Group Report 2015 / UNIQA Group

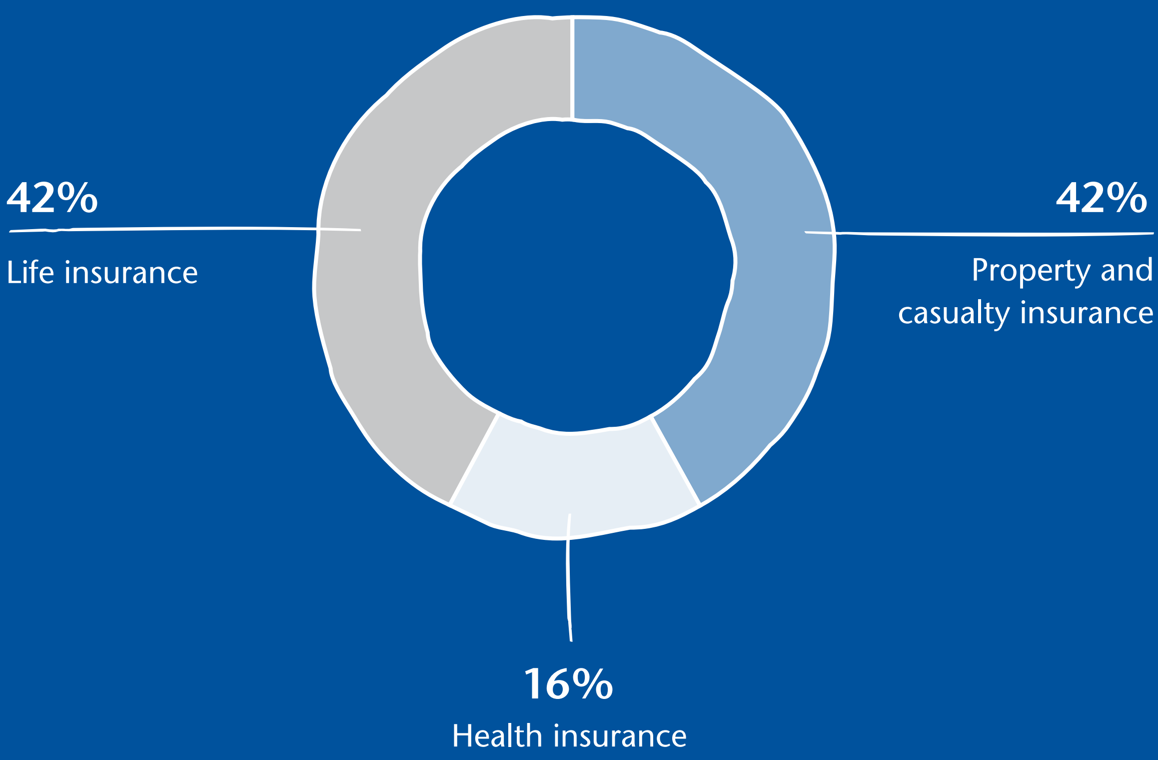
Think FUTURE.

Think UNIQA

UNIQA Group is one of the leading insurance groups in its two core markets: Austria and Central and Eastern Europe (CEE).

About **21,000 employees** and **exclusive sales partners** serve about 10 million customers across 19 countries. Commanding a market share of more than **21 per cent**, UNIQA is the second largest insurance group in Austria. In the growth region CEE, UNIQA is present in 15 markets: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Kosovo, Macedonia, Montenegro, Poland, Romania, Russia, Serbia, Slovakia and Ukraine. In addition, insurance companies in Italy, Switzerland, and Liechtenstein are also part of the UNIQA Group.

