UNIQA Insurance Group AG

Group Embedded Value 2016

Supplementary information on Group Embedded Value results for 2016

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1 Introduction

The market consistent embedded value (MCEV) of UNIQA Insurance Group AG ("UNIQA Group" or "Group" or "UNIQA") represents the shareholders' economic value of the in-force Life & Health business as at December 31, 2016. Future new business is not included.
UNIQA's methodology for the Life & Health MCEV is compliant with the CFO Forum's recently revised Market Consistent Embedded Value Principles© ("MCEV Principles") published in June 2008 and last amended in April 2016 and the corresponding Guidance. In particular, it:

- provides for the cost of all significant financial options and guarantees,
- includes a charge for frictional cost of required capital (FCRC) and
- allows for the cost of residual non-hedgeable risk (CRNHR) for the main Life & Health businesses.

The recent revisions to the MCEV Principles permit alignment of MCEV reporting with the methodology for Solvency II.

UNIQA Insurance Group AG last disclosed information on the group embedded value (GEV) for the business year 2015 in April 2016.
The GEV includes the MCEV of the covered businesses (as defined below), and the Group's Property & Casualty companies, the Life & Health Insurance companies excluded from the covered business and other subsidiaries on the basis of their adjusted IFRS equity.
The results are shown separately for the regions Austria and Central and Eastern Europe (CEE). The CEE region also includes the life company in Russia. There were two significant changes to the scope of the covered business in 2016:

- on March 9, 2016, UNIQA's Management Board and Supervisory Board resolved to merge the Austrian operations (UNIQA Österreich Versicherungen AG, Raiffeisen Versicherung AG, FinanceLife Lebensversicherung AG and Salzburger Landes-Versicherung AG) into UNIQA Österreich Versicherungen AG, and
- on December 2, 2016, UNIQA's Management Board resolved to sell the 99.7% majority interest in the subsidiary UNIQA Assicurazioni S.p.A. to the Italian mutual insurance company Società Reale Mutua di Assicurazioni. The sale encompasses UNIQA Assicurazioni S.p.A. and its subsidiaries operating in Italy, UNIQA Previdenza S.p.A. and UNIQA Life S.p.A. The sale is subject to approval by the authorities and is expected to close in the first half of 2017. The sale of the Italian business is reflected in this report as a closing adjustment and is therefore excluded from the covered business as at December 31, 2016.

There were no other changes to the scope of the covered business compared to the previous reporting year.

The following table shows the covered businesses for which a MCEV has been calculated in 2016 and 2015:

Region	Country	Company	Segment	2016	2015
	Austria	UNIQA Insurance Group AG	Group	✓	✓
Austria	Austria	UNIQA Österreich Versicherungen AG	Life	✓	✓
	Austria	UNIQA Österreich Versicherungen AG	Health	✓	✓
	Austria	Raiffeisen Versicherung AG	Life		✓
	Austria	FINANCE LIFE Versicherung AG	Life		✓
Italy	Italy	UNIQA Previdenza S.p.A.	Life		✓
	Italy	UNIQA Assicurazioni S.p.A.	Health		✓
	Italy	UNIQA Life S.p.A.	Life		✓
CEE	Slovakia	UNIQA poistovna a.s.	Life	✓	✓
	Czech Republic	UNIQA poijstovna a.s.	Life	✓	✓
	Hungary	UNIQA Bistosito Zrt.	Life	✓	✓
	Poland	UNIQA TU na Zycie S.A.	Life	✓	✓
	Russia	Raiffeisen Life Insurance Company LLC,	Life	✓	✓

Table 1: Covered businesses

B&W Deloitte GmbH, Cologne has been retained to review the GEV calculations. The scope and the results of its independent review are set out in section 6.

The GEV disclosure should not be viewed as a substitute for UNIQA Group’s primary financial statements.

2 Summary of 2016 results

The GEV comprises the adjusted net asset value (ANAV) and the value of business in-force (VIF). Only the ANAV has been included in respect of the Property & Casualty (P&C) businesses and the Life & Health businesses excluded from the scope of the MCEV calculations.

The ANAV for the covered business is divided between:

- Required capital (RC)
- Free surplus (FS)

The VIF is only calculated for covered business and is determined as:

- Present value of future profits (PVFP) minus
- Time value of financial options and guarantees (TVFOG) minus
- Frictional cost of required capital minus
- Cost of residual non-hedgeable risk

All the values shown in this disclosure are after tax and exclude minority interests in the Group's subsidiaries unless otherwise stated.

2.1 Group embedded value

UNIQA's GEV 2016 was positively influenced by operating earnings.

The following table shows the GEV results for the year ending December 31, 2016 and December 31, 2015.

Group embedded value in EUR millions	Life & Health[1]		Property & Casualty[2]		Total		Change over period
	2016	2015	2016	2015	2016	2015	
Free surplus	941	494					
Required capital	27	931					
Adjusted net asset value	968	1,424	1,993	1,454	2,961	2,878	3%
Present value of future profits	2,692	2,484	n/a	n/a	2,692	2,484	8%
Cost of options and guarantees	-300	-307	n/a	n/a	-300	-307	-2%
Frictional cost of required capital	-123	-159	n/a	n/a	-123	-159	-23%
Cost of residual non-hedgeable risk	-162	-171	n/a	n/a	-162	-171	-5%
Value of business in-force	2,107	1,847	n/a	n/a	2,107	1,847	14%
GEV / MCEV	3,075	3,272	1,993	1,454	5,068	4,725	7%

Table 2: GEV

The GEV as at December 31, 2015 has not been restated.

The required capital aligns with the Group's internal limit system and is shown net of the value of inforce business and subordinated debt. The required capital for MCEV is defined as the assets needed in excess of the assets already backing the reserves of the covered business and therefore, differs significantly from the solvency capital requirement as defined under Solvency II.

The development of the required capital and free surplus are detailed in the analysis of change in Section 2.4.
The Italian businesses have been removed from the covered business at the end of 2016. The impact of the sale

[1] The MCEV has not been calculated for all the Life & Health businesses in the Group. The ANAV for the Life & Health businesses excluded from the scope of the MCEV calculations is shown under the column Property & Casualty.
[2] Includes the ANAV for the Life & Health businesses excluded from the scope of the MCEV calculations.

(based on the sales price of EUR 295mn) has been allowed for in the Property & Casualty ANAV. The final transaction result may vary due to changes of fair value of assets and liabilities related to the transaction.

Operating MCEV earnings had a positive effect on the GEV. The main drivers of the operating earnings were the assumption changes, particularly the lower mortality assumptions for the Austrian Term life business as well as lower claims ratio and updated lapse assumptions for the Austrian health business. The assumption changes reflect the latest experience analyses. Details can be seen in section 2.4. The VIF increased to EUR 2,107mn and the overall GEV to EUR 5,068mn.

2.2 Return on GEV

The following table shows the return on GEV, calculated on the opening restated and adjusted GEV.

Return on group embedded value in EUR millions	2016	2015
GEV as at 31 December previous year, reported	4,725	4,175
GEV as at 31 December previous year, restated	4,725	4,175
Opening adjustments	-152	-128
GEV as at 31 December previous year, restated and adjusted	4,574	4,046
Return on GEV	441	214
as a %	9.6%	5.3%
GEV as at 31 December, before closing adjustments	5,015	4,260
Closing adjustments	53	466
GEV as at 31 December	5,068	4,725

Table 3: Return on group embedded value

The opening adjustments in the restated and adjusted figures in the table above remove the dividends paid in the reporting year as well as allowing for foreign exchange rate changes.

