



---

VIENNA INSURANCE GROUP

**Translation from German original –  
in cases of doubt the German version prevails**

**Report by the Managing Board regarding items 5, 6 and 7 of the  
agenda of the Annual General Meeting of VIENNA INSURANCE  
GROUP AG Wiener Versicherung Gruppe on 3 May 2013**

**Report by the Managing Board pursuant to Section 153 para. 4 in conjunction  
with Sections 170 para. 2 and 174 para. 4 of the Austrian Stock Corporation Act  
(*Aktiengesetz*)**

In the 22<sup>nd</sup> Annual General Meeting of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe (the “Company”) the Managing Board is to be authorised pursuant to Section 169 para. 2 of the Austrian Stock Corporation Act to increase the share capital of the Company by 2 May 2018 at the latest – also in several tranches – by a nominal value of EUR 66,443,734.10 by issuing 64,000,000 no-par value shares in registered or in bearer form against contributions in cash or in kind. The Managing Board, subject to the consent of the Supervisory Board, shall decide on the contents of the share rights, the exclusion of subscription rights and on all other conditions of the issuance of shares.

In addition, the Managing Board is to be authorised, subject to the consent of the Supervisory Board, pursuant to Section 174 para. 1 of the Austrian Stock Corporation Act, to issue, by 2 May 2018 at the latest, participating bonds with a total face value of up to EUR 2,000,000,000.00, also in several tranches, also excluding subscription rights, as well as to specify all further conditions of the issuance of participating bonds.

Eventually, the Managing Board is authorised, subject to the consent of the Supervisory Board pursuant to Section 174 para. 2 of the Stock Corporation Act, to issue, by 2 May 2018 at the latest, convertible bonds with a total face value of up to EUR 2,000,000,000.00, also in several tranches, also excluding subscription rights, as well as to specify all further conditions, the issuance of and conversion procedures for the convertible bonds.

Since the authorisations also include the option to exclude subscription rights, the Managing Board renders this report pursuant to Section 153 para. 4 of the Austrian Stock Corporation Act.

1. The recommended authorisation to exclude subscription rights in the event of the issuance of new no-par value bearer shares from the authorised capital are in the interests of the Company and its shareholders.

1.1. In the course of an increase from authorised capital, the option of preferentially offering shares shall be created to employees, executives and members of the Managing Board of the Company or its affiliates as part of employee participation programs. For this purpose, subscription rights should be excluded as may be necessary. The group of authorised individuals, the number of shares to be issued, the issue price as well as all other issuing conditions are to be determined by the Managing Board subject to the consent of the Supervisory Board. The issue price is to be determined in line with the respective current share price, taking into account an appropriate discount. Pursuant to Section 153 para. 5 of the Austrian Stock Corporation Act, the preferential issuance of shares to the above-described group of persons sufficiently justifies the exclusion of subscription rights.

1.2. In the past, the Company has consistently implemented its strategic goal of expanding in the countries of Central and Eastern Europe. The authorisation to exclude subscription rights as applied for an authorised capital increase from authorised capital must be seen in this context. The authorisation to exclude subscription rights is designed to give the Managing Board the flexibility required for implementing its acquisition strategy, by using shares from authorised capital, if need be, as (partial) purchase price in acquisition processes. This is often desired by the seller, protects the Company's liquidity and strengthens the cohesion in common ownership of the purchase object. The precise specification of such transactions will be determined in the individual case in line with the Articles of Association and the Rules of Conduct for the Supervisory and Managing Boards, subject to the consent of the Supervisory Board.

Summing up, considering all outlined circumstances, it can be established that the authorisation to exclude subscription rights within the limits described is necessary, suitable, appropriate and in the interest of the Company objectively justified and necessarily called for. The purchase of shareholdings or other assets or special

transaction structures in the interest of the Company and its shareholders may require the issuance of new bearer shares under exclusion of subscription rights. Should the Managing Board make use of the granted authorisation to exclude subscription rights, it must prepare a new written report on the reason for the exclusion of subscription rights and publish it pursuant to Section 171 para. 1 of the Austrian Stock Corporation Act. In such report the Managing Board will also have to specify the reasons for the issue price for new shares underlying the capital increase against contribution in kind to satisfy the requirement of proportionality.

