UNIQA Insurance Group AG

Group Embedded Value 2013

Supplementary information on Group Embedded Value results for 2013

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1 Introduction

The Market Consistent Embedded Value (or "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 31 December 2013. Future new business is not included.
UNIQA's methodology for the Life & Health MCEV is compliant with the CFO Forum's Market Consistent Embedded Value Principles©[1] ("MCEV Principles") published in June 2008 and amended in October 2009 and the corresponding Guidance. In particular, it:

- provides for the cost of all significant financial options and guarantees for the main Life businesses,
- 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.

UNIQA Insurance Group AG last disclosed information on the Group Embedded Value (GEV) for the business year 2012 in May 2013.
The GEV includes the MCEV of the covered businesses (as defined below), and the Group's Property and 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, Italy and Central and Eastern Europe (CEE). The CEE region now also includes the life company in Russia. The restatement of the 2012 GEV results allows for changes to the methodology and the covered business.
The following table shows the covered businesses for which a MCEV has been calculated:

Region	Country	Company	Segment
	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 Lebensversicherung 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 pojistovna 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.

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2 Summary of 2013 results

The GEV can be broken down in 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 and 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 2013 was positively affected by solid operating earnings and favourable economic developments. The capital increase in 2013 increased the GEV by EUR 725mn.

The following tables show the GEV results for the year ending December 31, 2013 and the restated GEV results for the year ending December 31, 2012. Table 2 contains the results before minority interests, whereas the results after minority interests are shown in Table 3 .

Group Embedded Value before minorities, in EUR millions	Life & Health[2]		Property & Casualty[3]		Total		Change over period
	2013	2012 *)	2013	2012 *)	2013	2012 *)	
Free surplus	337	362					
Required capital	656	522					
Adjusted Net Asset Value[4]	993	884	1,541	818	2,535	1,702	49%
Present value of future profits	2,128	1,815	n/a	n/a	2,128	1,815	17%
Cost of options and guarantees	-219	-395	n/a	n/a	-219	-395	-45%
Frictional Cost of required capital	-81	-79	n/a	n/a	-81	-79	2%
Cost of residual non-hedgeable risk	-120	-120	n/a	n/a	-120	-120	0%
Value of business in-force	1,709	1,221	n/a	n/a	1,709	1,221	40%
GEV / MCEV	2,702	2,104	1,541	818	4,243	2,923	45%

*) restated

Table 2: GEV before minorities

[2] 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.
[3] Includes the ANAV for the Life & Health businesses excluded from the scope of the MCEV calculations (less than 1% of the Austrian – and less than 9% of the Italian and CEE – Life & Health businesses based on earned premium for 2013).
[4] The decrease in the restated 2012 ANAV relative to the previously published 2012 ANAV reflects adjustments due to the inclusion of Russia in the covered business.

The GEV results after minority interests are shown in the following table. As at December 31, 2013 the minority interests in the GEV are EUR 26mn.

Group Embedded Value after minorities, in EUR millions	Life & Health		Property & Casualty		Total		Change over period
	2013	2012 *)	2013	2012 *)	2013	2012 *)	
Free surplus	334	359					
Required capital	652	518					
Adjusted Net Asset Value	986	877	1,529	804	2,515	1,681	50%
Present value of future profits	2,120	1,810	n/a	n/a	2,120	1,810	17%
Cost of options and guarantees	-217	-393	n/a	n/a	-217	-393	-45%
Frictional Cost of required capital	-81	-79	n/a	n/a	-81	-79	2%
Cost of residual non-hedgeable risk	-119	-120	n/a	n/a	-119	-120	0%
Value of business in-force	1,703	1,218	n/a	n/a	1,703	1,218	40%
GEV / MCEV	2,689	2,096	1,529	804	4,217	2,900	45%

*) restated

Table 3: GEV after minorities

The GEV as at December 31, 2012 has been restated. Details are provided in section 2.4.

Required Capital and Free Surplus for the Life & Health Business developed in line with the development of the underlying businesses. The RC allows for the target rating (A+) for rated entities and is shown net of policyholder funds and subordinated debt.

Operating MCEV earnings had a positive effect on the GEV. The main drivers of the operating earnings were the expected existing business contribution, lower expense assumptions and increased new business value. Details can be seen in section 2.4. The VIF increased to EUR 1,703mn and the overall GEV to EUR 4,217mn after minorities.

2.2 Return on GEV

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

Return on Embedded Value – Group after minorities, in EUR millions	2013	2012
GEV as at 31 December previous year, reported	2,876	1,467
GEV as at 31 December previous year, restated	2,900	1,545
Opening Adjustments	-65	-8
GEV as at 31 December previous year, restated and adjusted	2,834	1,536
Return on GEV	658	253
as a %	23.2%	16.5%
GEV as at 31 December, before closing adjustments	3,492	1,789
Closing Adjustments	725	1,086
GEV as at 31 December	4,217	2,876

Table 4: Return on 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 the foreign exchange.

The closing adjustments allow for the capital increase.

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 2013 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 2013 has been calculated for the covered business in 2013. The NBV for 2012 has been restated to be consistent with the scope used for 2013 and includes the NBV of the life company in Russia.

