

REPORT

on the collective audit of the de-merger
pursuant to Section 17 no. 5 in conjunction with Section 5
of the Austrian De-merger Act of

VIENNA INSURANCE GROUP
Wiener Städtische Versicherung AG, Vienna
(to be renamed: VIENNA INSURANCE GROUP AG
Wiener Versicherung Gruppe)

and

VERSA-Beteiligungs AG, Vienna
(to be renamed: WIENER STÄDTISCHE Versicherung AG
Vienna Insurance Group)

as of 31 December 2009

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1. ENGAGEMENT AND PRELIMINARY REMARKS

- (1) By resolution of the Vienna Commercial Court of 7 December 2009, Judicial Department 9, Case 73 Fr 15926/09 h-3, FN 75687 f, we were appointed to act as collective auditor for the contemplated de-merger of the insurance business of VIENNA INSURANCE GROUP Wiener Städtische Versicherung AG, Vienna, FN 75687 f (hereinafter also referred to as "Transferring Company" or "VIG") to VERSA-Beteiligungs AG, Vienna, FN 333376 i (hereinafter also referred to as "Acquiring Company" or "VERSA").
- (2) Pursuant to Section 17 no. 5 in conjunction with Section 5 para 1 of the Austrian De-merger Act (*Spaltungsgesetz* - hereinafter "SpaltG"), the De-Merger and Acquisition Agreement must be audited by a de-merger auditor. As an audit of the de-merger may be waived pursuant to Section 17 no. 5 SpaltG only with the consent of all shareholders of all companies concerned, and since not all shareholders of VIG have issued their consent, an audit of the de-merger must be carried out with respect to each of the companies concerned. We will conduct this audit in reliance on Section 220b para 2 second sentence of the Austrian Stock Corporation Act (*Aktiengesetz* – hereinafter "AktG") as collective de-merger auditor appointed by the court.
- (3) Pursuant to Section 17 no. 5 SpaltG, in case of a de-merger by way of transfer to a recipient company, the provisions on a merger by transfer to a recipient company shall apply to the Acquiring Company by analogy (Sections 220 through 232 AktG). The merger report is replaced by a de-merger report, and the merger audit is replaced by a de-merger audit. We were required to audit the completeness and correctness of the terms and conditions of the attached De-Merger and Acquisition Agreement. The draft of the joint de-merger report of the managing boards of VIG and VERSA pursuant to Section 4 para 1 SpaltG and Section 17 no. 5 SpaltG in conjunction with Section 220a AktG and the draft examination reports of the supervisory boards of VIG and VERSA pursuant to Section 6 para 1 SpaltG and Section 17 no. 5 SpaltG in conjunction with Section 220c AktG were used as sources of information only, but were not subject to our due and proper audit.
- (4) Pursuant to Section 17 no. 5 in conjunction with Section 5 para 4 last sentence SpaltG and Section 220b para 4 last sentence AktG, the report on the joint de-merger audit shall be presented to the members of the managing boards and the members of the supervisory boards of the companies concerned. Pursuant to Section 7 para 2 no. 5 SpaltG and Section 221a para 2 no. 5 AktG, that report must be made available to the shareholders for inspection at least during a period of one month prior to the day of those shareholders' meetings at which an approval of the de-merger shall be adopted at the registered offices of the companies pursuant to Section 108 para 3 AktG and on VIG's website pursuant to Section 108 para 4 AktG; pursuant to Section 17 no. 6 SpaltG in conjunction with

Section 13 no. 3 SpaltG, that report must also be attached to the filing by which the de-merger is notified to the Vienna Commercial Court.

