UNIQA Insurance Group AG

Group Economic Capital Report 2015

Table of Contents

1 Executive Summary 3

2 Risk Strategy – UNIQA Group 4

3 Risk Management Framework 5

4 Own Funds 5

4.1 Own Funds Development 5

4.2 Reconciliation with IFRS Equity 6

5 Risk Profile 6

5.1 Economic Capital Requirement 6

5.1.1 Risk Profile Results 7

5.1.2 Market Risk 8

5.1.3 Underwriting Risk Life 9

5.1.4 Underwriting Risk Non – Life 10

5.1.5 Underwriting Risk Health SLT 11

5.2 Other Risk Categories 12

6 Capital Adequacy 13

7 External Review 14

8 Appendix 16

8.1 Methodology 16

8.1.1 Own Funds 16

8.1.2 ECR Methodology 17

8.2 Assumptions 20

8.2.1 Economic Assumptions 20

8.2.2 Other Economic Assumptions 21

8.2.3 Operating Assumption 22

8.3 Glossary and Abbreviations 24

8.4 Disclaimer 25

1 Executive Summary

- The risk management approach of UNIQA Group is designed to add value by focusing on risk, return and revenue.
- The capitalization level of UNIQA Group is adequate and in line with the defined risk strategy.

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

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

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

Additionally the Group puts its focus on Spread Risk from a qualitative and quantitative risk management approach and established responsible functions and committee meetings to create appropriate awareness. UNIQA assumes that EEA (European Economic Area) government bonds denominated in the local currency also carry Spread and Concentration Risk and allows for a risk capital charge in its ECR. In this respect the Group's approach is more conservative than the Solvency II standard formula. UNIQA will continue to monitor and investigate its approach to analysing its Spread Risk profile. As an example, the effect of using a dynamic volatility adjustment (currently not included in the ECR) was one part of the analysis provided in 2015. This showed a significant effect by allowing for corresponding spread impact on both the asset and liability side.

The solvency position increased considerably in 2015. The Economic Capital Requirement (ECR) Quota is 182% as at year-end 2015 compared to 150% as at year-end 2014.

(in EUR millions)	2015	2014
Economic Capital Requirement	2,857	2,722
Own Funds	5,205	4,080
Economic Capital Ratio	182%	150%

Table 1 Economic Capital Ratio

The increase of the ECR Quota is driven by the increase of Own Funds. On the other hand a moderate increase of ECR was visible as well.

The increase of Own Funds by EUR 1,125 millions is driven by additional subordinated liabilities (EUR 496 millions) and by an increase of the reconciliation reserve (EUR 580 millions, cf. chapter 4.1).

The increase of ECR by EUR 135 millions is mainly driven by higher Counterparty Default Risk (EUR 131 millions) due to higher share of cash at bank and Life Underwriting Risk (EUR 110 millions) driven by higher Lapse Risk (cf. chapter 5.1.3).

The following measures are defined to achieve a stable and sustainable development of the ECR Quota:

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

The methodology for the calculation of Own Funds and ECR is based on the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014[1] ("Level 2 Delegated Acts" or "Technical Specifications") and is described in section 8.

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

2 Risk Strategy – UNIQA Group

Risk Preferences

UNIQA's risk preferences remain unchanged to the previous year. A further reduction of Market Risk as a proportion of the total ECR was achieved. We clearly state our preferences towards risk categories, where it is defined, which risks we are willing to take and which we want to avoid. Risks that we are willing and committed to take are Underwriting Risks in the Non-Life, Health as well as in the Life segment, since these build the core of the insurance business.
On the other hand, we want to avoid any risks that cannot be influenced by our business conduct and based on misconduct such as Operational, Strategic and Reputational Risks.
A moderate preference is assigned to Market and Credit Risks, since a controlled amount of risk has to be taken here to fulfil our obligations towards our customers. Still those risk categories are monitored closely with a profound limit system to avoid excessive risk loading.

Risk Appetite Statements

Capital – On Group level we aim to keep an ECR and SCR-ratio of at least 135%. Falling below this limit would initiate immediate short-term derisking measures or re-capitalisation. Setting a target of 170% ECR-ratio we consider a variance in the range of 155% to 190% capital ratio as appropriate based on the risk profile of the Group.

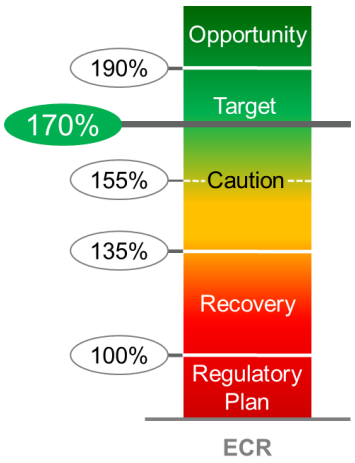

Figure 1 Solvency Steering Rules

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

Non-Life Underwriting Risk – We aim for a high diversification through a modern multiple line insurance approach in terms of serving a wide field of coverages for retail business and building up a selective corporate

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

business portfolio. We seek a sound retail portfolio mix with an emphasis on profitable non-motor business.
We have a clear profit testing process, proper underwriting guidelines and approval processes in place to ensure selective and prudent underwriting. By pooling our risks through UNIQA Re we aim to maximize the risk-adjusted profit via the use and target-oriented steering of diversification effects. Group wide Nat Cat cover contributes to optimize our reinsurance portfolio and to obtain a well-balanced risk return profile. We perform an analysis of our flood, wind, earthquake and hail exposures on a yearly base.