New Business Value after minorities, in EUR millions	2013	2012 *)	change in 2013
New business value	58	41	39.7%
Annual premium equivalent (APE)	257	252	
New business margin (as % APE)	22.5%	16.4%	
Present value of new business premiums (PVNBP)	2,638	2,682	
New business margin (% of PVNBP)	2.2%	1.5%	

*) restated

Table 5: New business value

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

Analysis of Change New Business – Group after minorities, in EUR millions	Value of New Business	Present Value of NB Premiums	New Business Margin
Opening VNB as at 31 December 2012, reported	40	2,602	1.5%
Modelling Changes	-3	17	-0.1%
Change in Scope	5	62	0.1%
Opening VNB as at 31 December 2012, restated	41	2,682	1.5%
Foreign Exchange Variances	-2	-20	-0.1%
Adjusted Opening VNB as at 31 December 2012	40	2,662	1.5%
Business Volume Change	1	74	0.0%
Business Mix Change	-2	0	-0.1%
Assumption Changes	20	-98	0.8%
Closing VNB as at 31 December 2013	58	2,638	2.2%

Table 6: Analysis of change for new business

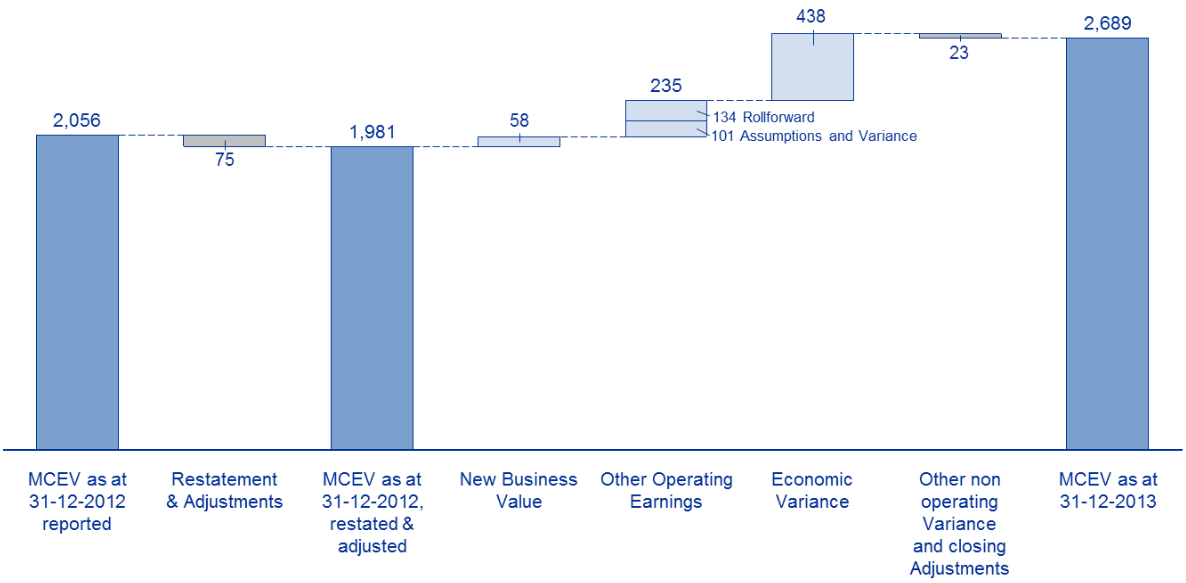
The NBV 2012 was restated, reflecting model changes, which decreased new business margins by 0.1%. This negative effect was offset by the inclusion of Russia in the scope of the covered business.

There was an increase in new business APE compared to 2012. However, the PVNBP decreased to EUR 2,638mn due to assumption changes (mainly discounting effects). The New Business Margin, as a percentage of PVNBP, increased to 2.2%. The business volumes and margins by region are shown in section 3.

The main drivers of change in New Business Value are due to the Assumption Changes, which increased the value by EUR 20mn and the Business Mix Change, which caused a decrease of EUR 2mn.

2.4 Analysis of change

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



Analysis of Change – Group after minorities, in EUR millions	Free Surplus	Required Capital	VIF	MCEV
Opening MCEV as at 31 December 2012, reported	358	514	1,184	2,056
Opening MCEV as at 31 December 2012, restated	359	518	1,218	2,096
Capital and Dividend Flows	-103	0	0	-103
Foreign Exchange Variances	-2	-2	-8	-12
Acquired/Divested Businesses	0	0	0	0
Opening adjustments	-105	-2	-8	-115
Adjusted Opening MCEV as at 31 December 2012	255	516	1,210	1,981
New business value	-84	31	111	58
Expected existing business contribution *(reference rate)*	4	0	65	68
Expected existing business contribution *(in excess of ref. rate)*	7	0	58	65
Transfer from VIF and required capital to free surplus	86	-17	-68	0
Experience variances	9	8	13	29
Assumption changes	0	-1	50	49
Other operating variance	-116	116	23	23
Operating MCEV earnings	-94	137	250	293
Economic variances	185	-1	254	438
Other non operating variance	-9	0	-12	-21
Total MCEV earnings	82	136	492	710
Closing Adjustments	-2	0	0	-2
Closing MCEV as at 31 December 2013	334	652	1,703	2,689

Table 7: Analysis of change (Life & Health business)

Key elements of the restatement and initial adjustments:

- The restated MCEV increased mainly due to the inclusion of Russia in the scope of the covered business and a revised methodology for modelling claims for the Austrian health business.
- No businesses were acquired or divested in 2013.