In 2016, the closing adjustments include the impact of the sale of the Italian business on the GEV.

2.3 New business value

The new business value (NBV) is calculated as the present value of future profits (PVFP) for the new business sold in 2016 minus the new business strain, TVFOG, FCRC and CRNHR. The Life & Health companies in Austria do not defer acquisition costs in the local statutory accounts. Therefore the new business strain for the Austrian business also includes the acquisition expenses.

The NBV in 2016 has been calculated for the covered business in 2016.

New business value in EUR millions	2016 excluding Italy	2016	2015
New business value	93	113	73
Annual premium equivalent (APE)	198	315	305
New business margin (as % APE)	46.9%	35.9%	23.8%
Present value of new business premiums (PVNBP)	2,156	3,271	3,032
New business margin (% of PVNBP)	4.3%	3.5%	2.4%

Table 4: New business value

The change in new business volume and new business margins are analysed in the table below.

Analysis of change for new business in EUR millions	Value of New Business	Present Value of NB Premiums	New Business Margin
Opening NBV as at 31 December 2015, reported	73	3,032	2.4%
Methodology changes	0	0	0.0%
Expanded scope	0	0	0.0%
Opening NBV as at 31 December 2015, restated	73	3,032	2.4%
Foreign exchange variances	1	9	0.0%
Acquired / divested business	0	0	0.0%
Adjusted opening NBV as at 31 December 2015	73	3,041	2.4%
Modelling changes	-2	-25	0.0%
Business volume change	1	63	0.0%
Business mix change	1	0	0.0%
Assumption changes	39	192	1.0%
Closing NBV as at 31 December 2016, before closing adjustments	113	3,271	3.5%
Closing adjustments	-20	-1,116	0.8%
Closing NBV as at 31 December 2016	93	2,156	4.3%

Table 5: Analysis of change for new business

There was no restatement of the NBV 2015.

Modelling changes stem mainly from refining the profit sharing methodology for the Austrian health business.

The business mix change covers local as well as regional business mix. It excludes the improvement of new business margins within lines of business due to new product introductions in 2016. The impact of new product profitability is included in the assumption changes.

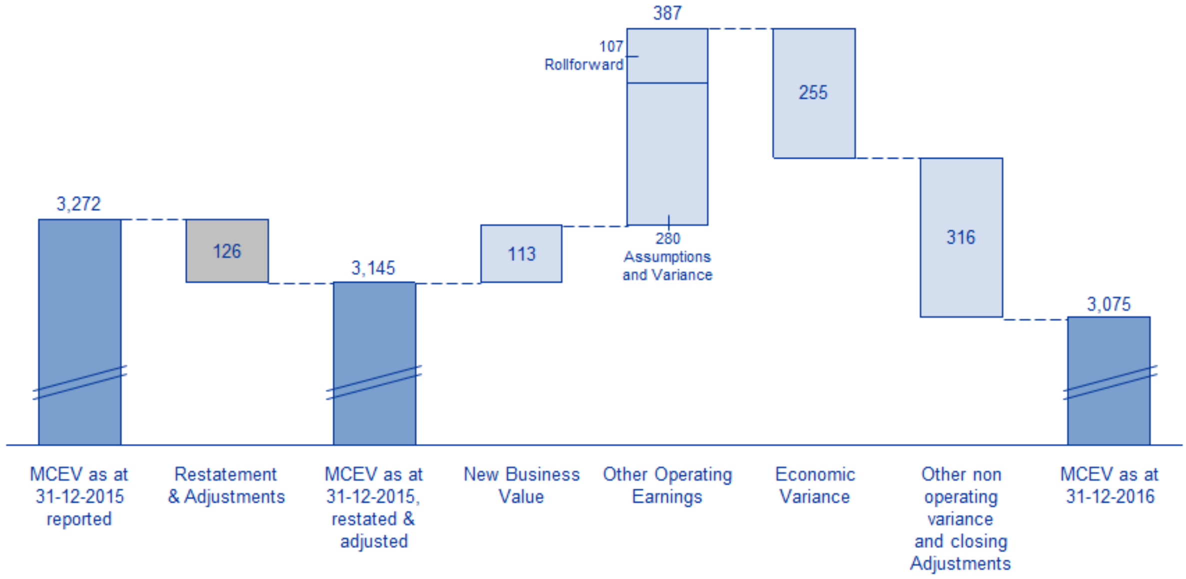
The main drivers of change in NBV are due to the assumption changes, especially due to lower mortality assumptions for Term life business in Austria. Overall, the assumption changes increased the NBV by EUR 39mn.

In total, the new business margin, as a percentage of PVNBP, increased to 4.3%. The closing adjustments reflect the impact of the sale of the Italian business.

The new business volumes and margins by region are shown in section 3.

2.4 Analysis of change

The following chart shows the analysis of change for the covered Life & Health businesses. This is followed by a table showing the detailed analysis of change.



Analysis of change in EUR millions	Free surplus	Required capital	VIF	MCEV
Opening MCEV as at 31 December 2015, reported	494	931	1,847	3,272
Opening MCEV as at 31 December 2015, restated	494	931	1,847	3,272
Capital and dividend flows	-128	0	0	-128
Foreign exchange variances	3	0	3	6
Acquired / divested businesses	26	-26	-5	-5
Opening adjustments	-99	-25	-2	-126
Adjusted opening MCEV as at 31 December 2015	394	906	1,845	3,145
New business value	-92	36	169	113
Expected existing business contribution *(reference rate)*	2	0	25	27
Expected existing business contribution *(in excess of ref. rate)*	11	0	70	81
Transfer from VIF and required capital to free surplus	189	-58	-131	0
Experience variances	-46	18	44	16
Assumption changes	150	-150	359	359
Other operating variance	663	-743	-15	-96
Operating MCEV earnings	876	-897	521	500
Economic variances	-223	184	-215	-255
Other non operating variance	25	-1	1	25
Total MCEV earnings	677	-715	307	270
Closing adjustments	-131	-164	-46	-340
Closing MCEV as at 31 December 2016	941	27	2,107	3,075

Table 6: Analysis of change (Life & Health business)

Key elements of the opening adjustments:

- The capital and dividend flows reflect the net effect of dividends from and capital flows to the covered businesses.
- The foreign exchange variance mainly stems from the change of RUB currency compared to EUR.
- The acquired/divested business reflects the inclusion of Salzburger Landes-Versicherung AG in the covered business due to the merger of the Austrian operations, resulting in a small decrease in the VIF together with various effects arising from the merger.

Key elements of the operating MCEV earnings:

- The **NBV** written in the year 2016 is EUR 113mn. The negative impact on free surplus is due to the non-deferral of acquisition expenses.
- The **expected existing business contribution on the basis of the reference rates** is EUR 27mn. This reflects the unwinding at the reference rate for the VIF and the return on the ANAV at the reference rate after tax. This step also includes the release of the TVFOG for the first year of the projection.
- The impact of the **expected existing business contribution in excess of reference rates** is EUR 81mn. This step shows the impact of management’s expectation of the additional investment earnings in 2016 above the reference rates.
- **Transfer from VIF and required capital to free surplus** reduces the VIF by EUR 131mn, the expected net

profit projected for 2016 from the existing business in-force. RC decreased as the additional capital required for the increase in reserves is lower than the capital released for maturing policies. In total, there is no effect on the MCEV as the change in VIF and RC is transferred to the FS.

