined by UNIQA together with a summary of the methodology and the key assumptions are set out in UNIQA's Group Economic Capital Requirement Report 2016 (together "the Statements").

The regulatory Solvency II framework has now been finalised at the European level. Guidelines for the implementation in national law have not yet been finalised in all EU countries. The Statements themselves, the methodologies applied and the assumptions underlying them are each the sole responsibility of the Board of Directors of UNIQA.

The Own Funds have been derived by UNIQA using the consolidated IFRS balance sheet as a starting point and then making adjustments to allow for valuation differences between IFRS and UNIQA's methodology to determine Own Funds. The ECR has been determined by UNIQA on a bottom up (i.e. separately for each risk category and material legal entity) basis and then aggregated using a correlation matrix. The Solvency II standard formula methodology on the basis of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 ("Level 2 Delegated Acts") has generally been applied. The main exceptions are the use of a partial internal model for the property & casualty business (including NSLT-Health business) and company specific parameters for repackaged loan products and European Economic Area (EEA) government bonds (in the concentration and spread risk sub-modules).

The calculation of the Own Funds and ECR is necessarily based on numerous assumptions with respect to economic conditions (e.g. yield curves), operating conditions, taxation, and other matters, many of which are beyond UNIQA's control. Although the assumptions used represent estimates which the Directors believe are together reasonable, actual experience in future may vary from that assumed in the calculation of Own Funds and ECR and such variation may be material. Deviations from assumed experience are normal and are to be expected.

The Own Funds do not purport to be a market valuation of UNIQA and should not be interpreted in that manner since it does not purport to encompass all of the many factors that determine and may have influence on a market value, e.g. the value of future new business. Furthermore it is possible that the final Solvency II methodology and parameters may differ significantly from the methodology and assumptions applied by UNIQA. Such changes could have a significant impact on the level of solvency coverage ratio.

#### **Scope of B&W Deloitte's Review**

We have reviewed:

- the methodology adopted to determine the Own Funds and ECR;
- the derivation of the assumptions used to calculate the Technical Provisions;
- the reconciliations between the consolidated IFRS balance sheet and the corresponding Own Funds, together with the adjustments on the basis of limited sample checks;

- the derivation of the ECR for the material risk drivers for the entities as defined in the scope of our engagement letter; and
- the aggregation of the ECR.

The following elements were excluded from the scope of our review:

- UNIQA's Risk Strategy and Risk Management Framework;
- Accuracy and completeness of the underlying data;
- UNIQA uses a partial internal model instead of the standard model for the property and casualty business (including the NSLT-Health business). Therefore we did not review the calculation of the standard formula for this business.

Our work comprised a combination of such reasonableness checks, analytical review and checks of clerical accuracy as we considered necessary to provide a moderate level of assurance that the Statements have been compiled free of significant error. However, we have relied upon the completeness and accuracy of the data and information supplied by UNIQA as disclosed in the various financial statements on which the Statements are based. Accordingly, we have not audited, verified or otherwise substantiated that data and information. The procedures described above neither constitute an audit nor a review conducted in accordance with any generally accepted review or audit standards. Also, they would not necessarily reveal all matters of significance with respect to our opinion below.

### Opinion

Based on our review, no matters have come to our attention that cause us to presume that the Own Funds and ECR have not been compiled consistently in all material respects with UNIQA's methodology and assumptions as described in the Statements.

This report is made solely to the Group's Directors as a body. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Group's Directors as a body for our work in respect of this report or for the conclusions that we have reached.

Yours sincerely,

B&W Deloitte GmbH



(Daniel Thompson)



(Bharat Bhayani)



## 8 Appendix

### 8.1 Methodology

For the evaluation of the Own Funds and Economic Capital Requirements, UNIQA constructs an economic balance sheet based on the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 ("Level 2 Delegated Acts"). Details of the calculations for each of the Own Funds and ECR are included in the sections below.

#### 8.1.1 Own Funds

The principles stated in the Technical Specifications were applied for the determination of the economic balance sheet.

Assets should be valued at the amount for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction. For the valuation of assets in general mark-to-market values are used. If such values are not available, mark-to-model values should be derived.