Balanced portfolio



19
markets

14,113
employees

10 million
customers

Premiums written:
€ 6,325 million

7,114
sales partners

UNIQA Group

One of the leading insurance groups in Austria and CEE

ROE:
10.6%

Combined Ratio:
97.8%

Economic capital ratio:
182.2%

Consolidated profit:
€ 331 million

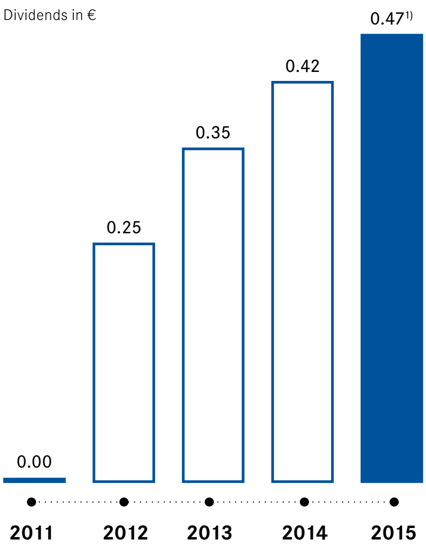
UNIQA GROUP AT A GLANCE

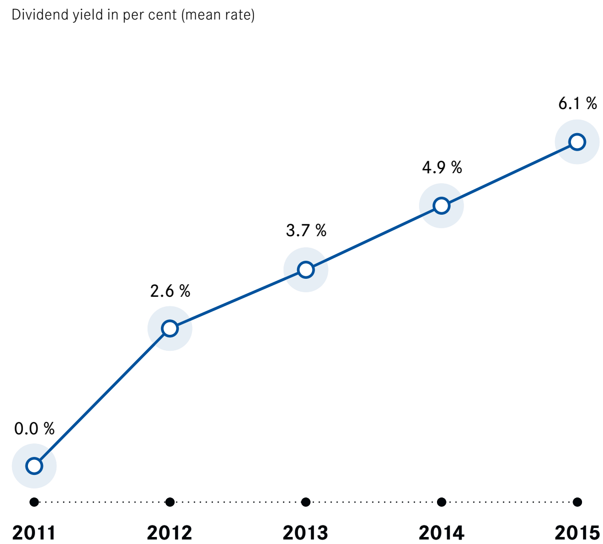
Consolidated key figures

in € million	2015	2014	Change
Premiums written	**5,839.7**	**5,519.7**	**5.8%**
Savings portions from unit-linked and index-linked life insurance (before reinsurance)	485.4	544.7	– 10.9%
Premiums written including savings portions from unit-linked and index-linked life insurance	**6,325.1**	**6,064.4**	**4.3%**
of which property and casualty insurance	2,641.4	2,620.9	+ 0.8%
of which health insurance	997.9	960.8	+ 3.9%
of which life insurance	2,685.8	2,482.7	+ 8.2%
of which income from regular premiums	1,491.9	1,521.0	– 1.9%
of which single premiums	1,194.0	961.6	+ 24.2%
Premiums written including savings portions from unit-linked and index-linked life insurance	**6,325.1**	**6,064.4**	**4.3%**
of which UNIQA Österreich	2,807.7	2,773.5	+ 1.2%
of which Raiffeisen Insurance	1,075.8	905.3	+ 18.8%
of which UNIQA International	2,416.8	2,353.1	+ 2.7%
of which reinsurance	1,112.1	1,189.3	– 6.5%
of which Group functions and consolidation	– 1,087.3	– 1,156.9	– 6.0%
Premiums earned (net)[1]	**5,633.5**	**5,312.9**	**6.0%**
of which property and casualty insurance	2,500.2	2,482.9	+ 0.7%
of which health insurance	997.1	960.0	+ 3.9%
of which life insurance	2,136.2	1,870.0	+ 14.2%
Savings portions from unit-linked and index-linked life insurance (after reinsurance)	469.3	526.1	– 10.8%
Premiums earned including savings portions from unit-linked and index-linked life insurance	**6,102.8**	**5,839.0**	**4.5%**
Net insurance benefits	– 4,607.6	– 4,383.7	5.1%
of which property and casualty insurance	– 1,695.2	– 1,723.6	– 1.6%
of which health insurance	– 801.2	– 780.5	+ 2.6%
of which life insurance	– 2,111.2	– 1,879.6	+ 12.3%
Operating expenses (net)[2]	**– 1,298.7**	**– 1,299.1**	**–**
of which property and casualty insurance	– 750.5	– 748.9	+ 0.2%
of which health insurance	– 164.7	– 167.1	– 1.4%
of which life insurance	– 383.5	– 383.1	+ 0.1%
Cost ratio (after reinsurance)	**21.3%**	**22.2%**	**–**
Combined ratio (after reinsurance)	**97.8%**	**99.6%**	**–**
Net investment income	**831.1**	**888.2**	**– 6.4%**
Earnings before taxes	**422.8**	**377.9**	**11.9%**
Profit/(loss)	**334.6**	**292.9**	**14.2%**
Consolidated profit/(loss)	**331.1**	**289.9**	**14.2%**
Return on equity (ROE) after taxes and non-controlling interests	**10.6%**	**9.9%**	**–**
Investments[3]	**29,416.1**	**29,024.9**	**1.3%**
Equity	3,152.7	3,082.2	+ 2.3%
Total equity including non-controlling interests	**3,174.8**	**3,102.4**	**2.3%**
Technical provisions (net)[4]	25,410.9	25,629.6	– 0.9%
Total assets	**33,078.4**	**33,038.2**	**0.1%**
Number of insurance contracts	19,254,690	19,214,570	+ 0.2%
Average number of employees	**14,113**	**14,336**	**– 1.6%**

