Conference Transcription

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CONFERENCE DETAILS

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Chairperson:	Thomas Schmee

ACT Operator

Ladies and gentlemen, thank you for standing by and welcome to the Vienna Insurance Group Preliminary Unconsolidated Premiums 2010 Conference Call on 25 January 2011. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

I will now hand the conference over to Mr Thomas Schmee. Please go ahead, sir.

Thomas Schmee

Thank you. Ladies and gentlemen, welcome to this telephone conference for the preliminary results for 2010. With us here in Vienna is Martin Simhandl, CFO.

Martin Simhandl

Hello. Good afternoon.

Thomas Schmee

And Peter Hoefinger, a Member of the Managing Board.

Peter Hoefinger

Good afternoon.

Thomas Schmee

And Roland Groell, Head of the Group Finance and Accounting.

Roland Groell

Good afternoon.

Thomas Schmee

I will hand over the telephone now to Martin Simhandl, who will guide you through a short presentation and this will be followed by Q&A section. Martin, please go ahead.

Martin Simhandl

Thank you, Thomas. Ladies and gentlemen, it’s a pleasure for me to present to you the unconsolidated unaudited year-end 2010 premium figures and as well the preliminary results of our Group. And I am just glad to be able to present to you improved results. We have the main figures on our presentation starting on slide three. I will start with the profit before taxes, an increase of roughly 15% to about €505 million. Premiums, these are the unconsolidated premiums, up by around 6.1%. This is specially driven by a quite substantial increase of the life business. And the net combined ratio at the level of 98% where we have to take into account the natural catastrophe situation of the year 2010.

Slide four gives you an overview of the main figures. The total Group premiums as I said up by 6.1% to a level of €8.7 billion out of which is roughly €4.8 billion non-life business and €3.9 billion life business. Less than half of the volume coming from Austria roughly €4 billion, the rest some €4.7 billion outside Austria generated. And the CEE

Group premiums up by 6.9%. The combined ratio as I already mentioned on a level of 98%.

The next slide is our slide five and six, gives more details of the premium development. Slide five, in euro currency; slide six in local currency. It's a breakdown of all the countries where we are acting. And in most of the main countries Austria, Czech, Slovakia, Poland we see quite a substantial growth in premium in the year 2010. We see a decrease in Romania, a decrease reflecting our policy to focus on profitability given the fact that there are some local competitors which are damping in the market, this is our reaction. If I look back to the countries Austria, Czech, Slovakia and Poland, in Austria a quite dynamic growth in life insurance as well in the Czech Republic, in Slovakia. And in Poland we have seen quite a tremendous growth as well in non-life, nearly 30%, also in life a substantial growth.

All the other countries quite mixed picture, there are some countries with decreasing premium volume. Hungary, Croatia, Serbia, Bulgaria and the rest increasing premium volumes. I want to add that in Ukraine and Turkey there are also some effects out of consolidations in the mid of 2010. We took control over TBIH Holding Company which we held by 60% up till then. And within that holding we have an Ukrainian insurance company named UIG, it's the biggest company we now have a 100% in Ukraine. There is also a Turkish company which is called Ray Sigorta.

Slide six, gives an overview in local currency and what you can see here is that overall we had a favourable development of the currencies of the CEE countries in comparison to euro which positively supported our business in 2010.

Slide seven and eight gives you an overview of the investment portfolio. Slide seven, a general view on the portfolio, an increase of the portfolio of roughly 8%, some €28 billion out of which the big maturity is bonds; slight increase in the bond sectors, some 63%; slight decrease on the loans, some 12%; equities slightly increase to 4% but overall very stable portfolio.

Slide eight gives an overview of the bond portfolio on the one hand differentiated by issuers, on the other hand by rating. If we look at the left side the issuers then we clearly see a tendency which we are following which means that the government part in the bond portfolio increases and the financial part in the portfolio decreases. The rating structure is more or less unchanged. We have seen a slight increase under AAA side, a slight decrease under AA side; A and BBB more or less unchanged.

If we are looking back to the year 2010 what I clearly want to point out is the really, really positive development of our cooperation with Erste Bank. The Erste Bank life insurance business grew quite dynamically all over the markets and that was a very positive effect in 2010. We extended this cooperation with Erste Bank in 2010 to two new countries which is Macedonia and Montenegro. 2010 was also the year to implement the new group structure where we had to split in the first half of this year. We all think that the new structure provides more transparency to our shareholder.