- (5) Since the contemplated de-merger involves neither a change in the proportional value of shareholdings nor changes in legal form and since no shares are granted, an audit of a exchange ratio of the shares, an audit of the amounts of cash contributions and their allocation to the shareholders, as well as an audit of the appropriateness of an offered cash compensation pursuant to Section 5 para 4 SpaltG will not take place.
- (6) Pursuant to the second half-sentence of Section 3 para 4 SpaltG, we are also required to review whether the actual value of the Transferring Company's remaining net assets reflects at least the amount of its nominal capital plus appropriated reserves after the consummation of the de-merger (audit of residual net assets). We have been appointed to audit also the Transferring Company's residual net assets by virtue of the above resolution of the Commercial Court. Since the assets and liabilities are transferred to a wholly-owned subsidiary, the Transferring Company's equity capital will not be reduced as a result of the de-merger. A separate report will be issued on the audit of residual net assets, that audit is not part of this audit report.
- (7) It is not necessary to carry out a formation audit at the level of the Acquiring Company as described in the first half-sentence of Section 3 para 4 and Section 17 para 3 second sentence SpaltG, because the de-merged assets and liabilities will be transferred to an existing company and because there will be no increase in the Acquiring Company's share capital.
- (8) In connection with the restructuring of the group, it is also contemplated to transfer thirteen shareholdings from LVP Holding GmbH, Vienna, FN 84740 v, as transferring company and wholly-owned subsidiary of VIG, to WPWS Vermögensverwaltung GmbH, Vienna, FN 309434 a, as acquiring company and wholly-owned subsidiary of VERSA; the effective date of this demerger shall be 31 December 2009. That de-merger does not affect the de-merger hereunder and was not part of our audit either.
- (9) Pursuant to Section 13a para 1a Insurance Supervision Act (*Versicherungsaufsichtsgesetz* – hereinafter "VAG"), the de-merger must be approved by the Austrian Financial Market Authority. A review as to whether the terms of the Insurance Supervision Act applicable to the insurance business were complied with and whether other required public permits were obtained is not part of our due and proper audit.

2. EXECUTION

- (10) We have commenced our audit after receipt of the resolution of the Commercial Court and completed it with the delivery of this report. The audit was conducted by Karin Eichhorn and Hubert Celar under the responsibility of Gerhard Pichler.
- (11) For the purpose of our audit, in particular the following documents were provided to us:
- De-merger and Acquisition Agreement of 10 May 2010, along with Annexes:
 - VIG's audited closing balance sheet, and notes thereto, for the year ended 31 December 2009
 - VERSA's transfer balance sheet as of 1 January 2010
 - VIG's de-merger balance sheet as of 1 January 2010
 - VIG's articles of association
 - VERSA's articles of association
 - Reports on the audits of VIG's non-consolidated and consolidated financial statements for the years ended 31 December 2007, 31 December 2008 and 31 December 2009
 - Report on the audit of VERSA's financial statements for the year ended 31 December 2009
 - Draft report of VIG's managing board and supervisory board on the examination of residual assets
 - Draft of a collective de-merger report of the managing boards of VIG and VERSA
 - Drafts of the review reports of the supervisory boards of VIG and VERSA
 - Excerpts from the commercial register of VIG and VERSA
- (12) In addition, all documents necessary for our audit, including but not limited to balance sheets, fixed assets schedules and receipts, were presented. The members of the managing boards of both companies concerned as well as other persons nominated for that purpose readily provided additional information, clarifications and evidence.
- (13) The members of the managing boards of VIG and VERSA have issued a representation letter to confirm that the De-Merger and Acquisition Agreement completely and correctly reflects all information required to be provided pursuant to Section 17 in conjunction with Section 2 SpaltG. That representation letter especially confirms that
- we have been provided with all documents and information which the undersigned believe are relevant for the audit of the de-merger,
 - VERSA's transfer balance sheet as of 1 January 2010 reflects all assets and liabilities and contingent liabilities that are attributable to the Acquiring Company pursuant to the De-Merger and Acquisition Agreement,

- VIG's de-merger balance sheet as of 1 January 2010 reflects all assets and liabilities and contingent liabilities that are attributable to the Transferring Company pursuant to the De-Merger and Acquisition Agreement,
 - the assets and liabilities in those balance sheets were valued in compliance with applicable laws,
 - neither a member of the managing boards or of the supervisory boards of the companies concerned, nor a regular auditor, an auditor of residual net assets or a de-merger auditor was granted or promised any special benefit.
- (14) The execution of this contract is governed by the General Terms of Business for Chartered Public Accountancy and Tax Consultancy Professions (AAB 2010) issued by the Austrian Chamber of Chartered Public Accountants and Tax Consultants, which we have attached to this report as Annex II. To the extent permitted by law, those Terms and Conditions are applicable also towards third parties.