Key elements of the operating MCEV earnings:

- The **NBV** as at point of sale written in the year 2013 is EUR 58mn. 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 68mn. 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 65mn. This step shows the impact of management's expectation of the additional investment earnings in 2013 above the reference rates.
- **Transfer from VIF and required capital to free surplus** reduces the VIF by EUR 68mn, the expected net profit projected for 2013 from the existing business in-force. RC decreased as the impact of increases 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 29mn. In this step the deviations from expected to actual operating assumptions (e.g. lapse assumptions) are measured. Details are included in section 3 in the regional analysis.
- **Assumption changes** have a positive impact (EUR 49mn) on the operating earnings. This item covers all operating assumption changes. The major assumption change reflects the positive development of expenses for the Austrian Life & Health businesses.

Other operating variance covers all operating changes not covered in the other items and is in total EUR 23mn. This effect is strongly influenced by changes in management rules related to the Life and Health businesses in Austria. Modelling changes to more accurately reflect commission allocation between in force and new business also had a positive effect for the Austrian Health business.

Key elements of the non operating MCEV earnings:

- The **economic variance** covers impacts arising from the development of the financial markets. The main impacts in 2013 are due to the increase in interest rates, reduced credit spreads and lower implied volatilities.
- The **Other non operating variance** is mainly caused by changes in regulatory requirements for traditional life business in Austria (additional reserves).

The **closing adjustments** were EUR -2mn. These were net capital and dividend flows within the Group.

2.5 VIF Maturity Profile

The table below shows the emergence of VIF as at December 31, 2013 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.

VIF Maturity Profile – Group after minorities, in EUR millions	Free Cashflows	in %
year 1-5	319	19%
year 6-10	423	25%
year 11-15	327	19%
year 16-20	197	12%
year 21-25	104	6%
year 26-30	81	5%
year 31-35	72	4%
later than 35 years	180	11%
Total VIF	1,703	100.0%

Table 8: VIF Maturity profile

The table shows that 19% of VIF as at December 31, 2013 emerges in the first 5 years of projection and 44% of VIF 2013 in the first 10 years.

The VIF as at December 31, 2013 emerging after 35 years mainly result 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 behaviour 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, 2013 to changing various assumptions.

Sensitivities after minorities, in EUR millions	Change in embedded value		Change in new business value	
Base value	2,689	100%	58	100%
EV change by economic factors				
Risk free yield curve -100bp	-271	-10%	-15	-26%
Risk free yield curve +100bp	134	5%	9	16%
Equity and property market values -10%	-136	-5%	0	0%
Equity and property implied volatilities +25%	-6	0%	-1	-1%
Swaption implied volatilities +25%	-135	-5%	-15	-26%
EV change by non-economic factors				
Maintenance expenses -10%	60	2%	6	10%
Lapse rates -10%	47	2%	6	11%
Mortality for assurances -5%	36	1%	3	5%
Mortality for annuities -5%	-4	0%	0	0%
Required Capital equal to local solvency capital	15	1%	0	1%
Additional sensitivity				
no Liquidity Premium	-154	-6%	-7	-13%

Table 9: Sensitivities for the MCEV and NBV

Economic sensitivities:

- **Increase / Decrease of 100bps to risk free yield curve**
  This sensitivity shows the impact of a sudden parallel shift in reference rates, accompanied by all consequent movements of 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.
  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 -271mn or -10% (-18% in 2012). The improvement in this sensitivity compared to 2012 is due to the Group's enhanced ALM process and higher interest rates.

- **Decrease of 10% in equity and property market values (at the valuation date)**
  The MCEV decreases by EUR -136mn or -5%. There is no effect on NBV.

- **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 6mn or 3%. In total this sensitivity is not significant (-0.2% 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 135mn or 62% (in total this reduces the MCEV by 5%).

Non-economic sensitivities:

- **10% decrease in maintenance expenses**
  The impact of a 10% decrease in the projected expenses is an increase in MCEV by EUR 60mn 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 47mn 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 36mn 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 4mn or -0.1%.

- **Required capital set equal to local solvency capital requirement**
  This sensitivity is driven by the Austrian business as only UNIQA Österreich Versicherungen AG has RC higher than 100% of statutory solvency requirement. On the ANAV it is just a shift from RC to FS but on the VIF there is an increase due to lower FCRC because of reduced RC.

Additional sensitivities:

- As UNIQA used a liquidity premium in determining the reference rates as at December 31, 2013, an additional sensitivity is disclosed to show the impact of removing the liquidity premium.

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 determined using stochastic techniques from a deterministic projection of statutory distributable earnings (profit less movement in required capital) in an illustrative management case 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 and property were 5.8% and 1.6%, respectively.

The IDR and IRR as at December 31, 2013 are shown in the table below.