Within the year 2010 as I already mentioned we took full control over TBIH which we now hold for 100% and within TBIH there is also a Ukrainian Insurance Company, the biggest of our Group in Ukraine, this was the reason why we have declared Ukraine as a new core market for our Group.

Last but not least what we have focussed on in CEE to launch new products which are reflecting that these markets develop products which are from our perspective insofar very interesting because they are offering quite a high level of profitability such as motor legal expenses which we have focussed to launch in Czech, Slovakia and Poland.

If we look at 2011 and we look at life insurance maybe some comments on the Austrian market. On the one hand regulatory effect: we have seen a decrease of the guarantee level in the new life business, the traditional life business from 2.25% to 2%. On the other hand we have some tax changes coming into force with starting up 2010. One being a disadvantage for life insurance companies: it's the minimum contract period for single premium life business. Below that limit life insurance business is tax punished, so to say, and this minimum period that has been 10 years is now extended to 15 years which clearly will have a negative impact. On the other hand there could be some positive impact coming from the fact that there has been introduced a new withholding tax on investment funds which does not account for life insurance unit linked business, so there could be a certain increase maybe a slight boost in unit linked life insurance business in this year.

What we clearly also in this year will focus on is an ongoing strong and continuously increasing cooperation with Erste Bank. On the non-life side we on the one hand will concentrate on further increasing cross selling and on the other hand, we will also focus on commercial clients with international businesses in CEE as we are a Group that can provide insurance all over the region covering the needs of multi-national groups being active in that region very, very good.

Ladies and gentlemen, if we look at the predictive macro environment in Europe as a whole or in the CEE countries especially and these are figures on slide ten which come from the European Union then we clearly see on the one hand that there is a recovery. We have seen the recovery already in 2010, it's an ongoing recovery on the one hand. On the other hand what we see is that all over this euro area we have the flattening of the increase, on the other hand in the Eastern European Countries we should see more dynamic increase of the GDP growth. This in general should be positive for our business. It's always a question how big the time lag is till it comes directly to insurance business.

Ladies and gentlemen, slide 11 gives you an overview of our earning development. You see a quite dynamic positive development of our profit before taxes which will reach a level of roughly €505 million for 2010. And for 2011 we plan to further increase the earnings before taxes by roughly 10% on the one hand and on the other hand we see a low percentage premium growth. The combined ratio we would estimate should become a bit better to a level of around 97%. This all is subject to overall economic and legal environment and also subject to the fact that we have no big negative development on the nat catastrophe side.

Slide 11, on the right side shows you the development of the dividends paid out by the Group. You know our policy is to pay out as minimum 30% of the Group net profit, this is a policy we also want to follow for the year 2010. So therefore management will go to propose a dividend payout of €1 per share for 2010.

Ladies and gentlemen, thank you very much for your attention and we are ready for your questions now. Thank you.

Thomas Schmee

Thank you, Martin. Operator, we are ready to go into the Q&A section.

ACT Operator

Thank you, sir. If any participant would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in the order they are received and there will be a short pause while participants register for a question.

Thank you, the first question comes from Michael Huttner. Please go ahead with your question.

Michael Huttner – JP Morgan

Good afternoon. Fantastic, thank you so much and I have a few questions if I may. The first one, in the 98% combined ratio roughly how much is there the natural catastrophes or above which you would expect just to get a feel for your figure of 97%, how much have been underlying into this?

Then on Greece, I read on the screen that there was a write down of about 25%, I don't know the number of 2009 I think it's around €5 million or €10 million. I just wondered what prompted this decision to the extent that Greece has not defaulted. Certain auditors saying you should do this and should we expect similar pressure in Q1 on Spain?

Then the final, you put on the slide, I think slide ten, improvement in governance and I probably missed it rather, I just wondered if you could just detail that. Thank you.

Martin Simhandl

Considering your three questions, I would propose that the first question will be answered by Peter Hoefinger and the second and third will be answered by me.

Peter Hoefinger

In the year 2010 we saw a very unusual year for natural catastrophe specifically with regard to frequency. We had all the different kings of nat cat events starting with flood, storm, flash flood, hail, which cannot be expected to be said to be normal in our region. We had in total payout gross at about €200 million which means net we kept something like €75 million. The influence on our combined ratio I would assume to be around one percentage point keeping in mind that there will be always some smaller events. But nevertheless, last year has been quite unusual, so it is around one percentage point.

Michael Huttner – JP Morgan

Thank you.