Liabilities should be valued at the amount for which they could be transferred, or settled between knowledgeable, willing parties in an arm's length transaction. The values of liabilities should be derived by means of models which are based on the future cash flows of the business in force. These cash flows are discounted at the reference interest rates. The methodology for the derivation of the reference interest rates is described in the section "Economic Assumptions".

Certain economic balance sheet positions are based on IFRS principles. A reconciliation of Own Funds to shareholders' equity under IFRS is shown in the section "Reconciliation with IFRS Equity."

Adjustments are made to components of the Group's IFRS consolidated balance sheet in light of the principles stated above as well as the ones defined for consolidation according to Solvency II to derive the Economic Balance Sheet. These adjustments include:

- Goodwill, VBI, intangible assets and deferred acquisition costs (DAC) are valued at zero;
- Properties are valued at market value instead of amortized cost (the market values are shown in the notes to the Group's Consolidated Financial Statements);
- Assets reclassified as loans according to IAS 39 50E in the Group's IFRS consolidated balance sheet are re-valued to their market values.
- With respect to the Group's holding in STRABAG, the market value of the shares are used instead of the adjusted equity value shown in the Group's IFRS consolidated balance sheet;
- Reinsurance recoverables are set up on a discounted, best-estimate basis, consistent with the corresponding technical provisions; the external reinsurance treaties are included in the reinsurance recoverables; internal reinsurance is eliminated in the consolidation;
- Technical provisions are valued on a discounted best-estimate basis;
- Deferred Tax Assets and Liabilities are adjusted for the valuation differences;

Pensions benefit obligations are valued according to IAS 19 principles consistent with IFRS.

Own Funds include minority interests up to the level of the minority interests' share of the Economic Capital Requirements.

Furthermore, the going concern principle for the valuation is applied. Technical provisions are calculated assuming no limited liability put option.

### 8.1.2 ECR Methodology

The ECR is the level of Own Funds needed for protection against unexpected and extreme losses. UNIQA applies the methodology of the standard formula under Solvency II which is a Value-at-Risk (“VaR”) approach with a confidence level of 99.5% over a one-year time horizon. UNIQA’s Economic Capital Requirement is the consolidated result of the aggregated capital requirements for the individual risks, which takes into account diversification effects between individual risk modules. For lines of business where an internal model approach has been applied, also diversification effects between companies within the group are allowed for.

The basis for the calculation of the Economic Capital Requirement calculation is the Level 2 Delegated Acts. The Economic Capital Requirement is calculated according to the Solvency II standard formula for all risk categories except Spread Risk, Concentration Risk, Underwriting Risk for Non-Life and Underwriting Risk for NSLT-Health (see Figure 5). For these categories UNIQA’s internal economic capital methodology is used. In particular, for the valuation of Underwriting Risk Non-Life and Underwriting Risk NSLT-Health UNIQA has developed a partial internal model in order to more precisely reflect these risks. For Spread Risk and Concentration Risk the methodology UNIQA uses is described in the section Risk Modules using UNIQA’s Economic Capital Approach in the subsection Spread- and Concentration Risks.

Allowance is made for the risk absorbing capacity of future discretionary benefits in line with the technical specifications. The risk absorbing capacity for a specific risk is given by the decrease of future discretionary benefits for policy holders due to the occurrence of the 200 year event (99.5% VaR) for that risk. The overall risk absorbing capacity cannot be higher than the amount of future discretionary benefits.

Allowance for the risk absorbing capacity of deferred tax is made in line with the technical specifications. Deferred taxes in the Group economic balance sheet are calculated as the deferred taxes in the Group’s consolidated IFRS balance sheet plus the tax related to the differences between the values of assets and liabilities in the economic balance sheet compared to the IFRS balance sheet. UNIQA has improved its approach to ensure compliance between the treatment under the Group’s IFRS and economic balance sheets. In particular, the risk absorbing capacity of the group in total as a tax conglomerate, after allowing for the restrictions outlined in the Technical Specifications, is considered.