[1] Consolidated amounts.
[2] Less reinsurance commission and share of profit from reinsurance ceded.
[3] Including investment property, shares in associates, unit-linked and index-linked life insurance investments and current bank balances and cash-in-hand.
[4] Including technical provisions for unit-linked and index-linked life insurance.

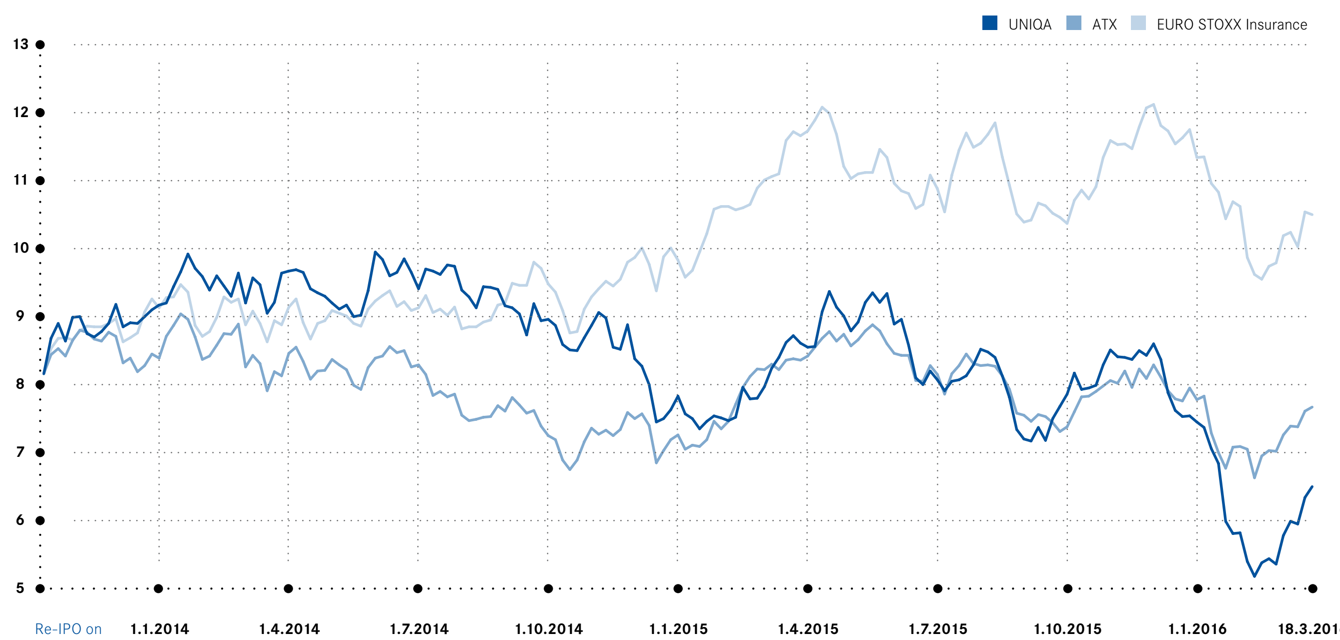
HISTORY OF UNIQA DIVIDENDS





[1)] Proposal to the Annual General Meeting

UNIQA SHARE PERFORMANCE



UNIQA SHARES – KEY FIGURES

In €	2015	2014	2013	2012	2011
UNIQA share price as at 31 December	7.53	7.78	9.28	9.86	9.42
High	9.41	10.02	11.14	13.40	16.50
Low	7.04	7.34	8.12	8.75	9.00
Average daily turnover (in € million)	4.5	3.2	1.5	0.1	0.1
Market capitalisation as at 31 December (in € million)	2,326.8	2,404.0	2,867.5	2,112.5	1,346.9
Earnings per share	1.07	0.94	1.21	0.75	– 1.73
Dividend per share	0.47[1)]	0.42	0.35	0.25	0