- **The experience variance** for the year is EUR 16mn. This step measures the deviations between the expected and actual operating assumptions (e.g. lapse assumptions). Details are included in section 3 in the regional analysis.
- **Assumption changes** have a significant positive impact (EUR 359mn) on the operating earnings. This item covers all operating assumption changes. The major assumption changes include lower mortality assumptions for the Austrian term life business as well as lower claims ratios and updated lapse assumptions for the Austrian health business.

Other operating variance covers all operating changes not covered in the other items and is in total EUR -96mn. The main driver for the decrease in required capital is caused by increased diversification between the Life and Health businesses, due to the merger of the Austrian operations. This therefore increased the free surplus significantly. Additionally, there was a write-down in net assets (and hence free surplus) as a result of the merger of the Austrian entities.

Key elements of the non operating MCEV earnings:

- The **economic variance** covers impacts arising from the development of the financial markets. The main impact in 2016 is from lower interest rates in the Eurozone.
- The **other non operating variance** is EUR 25mn, which includes the impact of changes in the local regulatory/tax environments.

The **closing adjustments** were EUR -340mn, which reflect:

- The removal of the Italian Life & Health businesses from the covered business (EUR -177mn), and
- The impact of the reallocation of participations from the covered business to the non-covered business in Austria (EUR -163mn).

2.5 VIF maturity profile

The table below shows the emergence of VIF as at December 31, 2016 split in 5-year-buckets, for the first 35 years of the projection. The VIF is after allowance for time value of financial options and guarantees, frictional cost of required capital and cost of residual non-hedgeable risks.

The Italian business is excluded from the table below.

VIF maturity profile in EUR millions	Free cashflows	in %
year 1-5	724	34%
year 6-10	511	24%
year 11-15	297	14%
year 16-20	155	7%
year 21-25	109	5%
year 26-30	83	4%
year 31-35	69	3%
later than 35 years	159	8%
Total VIF	2,107	100.0%

Table 7: VIF maturity profile

The table shows that 34% of VIF as at December 31, 2016 emerges in the first 5 years of projection and 58% of VIF 2016 in the first 10 years.

The VIF as at December 31, 2016 emerging after 35 years mainly results from the long-term Austrian business, in particular the health business.

2.6 Sensitivities

The assumptions used for the MCEV calculations are based on best estimates. Sensitivity analyses are therefore an important part of the supplementary information. The analyses assume the same management actions and policyholder behavior as for the base case MCEV calculation. As sensitivities are generally correlated it is likely that the sum of two sensitivities will not be the same as if both events occur simultaneously.

The following table shows the sensitivity, split by economic, non-economic and additional factors, of the MCEV and NBV (Life & Health) as at December 31, 2016 to changing various assumptions.

The Italian business is excluded from the table below.

Sensitivities in EUR millions	Change in embedded value		Change in new business value	
Base value	3,075	100%	93	100%
MCEV change by economic factors				
Risk free yield curve -100bp	-317	-10%	-4	-4%
Risk free yield curve +100bp	90	3%	-15	-16%
Equity and property market values -10%	-124	-4%	0	0%
Equity and property implied volatilities +25%	-11	0%	-1	-1%
Swaption implied volatilities +25%	-33	-1%	-4	-4%
MCEV change by non-economic factors				
Maintenance expenses -10%	58	2%	6	7%
Lapse rates -10%	67	2%	13	14%
Mortality for assurances -5%	40	1%	3	4%
Mortality for annuities -5%	-10	0%	0	0%
Required capital set to solvency capital requirement	64	2%	3	3%
Additional sensitivity				
No liquidity premium	-84	-3%	n/a	n/a

Table 8: Sensitivities for the MCEV and NBV

Economic sensitivities:

- **Increase / Decrease of 100bps to risk free yield curve**
  This sensitivity shows the impact of an immediate parallel shift in reference rates, accompanied by consequent movements of all other economic assumptions. The parallel shift is applied only up until the last liquid point (LLP). From this point the extrapolation is made to the ultimate forward rate (UFR), which remains unchanged in the sensitivity. Where a reference rate is negative, it is assumed to remain unchanged in the interest rate down sensitivity.
  The asymmetric effect of a parallel shift in both directions is caused by traditional life business, which is the major part of the covered business. For traditional business the surpluses are shared with policyholders but losses are borne fully by the shareholder due to the existence of guarantees.
  The decrease of 100bps to the risk free yield curve reduces the MCEV by EUR -317mn or -10% (-10% in 2015).

- **Decrease of 10% in equity and property market values (at the valuation date)**
  The MCEV decreases by EUR -124mn or -4%.

- **25% increase in equity and property implied volatilities**
  The 25% increase is a multiplicative increase in the assumed volatilities and measures the impact on the TVFOG. The change in TVFOG is an increase of EUR 11mn or 4%. In total this sensitivity is not material (-0.4% of MCEV).

- **25% increase in swaption implied volatilities**
  The 25% increase is a multiplicative increase in the assumed volatilities and measures the impact on the TVFOG. The change in TVFOG is an increase of EUR 30mn or 10% (in total this reduces the MCEV by -1%).

Non-economic sensitivities:

- **10% decrease in maintenance expenses**
  The impact of a 10% decrease in the projected expenses is an increase in MCEV of EUR 58mn or 2%. This is relatively low as the increase of future profits also increases future bonus rates for policyholders. For a 10% increase in maintenance expenses the effect is not symmetric, mainly due to the premium adjustments for the Austrian health business.

- **10% decrease in lapse rates**
  The impact of a 10% proportionate decrease in the lapse rates is an increase in MCEV of EUR 67mn or 2%.

- **Decrease in mortality and morbidity rates for life assurance by 5%**
  The impact of a 5% decrease in mortality rates for products with mortality risk leads to an increase of EUR 40mn or 1%.

- **Decrease in mortality and morbidity rates annuity business by 5%**
  The impact of a 5% decrease in mortality rates for products with longevity risk leads to a decrease of EUR -10mn or -0.3%.

- **Required capital set to solvency capital requirement**
  In this sensitivity, required capital is reduced from 135% (in Austria) or 125% (in CEE) to 100% of the solvency capital requirement under Solvency II for all covered business. The increase in the MCEV is caused by the lower FCRC.

Additional sensitivities:

- As UNIQA used a liquidity premium in determining the reference rates, an additional sensitivity is disclosed to show the impact of removing the liquidity premium. This sensitivity is only calculated for the MCEV.

2.7 Implied discount rate and internal rate of return

The implied discount rate (IDR) is the risk discount rate under a traditional embedded value approach that reproduces the VIF from a deterministic projection of distributable statutory earnings (profit less movement in required capital) in a best estimate scenario.

The internal rate of return (IRR) is the risk discount rate which gives a zero value of new business under a traditional embedded value approach.

Real world assumptions have been used in the calculations of the IDR and IRR. These have been derived from an internal assessment of risk premiums, measured as the expected excess return over 10-year risk free rates. The risk premiums for equities, property and corporate spreads were 3.4%, 3.3% and 0.6%, respectively.