Implied Discount Rate and Internal Rate of Return after minorities, in %	Total
Implied Discount Rate (in force business)	5.37%
Internal Rate of Return (new business)	10.39%

Table 10: 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	2013	2012 *)
Consolidated IFRS equity	2,789.9	2,017.6
Goodwill and value of business in force for MCEV companies	-162.3	-167.3
Differences in valuation of assets and liabilities	-93,1	-148.2
Adjusted net asset value before minority interest	2,534,6	1,702.1
Minority interests	-20,0	-20.9
Adjusted net asset value after minority interest	2,514,6	1,681.2

*) restated

Table 11: Reconciliation of IFRS equity

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 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.

3 Regional Analysis of Embedded Value

3.1 Overview

The following table shows the MCEV for the Life & Health business split by regions after minority interests. More detailed analysis for each region can be found in the following sections (3.2 to 3.4).

The regions are defined as follows:

- **Austria**
  The business in this region includes the Life & Health business of UNIQA Österreich Versicherungen AG, the life business of Raiffeisen Versicherung AG and FinanceLife Lebensversicherung 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.
- **Central Eastern Europe (CEE)**
  The CEE region contains the life companies in the Czech Republic, Hungary, Poland, Russia and Slovakia. In 2013, the life business of the Russian company was included in the covered business scope for the first time. The results for 2012 were restated to include Russia.

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

Embedded Value 2013 by Region after minorities, in EUR millions	2013				2012 *)			
	Austria	Italy	CEE	Total	Austria	Italy	CEE	Total
Free surplus	264	33	38	334	296	34	30	359
Required capital	551	63	37	652	426	55	37	518
Adjusted Net Asset Value	815	96	75	986	722	89	67	877
Present value of future profits	1,894	79	147	2,120	1,635	35	140	1,810
Cost of options and guarantees	-168	-43	-6	-217	-336	-50	-7	-393
Frictional Cost of required capital	-75	-5	-2	-81	-74	-4	-2	-79
Cost of residual non-hedgeable risk	-110	-4	-5	-119	-110	-3	-6	-120
Value of business in-force	1,541	27	134	1,703	1,115	-22	126	1,218
Life & Health MCEV	2,356	123	210	2,689	1,836	66	193	2,096
as a % of total Life & Health MCEV	87.6%	4.6%	7.8%	100.0%	87.6%	3.2%	9.2%	100.0%

*) restated

Table 12: Market Consistent Embedded Value by region

The Austrian and Italian life business show lower costs of options and guarantees as a result of higher interest rates and lower interest rate volatility. For the Austrian life business, the improved risk mitigation implemented within the framework of the UNIQA 2.0 programme continues having a positive impact. A positive development in mortality and claims experience led to more favourable projection assumptions which significantly improved the present value of future profits, particularly for the Austrian health business. In total the VIF increased to EUR 1,703mn (2012 restated: EUR 1,218mn). The total Life & Health MCEV increased to EUR 2,689mn or +28%.

The following table shows the NBV 2013 and 2012 restated for the Life & Health business split by regions after minority interests.

New Business Value by Region after minorities, in EUR millions	**Austria**	**Italy**	**CEE**	**Total**
Value of new business 2013	32	4	22	58
Annual premium equivalent (APE)	118	70	70	257
New business margin (as % APE)	27.1%	5.7%	31.6%	22.5%
Present value of new business premiums (PVNBP)	1,653	603	382	2,638
New business margin (% of PVNBP)	1.9%	0.7%	5.8%	2.2%
Value of new business 2012 (restated)	11	3	27	41
Annual premium equivalent (APE)	126	58	68	252
New business margin (as % APE)	8.7%	5.6%	40.2%	16.4%
Present value of new business premiums (PVNBP)	1,797	490	394	2,682
New business margin (% of PVNBP)	0.6%	0.7%	6.9%	1.5%

Table 13: 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 region Italy. The PVNBP decreased because of changes in the assumption (mainly due to discounting effects related to changed reference rates).The overall new business margin increased to 2.2%.

In Austria, the increase in New Business margin from 0.6% to 1.9% is mainly driven by a favourable change in economic assumptions.

In the Italian life business the traditional life business improved the new business value compared to 2012. In particular higher interest rates led to a decrease in the value of options and guarantees.

The new business value for the region CEE decreased compared to 2012, mainly due to a slight deterioration in operating assumptions and change in business mix.

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 after minorities, in EUR millions	**Austria**	**Italy**	**CEE**	**Total**
Implied Discount Rate (in force business)	5.27%	7.50%	6,00%	5.37%
Internal Rate of Return (new business)	7.59%	12,91%	30,50%	10.39%

Table 14: 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 and property were 5.8% and 1.6%, respectively.

3.2 Austria

The positive operative earnings in 2013 contributed to the increase the MCEV for the Austrian Life & Health business from EUR 1,836mn in 2012 (on a restated basis) to EUR 2,356mn in 2013. The NBV increased from EUR 11mn in 2012 (on a restated basis) to EUR 32mn in 2013.