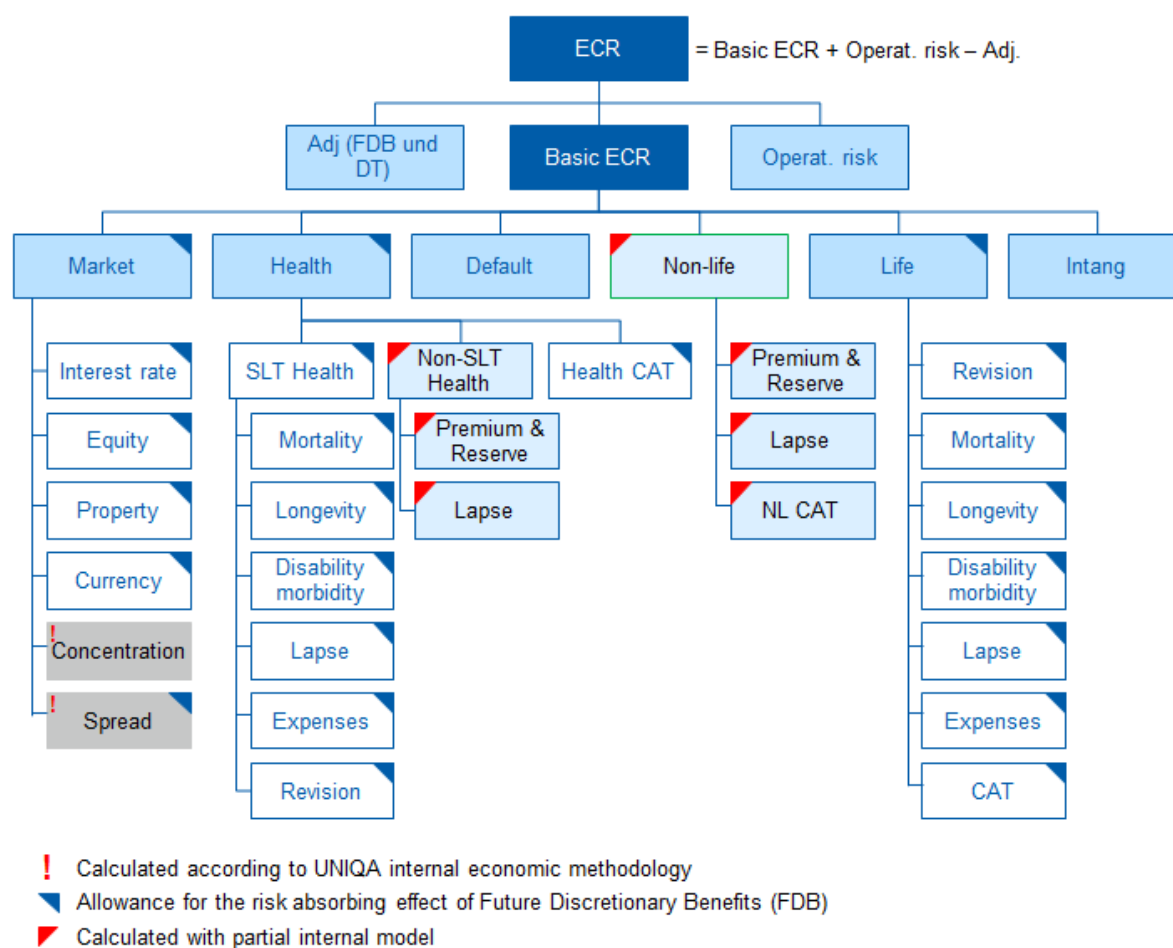


Figure 5 Composition of ECR and Calculation Methodology

### Standard Formula Risk Modules

For Market Risks (excluding Concentration and Spread Risks), Life and SLT-Health Underwriting Risks, Default Risk, Operational Risk and Intangible Asset Risk the methodology uses the standard formula approach as described in the Technical Specifications. For each of these risk modules a 200 year scenario is defined and applied to the economic balance sheet. The change in the Own Funds determines the capital requirement for the specific shock.

The aggregation of the risk modules is performed using the correlation matrices as defined in the Delegated Regulations.

The Market Risks allow for change in both the values of the asset and liabilities, in particular the technical provisions are revalued. This allows for changes in projected cash flows from the liability models as well as changes in the reference rates. The changes in projected cash flows include the impact on both guaranteed and future discretionary benefits (i.e. policyholder profit sharing).

Adverse deviations to the economic environment or the best estimate assumptions can lead to a reduction in the future discretionary benefits. The management rules used to amend the future profit sharing are consistent with UNIQA's profit sharing strategy. They allow a limited reduction in future premium discounts for risk insurance policies to compensate adverse deviations in assumptions other than mortality or morbidity assumptions. It has been assumed that such reductions will not lead to adverse policyholder behaviour (surrender behaviour).

