

## **Report by the Managing Board of WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group**

### **Report by the Managing Board pursuant to Section 153 (4) in conjunction with Section 174 (4) of the Austrian Stock Corporation Act.**

In the 17<sup>th</sup> Annual General Meeting of WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group (the “Company”) held on 16 April 2008 the Managing Board was authorized to, subject to the consent of the Supervisory Board, pursuant to Section 174 (1) of the Austrian Stock Corporation Act, to issue income bonds (*Gewinnschuldverschreibungen*) with a total face value of up to EUR 2,000,000,000 also in several tranches, also excluding subscription rights, as well as to specify all further conditions of the issuance of income bonds.

The Managing Board intends to partially exercise the authorisation granted by the 17<sup>th</sup> Annual General Meeting and to issue pursuant to Section 174 (1) of the Stock Corporation Act income bonds with a total face value of up to EUR 250,000,000 and to thereby exclude the subscription rights of the existing shareholders. Since the option to exclude subscription rights is applied, the Managing Board hereby renders this report pursuant to Section 153 (4) of the Austrian Stock Corporation Act.

The intended exclusion of subscription rights for income bonds is in the interest of the Company and its shareholders. The advantages of income bonds lie in the attractive financing options for the Company as well as in the opening up of new investor segments.

- 1 For a long time, the Company has been actively managing its capital structure in an attempt to keep capital costs as low as possible. The income bonds to be issued are an appropriate means of achieving this goal. Owing to the high degree of security offered to bondholders, the Company gains flexible and fast access to attractive financing conditions. However, attractive financing conditions can only be achieved if the Company is able to react to favourable market conditions swiftly and flexibly. Issuing the shares with subscription rights with a minimum two-week subscription period would undo this advantage.

In addition, the issuance of income bonds will expand the capital structure and improve the balance sheet structure of the Company. Based on the selected structure, supervisory authorities and international rating agencies may value the capital raised from the issuance of the income bonds as equity. Such valuation in turn may lead the Company to achieve higher ratings and hence lower financing costs for future borrowed capital.

- 2 The Company expects that the income bonds to be issued will be subscribed to by institutional investors specialized in this form of investment and who are to be attracted by the income bonds to be issued. As a result, the issuance of income bonds will enable the Company to create a new investor base. The issuance of the income bonds granting subscription rights would make it almost impossible to place the income bonds with institutional investors. It should also be noted that in a market-driven valuation of income bonds granting subscription rights (i.e. at the best conditions that the Company may achieve on the market), subscription rights would be without any value. Forgoing the time- and cost-intensive management of subscription rights, helps swiftly cover the Company's capital needs from short-term market opportunities and gain new investors. The exclusion of the subscription rights strengthens the Company's equity and lowers financing costs which is in the interest both of the Company and all of its shareholders.

The intended exclusion of subscription rights thus is objectively justified in view of the envisaged goal of optimizing the capital structure and lowering the financing costs, causing the Company's competitive position to be strengthened and improved in the interest of the Company and its shareholders. What is more, the exclusion of subscription rights is appropriate and necessary, because the expected supply of equity by directing the income bonds to the respective target groups replaces more cost-intensive capital measures, offers favourable financing terms and ensures long-term and flexible business planning and the implementation of planned business objectives for the good of the Company and hence all of its shareholders. The Managing Board of the Company expects that the advantage for the Company resulting from the issuance of the income bonds with exclusion of subscription rights will benefit all shareholders. In summary, considering all the circumstances outlined above, the exclusion of subscription rights is necessary, suitable, appropriate, and called for in the predominant interest of the Company and justified on objective grounds.

Vienna, 15 Mai 2008

Managing Board