

Letter to the Shareholders

1st Half of 2002

**WIENER
STÄDTISCHE** 
ALLGEMEINE VERSICHERUNG AKTIENGESELLSCHAFT



Dear Shareholders,

This report is intended to inform you in detail about the business development of the Wiener Städtische Allgemeine Versicherungsgesellschaft and the Wiener Städtische Group of Companies in the first half of 2002. It will also give you an overview of developments in July and August and in particular of the impact of the severe bad weather in August on Wiener Städtische Versicherung AG.

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Director

Wiener Städtische AG in the 1st Half of 2002

WIENER STÄDTISCHE – KEY FIGURES

| Euro million | 1 st half 2002 | Change from last year |
|------------------------------|---------------------------|-----------------------|
| Period premiums, direct | 763.46 | 2.7% |
| property & casualty | 341.97 | 10.9% |
| health | 131.60 | 3.6% |
| life | 289.89 | -5.8% |
| Insurance benefits, direct | 546.95 | -9.3% |
| Cost of insurance operations | 174.86 | 0.4% |
| Financial results | 66.50 | -45.0% |
| Value of capital investments | 6,738.34 | 2.5% |

In the first half of 2002, Wiener Städtische achieved **period premiums** in all its divisions together in direct business of Euro 763.46 million. Compared with the preceding year this represents an increase of 2.7 percent. Because of growth in property & casualty that was far faster than the market average, the profits achieved in life insurance, even though slightly below the previous year's figures, were well above the break-even mark. Although in the first half-year 5.8 percent less was achieved in life insurance premiums than a year earlier, determined sales activities in August enabled an increase of 5.4 percent, which shows that the trend has been reversed. Total premium income in the

first half-year was made up of 45 percent from property & casualty, 38 percent from life insurance, and 17 percent from health insurance.

Insurance benefits sank in the first half-year by a satisfying 9.3 percent below the comparable period in the preceding year, but this does not yet reflect the claims arising from the dreadful flooding in August. The cost of insurance operations rose by a moderate 0.4 percent.

The **financial results** lay 45 percent below the previous year's figure on account of the continuing uncertainty on the capital markets and the resultant necessity to write down the asset values of securities.

The **status of capital investments** of Euro 6,738.34 million has been calculated without the capital investments of fund-related life insurance, which totaled Euro 132 million.

PROPERTY & CASUALTY INSURANCE

| Euro million | 1 st half 2002 | Change from last year |
|----------------------------|---------------------------|-----------------------|
| Period premiums, direct | 341.97 | 10.9% |
| auto insurance | 123.53 | 8.5% |
| non-auto | 218.44 | 12.4% |
| Insurance benefits, direct | 231.99 | 7.5% |

An increase in premiums of 10.9 percent to Euro 341.97 million was achieved in **property & casualty**

insurance in the first half of 2002. The fact that the insurance benefits only rose by 7.5 percent, less than the rise in premiums, is attributable to the systematic implementation of premiums in the major risk field. This occurred for technical reasons connected with risk and to the adjustments in premiums that were made at the beginning of the year in the automotive field and which are already having a perceptible and positive effect.

According to Wiener Städtische's preliminary estimates, the raging floods that swept down the River Danube and its tributaries in August will have an impact of about Euro 40 million but a substantial part of this is already covered by reinsurance policies.

LIFE INSURANCE

| Euro million | 1 st half 2002 | Change from last year |
|----------------------------|---------------------------|-----------------------|
| Period premiums, direct | 289.89 | -5.8% |
| regular premiums | 191.07 | 4.1% |
| one-time premiums | 98.82 | -20.4% |
| Insurance benefits, direct | 213.99 | -24.4% |

Period premiums in direct business totaled Euro 289.89 million in the first half of 2002, which was 5.8 percent below the level of premiums in the preceding year. This decline is mainly attributable to the one-time premium area of conventional **life insurance**. The rising number of long-term pension products for regular premiums, however, produced growth in premiums of 4.1 percent.