[1)] Proposal to the Annual General Meeting

Contents

Half-time for our strategy programme (Letter from Andreas Brandstetter) 3
A new era in the insurance industry (Guest commentary by Sven Gábor Jánszky) 10

COMPANY & STRATEGY

Our mission and our values 13
Our Management Board 16
Our business lines and products 20
Our employees and partners 23

STAKEHOLDERS & GOVERNANCE

Responsibility means commitment 28
UNIQA on the capital market 31
Corporate Governance Report 33
Report of the Supervisory Board 46

Group Management Report 50
Consolidated Financial Statements. 68
Notes to the Consolidated Financial Statements 74

Half-time for our strategy programme. Much has been achieved, but still no reason to become complacent.

Dear shareholders,

The year 2015 was yet again the best year in our company's history. However, we see it not as a reason for premature rejoicing, but rather as an opportunity to extend our gratitude to you as our shareholders for your loyalty and to all our employees for their huge commitment. It is time to provide you with a candid and personal interim account of the past five years.

Five years ago, in summer 2011, we presented you with our long-term strategy programme UNIQA 2.0 that was scheduled to run until 2020:

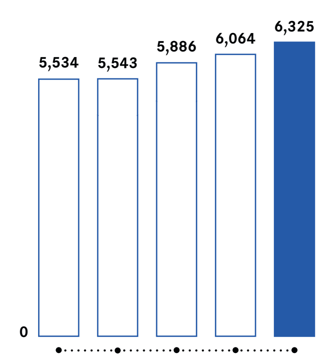
- **What is our goal?** To double the number of customers to 15 million.
- **How do we intend to achieve it?** By focusing on our core competencies as a direct insurer in our two core markets, Austria and Central and Eastern Europe (CEE).
- **Where do we want to improve?** At UNIQA Austria in profitability, at Raiffeisen Insurance in productivity, at UNIQA International in terms of profitable growth in the existing markets, and across the Group – in view of Solvency II – in our risk/return profile.
- **What does it take?** A significant capital increase on the stock exchange and a corporate structure that bears in mind the needs of the capital market.
- **Why is that beneficial to our shareholders?** Because we want to increase earnings before taxes: from about €145 million in 2010 to up to €400 million by 2015.

Hard work – many goals achieved

My self-critical review today, in spring of 2016 – and thus roughly halfway through UNIQA 2.0 – is underpinned by the conviction that together we, i.e. as a team of more than 21,000 employees and partners, have achieved through hard work most of the goals we set ourselves in 2011. Most of them, – but not all:

- As of 31 December 2015, we have **more than 10 million customers,** which means that we have gained the trust of a net additional 2.5 million customers. If we were to assume a linear path in achieving our target of 15 million by 2020, we should already have 11.25 million customers by now. We have been unable to achieve that number due to the highly subdued growth rate of the Eastern European insurance market in the past five years. Over that period, our 15 CEE markets have grown by about €10 billion less than we had anticipated in 2011.

PREMIUMS WRITTEN
in € million



(including savings portions from the unit-linked and index-linked life insurance)

- Across our company, the **focus on the core competency as direct insurer** has become more noticeable in our two core markets, Austria and CEE, over the past five years. This has not gone quite as fast as we had had in mind, but we are well on our way. As shareholders, you have been able to follow this development in the past five years: wherever investments were not in accordance with our strategy, either in terms of the kind of business or its regional focus, we have parted with them: Mannheimer Versicherung in Germany, as well as the hotel and media investments. On the other hand, we invested (and will continue to do so) in areas that would strengthen our two core markets: for example, we acquired insurance companies in Croatia and Serbia and invested in private hospitals in Austria.

