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Report of the Managing Board on items 5, 6, 7 and 9 on the agenda of the Annual General Meeting of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe to be held on 12 May 2017

Report of the Managing Board pursuant to Section 153 (4) in conjunction with Sections 170 (2), 65 (1b) and 174 (4) Austrian Stock Corporations Act [*Aktiengesetz/AktG*]

At the 26th Annual General Meeting of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe it is planned that the Managing Board be authorised pursuant to Section 169 (2) *AktG* to increase the Company's share capital by a nominal amount of EUR 66,443,734.10 by issue of 64,000,000 no-par value registered or bearer shares against a contribution in cash or in kind by 11 May 2022 at the latest, if necessary in several tranches. The Managing Board will decide on the content of the shareholders' rights, exclusion of subscription rights and other terms and conditions of the issue of shares with approval from the Supervisory Board. That authorisation will replace the resolution passed at the 22nd Annual General Meeting of 3 May 2013 under item 5 on the agenda. The first sentence of Article 4 (2) of the Articles of Association will be amended accordingly.

In addition, it is planned that the Managing Board be authorised to issue participating bonds in a total nominal amount of up to EUR 2,000,000,000 with approval from the Supervisory Board pursuant to Section 174 (1) *AktG* by 11 May 2022, if necessary in several tranches, also with exclusion of subscription rights, and to establish all other terms and conditions for the issue of participating bonds. That authorisation will replace the resolution passed at the 22nd Annual General Meeting of 3 May 2013 under item 6 on the agenda.

In addition, it is planned that the Managing Board be authorised to issue convertible bonds in a total nominal amount of up to EUR 2,000,000,000 with approval from the Supervisory Board pursuant to Section 174 (2) *AktG* by 11 May 2022, if necessary in several tranches, also with exclusion of subscription rights, and to establish all other terms and conditions for the issue of and the conversion procedure for the convertible bonds. That authorisation will replace the resolution passed at the 22nd Annual General Meeting of 3 May 2013 under item 7 on the agenda.

On the basis of the resolutions of the Annual General Meeting of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe passed at the 22nd Annual General Meeting of 3 May 2013 no participating bonds or convertible bonds have been issued.

Furthermore, it is planned that the Managing Board be authorised to acquire no-par-value bearer treasury shares pursuant to Section 65 (1) No. 4 and No. 8 and (1a) and (1b) *AktG* to the maximum extent permitted by law during a period of thirty (30) months from the date the resolution is passed by the Annual General Meeting. The equivalent to be paid upon redemption must not be lower than a maximum of 50% of the unweighted average closing price of the ten trading days preceding redemption and not higher than a maximum of 10% of the unweighted average closing price of the ten trading days preceding redemption. At the Managing Board's option the shares may be acquired via the stock exchange or a public offering or in any other expedient manner that is permitted by law.

The Managing Board shall be authorised to sell the acquired treasury shares in a way other than via the stock exchange or a public offering without excluding the shareholders' subscription rights or with excluding them in whole or in part for a maximum period of five years from the resolution.

Since the authorisations also include the option of excluding the subscription rights, the Managing Board submits the present report in accordance with Section 153 (4) *AktG*.

1. The proposed authorisations for exclusion of the subscription rights (i) in the case that new ordinary bearer shares are issued out of the authorised capital and (ii) for selling treasury shares which were acquired previously pursuant to Section 65 (1) *AktG* in a way other than via the stock exchange or a public offering are in the interest of the Company and its shareholders.

   1.1 In the course of a capital increase out of authorised capital and when selling treasury shares there shall be a possibility to offer shares, preferably to employees, executive employees and members of the Managing Board of the Company or the entities affiliated with it, under employee share option schemes, in particular in view of the possibility to establish an employee share ownership foundation the statutory requirements of which are expected to be available by the end of 2017. For this purpose the subscription rights shall be excluded to the extent necessary. The group of eligible persons, the number of shares to be issued from time to time, the offering price and other offering terms will be defined by the Managing Board with approval from the Supervisory Board. The offering price shall be fixed in accordance with the stock market price of the share applicable from time to time including a reasonable discount. All treasury shares an under employee share option scheme must be capable of being sold. Pursuant to Section 153 (5) *AktG* preferential issuing of shares to the group of persons stated above constitutes a sufficient reason for exclusion of subscription rights.

   1.2 In the past the Company has consistently realised its strategic objective of expanding its business in countries of Central and Eastern Europe. The requested authorisation to exclude the subscription rights in the case of an authorised capital increase out of authorised capital or when selling treasury shares must also be seen in this context. The authorisation to exclude the subscription rights is intended to grant the Managing Board the necessary flexibility to implement its acquisition strategy by using shares out of authorised capital or treasury shares also as (part of the) purchase price for acquisitions if needed. This is often requested by the seller, protects the Company's liquidity and strengthens solidarity in the case of joint ownership of the subject matter of acquisition. The detailed structure of such transactions will be defined on a case-by-case basis in accordance with the Articles of Association and the internal rules of procedure for the Supervisory Board and the Managing Board in agreement with the Supervisory Board.

