Group management report

ECONOMIC ENVIRONMENT

Overall economic momentum in the insurance industry remained restrained in 2014. Although there was no new recession, the economic recovery in the euro zone remained hesitant and the change in gross domestic product (GDP) at 0.9 per cent in real terms was below the expectations of economic researchers. Private consumption is only recovering slowly and corporate investments were too low in many euro zone countries to provide significant momentum for growth and employment. Monetary easing and historically low real interest rates have not yet resulted in the boost in demand which had been hoped for. The development of disposable income in many European countries also remains somewhat stagnant. These factors also contributed to the fact that economic growth of 0.3 per cent in Austria in 2014 fell somewhat below the average in the euro zone. Austrian households responded with a lower tendency towards saving, and at 7.4 per cent the savings rate fell in the 1st half of the year below the average over many years. Italy's economy also remained below expectations in 2014 with a slight recession.

The high unemployment rates continue to point to low utilisation of available economic capacity. However, there has been some relief for the labour markets recently with unemployment rates falling to 11.5 per cent at year-end in the euro zone. The unemployment rate in Austria in 2014 was 5 per cent and 12.9 per cent in Italy according to calculations by Eurostat.

The yields on fixed interest securities from euro zone issuers again reached new lows in the past year. The effective interest return of German government bonds with a 10-year maturity fell to less than 0.4 per cent at the start of 2015. The compression of interest rates and risk premiums ran through virtually the entire range of investments. European corporate bonds and mortgage bonds were also affected by this. Deflationary price developments reached the euro zone towards the end of the year and the rate of inflation was minus 0.3 per cent in February 2015. The European Central Bank continued its process of monetary easing. The key interest rate is virtually zero and the ECB's deposit rate is minus 0.2 per cent. The ECB also started its process of high-volume, unlimited bond purchases ("quantitative easing"). It can be expected that interest rates will generally remain very low for a longer period of time as a result of the slow recovery in the euro zone, low levels of inflation and this major monetary policy stimulus.

The general economic settings in Central and Eastern Europe are becoming increasingly heterogeneous. Central Europe (Poland, Slovakia, Czech Republic and Hungary) is one of the more stable regions. The upturn in domestic demand is providing real momentum, the labour markets are improving and low inflation and interest rates are bolstering the economy. Economic growth was around 3 per cent on average in real terms in Poland, Slovakia, the Czech Republic and Hungary.

The slowdown in the Russian economy intensified in 2014, with GDP only rising by 0.6 per cent in real terms. A rapid fall in the price of oil, the international economic sanctions and a more restrictive monetary policy by the Russian Central Bank compounded the downturn and could lead to a recession in Russia. The slump in the Ukrainian economy was largely caused by the unresolved conflict that is being carried out increasingly by military means in eastern Ukraine. The country remains dependent on international financial aid despite a standby arrangement agreed with the International Monetary Fund (IMF) and financial aid received from the European Union in the last year. The tense economic situation triggered a dramatic correction in the currency markets. Both the Russian rouble and the Ukrainian hryvnia lost more than 50 per cent of their values against the euro over the course of 2014.

The process of economic transformation is unfolding at differing speeds in the countries of Southeastern Europe. Romania recovered economically with growth in GDP of 3 per cent in real terms. Bulgaria's economy is slowly overcoming the stagnation of recent years. Croatia has so far been unable to make the most of its membership in the European Union. The country has to bear the consequences of several years of recession and will also barely emerge from stagnation in 2015. Events in 2014 in Serbia as well as Bosnia and Herzegovina were overshadowed by the flood disasters in May. The consequences of the bad weather are expected to be overcome gradually and investments in reconstruction could provide some economic stimulus. The southwestern Balkan countries (Albania, Kosovo, Macedonia and Montenegro) recently recorded economic growth which was slightly above the average for the region.

Overall, the process of convergence in the countries in Central and Eastern Europe is proceeding at a slower pace than that forecasted by the economic researchers, both after the 2008/09 financial crisis as well as after the 2011/12 euro crisis. The centre of conflict in eastern Ukraine and the tense geopolitical and economic situation in Ukraine and Russia are factors which are also expected to cast their shadow over the European economy in 2015. Positive effects are expected in the euro zone economy as a result of lower oil prices on the global market, the devaluation of the euro in relation to the currencies of important trading partners and in part through the quantitative easing by the ECB.

Single premiums drive premium revenue in Austria

The growth in premiums in the Austrian insurance market continued in 2014 following the positive turnaround in 2013. The insurance industry recorded an overall increase of 3.3 per cent in 2014, particularly as a result of strong growth in the area of single premiums. However, a decline in single premiums is expected for 2015, with associated lower levels of overall growth.

Ongoing premium revenue in life insurance is falling further (2014: minus 3.9 per cent). UNIQA therefore issued a new life insurance product in 2014 with benefits for customers and insurers that it expects to provide new stimulus for the insurance market.

The property and casualty sector showed positive premium growth of 2.8 per cent in 2014. The vehicle liability insurance line of business remained flat as a result of the decrease in vehicle registrations, while the comprehensive insurance business continued to experience strong growth. A sideways movement is expected in property and casualty insurance for 2015, although casualty insurance is expected to exceed the EUR 1 billion limit.