3.2.1 Analysis of change

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

Analysis of Change – Austria after minorities, in EUR millions	Free Surplus	Required Capital	VIF	MCEV
Opening MCEV as at 31 December 2012, reported	296	426	1,075	1,797
Opening MCEV as at 31 December 2012, restated	296	426	1,115	1,836
Capital and Dividend Flows	-103	0	0	-103
Foreign Exchange Variances	0	0	0	0
Acquired/Divested Businesses	0	0	0	0
Opening adjustments	-103	0	0	-103
Adjusted Opening MCEV as at 31 December 2012	194	426	1,115	1,734
New business value	-56	13	75	32
Expected existing business contribution *(reference rate)*	2	0	52	54
Expected existing business contribution *(in excess of ref. rate)*	7	0	52	59
Transfer from VIF and required capital to free surplus	62	-11	-51	0
Experience variances	4	8	14	26
Assumption changes	1	-1	60	60
Other operating variance	-116	116	23	23
Operating MCEV earnings	-96	126	225	254
Economic variances	176	0	213	389
Other non operating variance	-9	0	-12	-21
Total MCEV earnings	70	126	426	622
Closing Adjustments	0	0	0	0
Closing MCEV as at 31 December 2013	264	551	1,541	2,356

Table 15: Analysis of change – Austria

The increase of EUR 39mn to the restated MCEV as at year-end 2012 results mainly from the health business of UNIQA Österreich Versicherungen AG, where the methodology for modelling claims was revised.

NBV for Austrian Life & Health business is EUR 32mn, allowing for a new business strain of EUR 43mn.

Operating MCEV earnings in total developed positively (EUR 254mn). The main contributions to this are the assumption changes which reflect the positive development of expenses in both the Life & Health business of UNIQA Österreich Versicherungen AG.

The increase in interest rates and decrease in interest rate volatilities led to an economic variance of EUR 389mn in the MCEV.

The Other non operating variance in VIF is mainly caused by changes in regulatory requirements for traditional life business in Austria (additional reserves).

3.2.2 Analysis of change for new business

The following table analyses the increase in profitability of the Austrian Life & Health new business 2013 after minority interests.

Analysis of Change New Business – Austria after minorities, in EUR millions	Value of New Business	Present Value of NB Premiums	New Business Margin
Opening VNB as at 31 December 2012, reported	10	1,780	0.6%
Modelling Changes	1	17	0.0%
Change in Scope	0	0	0.0%
Opening VNB as at 31 December 2012, restated	11	1,797	0.6%
Foreign Exchange Variances	0	0	0.0%
Adjusted Opening VNB as at 31 December 2012	11	1,797	0.6%
Business Volume Change	0	16	0.0%
Business Mix Change	1	0	0.0%
Assumption Changes	20	-161	1.3%
Closing VNB as at 31 December 2013	32	1,653	1.9%

Table 16: Analysis of change for new business - Austria

The restated VNB increases by EUR 1mn.

The main drivers of change in New Business Value are due to assumption changes which have a positive impact of EUR 20mn on VNB.

The decrease of PVNBP corresponds to the change to higher interest rates for discounting.

3.2.3 Sensitivities

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

Sensitivities – Austria after minorities, in EUR millions	Change in embedded value		Change in new business value	
Base value	2,356	100%	32	100%
EV change by economic factors				
Risk free yield curve -100bp	-241	-10%	-8	-24%
Risk free yield curve +100bp	115	5%	1	3%
Equity and property market values -10%	-136	-6%	0	0%
Equity and property implied volatilities +25%	-5	0%	-1	-2%
Swaption implied volatilities +25%	-104	-4%	-10	-31%
EV change by non-economic factors				
Maintenance expenses -10%	44	2%	3	9%
Lapse rates -10%	41	2%	5	14%
Mortality for assurances -5%	30	1%	2	6%
Mortality for annuities -5%	-4	0%	0	-1%
Required Capital equal to local solvency capital	15	1%	0	1%
Additional sensitivity				
no Liquidity Premium	-132	-6%	-4	-13%

Table 17: Sensitivities – Austria

The sensitivities to reference rates have the strongest impact on the MCEV, and have decreased significantly as at year end 2013 compared to year end 2012. The main drivers for the reduction in sensitivity are due to the implementation of the UNIQA 2.0 strategy in traditional Austrian life business, including the Group's new ALM process, which has reduced the duration gap. The asymmetric effect is caused by traditional life business (with profit participation) where profits are shared with the policyholder but losses are born 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 241mn or –10%.

A decrease of 10% in maintenance expenses has the strongest impact among the non-economic sensitivities and increases the MCEV by EUR 44mn or 2%. This effect is the strongest on the unit link business where there is no risk mitigation effect due to profit sharing.

The Required Capital for UNIQA Österreich Versicherungen AG equals 150% of statutory solvency requirement. Setting the RC to 100% has a positive impact on the MCEV by decreasing the FCRC by EUR 15mn.

3.3 Italy

The Life & Health MCEV for Italy increased from EUR 66mn (on a restated basis) to EUR 123mn, including a NBV of EUR 4mn. The development was mainly driven by the higher interest rates and the decrease in interest rate volatility compared to 2012.