3. DE-MERGER AUDIT

3.1. Description of the de-merger

- (15) VIG is a stock corporation incorporated and existing under the laws of Austria, with its seat in Vienna. The registered capital of VIG amounts to EUR 132,887,468.20 and is divided into 128 million no-par value shares. VIG is an Austrian insurance company, which is operating in the domestic and international insurance business and in other business areas.
- (16) VERSA is a stock corporation incorporated and existing under the laws of Austria, with its seat in Vienna. The registered capital of VERSA amounts to EUR 10 million and is divided into 100,000 no-par value shares. The sole shareholder of VERSA is VIG.
- (17) VIG intends to legally separate the insurance operations combined in the insurance business from the holding operations by transferring the insurance business to its wholly-owned subsidiary. For this purpose, VIG as Transferring Company and VERSA as Acquiring Company concluded a De-Merger and Acquisition Agreement on 10 May 2010 on the de-merger of VIG's insurance business by transfer to VERSA. That Agreement forms the subject-matter of our audit and report.
- (18) After the consummation of the de-merger, the Transferring Company shall operate as a holding company that assumes the central group functions and operative business divisions with group-wide responsibilities. The insurance business shall be operated by the Acquiring Company as a wholly-owned subsidiary. The Transferring Company shall be renamed to "VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe". The Acquiring Company shall be renamed to "WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group".
- (19) It is contemplated to transfer the insurance business to VERSA as Acquiring Company on the basis of the De-Merger and Acquisition Agreement as a de-merger by way of universal succession pursuant to the terms and conditions of the Austrian De-Merger Act ("SpaltG") and in reliance on the benefits according to Article VI of the Austrian Reorganization Tax Act (*Umgründungssteuergesetz* – hereinafter "UmgrStG"). The proposed de-merger will not involve a change of the proportional value of shareholdings and will be consummated without granting new shares.

3.2. Reviewing the completeness and correctness of the De-Merger and Acquisition Agreement

- (20) The De-Merger and Acquisition Agreement was executed on 10 May 2010 in the form of a notarial deed as prescribed by law. The information provided in the De-Merger and Acquisition Agreement fulfils the requirements set forth in Section 17 in conjunction with Section 2 para 1 SpaltG. All disclosures applicable and necessary in the case in question were fully explained and are consistent with actual circumstances and existing legislation.
- (21) The last financial statements of the Transferring Company and the Acquiring Company were prepared for the year ended 31 December 2009. Since those financial statements concern a business year that has expired not more than six months prior to the execution of the De-Merger and Acquisition Agreement, it is not necessary to prepare interim balance sheets pursuant to Section 17 in conjunction with Section 7 para 2 no. 3 SpaltG and Section 221a para 2 no. 3 AktG.
- (22) Section 2 of the De-Merger and Acquisition Agreement discloses the names, seats, and articles of association of the companies as required pursuant to **Section 2 para 1 no. 1 SpaltG**. The articles of association of VIG and VERSA will be amended and restated in the context of the de-merger. The changes will concern the company names and objects of the companies as well as other terms, most of which must be adjusted by virtue of new legislation. The companies' restated articles of association are attached to the De-Merger and Acquisition Agreement as Annex 2.3 (a) and Annex 2.3 (b).
- (23) Section 3.1 of the De-Merger and Acquisition Agreement contains the statement on the transfer of the Transferring Company's assets and liabilities as prescribed in **Section 2 para 1 no. 2 SpaltG**. These assets and liabilities will be transferred by way of universal succession, whereby the Transferring Company shall continue its existence and retain all other assets and liabilities of the Transferring Company.
- (24) Since VIG is VERSA's sole shareholder, all shareholders of the Transferring Company are also indirectly participating in the Acquiring Company in the same proportion. Thus, no change in shareholdings will occur for the shareholders of VIG. The Acquiring Company will hence not grant new shares to the Transferring Company's shareholders pursuant to Section 17 no. 5 SpaltG in conjunction with Section 224 para 2 no. 1 AktG. As a consequence, the De-Merger and Acquisition Agreement did not have to provide information on the granting of shares pursuant to Section 2 para 1 no. 2 SpaltG, on the exchange ratio of the shares and their allocation to the shareholders, on the amount of cash contributions of the companies concerned, as well as on payments by third parties pursuant to **Section 2 para 1 no. 3 SpaltG**.