In health insurance, the 2014 gains of 3.3 per cent were slightly weaker than those in the previous years, a trend which is expected to continue in 2015. Health insurance is experiencing stronger permanent growth than the property and casualty sector with steady growth rates of around three per cent.

Insurance penetration – i.e. the proportion of premium revenue in gross domestic product – will see moderate growth once again following the declines in 2015, although this will still remain below the European average.

CEE remains the growth region with potential

The markets in the CEE region generally also experienced growth in 2014 which was mostly above the levels in Western Europe. The countries of Central Europe in particular – Poland, Slovakia, the Czech Republic and Hungary – recorded good GDP growth rates, which were also driven by strong domestic demand. UNIQA expects the convergence progress for the countries in Central and Eastern Europe to continue, albeit at a slower pace than previously predicted. A comparable trend is also expected for the insurance market in CEE.

Development in the insurance market for the region was only positive to a limited extent in 2014. The life insurance sector in particular recorded an overall decline in premium volumes, driven once again by heavy declines in business with short-term single premium products in Poland. However, the intense price competition, particularly in the vehicle and property insurance business in a series of markets in Central and Eastern Europe, also resulted in lower premium revenues in the non-life sector. In Ukraine, the political and economic events had a negative impact on the insurance market. In contrast, the Russian market remained virtually unaffected with growth in premium volumes both in the life as well as in the non-life sector.

The aggregate figures on market development were also impacted in 2014 by negative exchange rate trends in some of the major markets in Eastern Europe, such as in Russia, the Czech Republic, Ukraine and in Hungary.

The improvements in the economic situation should have a greater impact on consumer spending and investment activity by companies in 2015. The insurance markets in Central and Eastern Europe should therefore benefit from good growth figures and improved export opportunities. However, the additional effects of the current political crisis between Ukraine and Russia on the insurance industries of both these countries are extremely difficult to assess at the present time.

Despite the patchy development, the CEE region remains a growth region with high potential. The need to catch up for insurance products can also be seen, among other things, from the indicators which are still seriously lagging behind, such as those for insurance density and insurance penetration in the region: while the annual insurance premium in Southeastern Europe is only around €100 per capita for instance, it is more than €2,000 per person in Western Europe. Many people in CEE remain underinsured or have no insurance at all. Yet the higher economic growth in CEE as compared with Western Europe with the resulting increased prosperity in the population offers very good growth opportunities for the insurance industry that significantly surpass those in the already saturated insurance markets of Western Europe.

UNIQA GROUP

With a premium volume written (including the savings portion from the unit-linked and index-linked life insurance) of €6,064.4 million, the UNIQA Group is among the leading insurance groups in Central and Eastern Europe. The savings portion from the unit-linked and index-linked life insurance in the amount of €544.7 million was set off against the change in actuarial reserves, pursuant to FAS 97 (US-GAAP). Without taking the savings portion from the unit-linked and index-linked life insurance into consideration, the premium volume written amounted to €5,519.7 million.

UNIQA in Europe

UNIQA offers its products and services via all distribution channels (hired sales force, general agencies, brokers, banks and direct sales) and covers the entire range of insurance lines.

The listed holding company, UNIQA Insurance Group AG, manages the Group and also operates the indirect insurance business. In addition, it carries out numerous service functions for the Austrian and international insurance companies, in order to take best advantage of synergy effects and to consistently implement the Group's long-term corporate strategy.

UNIQA International AG manages the international activities of the Group. This entity is also responsible for the ongoing monitoring and analysis of the international target markets and for acquisitions and post-merger integration.

New responsibilities on the Management Board of UNIQA Insurance Group AG

On 1 January 2015, Kurt Svoboda took over the role of Chief Financial Officer (CFO) in addition to his responsibilities as Chief Risk Officer (CRO). Hannes Bogner, who was the CFO up until that point, became the Chief Investment Officer (CIO) and his main responsibility is to focus on the area of Investments as well as Legal & Compliance.

Rating

In October 2014, the rating agency Standard & Poor's confirmed the rating of UNIQA Insurance Group AG as "A-". The ratings of UNIQA Österreich Versicherungen AG and the Group's reinsurer, UNIQA Re AG in Switzerland, also remained "A". UNIQA Versicherung AG in Liechtenstein was rated for the first time and received an "A-". The rating of the UNIQA supplementary capital bond continues to be "BBB". The outlook for all the companies is considered by Standard & Poor's to be "stable".

Standard & Poor's substantiates this confirmation of their ratings with the continued strong competitive position and the very strong capital base. The rating agency recognises an improvement in liquid funds: in this area the rating was raised from "strong" to "exceptional".

Companies included in the IFRS consolidated financial statements
In addition to UNIQA Insurance Group AG, UNIQA's 2014 consolidated financial statements include 53 Austrian and 70 international companies. A total of 27 affiliated companies whose influence on a true and fair presentation of the financial position, financial performance and cash flows was immaterial were not included in the consolidated financial statements. In addition, nine Austrian companies were recognised as associates using equity method accounting. Seven associates were of minor importance, and shares held in these companies are recognised at fair value.

Details on the consolidated companies and associates are contained in the corresponding overview in the notes to the consolidated financial statements. The accounting policies are also described in the notes to the consolidated financial statements.

Risk report
UNIQA's comprehensive risk report is included in the notes to the consolidated financial statements 2014.