The change in the value of the pensions benefit obligations is also included in the interest rate shock. In the

interest rate down shock the valuation interest rate for pension benefit obligation is reduced to 1.10% p.a. For the Own Funds and IFRS a valuation interest rate of 1.60% is used.

Life and SLT-Health Underwriting Risks are calculated as the change in Technical Provision as consequence of the stress of the relevant risk driver. For example, for the Expense Risks it is assumed that the expenses incurred in servicing insurance contracts are increased by 10% and expense inflation is increased by 1% p.a.

### **Risk Modules using UNIQA's Economic Capital Approach**

UNIQA generally follows the standard formula approach for the calculation of the ECR. Some modules for specific risks use an alternative approach in order to reflect a more realistic view of the risk posed to the Group.

#### *Spread and Concentration Risk*

In these modules, UNIQA assumes that EEA (European Economic Area) government bonds carry Spread and Concentration Risk, regardless of whether they are denominated in local currency or not. UNIQA measures the Credit Risk for these government bonds, derived on the basis of their corresponding credit rating and duration for internal risk monitoring. The capital requirement is calculated on the basis of these parameters according to the specifications for bonds and loans.

In contrast to the default rates for corporate bonds, the EIOPA shock factors for repackaged loan products are based on limited data. For internal risk monitoring, UNIQA uses the ratings determined by external agencies and the implied default expectations. Consequently, for the Spread Risk the same calculation approach is used as for other fixed income securities. Furthermore, for the purpose of calculating spread risk for callable bonds the final maturity date is used (31.12.2099 for perpetual bonds).

#### *Non-Life and NSLT-Health Risks*

UNIQA uses a stochastic cash-flow model for the assessment of the risks related to the Non-Life as well as NSLT-Health business. The risk categories within the scope of the partial internal model are:

- Underwriting Risk (including Catastrophe Risk); and
- Reserving risk.

For both risk categories, a full distribution of the profit and loss is available. These distributions are aggregated to give an overall profit and loss distribution for the aggregate Non-Life and NSLT-Health portfolios. The aggregation of the PIM results with the remaining ECR framework is carried out using the methodology stated in Article 239 of the Delegated Regulation 2015/35. UNIQA uses "Integration technique 3" as described in Annex XVIII. The purpose of this methodology is to replicate the dependency structure embedded in the standard formula to aggregate the results from a partial internal model on the PIM model scope and the results of the standard formula for the non-PIM model scope.

The partial internal model is developed and maintained by the Group Risk Management at Group level. It is implemented and operated within each business unit writing a material level of non-life business. The general methodology and assumptions are set within the Group Risk Management and included in the general model documentation. Assumptions and expert judgment required for the operation of the model are set within the respective business unit and are documented by the respective business unit.

The application of the Group's PIM Non-Life is planned for end of May 2017.

#### *Underwriting Risk (incl. Catastrophe Risk)*

Underwriting Risk captures the risk that the premium earned is not sufficient to cover all cost and claim payments. The Underwriting Risk model is separated into a gross model and a reinsurance model. The claims arising in the gross model are separated into three different types:

- Catastrophe claims: claims caused by natural catastrophes (e.g. earthquakes) are typically modeled through the use of external vendor models (e.g. RMS, Impact Forecasting, etc.). In addition, some perils are modelled

in-house, e.g. frost and snow pressure in Austria. Explicitly, UNIQA also includes the modelling of man-made scenarios;

- Large claims: very high individual claim events above a pre-defined threshold; and
- Attritional claims: the remaining “high frequency – low severity” part of the portfolio.

To cover the uncertainty of business development over a year (i.e. planned premium income or cost expenses might be misestimated) UNIQA estimates also the business risk which is part of the underwriting risk.

After the gross claims are modeled, the applicable reinsurance contracts are applied and UNIQA’s share of the claims is calculated. Both non-proportional as well as proportional reinsurance contracts are considered.

### *Reserving Risk*

Reserving risk captures the risk of a loss arising from the run-off of claims occurred in the past but not settled at the date of the assessment. These losses mostly come from claims that are known but where the reserves were not sufficient or from claims that have occurred but are unknown. The reserve risk model is separated into a gross model and a reinsurance model. The losses within the gross model reserve risk are generated as a total value for each portfolio - no separation into attritional claim, large claims and catastrophe claims is carried out. The reinsurance model uses a gross-to-net proxy to account for different reinsurance structures that were in place historically.