The IDR and IRR as at December 31, 2016 are shown in the table below. The Italian business is excluded from the table below.

Implied discount rate and internal rate of return in %	**Total**
Implied discount rate (in-force business)	4.96%
Internal rate of return (new business)	15.23%

Table 9: Implied discount rate and internal rate of return

2.8 Reconciliation of IFRS equity to the adjusted net asset value

The following table shows the reconciliation of the IFRS equity to the ANAV as shown in the GEV.

Reconciliation IFRS equity to ANAV in EUR millions	2016	2015
Consolidated IFRS equity	3,213	3,175
Goodwill and value of in-force business for MCEV companies	-40	-149
Differences in valuation of assets and liabilities	-284	-127
Adjusted net asset value before minority interests	2,888	2,899
Minority interests	-26	-21
Adjusted net asset value after minority interests, before closing adjustments	2,862	2,878
Closing adjustments	99	0
Adjusted net asset value after minority interests	2,961	2,878

Table 10: Reconciliation of IFRS equity to ANAV

The December 31, 2015 figures were not restated.

The consolidated IFRS equity is shown before minority interests. Goodwill and value of business in-force (VBI) are deducted in respect of the covered business.

There are a number of differences in the valuation of assets and liabilities between the local statutory accounts that are used to determine the VIF and the IFRS accounts. These are summarized in the line “differences in valuations of assets and liabilities”.

“Differences in the valuation of asset and liabilities” also include the unrealised gains or losses on assets that are not shown at market value in the consolidated IFRS balance sheet. This relates to unrealised gains or losses on property and loans. For consistency between covered and non-covered business, all unrealised gains or losses on property and loans are included. Further differences are due to equity holdings for which the market value - as disclosed in the statutory annual reports of the Group’s subsidiaries - differs from the IFRS balance sheet values, after adjusting for deferred tax.

The minority interests have to be deducted to arrive at the ANAV after minority interests.

The closing adjustments include the impact of the sale of the Italian business.

3 Regional analysis of MCEV

3.1 Overview

The following table shows the MCEV for the Life & Health business split by regions. More detailed analyses for each region can be found in the following sections (3.2 to 3.3).

The regions are defined as follows:

- **Austria**
  The business in this region includes the Life & Health business of UNIQA Österreich Versicherungen AG.
- **Italy**
  The Italian business includes the life business of UNIQA Previdenza, the life business of UNIQA Life and the health business of UNIQA Assicurazioni. On December 2, 2016, UNIQA's Management Board resolved to sell the 99.7% majority interest in the Italian subsidiary, UNIQA Assicurazioni S.p.A., along with its subsidiaries operating in Italy, UNIQA Previdenza S.p.A. and UNIQA Life S.p.A. The Italian business is therefore excluded from 2016 in the table below.
- **Central Eastern Europe**
  The CEE region contains the life companies in the Czech Republic, Hungary, Poland, Russia and Slovakia.

Life companies not mentioned above and the non-life companies are included in the GEV on the basis of their adjusted IFRS equity.

MCEV 2016 by region in EUR millions	2016				2015			
	Austria	Italy	CEE	Total	Austria	Italy	CEE	Total
Free surplus	884	0	57	941	387	52	55	494
Required capital	0	0	27	27	834	74	22	931
Adjusted net asset value	884	0	84	968	1,221	126	78	1,424
Present value of future profits	2,488	0	204	2,692	2,185	122	178	2,484
Cost of options and guarantees	-293	0	-6	-300	-259	-43	-5	-307
Frictional cost of required capital	-120	0	-3	-123	-148	-9	-2	-159
Cost of residual non-hedgeable risk	-153	0	-9	-162	-152	-11	-8	-171
Value of business in-force	1,922	0	185	2,107	1,625	59	163	1,847
Life & Health MCEV	2,806	0	269	3,075	2,846	184	241	3,272
as a % of total Life & Health MCEV	91.3%	0.0%	8.7%	100.0%	87.0%	5.6%	7.4%	100.0%

Table 11: Market consistent embedded value by region

The VIF increased in Austria and in CEE. In total the VIF increased to EUR 2,107mn (2015: EUR 1,847mn), despite the sale of the Italian operations. The total Life & Health MCEV decreased to EUR 3,075mn or -6%, largely due to the Italian sale. As shown in section 2.4 the total Life & Health MCEV earnings were EUR 270mn or +8.6%.

The following table shows the NBV 2016 and 2015 for the Life & Health business split by regions.

New business value by region in EUR millions	Austria	Italy	CEE	Total
Value of new business 2016	75	0	17	93
Annual premium equivalent	129	0	69	198
New business margin (as % APE)	58.3%	n/a	25.3%	46.9%
Present value of new business premiums	1,834	0	322	2,156
New business margin (% of PVNBP)	4.1%	n/a	5.4%	4.3%
Value of new business 2015	38	19	16	73
Annual premium equivalent	149	100	56	305
New business margin (as % APE)	25.2%	18.6%	29.4%	23.8%
Present value of new business premiums	1,825	936	272	3,032
New business margin (% of PVNBP)	2.1%	2.0%	6.0%	2.4%

Table 12: New business value by region

Overall there was an increase in new business volumes in terms of annual premium equivalent, driven by the positive development for the CEE region. The overall new business margin increased to 4.3%.

In Austria, the increase in new business margin from 2.1% to 4.1% is mainly driven by lower mortality assumptions for the Term life business and improved profitability for the traditional life business due to further development of capital efficient products.

The implied discount rate (IDR) and the internal rate of return (IRR) are calculated from cash flows based on real world assumptions.

Implied discount rate and internal rate of return in %	Austria	Italy	CEE	Total
Implied discount rate (in-force business)	5.08%	n/a	2.42%	4.96%
Internal rate of return (new business)	13.59%	n/a	22.90%	15.23%

Table 13: Implied discount rate and internal rate of return by region

Real world assumptions have been used in the calculations of the IDR and IRR. These have been derived from an internal assessment of risk premiums, measured as the expected excess return over 10-year risk free rates. The risk premiums for equities, property and corporate bonds were 3.4%, 3.3% and 0.6%, respectively.

3.2 Austria

The negative other operating variance and economic variance were the main drivers of the development in MCEV in 2016, offset by positive assumption changes. The total MCEV earnings were EUR 240mn in 2016. The MCEV for the Austrian Life & Health business decreased from EUR 2,846mn in 2015 to EUR 2,806mn in 2016. The NBV increased from EUR 38mn in 2015 to EUR 75mn in 2016.

3.2.1 Analysis of change

The following table shows the analysis of change in the MCEV for the Austrian Life & Health business.

Analysis of change – Austria in EUR millions	Free surplus	Required capital	VIF	MCEV
Opening MCEV as at 31 December 2015, reported	387	834	1,625	2,846
Opening MCEV as at 31 December 2015, restated	387	834	1,625	2,846
Capital and dividend flows	-112	0	0	-112
Foreign exchange variances	0	0	0	0
Acquired / divested businesses	26	-26	-5	-5
Opening adjustments	-87	-26	-5	-117
Adjusted opening MCEV as at 31 December 2015	300	809	1,621	2,729
New business value	-46	0	121	75
Expected existing business contribution *(reference rate)*	1	0	18	18
Expected existing business contribution *(in excess of ref. rate)*	10	0	64	74
Transfer from VIF and required capital to free surplus	155	-59	-96	0
Experience variances	-18	-7	73	47
Assumption changes	124	-124	320	320
Other operating variance	656	-739	-25	-108
Operating MCEV earnings	881	-929	474	426
Economic variances	-157	120	-173	-209
Other non operating variance	23	0	0	23
Total MCEV earnings	748	-809	301	240
Closing adjustments	-163	0	0	-163
Closing MCEV as at 31 December 2016	884	0	1,922	2,806

Table 14: Analysis of change – Austria

The NBV for the Austrian Life & Health business is EUR 75mn, allowing for a new business strain of EUR 46mn.