Corporate Governance Report
Since 2004, UNIQA has pledged to comply with the Austrian Code of Corporate Governance and publishes the Corporate Governance Report at www.uniqagroup.com in the Investor Relations section.

BUSINESS PERFORMANCE IN THE GROUP

UNIQA provides life and health insurance, and is active in almost all lines of property and casualty insurance. It serves about 10.0 million customers, over 19.2 million insurance contracts with a premium volume written (including the savings portion from the unit-linked and index-linked life insurance) of about €6.1 billion (2013: €5.9 billion) and investments of €29.2 billion (2013: €27.4 billion). UNIQA is the second-largest insurer in Austria, has a strong network in Central and Eastern Europe with a presence in 15 countries and is additionally active in Italy, Liechtenstein and Switzerland.

Premium development
UNIQA's total premium volume increased in 2014, taking into account the savings portions of the unit-linked and index-linked life insurance in the amount of €544.7 million (2013: €727.9 million), by 3.0 per cent to €6,064.4 million (2013: €5,885.5 million). The total consolidated premium volume written rose by 7.0 per cent to €5,519.7 million (2013: €5,157.6 million). The continuing noticeable decline in premiums in the unit-linked life insurance was a dampening factor. The main causes of this are subsequent effects of maturing life insurance policies in conjunction with the decision that was already made back in 2011 to withdraw completely from the German market and not to underwrite any more new business.

In the area of insurance policies with recurring premium payments, there was a deterioration of 1.9 per cent to €5,102.7 million (2013: 5,202.8 million). In the single premium business, on the other hand, the premium volume increased by 40.8 per cent to €961.6 million (2013: €682.8 million) due to very strong growth in Austria and Italy.

The Group premiums earned, including the savings portion from the unit-linked and index-linked life insurance (after reinsurance) in the amount of €526.1 million (2013: €702.3 million), rose by 3.6 per cent to €5,839.0 million (2013: €5,640.9 million). The retained premiums earned (according to IFRSs) rose by 7.6 per cent to €5,312.9 million (2013: €4,938.6 million).

In the 2014 financial year, 43.2 per cent (2013: 44.0 per cent) of the premium volume written (including the savings portion from the unit-linked and index-linked life insurance) can be attributed to property and casualty insurance, 15.8 per cent (2013: 15.9 per cent) to health insurance and 40.9 per cent (2013: 40.1 per cent) to life insurance.

Development of insurance benefits
The insurance benefits before reinsurance (see Note 36 in the consolidated financial statements) rose in the 2014 financial year by 10.8 per cent to €4,517.7 million (2013: 4,078.1 million). Consolidated insurance benefits retained also rose in the past year by 10.7 per cent to €4,383.7 million (2013: €3,959.4 million), above all due to the sharp rise in the single premium business.

Operating expenses
Total consolidated operating expenses (see Note 37 in the consolidated financial statements) less reinsurance commissions received and the share of profit from reinsurance ceded (see Note 33 in the consolidated financial statements) decreased clearly in the 2014 financial year by 5.8 per cent to €1,275.3 million (2013: €1,354.2 million). Expenses for the acquisition of insurance less reinsurance commissions received and the share of profit from reinsurance ceded in the amount of €26.0 million (2013: €28.3) fell by 0.2 per cent to €912.5 million (2013: €914.2 million). Other operating expenses decreased due to the systematic implementation of cost savings measures as part of the UNIQA 2.0 strategy programme by 17.5 per cent to €362.8 million (2013: €439.9 million). The figures from the past year include extraordinary expenses related to strategic projects in the amount of €25 million.

UNIQA's cost ratio after reinsurance, i.e. the relation of total operating expenses less reinsurance commissions received and the share of profit from reinsurance ceded to the Group premiums earned, including the savings portion from the unit-linked and index-linked life insurance, dropped to 21.8 per cent during the past year (2013: 24.0 per cent) as a result of the developments mentioned above. The cost ratio before reinsurance was 21.4 per cent (2013: 23.5 per cent).

Investment results
Total investments including land and buildings used by the Group, investment property, shares in associates and investments of the unit-linked and index-linked life insurance and current cash held at banks and cash-in-hand rose in the 2014 financial year by €1,829.0 million to €29,212.7 million (31 December 2013: €27,383.6 million).

Net investment income rose despite the burden of the impairment of bonds of Hypo Alpe-Adria-Bank International AG in an amount of €35.4 million by 10.8 per cent to €864.4 million (2013: 780.0 million). Other drivers of this development were gains on the sale of property and fixed interest securities due to modifications of the strategic asset allocation for the economic optimisation of capital. A detailed description of the investment income can be found in the consolidated financial statements (Note 34).

Other income and Other expenses

Other income rose in 2014 mainly due to differences in the exchange rate of the US dollar by 53.8 per cent to €62.4 million (2013: €40.6 million). However, other expenses also rose in the reporting period due to exchange rate differences of the Russian rouble and Ukrainian hryvnia and amounted to €70.3 million (2013: €32.4 million).