In summary and considering all circumstances set forth above it can be said that the authorisation to exclude subscription rights within the limits described above is necessary, appropriate, reasonable and objectively justified and vital. Acquisition of interests or other assets or special transaction structures in the interest of the Company and its shareholder might require the issue of new ordinary bearer shares or the sale of treasury shares and the exclusion of subscription rights. If the Managing Board exercises the authority granted to it to exclude subscription rights, the Managing Board shall prepare another written report on the reason for exclusion of subscription rights and publish the same pursuant to Section 171 (1) *AktG*. In that report the Managing Board shall, in particular, state the reason for the offering price underlying the capital increase by contributions in kind to comply with the principle of proportionality.

Pursuant to Section 169 (2) *AktG* the authorisation can be limited to a maximum of five (5) years. This term is fully used by the proposed resolution.

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

   2.1 Investors will earn a return from participating bonds and convertible bonds with a comparably low risk regarding repayment of the capital employed. The Company has a long history of actively managing its capital structure to keep the cost of capital as low as possible. Participating bonds and convertible bonds have constituted and constitute an adequate means of achieving this goal. Due to the high level of security for bond creditors the Company will gain flexible and quick access to attractive financing terms. Attractive financing terms may, however, be obtained only if the Company is able to quickly and flexibly respond to favourable market conditions. This advantage would be frustrated by issuing subscription rights with a minimum subscription period of two weeks.

   In addition, the Company's capital structure can be expanded and the Company's balance sheet structure can be improved by issuing participating bonds and convertible bonds. Depending on the type of structure chosen the capital borrowed via participating bonds or convertible bonds may be classified as equity by the supervisory authority or international rating agencies in whole or in part. Such a classification will, in turn, lead to a better rating of the Company and may therefore lead to lower financing costs for future borrowings by the Company.

Moreover, with convertible bonds investors will be granted the right to acquire shares in the Company in future at a price (conversion rate) that is already fixed at the time the convertible bonds are issued, thus facilitating access to the substance and earning power of the company. In this way investors are also given an opportunity to participate in an increase in the corporate value. Convertible bonds offer the possibility of exploiting the high volatility of the Company's share resulting from its performance for the Company's benefit and of reducing the Company's cost of capital thereby. Due to the terms of the convertible bonds the offering price of the shares to be issued will be higher than the price at the time of issue so that additional capital may be injected into the Company compared to an immediate capital increase. Experience has shown that the conversion price of issues where the subscription right has been excluded can in most cases be fixed at a higher rate compared to equivalent issues where a subscription right is granted. This is due to the structure of issues of subscription rights where a minimum subscription period of two weeks must be observed. Accordingly, if the subscription right is excluded, more funds can be generated for the Company by a lower number of shares to be issued. For this reason the exclusion of subscription rights has meanwhile become common practice when issuing convertible bonds on the capital markets. Moreover, a convertible bond is often considered a positive signal on the capital market of the management's confidence in the future development of the share price. This confidence will be reflected in the conversion price, which, for the above reasons, can in most cases be fixed at a higher rate if subscription rights are excluded.

2.2 Participating bonds and convertible bonds are usually subscribed for by institutional investors who specialise in this type of investment and who should also be solicited for the participating bonds or convertible bonds to be issued. Consequently, by issuing participating bonds or convertible bonds without subscription rights the Company will be able to open up a new investor base. If participating bonds or convertible bonds with subscription rights were to be issued, this would mean that there would be no possibility or only a small one to place them with institutional investors. By saving the time as well as the costs needed for handling the subscription rights it will be possible to promptly meet the Company's capital requirements out of market opportunities that arise at short notice and to attract new investors in Austria and abroad. The option of excluding the subscription rights will therefore strengthen the equity and reduce the financing costs in the interest of the Company and all of its shareholders. Due to the high speed of the placing procedure market fluctuations can be avoided, including price attacks on issued or other securities of the Company on the occasion of the issue.

2.3 Finally, the Company will be put in a position to flexibly establish attractive offering terms within the authorisation period. At the same time the expected performance of the share price and the common terms and practice of the international financial markets at the time of the issue can be taken into account.

The proposed authorisations for exclusion of the subscription rights are objectively justified by the envisaged goal, i.e. to optimise the capital structure and reduce financing costs, and in this way to warrant further strengthening and improvement of the Company's competitive position in the interest of the Company and its shareholders. Furthermore, the exclusion of subscription rights is also reasonable and necessary because the expected injection of equity substitutes more cost-intensive capital measures, offers favourable financing terms and secures long-term and flexible business planning and realisation of the planned corporate objectives for the welfare of the Company and, thus, of all of its shareholders due to the fact that the participating bonds and convertible bonds are designed for specific target groups. Without an exclusion of the subscription rights the Company will not be able to quickly and flexibly respond to favourable market conditions. The Company's Managing Board expects that all shareholders will benefit from the Company's advantage resulting from the issue of participating bonds or convertible bonds and exclusion of subscription rights and that the Company's interest therefore outweighs the disadvantage for the shareholders resulting from the exclusion of the subscription rights. In summary and considering all circumstances set forth above it can be said that the authorisation to exclude subscription rights within the limits described above is necessary, appropriate, reasonable as well as objectively justified and vital in the interest of the Company.

Vienna, March 2017 The Managing Board