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

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

Market Risk – We accept Market Risk to fulfill our obligations towards our customers. A stringent implementation of our Strategic Asset Allocation (SAA) process ensures an appropriate return to serve our promises towards our clients and limits our risk consumption to a required minimum. As a liability driven investor we aim to match our asset structure to our liabilities. We clearly want to optimize our Concentration, Interest Rate and Liquidity Risk. To assure the sufficiency of our risk capacity we evaluate their adequacy under stressed scenarios.

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

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

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

3 Risk Management Framework

UNIQA's Risk Management System, specifically its organisational structure and Risk Management process, are described in the Risk Report part of UNIQA Group Report 2015 (Notes to the Group Financial Statements).

4 Own Funds

The economic balance sheet at Group level uses the accounting consolidation methodology and Own Funds are presented on a consolidated basis. The entities consolidated under UNIQA's economic balance sheet are the same entities consolidated under the Group's Consolidated Financial Statements under IFRS. The Group is treated as one entity and all intra-group transactions are eliminated for the determination of both Own Funds and Economic Capital Requirement.

4.1 Own Funds Development

From 2014 to 2015 the amount of the Own Funds increased by EUR 1,125 millions. The main reasons are the newly issued subordinated debt (impacting Own Funds by EUR 496 millions) and economic profits generated. The economic profits include a significant increase in the reconciliation reserve of EUR 580 millions. This can be split EUR 405 millions from Life and Health business and EUR 175 millions from the Property and Casualty

business. Profitable new business as well as favourable development of assumptions supported this development.

According to Solvency II requirements, there are defined limits for the allowance of different capital classes. Tier 1 is the capital of the highest quality and can be fully used to cover the ECR. After successfully issuing the Tier 2 subordinated debt (nominal amount of EUR 500 millions), the composition of Own Funds has changed compared to last year. As both Tier 1 restricted (20% of the total Tier 1 capital) and Tier 2 (50% of ECR) allowance limits are not exceeded, the whole amount of available Own Funds can be used to cover the ECR.

	2015		2014	
Position	(in EUR millions)	in %	(in EUR millions)	in %
Tier 1	4,360	84%	3,730	91%
Tier 1 unrestricted	*4,110*	*94%*	*3,480*	*93%*
Tier 1 restricted	*250*	*6%*	*250*	*7%*
Tier 2	846	16%	350	9%
Total	5,205	100%	4,080	100%

Table 2 Composition of Own Funds

4.2 Reconciliation with IFRS Equity

As at 31 December 2015 the IFRS equity including minorities amounted to EUR 3,175 millions (thereof EUR 22 millions minorities) and Own Funds amounted to EUR 5,205 millions.

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

Position (in EUR millions)	2015	2014
IFRS Equity	**3,175**	**3,102**
- Goodwill	-429	-452
- Intangible assets & VBI	-63	-66
- Deferred acquisition costs	-980	-999
+ Revaluation (after deferred taxes)	2,566	2,032
Revaluation of assets	*851*	*504*
Revaluation of net technical provisions	*1,728*	*1,527*
Contingent liabilities	*-14*	*0*
+ Subordinated liabilities	1,096	600
- Foreseeable dividends	-145	-129
- Capping of minority interests	-14	-8
Own Funds	**5,205**	**4,080**

Table 3 Reconciliation of IFRS Equity to Own Funds

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

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

5 Risk Profile

5.1 Economic Capital Requirement

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

5.1.1 Risk Profile Results

Figure 2 shows the components of the ECR as well as the change in the components compared to 2014.