Profit/(loss) from ordinary activities

The technical result of the UNIQA Group rose in 2014 clearly to €151.5 million (2013: €48.8 million). Operating profit increased to €447.6 million (2013: €347.2 million). Profit/(loss) from ordinary activities of UNIQA was very satisfactory, above all due to the welcome trend in the operative segments UNIQA Austria and Raiffeisen Versicherung AG, and rose by 22.9 per cent to €377.9 million (2013: €307.6 million). Net profit for the reporting period only rose by 1.7 per cent to €292.9 million (2013: €287.9 million), because the net profit for the previous year included a result from discontinued operations in the amount of €50.0 million that arose as a result of the reversal of an other provision related to the sale of the Mannheimer Group. The consolidated profit/(loss) amounted to €289.9 million (2013: €284.7 million). Earnings per share fell, however, due to the rise in the average number of shares in circulation to €0.94 (2013: €1.21). The return on equity after tax and non-controlling interests in the reporting period was 9.9 per cent (2013: 11.9 per cent).

The Management Board will therefore propose a dividend of €0.42 per share to the Supervisory Board and the Annual General Meeting.

Own funds and total assets

The Group's total equity increased in the past financial year due to the rise in the revaluation reserve – driven by higher fair values in particular of fixed interest securities – by 11.4 per cent or €317.3 million to €3,102.4 million (31 December 2013: €2,785.1 million). This included non-controlling interests in the amount of €20.2 million (31 December 2013: €22.0 million). The solvency ratio (Solvency I) increased accordingly to 295.4 per cent (31 December 2013: 286.7 per cent). The total assets of the Group rose in the reporting period by 6.6 per cent and amounted to €33,038.2 million on 31 December 2014 (31 December 2013: €31,001.7 million).

Cash flow

UNIQA's cash flows from operating activities amounted to €182.4 million in 2014 (2013: €628.0 million). The cash flow from investing activities amounted to €283.4 million (2013: minus €1,781.3 million). The financing cash flow dropped to minus €109.7 million (2013: €813.0 million).

In total, liquid funds changed by €356.0 million (2013: minus €340.3 million). Financial resources available at the end of 2014 amounted to €975.8 million (2013: €617.0 million).

Employees

In 2014, the average number of employees at UNIQA rose slightly as a result of the acquisition of the insurance companies in the Baloise Group in Croatia and Serbia to 14,336 (2013: 14,277). Of these, 5,821 (2013: 5,893) were employed in sales positions. The number of employees in administration amounted to 8,515 (2013: 8,384).

In the Central European region (CE) – Poland, Slovakia, Czech Republic and Hungary – the Group had 2,806 employees in the 2014 financial year (2013: 2,899), 2,412 people (2013: 2,028) were employed in the Southeastern Europe region (SEE) – Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Croatia, Macedonia, Montenegro and Serbia – and 2,328 people (2013: 2,489) in the Eastern European region (EE) – Romania and Ukraine. There were 103 employees (2013: 94) in Russia. The average number of employees in the Western European markets rose slightly to 360 (2013: 348). A total of 6,327 people were employed in Austria (2013: 6,419). Including the employees of the general agencies working exclusively for UNIQA, the total number of people working for the Group amounts to about 22,000.

In 2014, 51 per cent of the staff working in administrative positions at UNIQA Insurance Group AG in Austria were women. In sales, the ratio was 80 per cent men to 20 per cent women. Twenty-one per cent (2013: 19 per cent) of the employees in administration were working part time. The average age in the past year was 43 years (2013: 42 years). In 2014, a total of 15.3 per cent (2013: 14.4 per cent) of the employees participated in UNIQA's bonus system – a variable remuneration system that is tied both to the success of the Company and to personal performance. In addition, UNIQA offers young people in training the opportunity to get to know foreign cultures and make international contacts. Currently, 28 apprentices are being trained. Ten new apprentices were accepted in 2014.

OPERATIONAL SEGMENTS

UNIQA Austria

Premiums

At UNIQA Austria, the premiums written, including the savings portion from the unit-linked and index-linked life insurance, decreased slightly in 2014 by 1.2 per cent to €2,773.5 million (2013: €2,806.7 million). This was due to the continued clear decrease in premiums in unit-linked life insurance. The main causes of this development are subsequent effects of maturing life insurance policies in conjunction with the decision that was already made back in 2011 to withdraw completely from the German market and not to underwrite any more new business. Recurring premiums decreased by 1.2 per cent to €2,741.7 million (2013: €2,774.6 million). Single premiums remained more or less at the level of the previous year of €31.9 million (2013: €32.1 million).

Including the savings portion from the unit-linked and index-linked life insurance, the volume of premiums earned at UNIQA Austria amounted to €2,137.0 million (2013: €2,196.2 million). Retained premiums earned (according to IFRS) declined slightly in 2014 by 0.3 per cent to €1,993.9 million (2013: €1,999.2 million).

Whereas premiums written in property and casualty insurance rose by 2.7 per cent to €1,362.6 million (2013: €1,326.2 million), they increased in health insurance by 2.4 per cent to €887.3 million (2013: €866.2 million). In contrast, in life insurance (including the savings portion from the unit-linked and index-linked life insurance), they decreased by 14.7 per cent to €523.7 million (2013: €614.2 million).

Retained premiums earned (according to IFRS) rose in property and casualty insurance by 0.7 per cent to €753.0 million (2013: €747.6 million); in health insurance, they increased by 2.5 per cent to €886.9 million (2013: €865.2 million). They fell 8.4 per cent in life insurance to €353.9 million (2013: €386.4 million). Including the savings portion from the unit-linked and index-linked life insurance, the volume of premiums earned in life insurance amounted to €497.0 million (2013: €583.5 million).