Operating MCEV earnings in total developed positively (EUR 426mn). The main contributions to this are the assumption changes, which reflect the lower mortality expectations in the Austrian term life business, and lower claims ratio and updated lapse assumptions in the Austrian health business.

The economic variance of EUR -209mn in MCEV was mainly due to the impact of the decrease in interest rates.

The closing adjustments of EUR -163mn reflect the reallocation of participations from the covered business to the non-covered business.

The primary effects of the merger of the Austrian operations were:

- A small decrease in the VIF for acquired/divested business, as a result of including Salzburger Landes-Versicherung AG in the covered business,
- A large reduction in required capital in the other operating variance, as a result of increased diversification between the Life and Health businesses, and
- A write-down in net assets (and hence free surplus) as a result of the merger of the Austrian entities.

3.2.2 Analysis of change for new business

The following table analyses the increase in profitability of the Austrian Life & Health new business in 2016.

Analysis of change for new business – Austria in EUR millions	Value of new business	Present value of NB premiums	New business margin
Opening NBV as at 31 December 2015, reported	38	1,825	2.1%
Methodology changes	0	0	0.0%
Expanded scope	0	0	0.0%
Opening NBV as at 31 December 2015, restated	38	1,825	2.1%
Foreign exchange variances	0	0	0.0%
Acquired / divested business	0	0	0.0%
Adjusted opening NBV as at 31 December 2015	38	1,825	2.1%
Modelling changes	-6	-23	-0.3%
Business volume change	-2	-141	0.0%
Business mix change	10	0	0.6%
Assumption changes	37	172	1.8%
Closing NBV as at 31 December 2016	75	1,834	4.1%

Table 15: Analysis of change for new business - Austria

Modelling changes stem mainly from refining the profit sharing methodology for the Austrian health business. The main drivers of the change in New Business Value are assumption changes, in particular lower mortality assumptions for term life business. In total, the assumption changes have a positive impact of EUR 37mn on NBV. Additionally, the business mix shifted favourably towards products with relatively higher margins (including a higher proportion of health business), resulting in a positive impact of EUR 10mn on NBV.

3.2.3 Sensitivities

The following table shows the sensitivities in the MCEV for the Austrian Life & Health business.

Sensitivities – Austria in EUR millions	Change in embedded value		Change in new business value	
Base value	2,806	100%	75	100%
MCEV change by economic factors				
Risk free yield curve -100bp	-311	-11%	-3	-4%
Risk free yield curve +100bp	94	3%	-15	-20%
Equity and property market values -10%	-121	-4%	0	0%
Equity and property implied volatilities +25%	-11	0%	-1	-1%
Swaption implied volatilities +25%	-32	-1%	-4	-5%
MCEV change by non-economic factors				
Maintenance expenses -10%	45	2%	4	5%
Lapse rates -10%	55	2%	11	15%
Mortality for assurances -5%	32	1%	2	3%
Mortality for annuities -5%	-9	0%	0	0%
Required capital set to solvency capital requirement	64	2%	3	4%
Additional sensitivity				
No liquidity premium	-81	-3%	n/a	n/a

Table 16: Sensitivities – Austria

The sensitivities to reference rates have the strongest impact on the MCEV. The asymmetric effect on the embedded value is caused by traditional life business (with profit participation) where profits are shared with the policyholder but losses are borne by the shareholder due to the existence of guarantees. The downward shift of the risk free yield curve of 100bps results in a decrease of MCEV by EUR -311mn or -11%.

The required capital is determined as 135% of the Solvency II solvency capital requirement. A change in the required capital to 100% of the solvency capital requirement has the strongest impact among the non-economic sensitivities and increases the MCEV by EUR 64mn or 2%.

3.3 Central Eastern Europe

The Life & Health MCEV for CEE increased from EUR 241mn to EUR 269mn, including a NBV of EUR 17mn.

3.3.1 Analysis of change

The following table shows the analysis of change in the MCEV for the CEE Life business.

Analysis of change – CEE in EUR millions	Free surplus	Required capital	VIF	MCEV
Opening MCEV as at 31 December 2015, reported	55	22	163	241
Opening MCEV as at 31 December 2015, restated	55	22	163	241
Capital and dividend flows	-7	0	0	-7
Foreign exchange variances	3	0	3	6
Acquired / divested businesses	0	0	0	0
Opening adjustments	-4	0	3	-1
Adjusted opening MCEV as at 31 December 2015	51	23	166	240
New business value	-14	8	24	17
Expected existing business contribution *(reference rate)*	1	0	2	4
Expected existing business contribution *(in excess of ref. rate)*	0	0	1	1
Transfer from VIF and required capital to free surplus	19	0	-20	0
Experience variances	-11	9	0	-2
Assumption changes	7	-7	10	10
Other operating variance	7	-7	-2	-2
Operating MCEV earnings	11	3	15	29
Economic variances	-7	3	2	-1
Other non operating variance	2	-1	1	2
Total MCEV earnings	6	5	19	29
Closing adjustments	0	0	0	0
Closing MCEV as at 31 December 2016	57	27	185	269

Table 17: Analysis of change – CEE

Operating MCEV earnings are EUR 29mn, including a new business value of EUR 17mn. New business is the most significant driver in the change in MCEV since the previous year.

Other operating variance is EUR -2mn and reflects the reduction in required capital from 135% to 125% of the solvency capital requirement under Solvency II, as well as minor modelling changes.

The economic variance amounts to EUR -1mn.

Other non operating variance reflects the change to Solvency II contract boundaries, which lowered the VIF in Poland. However, this has been more than offset by a favourable decrease in tax rates in Hungary. Overall, the other non operating variance amounts to EUR 2mn.

In total, the MCEV of the CEE countries increases to EUR 269mn. The total MCEV return for the CEE life business was 12% (as measured relative to the adjusted opening MCEV as at December 31, 2015).

3.3.2 Analysis of change for new business

The following table analyses the development in profitability of the CEE life new business in 2016.

Analysis of change for new business – CEE in EUR millions	Value of new business	Present value of NB premiums	New business margin
Opening NBV as at 31 December 2015, reported	16	272	6.0%
Methodology changes	0	0	0.0%
Expanded scope	0	0	0.0%
Opening NBV as at 31 December 2015, restated	16	272	6.0%
Foreign exchange variances	1	9	0.1%
Acquired / divested business	0	0	0.0%
Adjusted opening NBV as at 31 December 2015	17	281	6.1%
Modelling changes	3	-2	1.0%
Business volume change	1	19	0.0%
Business mix change	-4	0	-1.5%
Assumption changes	1	24	-0.2%
Closing NBV as at 31 December 2016	17	322	5.4%

Table 18: Analysis of change for new business – CEE

Foreign exchange variances comprise the impact of changes of CZK, HUF, PLN and RUB currencies compared to the EUR.