The sharp fall in insurance benefits is connected with the high level of payments made in the previous year, when the 5-year one-time premium policies taken out under a tax concession in 1996 started to mature.

HEALTH INSURANCE

| Euro million | 1 st half 2002 | Change from last year |
|----------------------------|---------------------------|-----------------------|
| Period premiums, direct | 131.60 | 3.6% |
| Insurance benefits, direct | 100.97 | -2.9% |

In **health insurance** the period premiums in direct business came to Euro 131.60 million in the first half

of 2002. This means that an increase of 3.6 percent had been achieved in comparison with the previous year.

Insurance benefits in the first half of 2002 came to Euro 100.97 million, which was a reduction of 2.9 percent from the figure in the comparable period a year ago. Taking payments into account that can be expected in the second half-year, it is forecast that the whole of 2002 will see a level of payments almost unchanged from the preceding year.

Wiener Städtische Group in the 2002 financial year

The **Wiener Städtische Group** achieved respectable results in the first half of 2002. In total, billed premiums in the direct business of the Wiener Städtische Group rose by 8.0 percent to Euro 1,914.96 million, which meant that it had proved possible to raise still further the already high growth rate of 7.1 percent achieved in the first quarter.

Property insurance in **Austria** developed extremely positively in the first half-year, and here it is not only the increase at Wiener Städtische but also the increase of almost 20 percent at Montanversicherung that deserves special mention. In the life insurance field the effect was felt in the first half of the year of the fall-off in the one-time premium business, but in recent months it proved possible to reverse the trend. In addition to Wiener Städtische, Donau Versicherung also increased its premium volume considerably in July and August. Union Versicherung, as a specialist in life insurance, achieved an increase in premium income of 24 percent in the first half-year, and S-Versicherung was also able to counteract the trend in the market and increase its premium volume by 5.7 percent.

The **foreign affiliates** of Wiener Städtische were once again able to achieve very high growth rates in the first half of 2002. An enormous increase was achieved in billed premiums with growth in premiums of 31.5 percent over the comparable period a year ago bringing

AFFILIATED COMPANIES IN AUSTRIA

| Euro million | 1 st half 2002 | Year/year change | Non-life | Year/year change | Life | Year/year change |
|--------------------------|---------------------------|------------------|----------|------------------|--------|------------------|
| Donau Versicherung | 279.92 | -1.9% | 205.95 | 4.1% | 73.97 | -15.4% |
| Montan | 21.78 | 19.9% | 21.78 | 19.9% | - | - |
| CA Versicherung | 67.40 | -26.3% | 0.44 | -55.1% | 66.96 | -26.0% |
| Union | 180.93 | 23.8% | 2.47 | 7.4% | 178.46 | 24.0% |
| S-Versicherung* | 402.84 | 5.8% | 5.63 | 12.2% | 397.21 | 5.7% |
| Wüstenrot Versicherung** | 293.37 | 0.6% | 78.70 | 8.7% | 214.67 | -2.0% |

* 30-percent holding via Donau Versicherung

** 31.6-percent holding

the total to Euro 469.53 million, even though the premium income from the two newly acquired Bulgarski Imoti insurance companies in Bulgaria have not yet been included.

Kooperativa Prague, in the Czech Republic, is the largest and most successful of the Wiener Städtische Group's foreign affiliates and was in particular also able to increase its billed premiums in comparison with the first quarter of this year by a huge amount; its premium growth in comparison with the same period a year ago, at the end of the half-year, was an excellent 34 percent. Kooperativa Bratislava, in Slovakia, also achieved a very high growth rate with an increase of 86.5 percent. This is very largely attributable to the liberalization of the auto third party liability insurance

in Slovakia, where Kooperativa Bratislava has established itself as the clear #2 on the market, but also to the life insurance field, where billed premiums increased by almost 40 percent. Some 200,000 new customers have been acquired from the automotive business and this provides considerable potential for cross-selling that is to be massively exploited in the next few months.