3.3.1 Analysis of change

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

Analysis of Change – Italy after minorities, in EUR millions	Free Surplus	Required Capital	VIF	MCEV
Opening MCEV as at 31 December 2012, reported	33	55	-16	73
Opening MCEV as at 31 December 2012, restated	34	55	-22	66
Capital and Dividend Flows	0	0	0	0
Foreign Exchange Variances	0	0	0	0
Acquired/Divested Businesses	0	0	0	0
Opening adjustments	0	0	0	0
Adjusted Opening MCEV as at 31 December 2012	34	55	-22	66
New business value	-16	12	8	4
Expected existing business contribution *(reference rate)*	0	0	9	9
Expected existing business contribution *(in excess of ref. rate)*	0	0	4	4
Transfer from VIF and required capital to free surplus	5	-2	-3	0
Experience variances	-1	0	0	-1
Assumption changes	0	0	-10	-10
Other operating variance	0	0	0	0
Operating MCEV earnings	-11	9	9	7
Economic variances	10	-1	41	50
Other non operating variance	0	0	0	0
Total MCEV earnings	-1	8	50	57
Closing Adjustments	0	0	0	0
Closing MCEV as at 31 December 2013	33	63	27	123

Table 18: Analysis of change - Italy

The main restatement changes for Italian business are due to modelling changes related to expenses and mortality. The VIF decreased by EUR 6mn compared to 2012 reported values.

Operating MCEV earnings are EUR 7mn. The largest contributors to this are the expected existing business contribution of EUR 9mn. The decrease of EUR 10mn due to assumption changes is mainly caused by higher expense assumptions.

Economic variance of EUR 50mn, mainly as a result of higher interest rates, leads to an overall MCEV for the Italian Life & Health business of EUR 123mn.

3.3.2 Analysis of change for new business

The following table analyses the decrease in profitability of the Italian Life & Health new business 2013 after minority interests.

Analysis of Change New Business – Italy after minorities, in EUR millions	Value of New Business	Present Value of NB Premiums	New Business Margin
Opening VNB as at 31 December 2012, reported	6	489	1.2%
Modelling Changes	-3	1	-0.6%
Change in Scope	0	0	0.0%
Opening VNB as at 31 December 2012, restated	3	490	0.7%
Foreign Exchange Variances	0	0	0.0%
Adjusted Opening VNB as at 31 December 2012	3	490	0.7%
Business Volume Change	1	110	0.0%
Business Mix Change	-3	0	-0.5%
Assumption Changes	3	3	0.5%
Closing VNB as at 31 December 2013	4	603	0.7%

Table 19: Analysis of change for new business – Italy

The restated VNB decreases by EUR 3mn due to modelling changes related to expenses and mortality.

The change in business volume increases the present value of new business premiums by EUR 110mn. The change in business mix decreases the VNB by EUR 3mn.

The line assumption changes comprises all changes in assumptions and in the product profitability compared to those used for the restated new business margins (per line of business) and has a positive impact of EUR 3mn on VNB.

3.3.3 Sensitivities

The following table shows the sensitivities in the MCEV for Italian Life & Health business after minority interests.

Sensitivities – Italy after minorities, in EUR millions	**Change in embedded value**		**Change in new business value**	
Base value	123	100%	4	100%
EV change by economic factors				
Risk free yield curve -100bp	-22	-18%	-7	-172%
Risk free yield curve +100bp	13	11%	8	210%
Equity and property market values -10%	2	1%	0	0%
Equity and property implied volatilities +25%	0	0%	0	3%
Swaption implied volatilities +25%	-30	-25%	-5	-128%
EV change by non-economic factors				
Maintenance expenses -10%	5	4%	0	12%
Lapse rates -10%	-2	-2%	0	-10%
Mortality for assurances -5%	0	0%	0	-8%
Mortality for annuities -5%	0	0%	0	0%
Required Capital equal to local solvency capital	0	0%	0	0%
Additional sensitivity				
no Liquidity Premium	-19	-16%	-3	-82%

Table 20: Sensitivities – Italy

3.4 Central Eastern Europe (CEE)

The Life & Health MCEV for CEE increased from EUR 193mn (on a restated basis) to EUR 210mn, including a NBV of EUR 22mn.

3.4.1 Analysis of change

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

Analysis of Change – CEE after minorities, in EUR millions	Free Surplus	Required Capital	VIF	MCEV
Opening MCEV as at 31 December 2012, reported	29	32	125	186
Opening MCEV as at 31 December 2012, restated	30	37	126	193
Capital and Dividend Flows	-1	0	0	-1
Foreign Exchange Variances	-2	-2	-8	-12
Acquired/Divested Businesses	0	0	0	0
Opening adjustments	-2	-2	-8	-12
Adjusted Opening MCEV as at 31 December 2012	28	35	118	181
New business value	-12	6	28	22
Expected existing business contribution *(reference rate)*	1	0	4	5
Expected existing business contribution *(in excess of ref. rate)*	0	0	2	2
Transfer from VIF and required capital to free surplus	18	-4	-15	0
Experience variances	6	0	-2	4
Assumption changes	0	0	0	0
Other operating variance	0	0	0	0
Operating MCEV earnings	14	2	17	32
Economic variances	-1	0	0	-1
Other non operating variance	0	0	0	0
Total MCEV earnings	13	2	16	31
Closing Adjustments	-2	0	0	-2
Closing MCEV as at 31 December 2013	38	37	134	210

Table 21: Analysis of change – CEE

The main restatement change for the CEE region is the inclusion of Russia in the CEE covered business.

Operating MCEV earnings are EUR 32mn, including a new business value of EUR 22mn.

The economic variance amounts to EUR -1mn. The impact of the liability adequacy test (LAT) reserve results in the positive variance being deferred to future years' profits.