The change in business volume increases the present value of new business premiums by EUR 19mn. The main impact originates from Poland with higher sales in unit linked single premium contracts. The change in business mix had a negative impact of EUR -4mn on NBV: the aforementioned higher unit linked single premium sales in Poland also correspond to relatively lower margins for these products.

The negative NBV impact of applying Solvency II contract boundaries in Poland is presented in modelling changes and has been more than offset by the modelling improvements in the other CEE countries.

The assumption changes row comprises all changes in assumptions and product profitability compared to those used for the adjusted opening new business margins (per line of business) and has a positive impact of EUR 1mn on NBV.

3.3.3 Sensitivities

The following table shows the sensitivities in the MCEV for the CEE life business.

Sensitivities – CEE in EUR millions	Change in embedded value		Change in new business value	
Base value	269	100%	17	100%
MCEV change by economic factors				
Risk free yield curve -100bp	-6	-2%	-1	-4%
Risk free yield curve +100bp	-4	-1%	0	0%
Equity and property market values -10%	-3	-1%	0	0%
Equity and property implied volatilities +25%	0	0%	0	0%
Swaption implied volatilities +25%	-1	0%	0	0%
MCEV change by non-economic factors				
Maintenance expenses -10%	13	5%	2	14%
Lapse rates -10%	12	4%	2	11%
Mortality for assurances -5%	7	3%	1	8%
Mortality for annuities -5%	-1	0%	0	-1%
Required capital set to solvency capital requirement	0	0%	0	0%
Additional sensitivity				
No liquidity premium	-3	-1%	n/a	n/a

Table 19: Sensitivities – CEE

4 Methodology

The GEV is the total of the adjusted net asset value and, in respect of the covered in-force business, the present value of future profits of in-force business less the value of financial options and guarantees, frictional cost of required capital and cost of residual non-hedgeable risks.

4.1 Covered business

The MCEV results cover the life insurance, savings, pensions and annuity, disability and health insurance business written by the Group's main Life & Health businesses in Austria – UNIQA Österreich Versicherungen AG; the Life & Health business in Italy written by UNIQA Assicurazioni, UNIQA Previdenza and UNIQA Life S.p.A.; and the Life business written in the Czech Republic, Hungary, Slovakia, Poland and Russia.

On March 9, 2016, UNIQA's Management Board and Supervisory Board resolved to merge the Austrian operations (UNIQA Österreich Versicherungen AG, Raiffeisen Versicherung AG, FinanceLife Lebensversicherung AG and Salzburger Landes-Versicherung AG), with UNIQA Österreich Versicherungen AG acting as the acquiring entity. The effect of this merger is reflected in this report.

On December 2, 2016, UNIQA's Management Board resolved to sell the 99.7% majority interest in the subsidiary, UNIQA Assicurazioni S.p.A., to the Italian mutual insurance company Società Reale Mutua di Assicurazioni. The sale encompasses UNIQA Assicurazioni S.p.A. and its subsidiaries operating in Italy, UNIQA Previdenza S.p.A. and UNIQA Life S.p.A. The sale is subject to approval by the authorities and is expected to close in the first half of 2017. The sale of the Italian business is reflected in this report as a closing adjustment.

UNIQA Group provides the operating entities with detailed guidelines in order to ensure consistency of embedded value calculations throughout the Group. The economic assumptions that are used by the operating entities are set centrally.

Calculations are performed separately for each business and are based on the cash flows of that business after allowing for both external and intra-group reinsurance. Where one part of the covered business has an interest in another part of the covered business, the ANAV of that business excludes the book value of the dependent business.

4.2 Adjusted net asset value

The adjusted net asset value for the MCEV calculations is defined as:

- the shareholders' funds under the local accounting bases including the profits and losses for the reporting year;
- plus the "untaxed reserves" after tax – these reserves are available to cover the solvency requirements;
- plus the shareholders' share of the unrealised capital gains after tax to the extent that these are not included in the calculation of the VIF;
- less goodwill and value of business in-force (VBI) after tax in respect of the businesses included in the scope of the MCEV calculations; the VBI is the value of the business in-force included in the consolidated IFRS balance sheet as an intangible asset.

The adjusted net asset value for the Property & Casualty and the Life & Health businesses excluded from the scope of the MCEV calculations is defined as:

- the IFRS equity;
- plus the unrealised capital gains not included in the IFRS equity.

Additionally, an adjustment was made to the ANAV in 2016 to reflect the impact of the sale of the Italian operations.

The differences between the IFRS balance sheet values and the disclosed market values as at December 31, 2015 and December 31, 2016 after adjusting for minority interests and deferred tax are included either in the ANAV or the VIF. Where these differences are included in the VIF, allowance is made for profit sharing.

4.2.1 Free surplus

Free surplus is defined as the difference between ANAV and required capital. It is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date.

4.2.2 Required capital

Required capital is derived from the solvency capital requirement under the Solvency II regime for each company. The rating requirement on a business unit level is aligned with the Group limit system annually within UNIQA's risk management process. The required capital is defined as 135% (in Austria) or 125% (in Italy and CEE) of the solvency II capital requirement less the VIF (based on Solvency II consistent assumptions). In the previous year's report, the required capital in the CEE region was defined as 135% of the solvency capital requirement less the VIF (based on Solvency II consistent assumptions). The required capital is shown net of available subordinated debt.

The required capital for MCEV is defined as the assets needed in excess of the assets already backing the reserves of the covered business and therefore differs significantly from solvency capital requirement as defined under Solvency II.

The required capital for the covered business was EUR 931mn at December 31, 2015 and EUR 27mn at December 31, 2016 (after sale of the Italian business). The required capital definition for MCEV allows for diversification between covered business within the same company (e.g. between life and health businesses). In 2016, there is a higher level of diversification between life and health in Austria, as all the covered business is now within one business unit (UNIQA Österreich Versicherung AG). The required capital definition does not allow for diversification between separate legal entities.

4.3 Value of in-force business and time value of financial options and guarantees

The VIF calculated for the life and health businesses is the value of the projected net of tax distributable profits arising from the in-force business. It does not include profits from future new business.

As permitted by the MCEV Principles issued in April 2016, UNIQA has elected to align its contract boundaries for MCEV reporting with the contract boundaries required under Solvency II.

The PVFP for the life and health businesses writing conventional or unit linked business is determined by projecting cash flows under the assumption that the future investment returns on all assets are equal to the rates implied by the reference rates at the valuation date. The other assumptions (including expenses, surrender rates, mortality and morbidity rates, shareholder participation rates and tax rates) are set on a best estimate basis that reflects each business' recent experience and expected future trends. Where appropriate, the projection models allow for management actions, i.e. some assumptions (e.g. profit participation rates and the asset allocation) vary depending on the future economic conditions. The resulting statutory shareholder profits are discounted at the reference rates and this is defined as the PFVP. This value takes account of the intrinsic value of financial options and guarantees.

The TVFOGs are valued explicitly for the conventional life products in Austria, Italy, Czech Republic, Hungary and Slovakia as the difference between the "stochastic" PVFP and the PVFP. The "stochastic" PVFP is defined as the average − over one thousand economic scenarios − of the discounted value of the projected after-tax statutory shareholder profits. The economic scenarios represent possible future outcomes for capital market variables such as treasury yields, corporate spreads, corporate migrations, equities and inflation.