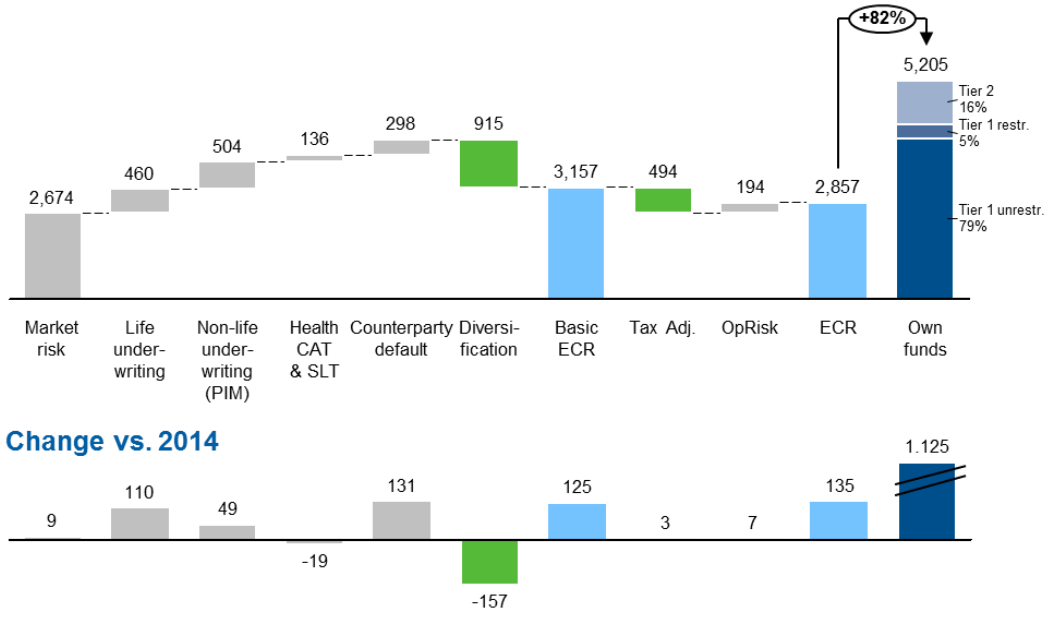

Figure 2 Risk Profile in 2015 and Change vs. 2014

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

	2015		2014	
Position	**(in EUR millions)**	**in %**	**(in EUR millions)**	**in %**
ECR	**2,857**		**2,722**	
Basic ECR	3,157		3,033	
ECR Market Risk	2,674	65.7%	2,665	70.3%
ECR CDR	298	7.3%	167	4.4%
ECR Life	460	11.3%	350	9.2%
ECR Non-Life[2]	504	12.4%	454	12.0%
ECR Health[3]	136	3.3%	155	4.1%
Diversification	-915		-758	
ECR Intangible	0		0	
Operational risk	194		186	
Mitigation due to DT	-494		-497	

Table 4 Development of Risk Profile

[2] The ECR Non-Life comprises of the underwriting risk calculated by the Partial Internal Model, scaled from the modelled business to the whole business.
[3] ECR Health includes the ECR for Health SLT and Health CAT risk (Health NSLT is included in ECR-Non Life)

The ECR increased from EUR 2,722 millions in 2014 to EUR 2,857 millions in 2015 (an increase of EUR 135 millions). The main component of the ECR is still the Market Risk which is mainly related to the assets backing the high portion of the traditional life insurance portfolio. Within UNIQA Group the proportion of both Life and Non-Life Underwriting Risks increased. In line with the risk strategy of the Group the share of Market Risk as percentage of the risk profile was reduced. Due to these changes within the risk profile a higher diversification effect could be generated. The analysis for each risk category is shown in chapters 5.1.2 to 5.1.5.

In the following tables the capital requirement per segment and region are represented. Compared to last year the share of capital requirement per segment shows a shift from the Life to the Non-Life segment. This is due to the combined effects of increased Counterparty Default Risk stemming mainly from Non-Life, an increased share of Markets Risks in the Non-Life segment and increased Non-Life Underwriting Risk. Further details regarding the Non-Life segment can be found in chapter 5.1.4.

Segment	2015	2014
Life	52%	57%
Non – Life (incl. Health N-SLT)	27%	23%
Health SLT	21%	20%

Table 5 Capital Requirement per Business Segment

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

Region	2015	2014
AT	73%	74%
WEM	13%	13%
CEE	5%	4%
SEE	8%	8%
EEM	1%	1%

Table 6 Capital Requirement per Region

5.1.2 Market Risk

Investment activity in 2015 was strongly influenced by the liability driven investment approach. Nevertheless due to a significant increase in cash at banks, which was partially caused by the issuance of EUR 500 millions Tier 2 capital, the relative share of most investment classes actually declined as shown in Table 7. The only exceptions are the asset class equity and participations, whose share was actively increased for non-life business and the asset class government bonds, which accounted for the largest new investment volume in 2015 and whose share remained at a stable 44.7% of the overall investment volume. Significant absolute reductions occurred only for the asset class covered bonds and other assets. While the reduction in covered bonds was primarily caused by sizable redemption volumes, which were not fully offset by new investment activities, the reduction in other assets was actively pursued with the ABS portfolio accounting for the majority of the decline in absolute and relative terms.

	2015	2014
Position	**in %**	**in %**
Government bonds	44.7%	44.7%
Corporate bonds	18.0%	18.4%
Covered bonds	10.5%	12.4%
Cash, bank deposits	10.4%	5.8%
Real estate	9.7%	10.2%
Equity, participations	4.2%	4.0%
Others	2.6%	4.4%

Table 7 Asset Allocation

Given that the overall investment volume in asset classes other than cash remained relatively stable, the overall Market Risk increased by merely EUR 9 millions to EUR 2,674 millions. The overall share of Market Risk declined from 70% to 66% as a consequence, but remains the major risk driver for UNIQA. The composition of the individual Market Risk sub-categories is summarized in table 8.

	2015		2014	
Position	**ECR in EUR millions**	**in %**	**ECR in EUR millions**	**in %**
Market Risk	**2,674**		**2,665**	
Interest Rate Risk	394	10.9%	448	12.7%
Equity Risk	351	9.7%	405	11.4%
Property Risk	561	15.5%	589	16.6%
Spread Risk	1,650	45.5%	1,575	44.5%
Concentration Risk	326	9.0%	278	7.8%
Currency Risk	347	9.6%	248	7.0%
Diversification	-954		-878	

Table 8 Capital Requirement for Market Risks

Spread Risk, which is determined by the risk metrics rating and modified duration, remains the dominant Market Risk component and increased by 1.0 percentage point (EUR 75 millions) compared to the year 2014. Reasons for this development were an increase in the absolute investment volume, as well as a rise in the average duration of spread-sensitive securities. Government bonds accounted for the majority share of spread risk.