In total, the MCEV of the CEE countries increases to EUR 210mn, an increase of 16% relative to the restated and adjusted 2012 results.

3.4.2 Analysis of change for new business

The following table analyses the decrease in profitability of the CEE Life new business 2013 after minority interests.

Analysis of Change New Business – CEE after minorities, in EUR millions	Value of New Business	Present Value of NB Premiums	New Business Margin
Opening VNB as at 31 December 2012, reported	24	333	7.2%
Modelling Changes	-1	-1	-0.4%
Change in Scope	5	62	0.1%
Opening VNB as at 31 December 2012, restated	27	394	6.9%
Foreign Exchange Variances	-2	-20	-0.1%
Adjusted Opening VNB as at 31 December 2012	25	374	6.8%
Business Volume Change	-4	-52	0.0%
Business Mix Change	4	0	1.2%
Assumption Changes	-4	60	-2.2%
Closing VNB as at 31 December 2013	22	382	5.8%

Table 22: Analysis of change for new business – CEE

Change in Scope shows the impact of the value of new business of the Russian life company for 2012.

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

The change in business volume decreases the present value of new business premiums by EUR 52mn. The main impact originates from the Czech Republic. The change in business mix had a positive impact caused mainly by Slovakia.

The line assumption changes comprises all changes in assumptions and in the product profitability compared to those used for the restated new business margins (per line of business) and has a negative impact of EUR -4mn on VNB.

3.4.3 Sensitivities

The following table shows the sensitivities in the MCEV for CEE Life business after minority interests.

Sensitivities – CEE after minorities, in EUR millions	Change in embedded value		Change in new business value	
Base value	210	100%	22	100%
EV change by economic factors				
Risk free yield curve -100bp	-8	-4%	-1	-3%
Risk free yield curve +100bp	5	3%	0	1%
Equity and property market values -10%	-1	0%	0	0%
Equity and property implied volatilities +25%	-1	0%	0	0%
Swaption implied volatilities +25%	-1	0%	0	0%
EV change by non-economic factors				
Maintenance expenses -10%	10	5%	2	9%
Lapse rates -10%	9	4%	2	10%
Mortality for assurances -5%	6	3%	1	6%
Mortality for annuities -5%	0	0%	0	0%
Required Capital equal to local solvency capital	0	0%	0	0%
Additional sensitivity				
no Liquidity Premium	-2	-1%	0	-1%

Table 23: Sensitivities – CEE

The sensitivity of the MCEV and VNB to economic factors is significantly lower than both the Austrian and Italian Life and Health businesses.

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, Raiffeisen Versicherung AG and Finance Life Lebensversicherung 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.

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 and 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.

UNIQA Österreich Versicherungen AG (UAT) and Raiffeisen Versicherung AG are composite insurers. Their assets are split between the operating segments (i.e. Property and Casualty, Life and, in the case of UAT, Health) on the basis of the statutory balance sheets. It is possible to transfer assets between the operating segments at book value.

The differences between the IFRS balance sheet values and the disclosed market values as at December 31, 2012 and December 31, 2013 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 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 defined as the statutory solvency margin requirement for each company, with the exception of UNIQA Österreich Versicherungen AG for which the Required Capital is assumed to be 150% of the statutory solvency margin requirement. The Required Capital is shown net of available policyholder funds and subordinated debt.

The statutory solvency margin requirements for the Life & Health businesses included in the scope of the MCEV calculations were EUR 656.4mn at December 31, 2013 and EUR 521.9mn at December 31, 2012 restated (before minorities). A part of the solvency margin requirements can be covered by subordinated debt and policyholder funds.

4.3 Value of In-Force and Time Value of Financial Options and Guarantees

The VIF calculated for the Life & 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.

The PVFP for the Life & 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 and Italy 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 CEE Life business account for less than 2.5% of the total Group reserves. Due to the level of materiality, the TVFOGs for the conventional life products for some 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 at the reference 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 our 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.

5 Assumptions

5.1 Economic assumptions

The calculations are based on economic market conditions as at December 31, 2012 and December 31, 2013.

The derivation of the reference interest rates is in line with the CFO Forum MCEV Principles and with recent EIOPA developments.

Reference interest rates are based on Swap Rates at each year end with the following adjustments.

- A Credit Risk Adjustment of 10bp is deducted from the swap rates, which is in line with the CFO CRO Forum paper "QIS5 Technical Specification – Risk-free interest rates".
- An extrapolation is needed for the period beyond that for which liquid assets are available in the financial markets. For EUR we consider the market to be deep and liquid for duration up to 20 years and start the extrapolation from this point onwards (other currencies are listed in Table 26).
- The Liquidity Premium is added to the deep and liquid part only.
- We use the Smith-Wilson technique to extrapolate towards the Ultimate Forward Rate of 4.2%. The extrapolation parameters are determined such that the Ultimate Forward Rate is reached within 40 years after extrapolation, which is in line with the recent developments of EIOPA and market practices.

The Liquidity Premium shown in Table 25 is determined by the "direct approach" of the 50/40 proxy formula: max[0, 50% (corporate spread over swap – 40bp)] + 10bp. The 10bp are the correction for the previous Credit Risk Adjustment. We apply the following buckets of the Liquidity Premium for our business in 2013:
- 0% for unit/index-linked business
- 65% for other business

For 2012 we applied the following buckets of the Liquidity Premium for our business:
- 75% for participating life business
- 0% for unit/index-linked business
- 50% for other business

For CZK, HUF and PLN 33% of the EUR premium was assumed.