Martin Simhandl

Second question, if I understood it right you asked about how we are dealing with our Greece government exposure. In general, what we wanted to mention are two things. Our overall government exposure in the PIIG countries is quite limited that was on the one hand what we wanted to inform. On the other hand being a rather cautious player on the market we said that we would do some provisions for parts of that business and that counts specially for Greek. The idea behind that is that there are discussions that may be in one or the other way that could be a certain kind of a hair cut maybe on a way which is not by force. But, well, in our opinion, it's always a positive effect if you are prepared for that and that's the reason for it.

Michael Huttner – JP Morgan

You took this through the profit and loss account.

Martin Simhandl

Yes.

Michael Huttner – JP Morgan

OK.

Martin Simhandl

That's the second question. The third question I am not sure if I have understood it right. This was a question concerning the details of the improving economies.

Michael Huttner – JP Morgan

Improving governance. Governance, it's on slide ten.

Martin Simhandl

Governance.

Michael Huttner – JP Morgan

Yes.

Thomas Schmee

Portfolio governance?

Michael Huttner – JP Morgan

No.

Martin Simhandl

Please, could you repeat the question.

Michael Huttner – JP Morgan

I beg your pardon, I've missed the slide, it's actually slide nine. And it says number two, implementing new governance structure, new holding structure to improve Group transparency.

Martin Simhandl

OK, well, in the mid of last year what we did is that we split off the insurance business of Vienna Insurance Group, Wiener Staedtische, into a new entity, now it's called Wiener Staedtische. And that on the one hand leads to the fact that not the biggest so to say operative insurance company in the same time is the holding for all the other insurance companies. A higher transparency comes out from the fact that there was always a mixture from on the one hand the operative insurance business in that biggest entity and on the other hand, the fact that the overall residual capital was also in that company. Now, there is a clearer structure and this, in our opinion, should also make it more easier to you to see where the capital is lying and how the capital structure of the group is.

Michael Huttner – JP Morgan

Brilliant. That's very good. Thank you.

ACT Operator

Thank you. The next question comes from Michael Haid. Please go ahead with your questions.

Michael Haid – CA Cheuvreux

Thank you and good afternoon. One question only but it comes in parts. When I look at the premiums that you reported, unconsolidated premiums, and those that are expected there were some deviations which are not surprising. First Austria, I think that life insurance premiums in the fourth quarter were below expectations. On the other hand in non-life the fourth quarter was above expectations. Were there any specialties in the fourth quarter?

Second on the Czech Republic, I assume that was driven by foreign exchange, the weaker koruna. Slovakia, I found that non-life was worse than expected. Was there a special reason here? And also in Poland, I see that you expanded into single premium business. That is a little bit surprising as in 2009 you stopped the sale of short-term savings product which was not profitable. Anything, what happened here in the fourth quarter?

Martin Simhandl

I will try to answer the questions maybe to some extent with the help of Peter Hoefinger. Let's start in Austria life business: the development in life business in Austria in 2010 has been quite significantly influenced by single premium business. Single premium business always is a bit of volatile business, so you clearly cannot plan that for quarter to quarter. So this – if it would be equal, this would be rather surprising. That's the one thing. On the non-life side, maybe after that Peter Hoefinger can give you some comments.

In the Czech Republic, I follow your estimation that there was a certain influence of the currency development. In Slovakia, in non-life generally, and especially it's a question of the motor business is that we see here quite an increasing competition combined also with effects with smaller cars giving smaller premiums and that we saw to a certain tendency over the yearend also in the end of the last quarter.

In Poland, you didn't ask about non-life side but I want to mention it's a very positive development. In life insurance, you are not really true. It's a mixture of different businesses what has come there which is also including some sort of life risk business which is to certain parts done as single premium business, things like that traditional life business single premium. And to a small extent and only with partners where we are very on the safe side also this business that we had stopped in the crisis.

Peter Hoefinger

Maybe some words to Austria, a bit better performance in non-life than projected is mainly due to the motor market, there are two effects to be mentioned. One effect is rising new car sales. On the other hand side, the Austrian motor market has been seen to be quite soft in the past and we have decided to be very restrictive in our underwriting. Since half of the year we see first very slight signs of a stabilisation of the market and getting again reasonable prices. We were then again doing more motor business than we did in the first half.

Michael Haid – CA Cheuvreux

When you say stabilisation, you mean also higher prices?

Peter Hoefinger

I said very slight signs that the softening is stopping. This means on one hand side that in certain segments you can see a hardening. In some segments you see that premium is now stable and is not further falling down.