Benefits

Retained insurance benefits at UNIQA Austria fell by 2.6 per cent in 2014 to €1,637.2 million (2013: €1,680.5 million). However, driven by settlement losses in marine hull insurance, they rose in property and casualty insurance by 4.7 per cent to €516.5 million (2013: €493.5 million) and in health insurance they increased by 1.1 per cent to €744.3 million (2013: €736.2 million). In contrast, they fell 16.5 per cent in life insurance, in line with the premiums earned, to €376.4 million (2013: €450.7 million). Consequently, in 2014 the loss ratio in property and casualty insurance amounted to 68.6 per cent (2013: 66.0 per cent).

Operating expenses

Operating expenses, less reinsurance commissions received and the share of profit from reinsurance ceded, amounting to €175.8 million (2013: €179.4 million) decreased in the 2014 financial year by 5.8 per cent to €394.0 million (2013: €418.1 million). In the previous year, this figure contained extraordinary expenses related to strategic projects. They fell 9.3 per cent in property and casualty insurance to €173.1 million (2013: €190.9 million). In health insurance, they increased by 6.0 per cent to €130.0 million (2013: €122.6 million). The main driver of this development is the change in the cost allocation due to the new business model in Austria. On the other hand, in life insurance they fell 13.1 per cent to €90.9 million (2013: €104.6 million).

The cost ratio of UNIQA Austria after reinsurance, i.e. the relation of total operating expenses, less reinsurance commissions received and the share of profit from reinsurance ceded, to the premiums earned, including the savings portion from the unit-linked and index-linked life insurance, amounted to 18.4 per cent during the past year (2013: 19.0 per cent).

Investment results

Net investment income in the UNIQA Austria segment dropped by 4.2 per cent to €363.0 million (2013: 379.1 million).

Profit/(loss) from ordinary activities

Profit/(loss) from ordinary activities of UNIQA Austria rose in the reporting period, driven by the solid profit development in property and casualty insurance as well as health insurance, by 18.6 per cent to €273.9 million (2013: €231.0 million). It rose in property and casualty insurance by 21.8 per cent to €100.7 million (2013: €82.7 million); in health insurance, profit increased by 37.6 per cent to €130.2 million (2013: €94.6 million). In contrast, profit/(loss) from ordinary activities fell by 19.9 per cent in life insurance to €43.0 million (2013: €53.7 million). The main reason for this development was net investment income, which was 25.1 per cent lower at €180.8 million (2013: €241.5 million).

Raiffeisen Versicherung AG

Premiums

The Raiffeisen Insurance segment increased the premiums written, including the savings portion from the unit-linked and index-linked life insurance in 2014, by 3.1 per cent to €905.3 million (2013: €878.5 million), despite the noticeable decline recorded in premiums in unit-linked life insurance. The main causes of this development are subsequent effects of maturing life insurance policies in conjunction with the decision that was already made back in 2011 to withdraw completely from the German market and not to underwrite any more new business. The strong trend in the Austrian core business with Raiffeisen as a partner bank was able to overcompensate for that deterioration. Although recurring premiums dropped by 8.6 per cent to €754.0 million (2013: €825.3 million), single premiums rose 184.7 per cent to €151.3 million (2013: €53.1 million).

Including the savings portion from the unit-linked and index-linked life insurance, the volume of premiums earned at Raiffeisen Versicherung AG amounted to €794.0 million (2013: €767.7 million). The volume of premiums earned (net, according to IFRS) rose in 2014 by 14.1 per cent to €650.8 million (2013: €570.6 million).

While premiums written rose in property and casualty insurance by 5.1 per cent to €153.2 million (2013: €145.7 million); in life insurance they increased by 2.6 per cent to €752.1 million (2013: €732.8 million). Health insurance is not offered in the Raiffeisen Insurance segment.

Retained premiums earned (according to IFRS) rose in property and casualty insurance by 3.9 per cent to €79.8 million (2013: €76.8 million); in life insurance, they increased by 15.6 per cent to €571.1 million (2013: €493.9 million). Including the savings portion from the unit-linked and index-linked life insurance, the volume of premiums earned in life insurance amounted to €714.2 million (2013: €690.9 million).

Benefits

Retained insurance benefits in the Raiffeisen Insurance segment increased in 2014 by 8.8 per cent to €685.2 million (2013: €630.0 million). They rose 8.1 per cent in property and casualty insurance to €57.1 million (2013: €52.9 million). In life insurance, this increase was noticeably less than the premiums earned: they rose 8.8 per cent to €628.1 million (2013: €577.1 million). The previous year's figure was impacted as a result, among other things, of an increase in the free provision for premium refunds. This expense did not repeat itself to the same extent in the 2014 financial year. Overall, in 2014 the loss ratio in property and casualty insurance amounted to 71.6 per cent (2013: 68.8 per cent).

Operating expenses

Operating expenses, not including reinsurance commissions received and the share of profit from reinsurance ceded, which amounted to €30.5 million (2013: €26.2 million), decreased in 2014 by 9.2 per cent to €101.5 million (2013: €111.7 million). They fell in property and casualty insurance by 27.9 per cent to €12.0 million (2013: €16.6 million); in life insurance, they increased by 6.0 per cent to €89.5 million (2013: €95.2 million).

