

LETTER FROM THE CHAIRMAN OF THE MANAGING BOARD

Dear Shareholders,
Dear Madam/Sir!

In order to understand the development of the Vienna Insurance Group during the financial year just ended, I think it is helpful to take a quick look back at some of the strategic milestones in the history of the Group.

In 1990, the Vienna Insurance Group became the first Western insurance company to make a move into the CEE region. This was consistent with the entrepreneurial spirit that had always characterised us in Austria. By this I mean the determination to continuously develop the Company and offer new services to our customers, acquiring new market share thereby. We uncovered great potential in the region at that time, as insurance products that were standard in Western Europe were still unknown there.

When we entered these new markets, we were already proceeding according to a plan that has since proven its outstanding value. We took our initial steps early but cautiously, and with little capital committed, i.e., with little risk. We then familiarised ourselves with the conditions existing in each country, and made further investments in our companies after becoming sufficiently confident regarding the stability of the markets. Strong customer demand for our services was likewise an essential requirement. In order to make contact with these customers, it was necessary to have as many channels of distribution available at the same time as possible.

We have consistently made this our motto in all actions aimed at expanding the business. The same was true for expansion of existing organisations by, e.g., the acquisition of other insurance companies. In some countries we became the number one insurance company, while in other markets we strengthened our position. As a result, the Vienna Insurance Group is now the insurance group with the best access to people and their needs for protection. During that time, we focused continuously on our core business, the insurance business, where we



*Dr. Günter Geyer,
General Manager*

could build upon our expertise. We have developed our business steadily and now operate in 23 countries through around 50 companies. In recent years, we have consistently achieved double-digit growth in insurance premiums in this manner, an achievement scarcely matched by any other company in these markets. When the subject of insurance comes up today in the CEE region, the name of the Vienna Insurance Group and/or a brand name of our Group is inevitably mentioned.

We are not satisfied with this, however, since the achievement of success makes one wish to set the bar even higher. After our pioneering move into the East, we therefore made a strategic decision in 2008 that would mark another milestone in our history. In the past year, we were presented with a unique opportunity to acquire the s Versicherung Group, constituting the entire insurance operations of our valued banking partner, the Erste Group. We accepted this offer, as it opens up great opportunities for our future development.

We acquired not only s Versicherung Group companies in Austria and five CEE-countries, which we shall be developing further, but also concluded an extensive cooperation agreement with the Erste Group that extends over the next 15 years. The agreement provides for the Erste Group companies in Austria and seven countries in the CEE region to distribute our insurance products – not only life insurance, but also non-life insurance products that are well suited to bank customers and can assist them in protecting their assets. As the largest retail bank group in the CEE region, the Erste Group has an enormous potential market of around 16 million customers, which thus also becomes available to us. Of it we shall make use.

Our agreement goes far beyond this, thus, differing significantly from most distribution agreements in Europe. We have also undertaken to offer Erste Group banking products to our customers, as we have already successfully done on a test basis for some products in recent years. We are also working together with the Erste Group in the area of asset management, an area where both parties can benefit from our combined know-how.

The partnership with the Erste Group is therefore another significant milestone on the path I described above. We are constantly looking for ways to expand our distribution network in order to achieve even better access to existing and new customers.

As previously announced, the Vienna Insurance Group plans to embark upon close cooperation in the area of legal protection insurance. This is intended to take account of economic and social changes in CEE countries, where we have identified an increasing demand for these products. We are aware, however, that avoiding undue risks in many of the countries where we operate requires extensive specialised knowledge. ARAG, one of the world's leading legal protection insurers, has precisely this knowledge and will be a strong partner for us. In addition,

**The subject of insurance
is closely associated
with the name of the
Vienna Insurance Group
in the CEE region.**

the Vienna Insurance Group has a highly effective distribution network in Austria and the CEE region. It is clear to us that combining our strengths will make us stronger still. We therefore intend to combine the legal protection operations of both companies in Austria and use this as a common foundation for gradually supplying the CEE markets with our services.

Private health insurance is an essential precautionary product, offering our customers rapid access to the best treatment in the event of illness. We are a major provider in this area in Austria. But in the CEE region too, we have identified an increasing demand among key customer segments for coverage that exceeds the minimum offered by the government health care system. Therefore, we shall now also begin offering private health insurance in these markets and expect – even on a conservative estimate – that this will generate an appreciable contribution to our insurance premiums in coming years.

These measures also show that we will not let the current crisis deter us from following our path, our sights steadily focused on early discovery of the new opportunities to be realised in the future. The fact that our methods pay off is shown by our business performance in 2008. While many competitors in the financial sector suffered sharp declines in profits, the Vienna Insurance Group was once again able to meet its forecasts.

As a result, the trend of increasing profits in the Vienna Insurance Group can again be seen in the year just ended. Our profit before taxes increased from EUR 437 million in 2007 to EUR 541 million in 2008, corresponding to an increase of 23.7%. Inter alia, it was above all the Vienna Insurance Group companies in the Czech Republic that made a major contribution to this considerable profit, rising above the EUR 100 million mark for the first time. An expansion of our premium volume by more than 14%, to EUR 7.9 billion, served as a foundation for this outstanding result. Driving this growth was once again the CEE region, which generated around 50% of total Group premiums for the first time, thanks to an increase of 32.4% over the previous year. The share of premiums generated in the property and casualty area is already above 60%.

Even if times were to become harder, we remain confident of the growth potential of Central and Eastern Europe. Although there is no doubt that the current economic crisis will leave its mark on this region, we continue to believe, despite all the uncertainty in the forecasts, that growth will be higher in our core CEE markets than in the markets of Western Europe. Among people of the CEE region, we continue to note a widespread optimism, a determination to take advantage of the opportunities presented by the free market and create prosperity after a long period of economic regulation. These efforts to improve the standard of living are the underpinnings of a process of further catching up and a basis for looking ahead toward the future with a positive outlook.

Naturally, the Vienna Insurance Group could not escape the developments on the capital markets, with significant consequences for its financial result. The fact that we were less seriously affected than many others is mainly due to the careful investment policy we have consciously pursued at all times. We also benefited from the forward-looking precautions we implemented to deal with the possibility that we might one day dispose of business units, as with the acquisition of the s Versicherung Group. In so doing, we have, to the best of our ability, protected the assets we have earned over the course of the years, with the result that they have stood us very much in good stead during the crisis.

Result in 2008 has shown the Vienna Insurance Group to be that which it desires to be for its stakeholders (customers, business partners, investors and employees) over the long term: a haven of stability, even in times of uncertainty.

I would therefore like to thank our customers for making use of our services. I would also like to give special thanks to our employees, whose commitment made our success possible. For in our business, people work for other people, and can only realise common goals by establishing personal relationships with customers and listening to what they have to say. And we can always reward successful, motivated employees with a secure job, even under difficult circumstances.

My thanks also go to our shareholders, both those who have accompanied us on our long journey and those that put their confidence in us as part of our capital increase in the year just ended. We would like to reward your commitment with an attractive dividend and by keeping our promise of achieving a long-term increase in the value of the Vienna Insurance Group.

Sincerely,



Günter Geyer