- (25) Section 3.5 of the De-Merger and Acquisition Agreement provides that the Acquiring Company will keep a certain portion of the transferred capital as special risk reserve pursuant to Section 73a VAG.
- (26) Since there will be no decrease in the Transferring Company's registered capital on the occasion of the de-merger, the De-Merger and Acquisition Agreement did not have to disclose the information pursuant to **Section 2 para 1 no. 4 SpaltG**. Section 4 of the De-Merger and Acquisition Agreement explains why there will be no decrease of the share capital and determines that the actual value of the Transferring Company's residual net assets corresponds at least to the amount of its nominal share capital plus appropriated reserves after the consummation of the de-merger pursuant to Section 3 para 4 second half-sentence SpaltG. There is no need to decrease the share capital as a result of the de-merger pursuant to Section 17 no. 3 first sentence SpaltG, because the Transferring Company's equity capital will not be reduced as a result of the de-merger, as the transfer takes place to a wholly-owned subsidiary.
- (27) Since there will be no increase in the share capital as a result of the de-merger, there was no need to disclose details on the granting of shares pursuant to **Section 2 para 1 no. 5 SpaltG** and the information referred to in **Section 2 para 1 no. 6 SpaltG** on the beginning date at which the new shares are entitled to share in profits.
- (28) According to Section 5 of the De-Merger and Acquisition Agreement, the effective date of the de-merger pursuant to **Section 2 para 1 no. 7 SpaltG** is 31 December 2009. That is the effective date as of which all actions taken by the Transferring Company with regard to the transferred insurance business shall be deemed taken for the account of the Acquiring Company.
- (29) Since no rights referred to in **Section 2 para 1 no. 8 SpaltG** will be granted either to the Transferring Company's shareholders or the Acquiring Company's shareholders or to other persons, and since no measures to this effect are contemplated and taken, the relevant information need not be provided in the De-Merger and Acquisition Agreement.
- (30) As no special benefits will be granted to either a member of the managing boards or the supervisory boards of the companies involved in the de-merger, or to a regular auditor, de-merger auditor or auditor of residual net assets, the information referred to in **Section 2 para 1 no. 9 SpaltG** is not necessary. The appropriate fees to be paid to the regular auditor, the de-merger auditor or the auditor of residual net assets (Section 270 para 1 Companies Act [*Unternehmensgesetzbuch* - hereinafter "UGB"], Section 3 para 4 last but one sentence SpaltG in conjunction with Section 27 para 2 AktG, Section 220b para 2 last sentence AktG in conjunction with Section 270 para 5 UGB) do not represent a special benefit within the meaning of Section 2 para 1 no. 9 SpaltG.