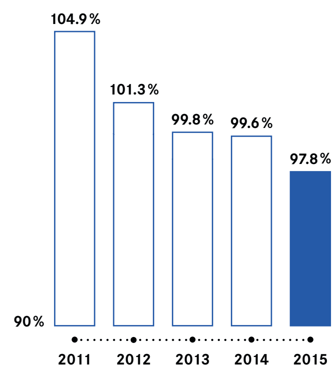
  What might not be fully obvious to you as shareholders, but what is also happening within the Group, is the shift in corporate culture: we announced in 2011 that we were highly committed to focusing exclusively on our core business and since then we have gradually directed more attention to our direct insurance business. This probably sounds to you like it should go without saying, or indeed like something that as shareholders you could expect from us anyway. You are right, of course. But it has not been (and still is not) that easy for our team, given that we are talking about the transformation of an insurance group that has existed for 200 years. Yet, the adage that all our resources are always limited and that we therefore have to focus on areas that create sustainable value for our owners has turned out to be right. The positive development of the technical result in recent years, which I will discuss further down, testifies to this fact. I really do believe that in the past five years we have become noticeably more open, performance-oriented, better and faster, and that this is why we also have managed to attract numerous new, young talents. But I also know that there is still room for improvement across all areas; in fact, substantial room in some of them.

- As a **consequence of our core programme** – the increase in profitability of UNIQA Austria, increased productivity at Raiffeisen Insurance, focus on profitable growth at UNIQA International and improvement of our risk/return profile in preparation for Solvency II – we recorded a growth rate of about 14 per cent in our top line, i.e. premiums, from 2011 to 2015. During the same period, we gradually cut our combined ratio from 105 per cent to 97.8 per cent and the net admin cost ratio from 14.6 per cent to 9.8 per cent. This means that in our core business, **underwriting, we are making substantially more money today** than we used to (personally, I would say this is still not enough, given that our target value for the combined ratio in 2020 is 95 per cent). This increase in revenues was possible, among other things, due to the fact that UNIQA Austria's health insurance business, the backbone of our Group, was and is still highly profitable, and because life insurance was also (still) generating high revenues during that period.

- Strengthening our thin capital base from 2011 has been our biggest worry in the past few years, and our greatest challenge. As a result of our consistent risk management, the re-IPO of more than €750 million (gross) in October 2013, and the placement of a subordinated capital bond (Tier 2) of €500 million in summer 2015, our **economic capital ratio amounted to a strong 182.2 per cent at the end of 2015.** All that in spite of the fact that we are not applying any of the transitional regulations and we are one of the few insurance companies in Europe that does not classify government bonds as risk-free, which is why we hold over €500 million as risk capital.

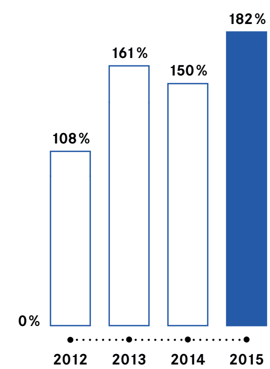
- As a result, in 2015 we managed to **increase** group **earnings before taxes** over the years from roughly €145 million to €423 million. Therefore, I think, we have also been able to offer you, our shareholders, an **attractive dividend policy** over this period. Personally, I am a bit irritated that we did not manage to attain our original goal of 2011, i.e. to boost earnings before taxes by up to €400 million to about €550 million. However, this has been largely outside of our sphere of influence due to the growth rate in the Eastern European insurance markets falling short of expectations and due to the sustainably low interest rates.

COMBINED RATIO
in per cent

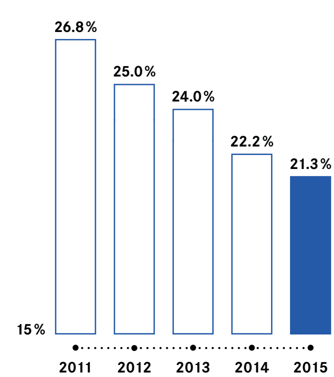


(after reinsurance)

ECONOMIC CAPITAL RATIO (ECR)
in per cent

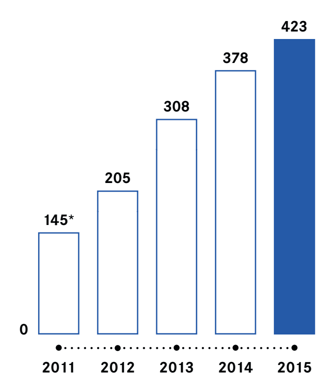


COST RATIO
in per cent



(after reinsurance)

EARNINGS BEFORE TAXES
in € million



*adjusted for special items

The kick-off for the second half of UNIQA 2.0, i.e. the period of 2016 to 2020, has been made in a highly exciting and interesting environment. We believe that the insurance industry is about to face some of the biggest shifts in its history.