### *Future Developments*

UNIQA is currently working on the further development of its market risk model. Although UNIQA has already changed the standard formula approach for certain (sub) risk modules, see above, the aim is to replace the current approach for the whole market risk module by an internal model.

## **8.2 Assumptions**

### **8.2.1 Economic Assumptions**

#### *Reference Rates*

The reference interest rates used for discounting cash flows in the process of calculating Technical Provisions taken from EIOPA published on January 9, 2017. These rates are based on Swap Rates or Governmental Yields with the following adjustments:

- A Credit Risk Adjustment is deducted from the swap rates. For EUR the CRA is 10 basis points (the parameter for the other currencies are shown in Table 14).
- An extrapolation is carried out for the period beyond that for which liquid assets are available in the financial markets. For EUR the market is considered to be deep and liquid for durations up to 20 years and the extrapolation is applied from this point onwards (the parameter for the other currencies are shown in Table 15).
- The Volatility Adjustment is added to the deep and liquid part only.
- The Smith-Wilson technique is used to extrapolate the reference rates to the ultimate forward rate of 4.2% for EUR (the parameters for other currencies are shown in Table 15). The parameters are determined such that the ultimate forward rate is reached within 40 years for EUR (the parameters for other currencies are shown in Table 15).

The Volatility Adjustment has been used in 2015 and 2016 for all lines of business (Table 16).

The following tables show the main economic assumptions used to determine the Technical provisions.

Reference rates 2016 (without VA)								
year	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
1	-0.30%	0.06%	0.26%	1.48%	-0,77%	10,12%	0,97%	0,74%
5	-0.02%	0.41%	1.69%	2.84%	-0,42%	8,74%	2,59%	2,37%
10	0.57%	0.77%	3.03%	3.55%	0,05%	8,22%	3,62%	2,97%
15	0.96%	1.01%	3.74%	3.79%	0,34%	7,70%	3,98%	3,17%
20	1.12%	1.33%	4.09%	3.90%	0,46%	7,19%	4,12%	3,33%
25	1.42%	1.71%	4.22%	3.97%	0,53%	6,76%	4,18%	3,45%

Reference rates 2015 (without VA)								
year	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
1	-0.16%	0.18%	1.03%	1.41%	-0.80%	11.25%	0.98%	2.23%
5	0.23%	0.55%	2.61%	2.18%	-0.41%	10.10%	2.57%	3.44%
10	0.92%	0.92%	3.41%	2.99%	0.16%	9.82%	3.87%	4.14%
15	1.34%	1.26%	4.07%	3.47%	0.48%	8.69%	4.41%	4.37%
20	1.53%	1.66%	4.36%	3.69%	0.67%	7.90%	4.56%	4.43%
25	1.80%	2.02%	4.45%	3.82%	0.77%	7.32%	4.59%	4.43%

Table 12 Reference Rates

Credit Risk Adjustment								
Basis points	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
2016	10	10	10	10	10	35	10	10
2015	10	10	10	10	10	35	10	10

Table 13 Credit Risk Adjustment

Reference rates projection 2016								
	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
Starting Point of Extrapolation	20	15	15	10	25	10	10	9
Convergence Period	40	45	45	50	40	50	50	51
Ultimate Forward Rate	4.2%	4.2%	4.2%	4.2%	3.2%	4.2%	4.2%	4.2%

Reference rates projection 2015								
	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
Starting Point of Extrapolation	20	15	15	10	25	10	10	10
Convergence Period	40	45	45	50	40	50	50	50
Ultimate Forward Rate	4.2%	4.2%	4.2%	4.2%	3.2%	4.2%	4.2%	4.2%

Table 14 Reference Rates Projection

Volatility Adjustment								
Basis points	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
2016	13	1	17	17	5	0	-2	10
2015	22	6	19	8	9	0	1	12

Table 15 Volatility Adjustment

## 8.2.2 Other Economic Assumptions

Swaption and equity option implied volatilities for EUR are shown in the following tables:

Expiry / Swap Tenor	2016		2015	
	5 years	10 years	5 years	10 years
5 years	55.88%	50.93%	42.82%	38.41%
10 years	42.86%	44.97%	32.88%	33.83%

**Table 16 Swaption Implied Volatilities**

At-the-money Equity Option Implied Volatilities				
EUR	2016		2015	
5 years		21.62%		22.07%
10 years		23.07%		23.62%

**Table 17 At-the-money Equity Option Implied Volatilities**

### Foreign exchange rates

The same foreign exchange rates as used for the group's IFRS balance sheet have been applied for the economic balance sheet. These are shown in the table below.