- (31) As prescribed in **Section 2 para 1 no. 10 SpaltG**, Section 7 of the De-Merger and Acquisition Agreement contains a detailed description and allocation of those assets and liabilities which shall be transferred to the Acquiring Company and of those assets and liabilities which shall be retained by the Transferring Company. The transferred assets and liabilities include all assets and liabilities as well as the entire business of VIG, except for the contractual relationships and assets described in more detail in Section 7.5 of the De-Merger and Acquisition Agreement that are not part of the insurance business and will be retained by the Transferring Company. In this context, the de-merger balance sheet and the lists pursuant to Annex 7 (ii) through Annex 7 (xix) of the De-Merger and Acquisition Agreement are incorporated in detail and by reference.
- (32) As prescribed in **Section 2 para 1 no. 11 SpaltG**, Section 7.9 of the De-Merger and Acquisition Agreement regulates the allocation of those assets and liabilities which cannot be otherwise allocated by virtue of the De-Merger and Acquisition Agreement to any of the companies involved in the de-merger. Those assets will be transferred to the Acquiring Company.
- (33) As prescribed in **Section 2 para 1 no. 12 SpaltG**, the special balance sheets required for the purpose of de-merger regulations are attached to the De-Merger and Acquisition Agreement as Annexes 8.1 through 8.3.
- (34) The Transferring Company has prepared a closing balance sheet, along with notes thereto, as of the effective date of the de-merger within the meaning of Section 2 para 2 SpaltG. That closing balance sheet presents a true and fair view of the assets and liabilities as well as of the financial situation of VIG for the year ended 31 December 2009 in accordance with Austrian generally accepted accounting principles and received an unqualified audit opinion from the auditor.
- (35) VERSA's transfer balance sheet as of 1 January 2010 was prepared on the basis of VIG's closing balance sheet for the year ended 31 December 2009 and contains those balanceable assets and liabilities that will be transferred to the Acquiring Company after the de-merger has become effective. They represent those assets and liabilities as of 1 January 2010 that were attributable to the transferred insurance business.
- (36) The balanceable assets and liabilities retained by the Transferring Company after the de-merger has become effective are reflected in VIG's de-merger balance sheet as of 1 January 2010 and include the assets and liabilities referred to in Section 7.5 of the De-Merger and Acquisition Agreement as of 1 January 2010.

- (37) Section 8.4 of the De-Merger and Acquisition Agreement provides that the allocation of assets and liabilities created between the effective date of the de-merger and the registration of the de-merger to the Transferring or the Acquiring Company is made according to Section 7.
- (38) There is no need to offer a cash compensation pursuant to Section 17 in conjunction with Section 11 SpaltG, as the de-merger in question involves neither a change of the proportional value of shareholdings as defined in Section 8 para 3 SpaltG nor a change in legal forms pursuant to Section 11 SpaltG. As a consequence, there was no need to incorporate the information referred to in **Section 2 para 1 no. 13 SpaltG** into the De-Merger and Acquisition Agreement.
- (39) Section 9 of the De-Merger and Acquisition Agreement notes that the transfer takes place in reliance on the tax benefits of Article VI UmgrStG and that the Acquiring Company will carry on the accounting as well as the fiscal book values of the transferred insurance business.
- (40) Section 10 of the De-Merger and Acquisition Agreement contains a mutual indemnification and hold-harmless clause which requires either company to hold harmless and indemnify the other should claims arise from liabilities and other obligations. This does not affect the mandatory liability provisions as prescribed in Section 15 SpaltG, because mutual indemnification and hold-harmless obligations apply only in between Transferring Company and Acquiring Company.
- (41) Pursuant to Section 11 of the De-Merger and Acquisition Agreement, the effectiveness of that Agreement is conditional upon the necessary consents being adopted at the general meetings of the Acquiring Company and the Transferring Company pursuant to Section 17 para 5 in conjunction with Section 8 para 1 SpaltG and Section 221 paras 1 and 2 AktG and the approval of the de-merger by the Financial Market Authority pursuant to Section 13a para 1a VAG.
- (42) Section 12.3 of the De-Merger and Acquisition Agreement contains a severability clause with respect to invalid or non-enforceable terms of this Agreement and for the filling of gaps, if any.

4. AUDIT OPINION

On the basis of the final results of our audit conducted with respect to the de-merger, we conclude that the De-Merger and Acquisition Agreement is in accordance with the legal requirements and the regulations laid down in the articles of association and contains the information to be provided pursuant to Section 17 no. 1 in conjunction with Section 2 SpaltG.

As the de-merger in question does not involve a change in the proportional value of shareholdings and therefore no shares are granted pursuant to Section 17 no. 5 SpaltG in conjunction with Section 224 para 2 no. 1 AktG, it is not necessary to state pursuant to Section 5 para 4 second sentence SpaltG, whether the proposed exchange ratio of the shares, or the amount of cash contributions and their allocation to the shareholders or the offered cash compensation is adequate, and it is not necessary either to provide the information referred to in Section 5 para 4 nos. 1 through 3 SpaltG.

CONSULTATIO

Wirtschaftsprüfung GmbH & Co KG

Gerhard PICHLER
Auditor

Karin EICHHORN
Auditor

Vienna, 11 May 2010

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