An increase in duration of the investment portfolio, changes to the general level of interest rates and increased lapse rates on the traditional business portfolio were reasons for the decline in Interest Rate Risk from EUR 448 millions to EUR 394 millions. Interest Rate Risk is generally caused by both assets and liabilities whose values react sensitively to changes in interest rates. The main driver of Interest Rate Risk is the difference in the duration between assets and liabilities.

The Market Risk sub-category that experienced the largest increase in 2015 was Currency Risk, whose share increased from 7.0 to 9.6 percentage points (EUR 99 millions). As UNIQA does not pursue any strategic long-term hedging programs, a conservative methodology change was implemented in the calculation of ECR Currency Risk. The risk reducing effect of hedges with a maturity of less than one year is only partially considered for the calculation of Currency Risk.

5.1.3 Underwriting Risk Life

The ECR and risk absorbing capacity of future discretionary benefits for Life Underwriting Risks is calculated by applying the standard risk factors described in the Technical Specifications for each sub risk module. The ECR per sub risk module is derived as the change in Best Estimate for guaranteed benefits under shock. The ECR allowing for risk absorbing capacity of future discretionary benefits is derived as the change in Best Estimate for benefits including future profit sharing under shock.
For Lapse Risk the stress is only applied where the best estimate increases due to the risk scenario (for each of the scenarios lapse up, lapse down or mass lapse).

To determine the group's ECR for Life Underwriting Risks the results of the sub risk modules are aggregated by applying the correlation factors described in the Technical Specifications.
The ECR for Life Underwriting Risks are mainly driven by the Lapse Risk and Expense Risk.

	2015		2014	
Position	**ECR in EUR millions**	**in %**	**ECR in EUR millions**	**in %**
Life Underwriting Risk	**460**		**350**	
Mortality Risk	30	5.1%	29	6.2%
Longevity Risk	43	7.3%	53	11.2%

Disability Risk	8	1.3%	6	1.2%
Lapse Risk	356	60.9%	210	44.3%
Expense Risk	133	22.7%	159	33.5%
Revision Risk	1	0.1%	0	0.1%
CAT Risk	15	2.5%	17	3.5%
Diversification	-124		-124	

Table 9 Capital Requirement for Life Underwriting Risks

Below are listed the most important changes to the ECR for Life Underwriting Risk compared to 2014:

- The increase in assumed cash option rates for the Austrian business causes lower Longevity Risk.
- The relevant Lapse Risk in 2015 is the downward shock within the Standard Approach. The main contributor to this is the traditional life business in Austria, as a consequence of the low interest rates. The increase of Lapse Risk compared to 2014 is influenced by higher lapse assumptions and cash option rates.
- The decrease in Expense risk originates from the Austrian businesses due to reduced expense assumptions.

5.1.4 Underwriting Risk Non – Life

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

The ECR for Non-Life amounts to EUR 677 millions and is mitigated to EUR 504 millions after the application of reinsurance. The lines of business with the highest risk (before reinsurance) are those with the highest CAT exposure (Property and Other with predominant premium risk) followed by the long tail business with high volume (Motor TPL and TPL with a significant role of the reserve risk). Fronting business has a special role with a significant amount of capital requirement gross of reinsurance which is almost completely mitigated by reinsurance.

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

- The total ECR increase is mainly driven by the implementation of Business Risk[4], which resulted also in an increase of the stand alone figures for a number of lines of business. Net risk has been affected as well.
- The ECR decrease in Property (gross) is mainly caused by reduced exposure to Man Made catastrophe risk (mostly mitigated through reinsurance on the net side).

	Stand Alone 2015		**Stand Alone 2014**	
ECR in EUR millions	**Gross**	**Net**	**Gross**	**Net**
Non-Life Underwriting Risk	**677**	**504**	**636**	**454**
Accident	90	89	60	60
Legal	49	48	33	33
MAT	83	59	104	82
Motor Hull	82	73	68	63
Motor TPL	190	183	193	188
Other	181	48	183	50
Property	386	153	437	141
Technic	55	25	43	20
TPL	137	131	112	108
Fronting	209	1	237	0
Diversification	-785	-307	-833	-290

Table 10 Risk Profile Non-Life Underwriting Risk

[4] Expected future written premium and expected future expenses are modelled as stochastic variables (not deterministically)