Pursuant to Section 169 para. 2 of the Austrian Stock Corporation Act, the authorisation is limited to a maximum of 5 years. This period of time will be used up with the proposed resolution.

2. The proposed authorisations to exclude subscription rights for (i) participation bonds and (ii) convertible bonds are in the interest of the Company and its shareholders. The advantages of participation bonds and convertible bonds lie in the attractive financing options for the Company as well as in the opening up of new groups of investors.

- 2.1 Participation and convertible bonds offer investors an interest yield at comparatively low risk with regard to the repayment of the invested capital. For a long time, the Company has been actively managing its capital structure in an attempt to keep capital costs as low as possible. Participation bonds and convertible bonds have been and still are an appropriate instrument 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 swiftly and flexibly to favourable market conditions. This advantage would get lost by a rights issue at a minimum two-week subscription period.

In addition, the issuance of participation or convertible bonds can be appropriate to expand the capital structure and improve the balance sheet structure of the Company. Depending on the selected structure, supervisory authorities and international rating agencies may wholly or partly value the borrowed capital obtained from participation or convertible bonds as equity. Such valuation in turn enables the Company to achieve higher ratings and hence lower financing costs for future borrowed capital.

Convertible bonds also grant investors the right to acquire shares of the Company in the future at a price that is determined when the convertible bond is issued (conversion price), thus giving access to the substance and earning power of the Company. Thus, investors are offered the opportunity to participate in the Company's enhancement in value. Convertible bonds make it possible to make use of the high volatility of the Company's share (as a result of market trends) in favour of the Company and thus help to lower the Company's capital costs. Due to the conditions of the convertible bonds, the issue price of the shares to be issued will be above the share price that is in place at the time of issue, resulting in the Company receiving additional capital compared to an immediate capital increase. Practice has shown that the conversion price in the case of issuance under exclusion of subscription rights may usually be set higher than for similar issuances granting of subscription rights. The reason lies in the structure of a rights issue, where a minimum subscription period of two weeks has to be observed. As a consequence, the exclusion of subscription rights helps generate more financial funds for the Company given a lower number of shares issued. Hence, the exclusion of subscription rights has become common practice for the issuance of convertible bonds on capital markets. Moreover, on the capital marketplace, convertible bonds are often recognised as a positive signal for management's confidence in the future development of the share price. This confidence is reflected in the conversion price, which, for the reasons indicated above, may usually be set higher if subscription rights are excluded.

- 2.2. Usually, participation and convertible bonds are subscribed to by institutional investors specialised in this form of investment and who are to be attracted by the participation or convertible bond to be issued. As a result, the issuance of participation or convertible bonds will enable the Company to create a new investor basis. The issuance of participation or convertible bonds granting subscription rights would make it almost impossible to place them with institutional investors. 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 from in and outside the country. Excluding subscription rights provides the opportunity to strengthen the Company's equity and to lower financing costs in the interest of the Company and all of its shareholders. By the rapidity of the placement process, market fluctuations and thus attacks on the market price of the issued or other securities of the Company on the occasion of the issue can be avoided.

- 2.3. Eventually, it enables the Company to flexibly determine attractive conditions of issuance within the authorisation period. At the same time, the Company is able to measure up to the expected development of the share price and live up to conditions and customs prevailing on international capital markets at the time of issuance.

The proposed authorisations to exclude subscription rights are thus objectively justified in view of the envisaged goal of optimising 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. Moreover, the exclusion of subscription rights is appropriate and necessary as the expected supply of equity by orientating the participation and convertible bonds to the respective target groups replaces more cost-intensive capital measures, offers favourable financing conditions 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. Without excluding subscription rights, the Company would not be in a position to react swiftly and flexibly to favourable market conditions. The Managing Board of the Company expects that the advantage for the Company resulting from the issuance of participation or convertible bonds under exclusion of subscription rights will benefit all shareholders and that hence the interests of the Company outweigh the disadvantages put on the shareholders by excluding the subscription rights. Summing up, considering all the circumstances outlined above, it can be stated that the authorisation to exclude subscription rights within the limits described herein is necessary, suitable, appropriate, called for in the overwhelming interest of the Company and justified on objective grounds.

Vienna, March 2013

Managing Board