Exchange Rates								
	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
2016	1.00	27.02	309.83	4.41	1.07	64.30	4.54	7.56
2015	1.00	27.02	315.98	4.26	1.08	80.67	4.52	7.64

**Table 18 Exchange Rates**

UNIQA models corporate credit spreads with a model based on the Jarrow-Lando-Turnbull methodology. In this model, bonds which contain Credit Risk have an initial rating. The bond then migrates to another rating according to a transition matrix and defaults are modelled dependent on the rating class. With the simulation of the transition matrices the corresponding spreads per rating are calculated and used to evaluate the Credit Risk for corresponding bonds at each point in time. The credit spreads by rating and maturity and the corresponding transition probabilities are calibrated to observed spreads.

Inflation is linked to interest rates and calibrated to meet an expected long time horizon of 2%. For Health business the expense and medical inflation are both set at 2%.

## 8.2.3 Operating Assumption

### 8.2.3.1 Best Estimates Life and Similar to Life Techniques (SLT) Health

The assessment of best estimate assumptions is made in light of past, current and expected future experience and other relevant data. The assumptions are entity specific.

The best estimate assumptions are used for a number of purposes including liability adequacy testing, IFRS and embedded value reporting. These assumptions are reviewed and updated at least annually and they are considered separately for each product group.

### Profit Sharing

The assumed policyholder profit participation for the Austrian profit participating life insurance business has been set for each economic scenario using management rules that seek to achieve a pre-tax shareholder margin of 15% of the gross surplus. The rules in Austria for minimum profit sharing require that at least 85% of the gross

surplus have to be used for profit sharing. In line with the Group's strategy for life business in Austria, it has been assumed that 85% of future surpluses will be used for profit sharing. In line with Austrian profit sharing regulations, some premium discounts applied to risk business also qualify as profit sharing and are included in the management rules. Reserves for future profit participation not allocated to policies are treated as Own Funds. The gross surplus includes the investment, mortality and expense surpluses. The unit-linked business does not have any policyholder profit sharing.

A part of the gross surplus for the Austrian health business, in accordance with current practice and in line with minimum profit sharing regulations for with-profits health business, is assumed to be used to reduce the level of future premium adjustments.

The assumed profit participation for the life businesses in the Czech Republic, Hungary and Slovakia is defined as at least 85% of the difference between the projected investment returns and the technical interest rates.

### *Expenses*

Expense assumptions are based on the actual expenses incurred in the year prior to the valuation date. The allocation of expenses between initial and renewal expense assumptions reflects the reality. The allocation of expenses is differentiated by product class and between regular and premium contracts.

Exceptional costs which are not expected to recur in the future are excluded from the expenses allocation. Likewise, where additional expenses are expected to be incurred in the future, these expenses are included in the expense allocation.

### *Lapses and Paid-Ups*

Lapse rates are based on an analysis of historic lapse rates, in particular on the average of the experienced lapse rates of the past years. For new products the lapse rates are based on the assumptions for similar products.

### *Commission*

Commission assumptions are consistent with the actual commission arrangements in force.

### *Mortality and Morbidity*

Mortality and morbidity assumptions are based on best estimates for expected future experience. This takes into account the Group's actual experience. Where this is not credible the assumptions are based on industry experience rates.

### *8.2.3.2 Best Estimate Liabilities Non-Life*

#### *Claims Outstanding*

The bases for the evaluation of claims outstanding are the claims triangles per business line and also information on individual atypical claims in some cases. These are available in all business units (except for UNIQA Liechtenstein and UNIQA Insurance Group AG) on a quarterly basis. For the assessment of best estimates, the following generally accepted methods are used (if appropriate):

- Chain ladder;
- Munich chain ladder;
- Cap cod; and
- Bornhuetter-Ferguson.