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

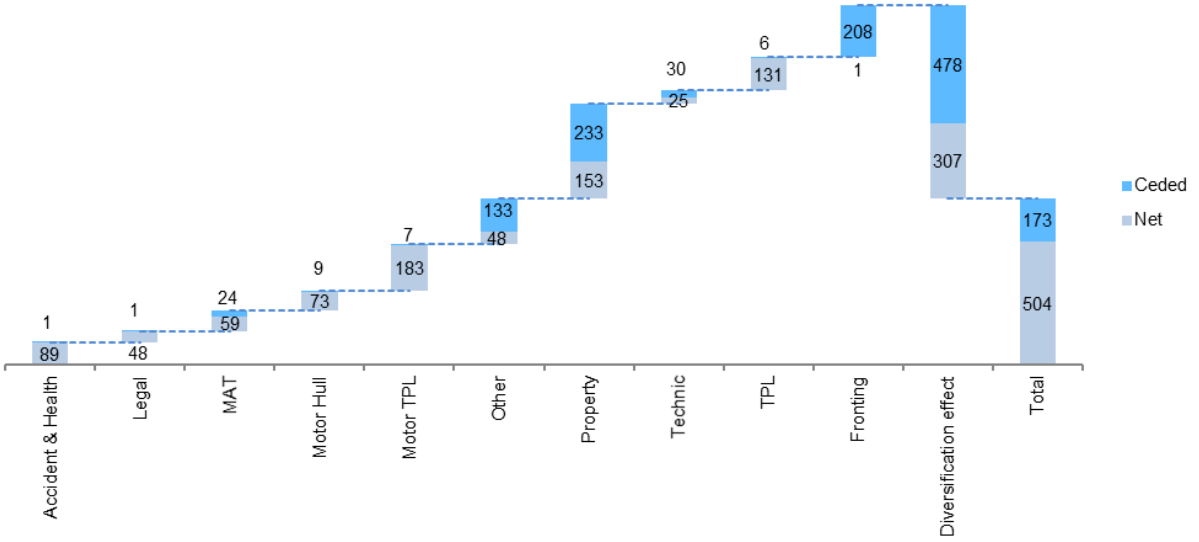

Figure 3 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance (in EUR millions)

Exclusion of the CAT risk allows analysing the non-CAT risks as well as the influence of the remaining reinsurance treaties. The gross ECR for Non-Life reduces without consideration of CAT risk by 22.3%. The main risk driver is Motor TPL followed by Property and TPL.

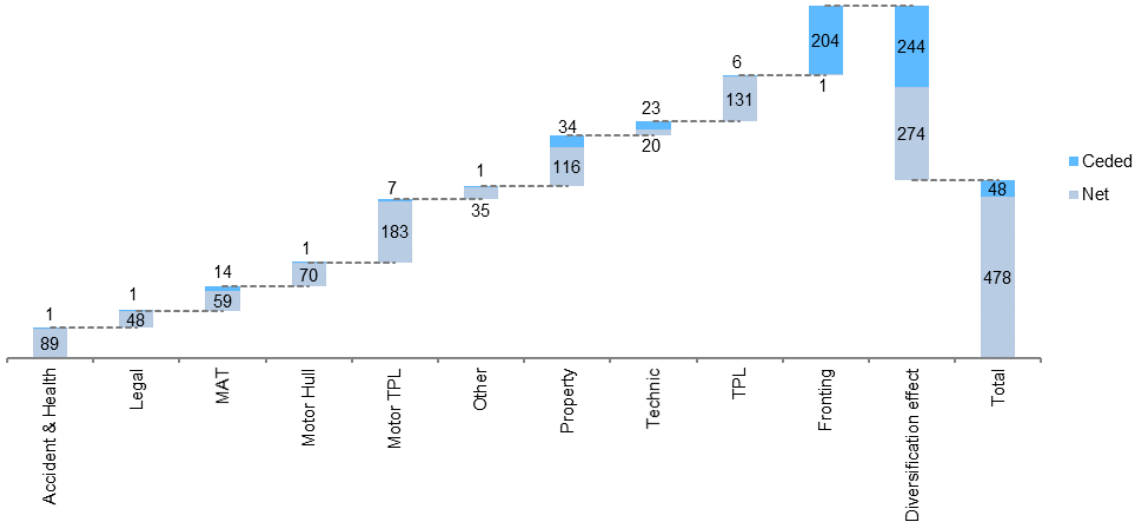

Figure 4 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance without CAT (in EUR millions)

5.1.5 Underwriting Risk Health SLT

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

discretionary benefits is derived as the change in Best Estimate for benefits including future profit sharing under shock. As specified in the Technical Specifications for Lapse and Disability-Morbidity Risk the scenarios are only applied when that leads to an increase of Best Estimate. The figures shown in this section only cover the Health SLT underwriting risk. Health CAT risk is not included in the following table.

	2015		2014	
Position	**ECR in EUR millions**	**in %**	**ECR in EUR millions**	**in %**
Health SLT Underwriting Risk	**126**		**145**	
Mortality Risk	42	21.2%	43	19.0%
Longevity Risk	0	0.0%	0	0.0%
Disability Risk	75	38.0%	68	30.3%
Lapse Risk	70	35.1%	103	45.4%
Expense Risk	11	5.6%	12	5.4%
Revision Risk	0	0.0%	0	0.0%
Diversification	-72		-81	

Table 11 Capital Requirement for Health SLT Underwriting Risks

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

Almost all of the risks relate to the Health portfolio in UNIQA Österreich Versicherungen AG which represents 96.5% (portion of gross written premium) of UNIQA Group's SLT Health business.

Measures for risk reduction include maintaining strong operating earnings because of premium adjustments, monitoring new business development and the implementation of a liability-driven asset liability management approach.
In comparison to the previous year the most significant change in the ECR is the change in Lapse Risk. This is due to revised management rules regarding profit participation in stressed scenarios.