The following tables show the main economic assumptions for the MCEV calculations. Table 24 lists the reference rates (excluding liquidity premiums) as at December 31, 2013 and December 31, 2012.

	EUR		CZK		HUF		PLN		RUB	
Reference Rates	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
1 year	0.30%	0.23%	0.26%	0.29%	2.89%	5.11%	2.65%	3.33%	6.87%	7.29%
5 years	1.16%	0.67%	1.17%	0.70%	4.04%	5.00%	3.63%	3.25%	7.13%	7.33%
10 years	2.12%	1.50%	2.02%	1.29%	5.31%	5.40%	4.20%	3.49%	7.71%	8.00%
15 years	2.61%	1.99%	2.52%	1.74%	5.36%	5.17%	4.32%	3.65%	8.35%	8.01%
20 years	2.75%	2.16%	2.82%	2.21%	5.05%	4.92%	4.35%	3.78%	8.60%	7.53%
25 years	2.84%	2.45%	3.04%	2.59%	4.87%	4.77%	4.35%	3.86%	8.39%	7.08%

Table 24: Reference Rates

	Liquidity Premium 2013 (100%)	Liquidity Premium 2012 (100%)
EUR	39bp	47bp
CZK / HUF / PLN	14bp	16bp
RUB	0bp	0bp

Table 25: Liquidity Premium

	Starting Point of Extrapolation	Ultimate Forward Rate
EUR	20	4.20%
CZK	15	4.20%
HUF	15	4.20%
PLN	10	4.20%
RUB	15	5.20%

Table 26: Reference Rates Extrapolation

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

Swaption Implied Volatilities				
EUR	2013		2012 *)	
Expiry \ Swap Tenor	10	20	10	20
10	23.07%	22.56%	24.93%	21.70%
15	23.29%	20.73%	24.27%	20.76%
20	21.64%	19.20%	20.81%	19.09%

*) after restatement

Table 27: Swaption Implied Volatilities

Equity Option Implied Volatilities		
EUR	2013	2012 *)
5 years	19.92%	24.52%
10 years	20.50%	25.98%

*) after restatement

Table 28: 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	
	2013	2012	2013	2012
UNIQA Austria	-	-	25.00%	25.00%
UNIQA Italy	-	-	34.32%	34.32%
UNIQA CZ	27.43	25.15	19.00%	19.00%
UNIQA HU	297.04	292.30	19.00% + 2.3% *)	19.00% + 2.3% *)
UNIQA SK	-	-	22.00%	19.00%
UNIQA PL	4.15	4.07	19.00%	19.00%
Raiffeisen Russia	45.32	40.33	20.00%	20.00%

*) Municipal Tax & innovation fee

Table 29: 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, is assumed to be used to reduce the level of future premium adjustments. There is no additional allowance for future profit sharing.

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 Directors' 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

7th April 2014

Dear Herr Mag. Svoboda,

Independent Opinion on Review of Embedded Value results of UNIQA Insurance Group AG as at 31 December 2013

Based on the engagement letter, B&W Deloitte GmbH has been engaged to review the Group Embedded Value (GEV) of UNIQA Insurance Group AG, Wien, ("the Group" or "UNIQA") as at 31 December 2013 as stipulated in the accompanying document "Group Embedded Value 2013" (the "Statements"). The Statements comprise:

- the Market Consistent Embedded Values of the main Life and Health insurance businesses in Austria, Italy, the Czech Republic, Slovakia, Hungary, Poland and Russia as at 31 December 2013 and 31 December 2012 together with the value of new business generated, the sensitivities and the earnings analyses during the year 2013;
- the Adjusted Net Asset Values as at 31 December 2013 and 31 December 2012 for the Property and Casualty insurance businesses and the Life and Health insurance businesses excluded from the scope of the Market Consistent Embedded Value calculations.

The Management 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 October 2009 except principles 17.3.5 and 17.3.47 relating to segmentation of results and 17.3.37 to 17.3.45 relating to the preparation of a Group MCEV.

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 (MCEV) for the main Life and Health businesses and also the calculations made by the Group in relation to the Group Embedded Value. The Adjusted Net Asset Values (ANAV) 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 Groups 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 Directors 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 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

7 Disclaimer

Cautionary statement regarding forward-looking information

This supplementary disclosure of the Group Embedded Value 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 (ANAV), less Present Value of Future Profits (PVFP), less Time Value of Financial Options and Guarantees (FOG), less Frictional Costs of Required Capital (FCRC), less Cost of Residual Non-Hedgeable Risks (CRNHR)
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 (VIF) 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 (CEV).
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 (FOG)	This is defined as the difference between the PVFP and the Stochastic Value of Inforce Business (or "Stochastic VIF").
Value of In-force Business (VIF)	The Value of in-force Business (VIF) 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 (PVFP), less Time Value of Financial Options and Guarantees (FOG), less Frictional Costs of Required Capital (FCRC), less Cost of Residual non-hedgeable risks (CRNHR)

Table 30: Glossary and abbreviations

Table of Figures