The cost ratio in the Raiffeisen Insurance segment after reinsurance, i.e. the relation of total operating expenses, less reinsurance commissions received and the share of profit from reinsurance ceded, to the premiums earned, including the savings portion from the unit-linked and index-linked life insurance, fell to 12.8 per cent in 2014 (2013: 14.6 per cent).

Net investment income

Net investment income in the Raiffeisen Insurance segment rose in 2014 by 6.1 per cent to €267.0 million (2013: 251.6 million). Among other things, the gains from the disposal of property had a positive effect on net investment income in the 2014 financial year.

Profit/(loss) from ordinary activities

Profit/(loss) from ordinary activities in the Raiffeisen Insurance segment climbed by 68.2 per cent to €108.6 million (2013: €64.6 million). It rose in property and casualty insurance by 55.4 per cent to €14.1 million (2013: €9.1 million); in life insurance, profit increased by 70.3 per cent over the previous year's level to €94.6 million (2013: €55.5 million). The main drivers of this positive trend in profit or loss were the drop in expenses connected with the policyholders' dividend reserve, the reduced costs and the increase in net investment income.

UNIQA International

Premiums

UNIQA International increased the premiums written, including the savings portion from the unit-linked and index-linked life insurance, in 2014 by 8.8 per cent to €2,353.1 million (2013: €2,162.4 million). Recurring premiums fell here by 0.6 per cent to €1,574.6 million (2013: €1,564.9 million). Single premiums rose despite the decline in Poland and Hungary due to the very strong business in Italy, where they grew 30.3 per cent to reach €778.5 million (2013: €597.5 million). That means that in 2014 the international companies contributed a total of 38.8 per cent (2013: 36.7 per cent) to total Group premiums.

Including the savings portion from the unit-linked and index-linked life insurance, UNIQA International's volume of premiums earned amounted to €1,822.2 million (2013: 1,634.1 million). The volume of retained premiums earned (according to IFRS) rose in 2014 by 19.3 per cent to €1,582.3 million (2013: 1,325.9 million).

While premiums written in property and casualty insurance decreased slightly due to negative currency effects and the restraint in the highly competitive motor vehicle segment in CEE by 0.8 per cent to €1,084.9 million (2013: €1,093.7 million), they rose in health insurance by 3.0 per cent to €73.5 million (2013: 71.4 million). In life insurance (including the savings portion from the unit-linked and index-linked life insurance) they rose, driven by the positive course of business in Italy, by 19.8 per cent to €1,194.6 million (2013: €997.3 million).

Retained premiums earned (according to IFRS) fell in property and casualty insurance by 1.8 per cent to €588.2 million (2013: €599.2 million), in health insurance they rose by 2.7 per cent to €71.7 million (2013: €69.8 million) and in life insurance by 40.4 per cent to €922.5 million (2013: €656.8 million). Including the savings portion from the unit-linked and index-linked life insurance, the volume of premiums earned in life insurance amounted to €1,162.4 million (2013: €965.1 million).

In the Central Europe region (CE) – Poland, Slovakia, the Czech Republic and Hungary – premiums earned, including the savings portion from the unit-linked and index-linked life insurance, decreased in the 2014 financial year by 13.5 per cent to €524.7 million (2013: €606.8 million). The reduction of the very short-term-oriented single premium business in Poland, the marked withdrawal from single premium business in Hungary and the weaker exchange rate of the Czech koruna were the main factors responsible for this decrease. In Eastern Europe (EE) – comprising Romania and Ukraine – premiums earned, including the savings portion from the unit-linked and index-linked life insurance, fell above all due to the significant loss in value of the Ukrainian hryvnia and the restraint in the highly competitive Romanian motor vehicles business by 23.0 per cent to €117.4 million (2013: €152.5 million). In the South-eastern Europe region (SEE) – Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Croatia, Macedonia, Montenegro and Serbia – in 2014 premium growth was generated in the amount of 29.6 per cent, to €205.7 million (2013: €158.7 million). One driver of this was the acquisition of the insurance companies in the Baloise Group in Croatia and Serbia. In Russia (RU), the premiums earned, including the savings portion from the unit-linked and index-linked life insurance, rose despite the decrease in value of the Russian rouble by 1.9 per cent to €65.6 million (2013: €64.3 million). In Western Europe (WE) – Italy, Liechtenstein and Switzerland – the premiums earned, including the savings portion from the unit-linked and index-linked life insurance, rose in particular due to the increase in single premiums in Italy by 39.2 per cent to €908.9 million (2013: €652.9 million).

Benefits

Retained insurance benefits of UNIQA International increased in 2014 by 30.6 per cent to €1,253.6 million (2013: €960.1 million). In property and casualty insurance they rose by 1.8 per cent to €372.7 million (2013: €366.1 million); in health insurance, profit increased by 7.5 per cent to €45.7 million (2013: €42.5 million). They increased 51.4 per cent in life insurance to €835.2 million (2013: €551.5 million) due to the strong rise in premium revenue. In 2014 the loss ratio in property and casualty insurance rose 63.4 per cent (2013: 61.1 per cent).