Second half bringing huge challenges

On the one hand, the tense economic situation on the capital markets with historically low interest rates and the resulting massively negative impact on parts of the traditional business model and on investment income represents the biggest challenge in the "old economy", i.e. in the existing business model. In addition, we have to compensate for the growing volume of expenses that result from the rising number of regulatory provisions and we are also expecting a rather moderate economic growth rate for the time being. But lamenting this state of affairs is of no use and a waste of energy. The relevant question is: how do we react to the situation proactively?

On the other hand, while we are already expecting strong headwinds from outside, our industry – so far insular and resistant to change – is all of a sudden finding itself within massive changes in customer expectations and needs. The history of other industries is testament to the fact that the omnipresence of digitalisation across all areas of life is capable of eliminating or at least eroding business models in a disruptive and brutal fashion, and to the speed at which insufficiently agile market participants can lose ground. This trend will not stop at the insurance sector, and we are preparing for it actively and with a strong focus.

Investment in digitalisation

We believe that we must meet these challenges – not in a half-hearted fashion, treating them like compulsory exercises, but rather we must embrace them as big opportunities. The only way to do this is to transform our core business: from a provider of insurance products to an integrated service provider that picks up their customers where they stand in their individual "environment of needs", where they intuitively expect safety and services relating to it.

In order to set off the paradigm shift required for this surge of innovation, we have launched the largest renewal programme in our history and will invest a total of about €500 million in our future. These investments, a large part of which will already be flowing in 2016, are mostly earmarked for the "re-design" of our business model, for the creation of competence in terms of personnel and the necessary IT systems. In order to push the digitalisation of our business forward, a Chief Digital Officer, a Chief Data Officer and a Chief Innovation Officer will be reporting directly to the Group Management Board.

With new governance into the future

We have decided in favour of a new, streamlined group structure so as to boost the development of our operating excellence in our core business – which we urgently need in order to be able to afford the capital outlay – and to focus our energy on our customers and the necessary innovation leap. We will streamline the listed holding UNIQA Insurance Group AG by reducing the number of board members from five to three. We will also merge the four direct insurers currently operating on the Austrian market, UNIQA Österreich Versicherungen AG, Raiffeisen Versicherung AG, FinanceLife Lebensversicherung AG and Salzburger Landes-Versicherung AG, with

UNIQA Österreich Versicherungen AG acting as the acquiring entity. We will reduce the number of board members in Austria from 22 to 10. This will create a structure where the board members will assume responsibilities across the Group, making the UNIQA Group overall more effective, efficient and innovative.

Progressive dividend policy in spite of the investment programme

Even though earnings before taxes in 2016 will be as much as 50 per cent below the excellent result of 2015 due to the substantial investments we are making for the future, and even though the economic outlook is still moderate and interest rates remain low, we nevertheless want to further increase dividends per share this year. Supported by sustainable cash flows and high operating profitability in our core business, UNIQA intends to gradually step up its annual dividend payout per share within the framework of a progressive dividend policy from 2016 to 2020. We believe that our profitability, which has improved drastically since 2011, and our healthy equity position provide us with the means, on the one hand, to carry out the necessary long-term investments for the future while on the other hand providing our shareholders with the outlook of an attractive dividend policy without – and this is a prerequisite for me – eroding the substance of the company in the process.

On behalf of the entire Management Board, I would like to thank you, ladies and gentlemen, for your commitment to UNIQA. I can assure you that we will push forward the development of your and our UNIQA in spite of, or perhaps because of the big challenges ahead with personal enthusiasm, consistency and entrepreneurial expertise. We will continue to focus on fulfilling your expectations and remaining worthy of your trust.