If these methods are not appropriate (e.g. for lines of business where only limited claims data is available), other best-practice methods (e.g. based on claims frequency/claims severity) are used.

To determine the discounted best-estimate reserves, the cash flow patterns are determined from the paid claims triangles using the appropriate curve fitting method (e.g. "weibull curve") and discounted using the reference rates.



---

### *Premium Provision*

For the calculation of premium provision, the following categories are considered:

- Unearned premium; and
- Unincurred premium - these provisions are estimated by modelling the cash inflows within the contract boundaries and allowing for lapses

The loss and cost ratio assumptions used for the cash-flow projection are aligned with the PIM NL parameterisation. This ensures the consistency of the PIM NL with the technical provisions.

#### *8.2.3.3 Risk Margin*

Future ECRs for the non-hedgeable risks are projected proportionally to the relevant risk driver (e.g. future premiums and claims reserves) and a 6% cost of capital p.a. is applied. The risk margin is calculated as the present value of all future costs of capital. It is assumed that there are no non-hedgeable Market Risks.

## 8.3 Glossary and Abbreviations

Glossary and Abbreviations	
ALM	Asset Liability Management
Best estimate	Best estimate can be defined as an appropriate estimation of the expected value of a certain assumption excluding any margins – especially security margins – based on actual available information.
CAT	Catastrophe Risk
CRA	Credit Risk Adjustment
DT	Deferred Taxes
ECM	Economic Capital Model
ECR	Economic Capital Requirement
ECR Quota	Ratio of Own Funds and ECR
EFSF	European Financial Stability Facility
Health SLT	Health Similar to Life Techniques (long term health business)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MCEV	Market Consistent Embedded Value - The MCEV is a measure of the consolidated value of shareholders' interests in the covered business.
ORSA	Own Risk and Solvency Assessment; All insurance companies have to setup and run an ORSA process in order to be compliant with the Solvency II framework directive article 45.
Own Funds	Available Capital (calculated according ECM principles) to cover the ECR
PIM	Partial Internal Model
Regions	<p>AT – Austrian Operating Companies</p> <p>WEM – Western European Markets (Italy, Switzerland)</p> <p>CEE – Central Eastern Europe (Slovakia, Czech Republic, Hungary, Poland)</p> <p>SEE – Southern Eastern Europe (Croatia, Serbia, Bosnia, Bulgaria, Montenegro)</p> <p>EEM – Eastern Emerging Markets (Romania, Russia, Ukraine)</p>
SAA	Strategic Asset Allocation
TP	Technical Provision

Table 19 Glossary and Abbreviations

## 8.4 Disclaimer

### Cautionary statement regarding forward-looking information

This report contains forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, and it might not be possible to achieve the predictions, forecasts, projections and other outcomes described or implied in forward-looking statements. A number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in these forward-looking statements.

These forward-looking statements will not be updated except as required by applicable laws.

### List of Tables and Figures

Figure 1 Solvency Steering Rules .....	4
Figure 2 Risk Profile in 2016 and Change vs. 2015.....	7
Figure 3 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance (in EUR millions) .....	11
Figure 4 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance without CAT (in EUR millions).....	12
Figure 5 Composition of ECR and Calculation Methodology.....	19
Table 1 Economic Capital Ratio .....	3
Table 2 Composition of Own Funds .....	6
Table 3 Reconciliation of IFRS Equity to Own Funds .....	6
Table 4 Development of Risk Profile .....	8
Table 5 Capital Requirement per Business Segment.....	8
Table 6 Capital Requirement per Region .....	8
Table 8 Capital Requirement for Market Risks .....	9
Table 9 Capital Requirement for Life Underwriting Risks .....	10
Table 10 Risk Profile Non-Life Underwriting Risk.....	11
Table 11 Capital Requirement for Health SLT Underwriting Risks .....	12
Table 12 Capital Adequacy – Own Funds and Capital Requirement in EUR millions.....	13
Table 13 Reference Rates.....	22
Table 14 Credit Risk Adjustment .....	22
Table 15 Reference Rates Projection.....	22
Table 16 Volatility Adjustment .....	22
Table 17 Swaption Implied Volatilities .....	23
Table 18 At-the-money Equity Option Implied Volatilities .....	23
Table 19 Exchange Rates .....	23
Table 20 Glossary and Abbreviations.....	26