UNIQA produces the economic scenarios centrally using GEMS (provided by Conning). The risk-neutral economic scenarios are market consistent, i.e. they are calibrated to the market prices of a range of capital market instruments at the valuation date. The conventional reserves in the covered life business in Poland and Russia account for less than 2.0% of the total Group reserves (excluding Italy) at December 31, 2016. Due to the level of materiality, the TVFOGs for the conventional life products for these two companies in CEE are estimated using prudent internal benchmarks. Under this methodology an explicit cost of the guarantee is calculated in each year and discounted at the reference rates.

4.4 Frictional cost of required capital

The FCRC has been calculated as the present value, using risk-free interest rates, of the frictional costs on the total required capital. The frictional costs on the required capital covered by the shareholders' funds have been defined as the sum of the corporation tax on the future investment returns and investment expenses.

The same definition for the FCRC has been applied for the in-force business and the new business.

4.5 Cost of residual non-hedgeable risk

The CRNHR allows for the non-financial (i.e. mortality, morbidity, lapse and expense) and operational risks on the basis of the cost of holding risk capital to cover these risks. The risk capital is based on UNIQA's group internal risk capital model and is equal to the stand alone risk capital at the 99.5% percentile. Allowance has been made for diversification between the covered businesses. No allowance has been made for diversification between financial and non-financial or operating risks. The risk capital is projected over the life time of the portfolio on the basis of projected reserves, premiums or other relevant drivers. The same drivers are used to project the risk capital for in-force and new business. The net of tax charge for the cost of capital is 2% for the calculation of the CRNHR.

4.6 New business value

The NBV represents the value generated by new business sold during the reporting period. New business premiums are defined as premiums arising from sales of new contracts. New business includes policies where a new contract is signed or underwriting is carried out. Renewal premiums include contractual renewals and changes to health insurance premiums due to medical inflation. As permitted by the MCEV Principles issued in April 2016, UNIQA has elected to align its contract boundaries for MCEV reporting with the contract boundaries required under Solvency II.

5 Assumptions

5.1 Economic assumptions

The calculations are based on economic market conditions as at December 31, 2016.

The reference interest rates are taken from EIOPA as published on January 9, 2017. These rates are based on swap rates or government yields with the following adjustments.

- A credit risk adjustment is deducted from the swap rates (the parameters are shown in Table 22).
- 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 22).
- The liquidity premium is added to the deep and liquid part only and is equal to the volatility adjustment as defined for Solvency II.
- 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 22). 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 22).

The following tables show the main economic assumptions for the MCEV calculations. Table 20 lists the reference rates (excluding liquidity premiums) as at December 31, 2016 and December 31, 2015.

	EUR		CZK		HUF		PLN		RUB	
Reference rates	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
1 year	-0.30%	-0.16%	0.06%	0.18%	0.26%	1.03%	1.48%	1.41%	10.12%	11.25%
5 years	-0.02%	0.23%	0.41%	0.55%	1.69%	2.61%	2.84%	2.18%	8.74%	10.10%
10 years	0.57%	0.92%	0.77%	0.92%	3.03%	3.41%	3.55%	2.99%	8.22%	9.82%
15 years	0.96%	1.34%	1.01%	1.26%	3.74%	4.07%	3.79%	3.47%	7.70%	8.69%
20 years	1.12%	1.53%	1.33%	1.66%	4.09%	4.36%	3.90%	3.69%	7.19%	7.90%
25 years	1.42%	1.80%	1.71%	2.02%	4.22%	4.45%	3.97%	3.82%	6.76%	7.32%

Table 20: Reference rates

	Liquidity premium 2016 (100%) in bp	Liquidity premium 2015 (100%) in bp
EUR	20	34
CZK	2	9
HUF	26	29
PLN	26	12
RUB	0	0

Table 21: Liquidity premium

	Credit risk adjustment	Starting point of extrapolation	Convergence period	Ultimate forward rate
EUR	10	20	40	4.20%
CZK	10	15	45	4.20%
HUF	10	15	45	4.20%
PLN	10	10	50	4.20%
RUB	35	10	50	4.20%

Table 22: Reference rates credit risk adjustment / extrapolation

Swaption and equity option implied volatilities (at the money) are shown in the following tables.

Swaption implied volatilities				
EUR	2016		2015	
Expiry \ swap tenor	5	10	5	10
5	55.88%	50.93%	42.82%	38.41%
10	42.86%	44.97%	32.88%	33.83%

Table 23: Swaption implied volatilities

Equity option implied volatilities		
EUR	2016	2015
5 years	21.62%	22.07%
10 years	23.07%	23.62%

Table 24: Equity option implied volatilities

UNIQA models corporate credit spreads with a reduced form model. The credit spreads per rating and maturity and corresponding transition probabilities are calibrated to spreads as observed in the market.

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%.

	Exchange rate		Tax rate	
	2016	2015	2016	2015
UNIQA Austria	-	-	25.00%	25.00%
UNIQA Italy	-	-	30.82%	34.32%
UNIQA CZ	27.02	27.02	19.00%	19.00%
UNIQA HU	309.83	315.98	9.00%	19.00% + 2.3% *)
UNIQA SK	-	-	22.00%	22.00%
UNIQA PL	4.41	4.26	19.00%	19.00%
Raiffeisen Russia	64.30	80.67	20.00%	20.00%

*) Municipal Tax & innovation fee

Table 25: Exchange and tax rates

5.2 Operating assumptions

The assumed policyholder profit participation for the Austrian with-profits 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 has 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. The gross surplus is the sum of the investment (based on book values), risk 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. For the Russian life business the assumed profit participation is defined as 80% of the difference between the projected investment returns. For the Italian life business, profit sharing is product specific but in total around 80% of net investment income.

Actuarial assumptions such as mortality and morbidity rates, surrender and annuity take-up rates have been included on the basis of the management board's best estimates of future experience. They reflect historical experience and expected trends.

Expense assumptions have been based on the companies' recent experience.

6 Independent opinion

Herrn
Mag. Kurt Svoboda
Mitglied des Vorstands
UNIQA Insurance Group AG
Untere Donaustraße 21
1029 Wien
Österreich

19th April 2017

Dear Herr Mag. Svoboda,

Review of the group embedded value results of UNIQA Insurance Group AG as at 31 December 2016

Based on the engagement letter, B&W Deloitte GmbH has been engaged to review the group embedded value (GEV) of UNIQA Insurance Group AG, Vienna, ("the Group" or "UNIQA") as at 31 December 2016 as stipulated in the accompanying document "Group Embedded Value 2016" (the "Statements"). The Statements comprise:

- the market consistent embedded values (MCEV) of the main Life & Health insurance businesses in Austria, Italy, the Czech Republic, Slovakia, Hungary, Poland and Russia as at 31 December 2016 and 31 December 2015 together with the value of new business generated, the sensitivities and the earnings analyses during the year 2016;
- the adjusted net asset values (ANAV) as at 31 December 2016 and 31 December 2015 for the Property & Casualty insurance businesses and the Life & Health insurance businesses excluded from the scope of the MCEV calculations.