In the CE region, benefits rose by 3.1 per cent in 2014 to €245.8 million (2013: €238.5 million); however, in the EE region they fell by 25.1 per cent to €69.6 million (2013: €92.9 million). In SEE, due to the acquisition of the insurance companies in the Baloise Group in Croatia and Serbia, they rose 33.8 per cent to €128.9 million (2013: €96.3 million). In Russia, benefits amounted to €44.2 million (2013: €40.4 million); and in Western Europe, the volume of benefits rose due to the strong growth in premiums in life insurance by 55.5 per cent €765.2 million (2013: €492.0 million).

Operating expenses

Operating expenses, not including reinsurance commissions received and the share of profit from reinsurance ceded, which amounted to €147.9 million (2013: €147.3 million), decreased in the 2014 financial year by 4.4 per cent to €434.8 million (2013: €454.7 million). They fell by 8.5 per cent in property and casualty insurance to €228.9 million (2013: €250.2 million). In health insurance, benefits rose on the other hand by 7.0 per cent to €30.7 million (2013: €28.7 million). They decreased by 0.3 per cent in life insurance to €175.3 million (2013: €175.8 million).

The cost ratio of UNIQA International after reinsurance, i.e. the relation of total operating expenses, less reinsurance commissions received and the share of profit from reinsurance ceded, to premiums earned, including the savings portion from the unit-linked and index-linked life insurance, decreased during the past year for the reasons mentioned above to 23.9 per cent (2013: 27.8 per cent).

In CE, operating expenses, not including reinsurance commissions received and the share of profit from reinsurance ceded, decreased in the reporting year by 10.9 per cent to €159.7 million (2013: €179.1 million) and in EE by 16.7 per cent to €64.9 million (2013: €77.9 million). In SEE, due to the acquisition of the insurance companies in the Baloise Group in Croatia and Serbia, they increased by 18.2 per cent to €89.7 million (2013: €75.9 million). In Russia, costs amounted to €16.8 million (2013: €24.4 million), while expenses increased in Western Europe by 11.0 per cent to €78.3 million (2013: €70.5 million). In administration (UNIQA International AG), costs decreased by 5.1 per cent to €25.4 million (2013: €26.8 million).

Net investment income

Net investment income rose during 2014 by 21.8 per cent to €174.3 million (2013: 143.1 million).

Profit/(loss) from ordinary activities

In the reporting period, profit/(loss) from ordinary activities in the UNIQA International segment amounted to minus €1.2 million (2013: €21.5 million). The main reason for this was the impairment of goodwill in Romania in the amount of €25 million. Profit (net of tax) in property and casualty insurance declined due to the impairment of goodwill mentioned above to minus €21.4 million (2013: €1.0 million). In health insurance, it came to minus €1.3 million (2013: €1.6 million). On the other hand, in life insurance the profit/(loss) from ordinary activities improved by 13.7 per cent to €21.5 million (2013: €18.9 million).

Reinsurance

In the reinsurance segment, the premium volume written fell in 2014 by 27.2 per cent to €1,189.3 million (2013: €1,633.1 million). On the other hand, the volume of retained premiums earned (according to IFRS) rose slightly by 0.7 per cent to €1,080.9 million (2013: €1,073.6 million).

Retained insurance benefits increased in 2014 by 2.3 per cent to €800.8 million (2013: €782.5 million). This includes the burden of losses (retained) due to flood damage in Austria, Bosnia and Herzegovina and Serbia as well as an increased burden due to major claims amounting to about €96 million.

Operating expenses, not including reinsurance commissions received and the share of profit from reinsurance ceded, which amounted to €8.2 million (2013: €3.9 million), increased marginally by 0.5 per cent to €335.1 million (2013: €333.6 million).

Net investment income rose in 2014 to €31.3 million (2013: €21.8 million).

Due to the rise in the volume of benefits, profit/(loss) from ordinary activities in the reinsurance segment decreased to minus €30.5 million (2013: minus €18.0 million).

Group Functions and Consolidation

In the Group Functions and Consolidation segment, profit/(loss) from ordinary activities increased due to the rise in investment income to €27.0 million (2013: €8.4 million).

Net investment income rose in 2014 among other things due to gains from the sale of property to €28.7 million (2013: minus €15.6 million).

EVENTS AFTER THE BALANCE SHEET DATE (SUPPLEMENTARY REPORT)

As a consequence of the decision made on 1 March 2015 by the Austrian Financial Market Authority (FMA) to impose a moratorium on debt and interest payments by Heta Asset Resolution AG, UNIQA anticipates that it will need to recognise an impairment loss in the first quarter of 2015 for senior bonds issued by former Hypo Alpe-Adria-Bank Internatinal AG. The amount of the impairment loss will be determined on the basis of the edict from the FMA and the change in the legal situation. However, the amounts will not be material.

OUTLOOK

Economic outlook

UNIQA expects a moderate upturn in the euro zone in 2015, with positive momentum in terms of general demand as a result of the lower price of oil, a lower euro exchange rate and the quantitative easing by the ECB. The expectations for growth in CEE are now more heterogeneous. In Central Europe (CE), the economic structural conditions remain positive overall, with expectations in terms of economic growth above average when compared with the whole of Europe. The outlook for Russia has changed significantly: Russia's economy is expected to fall into a deep recession as a result of the fall in the price of oil, the western sanctions and a more restrictive monetary policy. Ukraine remains in recession and requires stabilising political measures and international financial aid. Structural problems prevent some countries in Southeastern Europe (SEE) from fully exploiting their growth potential. Romania is continuing its recovery as is Bulgaria, although at a more moderate pace. Politicians in Croatia and Serbia are faced with structural reforms and budget consolidation, which are expected to keep GDP growth at virtually zero.