Michael Haid – CA Cheuvreux

OK. Great. Thank you very much.

Peter Hoefinger

Maybe one thing also to mention, in corporate business we also achieved even though having not an easy environment economically to have a certain growth supported by international programmes. All of this was contributing to the overall performance.

ACT Operator

The next questions comes from Marc Thiele. Please go ahead with your question.

Marc Thiele – UBS

Thank you. Hi, Mark Thiele from UBS. Two questions if I may. For the first question I am coming back to what Michael was asking to a degree. You mentioned there is one percentage point of excess weather related claims in the 2010 numbers. Can you quantify how much you are normally assuming and how this has developed over time? Say has there been like 2% as a normal assumption and has that gone up from 1% or do you think that's going to move to 2.5%. That's my first question.

Then the second I have is related to the investment portfolio. You mentioned the decline in bank debt. How do you think about the bail in options for banking some debt probably that looks unattractive but how do you think you would treat this going forward? Could that turn attractive and this would come with higher yield or is it a no go area?

Martin Simhandl

OK. Maybe the first question will be answered by Peter Hoefinger and second question will be answered then by me.

Peter Hoefinger

Maybe what I have mentioned in answering the first questions, last year a very specific thing was on one hand side the frequency of the events which we have not seen in the past before. Secondly also the geographical area of the event so it was Poland and we also saw it in Slovakia and in Czech Republic having also cross country events which we in the past did not so much experience. We normally, if you look over the timeline, we would expect that there are certain events, if I could mention a figure you can take the €75 million which I have mentioned that went directly to our result as our own payments represent 2% of the combined ratio. I mentioned the improvement would be 1% so you can expect something like €30 million to €40 million as being an assumption of let's say not normal but which we have to somehow expect. Is this fine for you?

Marc Thiele – UBS

That's very helpful. Maybe one more additional question on this. Do you expect that to rise because I think the phenomenon looking at insurers is that these one in hundred event seem to come quite often.

Peter Hoefinger

On one hand side what we have to do is, and we started with this in Austria and some other countries also that and we also do it in the commercial business, that you introduce more and more deductibles. If you have for examples hails and you look here on the average claim it is quite a small claim but you have large number of claims, so a deductible is supporting you here tremendously with the claims ratio. On the other hand side, in specific areas we also do have certain limits of coverage for natural catastrophe, or we are charging extra premium to our clients. Also the sensitivity of the market is rising after these kinds of events which we saw last year.

Marc Thiele – UBS

Superb. Thank you.

Martin Simhandl

OK. Concerning you second question, development of investment portfolio and financials, the change in the portfolio we have started more or less since the crisis 2008 and there were different reasons for that and maybe this could be a base for the answer to your question. The one thing clearly is that we have seen although banks are regulated they could come into a situation where they are collapsing in extreme as Lehman did. Secondly out of that crisis you could not expect that the too big to fail idea would be the same in following crisis.

Last but not least which is also very important that since a certain time it was foreseeable that under solvency II governments will not be burdened and financials will have quite significantly equity burdens. Given that, a bail in mechanism as it is discussed now will it make not easier to take a decision to invest into bank bonds. I think clearly the reaction normally into such a situation is that the interest rate spreads in the interest rates will increase. But besides that generally I think it will lead to a situation that may be the business models of some of the banks will have to be rethought and then we will see how big the volumes of bank refinancing in the futures on the market will be.

Marc Thiele – UBS

Perfect. Thank you.

ACT Operator

Thank you. The next question comes from Maciej Wasilewicz. Please go ahead with your question.

Maciej Wasilewicz – Morgan Stanley

Hi, Maciej Wasilewicz from Morgan Stanley. I wanted to ask about what reserve runoff there was into the combined ratio in 2010? Whether or not there is any indication of that?

Related to that as well I wonder whether or not there has been any changes in the reserving policy in regards to a potential spike in inflation across the CEE over the coming year?

Secondly, I wanted to ask about Poland specifically. In the non-life market there that was very tough market most of last year. Did you see any improvement in technical profitability across the market or specifically within your operation in the fourth quarter?

Finally, I just wanted to know whatever happened that issuance of hybrid debt that was announced earlier. Was that, did that actually occur? And if it hasn't occurred what are the plans with that in the future? I'm sorry I might behind on that use.

Martin Simhandl

Out of your three questions may be I will try to answer the first and the third and the second about Poland will be answered by Peter Hoefinger.