5.2 Other Risk Categories

Operational Risks

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

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

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

UNIQA Group has in place risk management processes for Operational, Reputational and Strategic Risks in terms of methodology, monitoring and responsibilities. More information on the process and on the relevant risks can be found in the Risk Report part of UNIQA Group Report 2015 (Notes to the Group Financial Statements).

6 Capital Adequacy

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

		2015	2014
Statutory Requirement (Solvency I)	Own Funds	3,512	3,442
	Capital requirement	1,164	1,165
	Solvency I Ratio	302%	295%
Economic Capital Model	Own Funds	5,205	4,080
	Economic Capital Requirement	2,857	2,722
	Economic Capital Ratio	182%	150%

Table 12 Capital Adequacy – Own Funds and Capital Requirement in EUR millions

Regulatory Requirements

Risk capital requirements and available capital have been calculated according to Solvency I regulations until 31.12.2015. These have been replaced by Solvency II regulations becoming effective as at 01.01.2016. In order to guarantee a smooth transition between these two different calculation methods UNIQA Group has been performing both calculations since 2008. UNIQA calculates the regulatory requirement based on the Solvency II standard formula methodology on the basis of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014[5] ("Level 2 Delegated Acts").

Economic Capital Base

UNIQA Group defines its risk appetite and risk management framework on the basis of an "Economic Capital Model" (ECM), an enhanced version of the Solvency II standard approach to allow for the Group's internal risk assessment (see also 8.1.2).
The target coverage of quantifiable risks with eligible Own Funds is at 170%.

Standard and Poor's Model

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

[5] The changes to Level 2 published on 1st April 2016 in the Commission Delegated Regulation (EU) 2016/467 have not been applied

7 External Review

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

12th April 2016

Review of the derivation of the UNIQA's Own Funds and Economic Capital Requirement as at 31st December 2015

In accordance with our engagement letter B&W Deloitte GmbH has been engaged to review the derivation of the Own Funds and Economic Capital Requirement (ECR) for UNIQA Insurance Group AG (UNIQA) as at 31st December 2015. The values determined by UNIQA together with a summary of the methodology and the key assumptions are set out in UNIQA's Group Economic Capital Requirement Report 2015 (together "the Statements").

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

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

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

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

Scope of B&W Deloitte's Review

We have reviewed:

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

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

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

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

Opinion

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

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

Yours sincerely,

B&W Deloitte GmbH

(Daniel Thompson) (Bharat Bhayani)

8 Appendix

8.1 Methodology

For the evaluation of the Own Funds and Economic Capital Requirements, UNIQA constructs an economic balance sheet based on the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 ("Level 2 Delegated Acts").

Details of the calculations for each of the Own Funds and ECR are included in the sections below.

8.1.1 Own Funds

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

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

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

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

Adjustments are made to components of the Group's IFRS consolidated balance sheet in light of the principles stated above to derive the Economic Balance Sheet. These adjustments include:

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

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

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

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

8.1.2 ECR Methodology

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

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

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

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

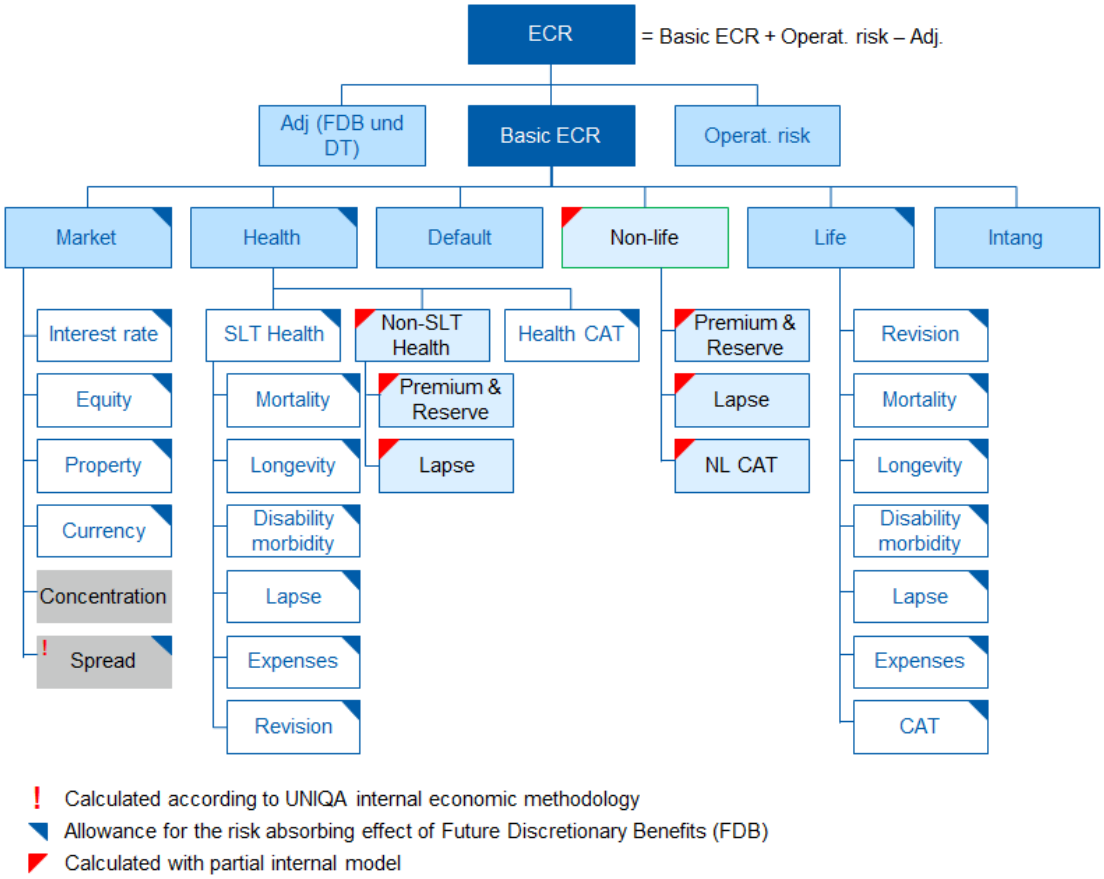

Figure 5 Composition of ECR and Calculation Methodology

Standard Formula Risk Modules

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

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

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

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

The change in the value of the pensions benefit obligations is also included in the interest rate shock. In the interest rate down shock the valuation interest rate for pension benefit obligation is reduced to 1.50% p.a. For the Own Funds and IFRS a valuation interest rate of 2.00% is used.

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

Risk Modules using UNIQA´s Economic Capital Approach

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

Spread and Concentration Risk

In these modules, UNIQA assumes that EEA (European Economic Area) government bonds denominated in the local currency also carry Spread and Concentration Risk. UNIQA measures the Credit Risk for these government bonds, derived on the basis of their corresponding credit rating and duration for internal risk monitoring. The capital requirement is calculated on the basis of these parameters according to the specifications for bonds and loans.
In contrast to the default rates for corporate bonds the EIOPA shock factors for the repackaged loan products are based on limited data. For internal risk monitoring, UNIQA uses the ratings determined by external agencies and the implied default expectations. Consequently, for the Spread Risk the same calculation approach is used as for other fixed income securities. Furthermore, for the purpose of calculating spread risk for callable bonds the final maturity date is used (31.12.2099 for perpetual bonds).

Non-Life and NSLT-Health Risks

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

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

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

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

Underwriting Risk (incl. Catastrophe Risk)

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

- Catastrophe claims: claims caused by natural catastrophes (e.g. earthquakes) are typically modeled through the use of external vendor models (e.g. RMS. Impact Forecasting. etc.). In addition, some perils are modelled in-house, e.g. frost and snow pressure in Austria. Explicitly, UNIQA also includes the modelling of man-made scenarios;
- Large claims: very high individual claim events above a pre-defined threshold; and
- Attritional claims: the remaining "high frequency – low severity" part of the portfolio.

To cover the uncertainty of business development over a year (i.e. planned premium income or cost expenses

might be misestimated) UNIQA estimates also the business risk which is part of the underwriting risk.

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

Reserving Risk

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

8.2 Assumptions

8.2.1 Economic Assumptions

Reference Rates

The reference interest rates used for discounting cash flows in the process of calculating Technical Provisions taken from EIOPA published on January 13, 2015. These rates are based on Swap Rates or Governmental Yields with the following adjustments:

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

The Volatility Adjustment has been used in 2015 for all lines of business (Table 16). In 2014 the VA was not applied to unit/index-linked business.

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

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

Reference rates 2014 (without VA)								
year	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
1	0.06%	0.18%	1.67%	1.71%	-0.22%	20.35%	1.60%	2.10%
5	0.26%	0.42%	3.04%	2.07%	-0.04%	12.23%	2.33%	3.71%
10	0.72%	0.76%	3.61%	2.41%	0.42%	10.61%	2.90%	3.72%
15	1.09%	1.09%	3.89%	2.65%	0.72%	8.85%	3.08%	3.76%
20	1.28%	1.50%	4.00%	2.87%	0.94%	7.83%	3.26%	3.82%

25	1.58%	1.90%	4.05%	3.06%	1.06%	7.17%	3.40%	3.87%

Table 13 Reference Rates

Credit Risk Adjustment								
Basis points	**EUR**	**CZK**	**HUF**	**PLN**	**CHF**	**RUB**	**RON**	**HRK**
2015	10	10	10	10	10	35	10	10
2014	10	11	10	10	10	35	35	10

Table 14 Credit Risk Adjustment

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

Reference rates projection 2014								
	EUR	**CZK**	**HUF**	**PLN**	**CHF**	**RUB**	**RON**	**HRK**
Starting Point of Extrapolation	20	15	15	15	25	10	10	7
Convergence Period	40	40	40	40	40	40	40	43
Ultimate Forward Rate	4.2%	4.2%	4.2%	4.2%	3.2%	4.2%	4.2%	4.2%

Table 15 Reference Rates Projection

Volatility Adjustment								
Basis points	**EUR**	**CZK**	**HUF**	**PLN**	**CHF**	**RUB**	**RON**	**HRK**
2015	22	6	19	8	9	0	1	12
2014	22	8	8	8	7	0	0	0