Sincerely,

Andreas Brandstetter
CEO UNIQA Group

Think.Future Think.Digital

616 million
active internet users in Europe (70% penetration rate)

3.4 billion
smartphone users worldwide (annual growth rate of 10%)

393 million
active social media accounts in Europe (46% penetration rate)

More than
1 million
search requests about insurance per day on the internet in our core markets

Market share of the **online retail** segment in Europe doubled to
7.6%
in four years (2008–2012).

A positive internet experience motivates people all over the world to like and buy additional products:

47–48%
would recommend their insurer to others;

40%
would buy more products from them.

Number of **online shoppers** will globally double from 2011 to 2017.
+100%
(2016: 1.3 billion)

The internet is the preferred source of information for financial services for about

60%

in the developed countries of Asia and for

55%

in Europe.

The **use of intelligent devices** could reduce insurance risks by

40–60% (households)

15–25% (motor vehicle)

respectively.

The **Internet of Things** is causing the volume of data in the cloud to grow rapidly around the world.

2014: **4%**

2020: **40%**

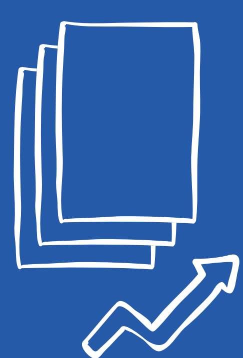
Growth of global data traffic:
average growth rate
(2015–2021)

Mobile telephony:

45%

Landlines:

20%



Growth of data traffic per smartphone

Western Europe

2015: **2** GB/month

2021: **18** GB/month

CEE

2015: **1.4** GB/month

2021: **6.9** GB/month

Growth of global data traffic per device
(average growth rate 2015–2021)

Smartphones: **50%**

Tablets: **35%**

Mobile computers: **20%**

A new era in the insurance industry

BY SVEN GÁBOR JÁNSZKY, TREND RESEARCHER, DIRECTOR OF THE TREND RESEARCH INSTITUTE "2B AHEAD THINKTANK"

"Imagine waking up tomorrow, and every item had its own IP address: the bathroom mirror, the wallpaper in the children's room, the kitchen table, your seat on the train, your office window... what would your customers expect from you, what would your competition do and how would you react?" I am always surprised at how many people in the audience at my talks on future trends flinch when I ask that question – as if I had just hurled terrible news at them.

And yet, we are not talking about the coming centuries, but only about the year 2020. We have been heading for this situation for many years: as chip producers talk about fitting every single chip with an antenna, as computers get smaller and become an integral part of everyday objects, then every item turns into an internet receiver. iPad et al. are succeeded by iMirror, iTable and iWall. In the coming years, the internet as ultima ratio will gradually conquer every space and object of our daily routine. And they, in turn, will become intelligent: image analysis, image recognition and monitoring interfaces ensure that everyday objects monitor the behaviour of their users, complement these real-world data with virtual information and provide users with information tailored to their specific situation on 3D displays throughout their daily routine.

We consumers will use this information – or not. The decision is ultimately ours, and it is based on our individual needs: we use the technology if it helps us, but we switch it off when we wish to make it through the day with less "intelligence".

No more standardised products for standardised customers at standardised prices

The most important effect of these "intelligent" devices can be summed up in one phrase: the death of the masses. The phenomenon of the masses will be gradually disappearing from our society.

This means that there will not be a controllable mass of consumers anymore since their shopping lists have been compiled by individual electronic assistants. There will no longer be a "controllable" mass of viewers to send advertising messages to once TV programmes and newspapers are compiled individually. And if, instead of the purchasing manager at the supermarket, the electronic assistant on our mobile phones compiles the merchandise offer for us to choose from, then even brands with strong emotional attachment may find their brand equity eroding.

So what about the insurance industry? Imagine having an intelligent risk assistant on your mobile phone. It would be capable of analysing vast amounts of data in real time and would flag up risks as and when they occur. It could insert a red, yellow or green dot onto your glasses, depending on what risk area you are currently navigating this very second. How long would you be able to bear the sight of the red dot? At what point would you press the button on your mobile phone for the first time and take out additional insurance for the exact kind of risk you are being faced with at that very moment? It would probably only take you hours, or at most a day.