The management board of UNIQA is responsible for the preparation of the Statements. This in particular includes specifying the methodology, setting the operating and economic assumptions, ensuring that the data required to determine the group embedded value are complete and accurate, ensuring that the required systems function correctly and carrying out the calculations and the related analyses.

Our responsibility is to express an opinion on the calculation of the GEV as to whether the methodology and the assumptions used comply with the Market Consistent Embedded Value Principles© as published by the CFO Forum on 4 June 2008 and amended in April 2016.

The scope of our review covered the methodology adopted together with the assumptions and calculations made by the Group in relation to the market consistent embedded values for the main Life & Health businesses and also the calculations made by the Group in relation to the group embedded value. The ANAVs are based on values shown in Group's audited consolidated IFRS accounts and also the audited local statutory accounts for the relevant subsidiaries of the Group. The ANAV allows for additional value arising from the difference between the market value and value in the Group's IFRS accounts for assets not valued at market value in the Group's consolidated IFRS accounts (for example for property and loans). The ANAV for the businesses excluded from the scope of the MCEV calculations have also been excluded from the scope of our review.

Our review was conducted in accordance with generally accepted actuarial practices and processes. Therefore we plan and conduct our review so that we can preclude through critical evaluation, with a certain level of assurance, that the Statements – the methodology and assumptions used, the calculations and further information – have not been prepared in material aspects in accordance with the requirements of the MCEV Principles. The review comprised a combination of such reasonableness checks, analytical review and checks of clerical accuracy as we considered necessary to provide this certain level of assurance that the Statements have been compiled free of significant error. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in an MCEV audit. However, we have relied without verification upon the completeness and accuracy of data and information supplied by the Group, including the value of net assets as disclosed in the audited local statutory accounts and the IFRS accounts of the Group and the subsidiaries of the Group, together with the adjustments made by the management board to reflect the additional value of the non-quoted equity holdings referred to above.

The calculation of the group embedded value is subject to numerous assumptions on future conditions and events which are uncertain and beyond control of the company. Therefore the actual cash future cash flows might differ significantly from those underlying the group embedded value. The group embedded value does not purport to be a market valuation and should not be interpreted in that manner since it does not purport to encompass all of the many factors that may bear upon a market value.

Based on our review - with the exceptions and limitations noted above - no matters have come to our attention that cause us to presume that the group embedded value has not been prepared in material respects in accordance with the MCEV Principles.

This report is made solely to the Group's management board as a body. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Group's management board 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)

7 Disclaimer

Cautionary statement regarding forward-looking information

This supplementary disclosure of the Group Embedded Value 2016 results 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.

8 Glossary and abbreviations

Glossary and abbreviations	
Adjusted net asset value (ANAV)	The sum of the free surplus and required capital.
Annual premium equivalent (APE)	This is defined as 100% of annual premiums and 10% of single premiums for new business.
Best estimate	A best estimate assumption should be equal to the mean estimate (probability weighted average) of outcomes of that risk variable.
Certainty equivalent value of in-force business (CEV)	This is the deterministic value of in-force covered business calculated. All asset classes are assumed to earn the reference rates (i.e. from the swap curve).
Cost of residual non-hedgeable risks (CRNHR)	This is the cost (to shareholder) of all other risks not being modelled explicitly in the stochastic model.
Covered business	The contracts to which the MCEV methodology according to the MCEV principles has been applied.
Free surplus (FS)	The free surplus is the market value of assets allocated to the in-force covered business, which is not required for the support of the in-force business.
Frictional costs of required capital (FCRC)	Frictional costs reflect the investment expenses and tax on investment income on the assets backing the required capital.
Implied discount rate (IDR)	IDR is the discount rate at which the present value of net cash flows (based on risk free rates plus a risk premium) equals the value of in-force business using the market consistent valuation approach.
Internal rate of return (IRR)	IRR is a discount rate at which the present value of net cash flows (based on risk free rates plus a risk premium), is equal to zero.
IFRS	International financial reporting standards.
Market consistent embedded value (MCEV)	The MCEV is a measure of the consolidated value of shareholders' interests in the covered business. It is defined as: adjusted net asset value, less present value of future profits, less time value of financial options and guarantees, less frictional costs of required capital, less cost of residual non-hedgeable risks.
New business strain	Negative impact of new business on ANAV corresponding to the initial expenses in the year business is written.
New business value (NBV)	The additional value to shareholders created through the activity of writing new business. It is calculated as the value of in-force business of the written business in the reporting year less the new business strain.
Present value of future profits (PVFP)	This is the same as the certainty equivalent value of in-force business.
Present value of new business premiums (PVNBP)	This is equal to the single premiums plus present value of annual premiums (on best estimate non-economic assumptions and discounted using the reference rates).
Reference rate	Refers to the rate, which is used for the valuation of certainty equivalent value of in-force business.
Required capital (RC)	This is the market value of assets, attributed to the covered business over and above that required to back (statutory) liabilities for covered business, whose distribution to shareholders is restricted.
Time value of financial options and guarantees (TVFOG)	This is defined as the difference between the PVFP and the stochastic value of in-force business (or "Stochastic VIF").
Value of in-force business (VIF)	The value of in-force business refers to the sum of discounted profits of the existing liabilities, which arise over the projected time horizon. It is determined as: present value of future profits, less time value of financial options and guarantees, less frictional costs of required capital, less cost of residual non-hedgeable risks.

Table 26: Glossary and abbreviations

9 Appendix

Details relating to the MCEV analysis of change for the Italian Life & Health business are presented in this section.

9.1 Italy

The Life & Health MCEV for Italy decreased from EUR 184mn to EUR 177mn (before the closing adjustments). The NBV is EUR 20mn.

9.1.1 Analysis of change

The following table shows the analysis of change in the MCEV for the Italian Life & Health business.

Analysis of change – Italy in EUR millions	**Free surplus**	**Required capital**	**VIF**	**MCEV**
Opening MCEV as at 31 December 2015, reported	52	74	59	184
Opening MCEV as at 31 December 2015, restated	52	74	59	184
Capital and dividend flows	-8	0	0	-8
Foreign exchange variances	0	0	0	0
Acquired / divested businesses	0	0	0	0
Opening adjustments	-8	0	0	-8
Adjusted opening MCEV as at 31 December 2015	43	74	59	176
New business value	-33	28	25	20
Expected existing business contribution *(reference rate)*	0	0	5	5
Expected existing business contribution *(in excess of ref. rate)*	0	0	5	5
Transfer from VIF and required capital to free surplus	14	0	-14	0
Experience variances	-17	16	-28	-29
Assumption changes	19	-19	29	29
Other operating variance	-1	4	11	15
Operating MCEV earnings	-16	29	32	45
Economic variances	-60	60	-44	-44
Other non operating variance	0	0	0	0
Total MCEV earnings	-76	89	-13	1
Closing adjustments	32	-164	-46	-177
Closing MCEV as at 31 December 2016	0	0	0	0

Table 27: Analysis of change - Italy

Operating MCEV earnings are EUR 45mn. The largest contributors to this are the new business value of EUR 20mn and assumption changes of EUR 29mn, offset by negative experience variances of EUR -29mn. The negative experience variances were driven by unfavourable lapse experience in the life business.

The economic variance amounts to EUR -44mn due to the negative interest rate development in the Eurozone. The closing adjustments include the removal of the Italian Life & Health businesses from the covered business.

Table of Figures