Latest News

Wiener Städtische is Austria's biggest insurance company

The statistics published in the summer by the VVÖ, the Austrian insurance companies association, con-

FOREIGN AFFILIATES

| Euro million | 1 st half 2002 | Year/year change | Non-life | Year/year change | Life | Year/year change |
|-----------------------------|---------------------------|------------------|----------|------------------|-------|------------------|
| Kooperativa (Slovakia) | 68.89 | 86.5% | 49.06 | 116.1% | 19.83 | 39.2% |
| Kooperativa (Czech Rep.) | 297.57 | 34.0% | 252.93 | 32.9% | 44.64 | 40.7% |
| Heros (Poland) | 11.31 | -16.1% | 11.31 | -16.1% | - | - |
| Union Biztosító (Hungary) | 10.93 | 16.6% | 1.28 | 46.3% | 9.65 | 13.6% |
| InterRisk (Germany) | 43.74 | 2.5% | 25.34 | 4.5% | 18.41 | -0.1% |
| WS Kvarner (Croatia) | 6.40 | 61.5% | 3.86 | 43.0% | 2.54 | 101.1% |
| Vienna Life (Liechtenstein) | 2.72 | - | - | - | 2.72 | - |
| Vienna Life (Poland) | 0.81 | 209.6% | - | - | 0.81 | 209.6% |
| Compensa (Poland) | 25.43 | -24.4% | 19.34 | -34.7% | 6.09 | 51.1% |
| Komunalna (Slovakia) | 5.43 | 57.4% | 4.33 | 88.0% | 1.11 | -3.8% |
| Unita (Romania) | 8.79 | 11.3% | 7.43 | 13.8% | 1.36 | -0.7% |
| Kupala (Belarus) | 1.34 | 10.3% | 1.34 | 10.3% | - | - |

firm that Wiener Städtische Versicherung AG is by far the largest in Austria. Its market share across all divisions of 11.67 percent shows that Wiener Städtische has successfully defended its leading position. The Number 2 company on the market achieved a market share of 9.69 percent. Other companies in the Wiener Städtische Group also took their places amongst the biggest in the country: Sparkassen Versicherung achieved the #5 place, Wüstenrot #8, and Donau Versicherung #10.

Flooding in August

Deluges of rain fell on large parts of Austria in the first weeks in August and led to disastrous flooding, particularly along the Rivers Danube, Enns, and Kamp. Innumerable homes and businesses were flooded out, and the people worst affected lost almost everything they possessed.

Flood victims insured with Wiener Städtische received prompt assistance. Even outside business hours loss reports were being accepted on the Wiener Städtische toll-free phone number or on the Internet. The staff members involved in handling claims put in innumerable overtime hours in order to ensure that these were processed particularly quickly. It is when fate strikes such hard blows that swift assistance to the victims is particularly important.

The Wiener Städtische "System Plus" homeowner's insurance policy, in comparison with practically all competitors' policies, offers the most comprehensive protection against flooding. Only Wiener Städtische automatically covers 50 percent of the insured value of the building in case of flooding. All the competitors provide insurance cover at a lower level than this, and some of them even limit it to a maximum of Euro 3,634. This flood disaster shows how important adequate insurance coverage is.

Wiener Städtische offered flood victims who were temporarily homeless more than just the financial compensation; through its non-profit residential construction subsidiaries "Neue Heimat" and "Heimstätte" it offered them apartments to live in free of charge until the damage to their own homes could be repaired.

The buildings used by Wiener Städtische itself were not spared from flooding either. The ones in Perg and in Ried near the river Inn were completely flooded out and had to be temporarily closed.

Wiener Städtische has taken over Montanversicherung

Effective as of June 30, 2002, the entire insurance portfolio of Montanversicherung AG, the specialist within the Wiener Städtische Group for industrial and transport insurance, was merged into the Wiener Städtische portfolio, thus making Wiener Städtische AG Austria's biggest industrial insurer. Incorporating Montanversicherung also allows synergy potential to be exploited and costs to be reduced. The bigger portfolio of industrial policies also improves the balance of risk in the volatile industrial business and the larger market share strengthens Wiener Städtische's negotiation position with reinsurers.