Does this sound odd? Perhaps, but only because these functionalities do not exist yet. However, they are being developed in sectors around us as we speak. So it will not be long until we see these offers in the insurance sector as well. And the added advantage: all this makes insurance "sexy". Because suddenly it is not a necessary evil that we don't really like, but rather the means by which customers can create their own individual comfort zone by shifting from red to green whenever they want.

People trust devices more than other people

This is nothing unusual, because we are already familiar with filter systems in our lives. We have always relied on information filters: teachers, editorial offices, estate agents, coaches, salespeople, travel guides, advisors. Their business model is based on the asymmetrical distribution of information. This means they have information sooner or in better quality and make their income by re-categorising that information and customising it for others.

But we will get used to technological filters outsmarting human ones. They yield better results. The digitalisation will enable anyone to access any kind of information at any time and still have it filtered for the data they want most. So even an amateur athlete can follow a professional training regime; every TV viewer can receive their individual programme, and every insurance customer can know more than their advisor.

Insurance companies: the disappearance of the standard segment

To us trend researchers, the insurance business is one of the most exciting sectors around. We are certain that it will undergo changes in the coming years that will dwarf the ones seen in other sectors. The reason is relatively simple: in the medium term, the former market pyramid with its clearly defined economy, standard and premium segments will transform into only two large market segments: the economy segment and the premium segment. The standard segment will disappear; the one segment in which most of us have generated the highest volume of business.

The most important future trend will be the fact that economy and premium segments will be working according to different sets of logic. While customers in the economy segment will continue to take their decisions on the basis of the trade-off of quality and price, and quality and price will be tested to the maximum within this segment, customers in the premium segment will gear their purchase decision not to quality or price, but to the suitability of the selected provider as an identity manager.

Insurers who want to strengthen their position in the economy segment have to link their processes and products with the logic of digitalisation. But here it will not be enough to just sell traditional products online. Rather, it will be crucial to merge digital logic and physical presence in a really intelligent manner.

Insurers wishing to stake a position in the premium segment will have to present themselves as an identity manager to their customers. This applies to brands, products, and themes as well as to advisors. It's all about identity and the customers' chance to express their own identity by buying a certain product from a certain insurance company or advisor.

Big opportunities: new uncertainty, adaptive products, and “privacy by design”

At the same time insurers are looking at big opportunities in the future: according to our trend studies, new areas of uncertainty with substantial business potential have emerged in our society over the past few years. Customers feel new uncertainties in education, status, personal reputation, data and mobility. So far the range of products in this area has been rather limited.

Digital intelligent assistance systems offer another area of opportunity. They are individual and fit the customers’ mobile phones and their displays. On the basis of data analysis, they know the customers’ proclivities and the needs that drive them. In addition, based on situational data they also understand how user needs change over time. The recommendations made by the devices are not only tailor-made, but also vary according to the specific situation. The combination of both is called adaptive.

ABOUT THE AUTHOR

Sven Gábor Jánszky (43) is an innovative German trend researcher and director of the trend research institute “2b AHEAD ThinkTank”. For the past 15 years he has regularly organised meetings of 300 CEOs and heads of innovation from the German corporate sector. Under his direction, they develop scenarios of the future and strategic recommendations for the next decade.

As a result, customers will find out that their digital assistant is providing them with significantly better suggestions than traditional salespeople. Eventually, customers won’t even trust their own research as much as the recommendations made by their digital assistants. Because their ideas are simply better! The economy segment of the year 2020 will be dominated by intelligent mobile phones, passive customers and adaptive offers.

The reliable processing of sensitive data will be a crucial factor of success. But this does not mean that there will be more data protection in general, or that the technological clock will be turned back. Rather, the insurers have the opportunity to react to this development by providing their products with different levels of privacy as early as in the design phase. While this principle of “privacy by design” requires a higher degree of input, it is at the same time a crucial distinctive feature of a high-quality product. In the future, data release will be omnipresent in standard products for the mass market. Other customers in the premium market, on the other hand, are prepared to pay the price to have more security and improved privacy. Products will therefore be conceptualised with four to five privacy levels. The basic level complies with statutory requirements, but these products will tend not to have any further limitations regarding privacy protection.