The ECB announced an expanded bond acquisition programme in January 2015 (quantitative easing). As part of the expanded programme, the ECB will make monthly purchases of securities beginning in March from public and private issuers amounting to €60 billion. The programme is to run at least until September 2016 or even longer if the ECB sees no sustainable development in inflation, which is consistent with its mandate of achieving price stability.

The capital market has already to some extent anticipated the ECB programme: benchmark interest rates have reached new historic lows in the euro zone over the past year. Yields on German government bonds with 10 year maturities fell below 0.4 per cent in December 2014. UNIQA expects a long period of low interest rates as a result of the slow economic recovery, low inflation and major stimulus through monetary policy.

Consolidated profit or loss

UNIQA expects moderate economic growth for 2015. The very low level of interest rates is also placing a strain on the insurance industry as a whole, with no reversal in this trend expected in the near future. UNIQA believes that there are exceptionally high levels of uncertainty in relation to medium-term economic developments in Europe in combination with the geopolitical tensions.

Nevertheless, UNIQA still expects growth in profit from ordinary activities in the double-digit percentage range of 425 to 450 million euros for 2015 as compared with 2014, steady premium performance and further improvement in the combined ratio. UNIQA is continuing to focus its attention on increasing profitability in its core insurance market and to concentrate more heavily on cost and capital management.

DISCLOSURES REQUIRED UNDER SECTION 243A PARAGRAPH 1 OF THE AUSTRIAN COMMERCIAL CODE

1. The share capital of UNIQA Insurance Group AG amounts to €309,000,000 and is comprised of 309,000,000 individual no-par value bearer shares. €285,356,365 of the share capital was fully paid in cash and €23,643,635 was paid in non-cash contributions. All shares confer the same rights and obligations.
2. Due to their voting commitments, the shares of UNIQA Versicherungsverein Privatstiftung, Austria Versicherungsverein Beteiligungs-Verwaltungs GmbH, BL Syndikat Beteiligungs Gesellschaft m.b.H., Collegialität Versicherungsverein Privatstiftung and RZB Versicherungsbeteiligung GmbH are counted together. Reciprocal preemptive rights have been agreed upon between the first four shareholders listed.
3. Raiffeisen Zentralbank Österreich Aktiengesellschaft holds indirectly, via BL Syndikat Beteiligungs Gesellschaft m.b.H. and RZB Versicherungsbeteiligung GmbH, a total of 31.40 per cent (allocated in accordance with the Austrian Stock Exchange Act) of the Company's share capital; UNIQA Versicherungsverein Privatstiftung holds directly and indirectly through Austria Versicherungsverein Beteiligungs-Verwaltungs GmbH a total of 30.58 per cent (allocated in accordance with the Austrian Stock Exchange Act) of the Company's share capital.
4. No shares with special control rights have been issued.
5. The employees that have share capital exercise their voting rights directly.
6. No provisions of the Articles of Association or other provisions exist that go beyond the statutory provisions for appointing Management Board and Supervisory Board members or for modifying the Articles of Association with the exception of the rule that when a Supervisory Board member turns 70 years of age, they retire from the Supervisory Board at the end of the next Annual General Meeting.
7. The Management Board is authorised to increase the Company's share capital once or multiple times up to and including 30 June 2019 with the approval of the Supervisory Board by a total of no more than €81,000,000 by issuing up to 81,000,000 no-par value bearer or registered shares in exchange for payment in cash or in kind. The Management Board is further authorised until 27 November 2015 to buy back up to 21,424,790 treasury shares through the Company and/or through subsidiaries of the Company (Section 66 of the Stock Corporation Act). As at 31 December 2014, the Company held 819,650 treasury shares.
8. With regard to the holding company STRABAG SE, corresponding agreements with other shareholders of this holding company exist.
9. No compensation agreements exist for the event of a public takeover offer.

DISCLOSURES REQUIRED UNDER SECTION 243A PARAGRAPH 2 OF THE AUSTRIAN COMMERCIAL CODE

The most important features of the internal control and risk management system with regard to the financial reporting process are described in the notes to the consolidated financial statements (Risk Report).

PROPOSED APPROPRIATION OF PROFIT

The individual accounts of UNIQA Insurance Group AG, prepared in accordance with the Austrian Commercial Code, report an annual net profit for the 2014 financial year in the amount of €130,571,950.61 (2013: €108,208,827.81). The Management Board will propose to the Annual General Meeting on 26 May 2015 that this net profit be used for a dividend of €0.42 for each of the 309,000,000 dividend-entitled no-par value shares issued as at the reporting date and the remaining amount carried forward to a new account.

Vienna, 25 March 2015

Andreas Brandstetter
Chairman of the
Management Board

Hannes Bogner
Member of the
Management Board

Kurt Svoboda
Member of the
Management Board

Wolfgang Kindl
Member of the
Management Board

Thomas Münkel
Member of the
Management Board