Table 16 Volatility Adjustment

8.2.2 Other Economic Assumptions

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

	2015		2014	
Expiry / Swap Tenor	**10 years**	**20 years**	**10 years**	**20 years**
10 years	33.70%	26.70%	39.54%	29.02%
15 years	29.56%	23.20%	30.23%	22.82%
20 years	23.04%	19.83%	22.26%	18.99%

Table 17 Swaption Implied Volatilities

At-the-money Equity Option Implied Volatilities		
EUR	**2015**	**2014**
5 years	22.07%	21.13%
10 years	23.62%	22.39%

Table 18 At-the-money Equity Option Implied Volatilities

Foreign exchange rates

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

Exchange Rates								
	EUR	CZK	HUF	PLN	CHF	RUB	RON	HRK
2015	1.00	27.02	315.98	4.26	1.08	80.67	4.52	7.64
2014	1.00	27.74	315.54	4.27	1.20	72.34	4.48	7.66

Table 19 Exchange Rates

UNIQA models corporate credit spreads with a model based on the Jarrow-Lando-Turnbull methodology. In this model, bonds which contain Credit Risk have an initial rating. The bond then migrates to another rating according to a transition matrix and defaults are modelled dependent on the rating class. With the simulation of the transition matrices the corresponding spreads per rating are calculated and used to evaluate the Credit Risk for corresponding bonds at each point in time. The credit spreads by rating and maturity and the corresponding transition probabilities are calibrated to observed spreads.
Inflation is linked to interest rates and calibrated to meet an expected long time horizon of 2%. For Health business the expense and medical inflation are both set at 2%.

8.2.3 Operating Assumption

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

The assessment of best estimate assumptions is made in light of past, current and expected future experience and other relevant data. The assumptions are entity specific.
The best estimate assumptions are used for a number of purposes including liability adequacy testing, IFRS and embedded value reporting. These assumptions are reviewed and updated at least annually and they are considered separately for each product group.

Profit Sharing

The assumed policyholder profit participation for the Austrian profit participating life insurance business has been set for each economic scenario using management rules that seek to achieve a pre-tax shareholder margin of 15% of the gross surplus. The rules in Austria for minimum profit sharing require that at least 85% of the gross surplus have to be used for profit sharing. In line with the Group's strategy for life business in Austria, it has been assumed that 85% of future surpluses will be used for profit sharing. In line with Austrian profit sharing regulations, some premium discounts applied to risk business also qualify as profit sharing and are included in the management rules. Reserves for future profit participation not allocated to policies are treated as Own Funds. The gross surplus includes the investment, mortality and expense surpluses. The unit-linked business does not have any policyholder profit sharing.

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.

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 Italian life business, profit sharing is product specific but in total around 80% of net investment income.

Expenses

Expense assumptions are based on the actual expenses incurred in the year prior to the valuation date. The allocation of expenses between initial and renewal expense assumptions reflects the reality. The allocation of expenses is differentiated by product class and between regular and premium contracts.
Exceptional costs which are not expected to recur in the future are excluded from the expenses allocation. Likewise, where additional expenses are expected to be incurred in the future, these expenses are included in the expense allocation.

Lapses and Paid-Ups

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

Commission

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

Mortality and Morbidity

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

8.2.3.2 Best Estimate Liabilities Non-Life

Claims Outstanding

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

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

If these methods are not appropriate (e.g. for lines of business where only limited claims data is available), other best-practice methods (e.g. based on claims frequency/claims severity) are used.
To determine the discounted best-estimate reserves, the cash flow patterns are determined from the paid claims triangles using the appropriate curve fitting method (e.g. “weibull curve”) and discounted using the reference rates.

Premium Provision

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

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

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

8.2.3.3 Risk Margin

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

8.3 Glossary and Abbreviations

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

Table 20 Glossary and Abbreviations

8.4 Disclaimer

Cautionary statement regarding forward-looking information

This report contains forward-looking statements.

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

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

List of Tables and Figures

Figure 1 Solvency Steering Rules 4
Figure 2 Risk Profile in 2015 and Change vs. 2014 7
Figure 3 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance (in EUR millions) 11
Figure 4 Economic Capital Requirement per Line of Business and Risk Mitigation through Reinsurance without CAT (in EUR millions) 11
Figure 5 Composition of ECR and Calculation Methodology 18

Table 1 Economic Capital Ratio 3
Table 2 Composition of Own Funds 6
Table 3 Reconciliation of IFRS Equity to Own Funds 6
Table 4 Development of Risk Profile 7
Table 5 Capital Requirement per Business Segment 8
Table 6 Capital Requirement per Region 8
Table 7 Asset Allocation 8
Table 8 Capital Requirement for Market Risks 9
Table 9 Capital Requirement for Life Underwriting Risks 10
Table 10 Risk Profile Non-Life Underwriting Risk 10
Table 11 Capital Requirement for Health SLT Underwriting Risks 12
Table 12 Capital Adequacy – Own Funds and Capital Requirement in EUR millions 13
Table 13 Reference Rates 21
Table 14 Credit Risk Adjustment 21
Table 15 Reference Rates Projection 21
Table 16 Volatility Adjustment 21
Table 17 Swaption Implied Volatilities 21
Table 18 At-the-money Equity Option Implied Volatilities 21
Table 19 Exchange Rates 22
Table 20 Glossary and Abbreviations 24