Wiener Städtische in the leading position with "Abfertigung neu"

Two of Austria's biggest pension funds, Vereinigte Pensionskassen AG (in which Wiener Städtische also has a substantial shareholding) and BVP Pensionskassen AG, a joint staff pension fund, have now established VBV Mitarbeitervorsorgekasse AG. Wiener Städtische will thus be able to advise its many customers competently about the new "Abfertigung" (a compulsory supplementary pension plan for all employees) and to offer them a tailor-made product from the same source as all their other insurance. Wiener Städtische's range of products already includes attractive retirement pension plans that companies can offer as employee benefits, and it will be widened with effect from January 1, 2003, to include the "Abfertigung neu" range. Intensive preparations are already in hand and discussions are being held with all of Wiener Städtische's corporate customers.

Kapital-Garant

Kapital-Garant is a new product, a fund-based one-time premium life insurance policy with which Wiener Städtische covers the security need that its customers predominantly feel while at the same time offering the possibility of higher profits.

The focus is on the security of the paid-in capital, as the one-time premium including insurance tax is always paid out, whether the insured party survives or not. To obtain a higher yield about one-fifth of the one-time policy is invested in profitable funds. A choice of five funds is available, varying in their orientation from traditional to progressive, and the customers themselves decide the level of risk at which they want their capital to be invested. They can change from one fund to another at any time without incurring any expense.

With a minimum term to maturity of ten years the customers are free to choose at maturity whether to take an additional monthly pension or a single capital sum.

Urban renewal prize for Wiener Städtische and IBM Austria

The Vienna Urban Renewal Prize, presented by the State Builders' Guild of Vienna for the modernization of an office building, went this year to Wiener Städtische and IBM Austria for the redesign of IBM's "Diana" building at Obere Donaustrasse 95, in the 2nd District of Vienna. It had been built in 1969 by Wiener Städtische Versicherung and rented out from then on to IBM. After almost 30 years it was completely refurbished and brought up to date technically as well.

Wiener Städtische offers the highest guaranteed sum insured in life insurance

In a comparison carried out by the Chamber of Labor on 13 different life insurance policies, the clear winner was Wiener Städtische. The guaranteed sum assured by Wiener Städtische was higher than that offered by any other insurance company. The comparison was based on life insurance policies with terms to maturity of 20 and of 30 years. In the case of 30-year policies and monthly premiums of Euro 70 the difference between the guaranteed sums insured in comparison with other insurance companies was anything up to Euro 6,825. This is equal to the annual premiums for 8 years, so it is well worthwhile to make the comparison.

Wiener Städtische Preferred Stock

In the first half of 2002, the world stock markets fell to levels that were even lower than the lowest seen during the preceding year immediately after "9-11". Although all companies in all sectors of the economy were affected by the falls in share prices, the shares of those in the insurance industry suffered particularly severe collapses. This was made particularly clear by a performance comparison of the shares of some of the biggest European insurance companies this year; for instance, those of the French AXA Group lost 43.3 percent of their value in 2002 (as of September 6, 2002), those of the Swedish Skandia Forsakrings AB (the pioneers in fund-related life insurance) 72.6 percent, the securities of the Dutch insurance group Aegon lost 56.4 percent of their value, the German Allianz 55.9 percent, and the leader on the British market, Prudential, 40.9 percent. Neither were the shares of Zürich Financial Services (Switzerland) able to escape the trend, and their value fell by 69.2 percent.

In contrast with this, Wiener Städtische AG preferred shares remained stable. With a price of Euro 114.00 as of September 6, 2002, they showed proof once again of their ability to hold their value even in difficult times. The fall in their value since the end of 2001 was only 0.9 percent.

For further information please contact:

Mag. Wolfgang Unger, tel. +43 (0) 1531 39-1078, fax +43 (0) 1531 39-1066, e-mail: generalsekretariat@staedtsche.co.at
Internet: <http://www.wienerstaedtsche.at>

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