First reserves, our reserving practice is stable over years and has not changed in the one or in the other way all over the last years. Of course there are out of that conservative reservations run off gains but the question is always the level of reserving and this kind of reserving all over the last years you can see that it has been more or less unchanged and the effects are always minor in the one or in the other sense and not driven by new ways of reserving but driven by some statistical circumstances or things like this.

Peter Hoefinger

Maybe to what concerns Poland, some topics related to your question, on one hand side if you see the growth which we are generating there this is clearly helping us in our cost ratio, as higher volumes we can generate out of the size better cost ratios for our companies there, so this is one effect which we will see over the time.

Secondly, the Polish market is a very specific with two events last year which most probably is positively influencing the market technically. On one hand side it was the first time in Poland since quite some years that you had a nat cat event. We as Group we have been also hit by it but not maybe in the same significance than some other players as we have a much larger motor portfolio and a smaller property portfolio. This will drive the market to somehow increase premiums in the property segment and we will also try to take advantage out of this with a better pricing.

Secondly, a very dominant player in Poland is now more or less privatised. Also, this will have certain effect on the overall market in Poland, most probably increasing premium levels which also should give us the opportunity to benefit of a more profitable market in Poland in total. Is this fine for you?

Maciej Wasilewicz – Morgan Stanley

Yes. I guess actually just one thing on that. In the fourth quarter specifically, I heard that a lot of players had increased pricing. Did you see any improvement in the fourth quarter in particular?

Peter Hoefinger

We also improved pricing but it's mainly too early to now concretely tell you what kind of improvement we saw. We improved prices twice in the second half.

Maciej Wasilewicz – Morgan Stanley

Thank you.

Martin Simhandl

Concerning your third question about the hybrid, well, maybe to explain that, looking at the development in autumn 2010, having rather low interest rates, reasonable spreads, we thought it could be a good idea to issue a bond. In fact, you never can calculate the development of the markets itself and in that case the development especially on Ireland, so we had development where spreads were widening. In the meantime also interest rates have risen. And given the fact that we have no pressure at all, we have a very strong capitalisation, we will just look at the development and if it develops good in our direction, maybe we will do it and we will decide if and when.

Maciej Wasilewicz – Morgan Stanley

Thank you.

ACT Operator

The next question comes from Ralph Hebgen. Please go ahead with your questions.

Ralph Hebgen – KBW

Yes, hi. Good afternoon, Ralph Hebgen from KBW. Just a few questions relating to the Greek write-down. First of all, I was slightly surprised to see that you have any fixed interest assets domiciled in Greece at all since I don't think you write any business there, at least not any business I am aware of. So would you be able to perhaps comment on your general level of asset and liability management as well?

Second, did you do any other write-downs in other sovereign debt demands?

Third, the amount of write-down, would you be able to guide us how much that was?

Finally, how much of that actually went through the profit and loss account?

Martin Simhandl

First, concerning Greece, we are also not doing business in France and also have French governments. We are not doing business in Finland and we have Finnish governments. What I wanted to express is that overall in all the PIIGS, Portugal, Italy, Spain, Greece, Ireland altogether less than 1%. That gives you a feeling. On the other hand, investment portfolio always has to be diversified. So, what we are doing, such peripheries, we are doing so to say in very small amounts if we are doing it. That's what we wanted to transport. Maybe you have seen how much others have done in these peripheral countries.

Second and third, these write-downs which we have done are via P&L. The change in value, these are and most of our portfolio is available for sale always goes through equity. But if you decide this could be from a permanent duration, means a sustainable devaluation then you should decide to write-down. Given the fact that there are some discussions about maybe some kind of haircuts we thought from a rather cautious position this would be a good idea. We also not only will do that for Greece but we also will do something for Ireland. That's it. Maybe in total, to give you a number it's not such a huge amount. It's a rather low double digit million amount.

Ralph Hebgen – KBW

OK. Just a follow-up on that. Low double digit million amount, that is presumably pre-tax and pre-policyholders share so I don't believe that's –

Martin Simhandl

Of course. I cannot give you now the exact number which is going directly into the result.

Ralph Hebgen – KBW

Sure. But that's probably a low single digit amount?

Martin Simhandl

That could be.

Ralph Hebgen – KBW

OK. And you can confirm that you haven't actually as yet written down any other sovereign debts but may choose to do so if you would elect such an action for purpose of prudence?

Martin Simhandl

If we would find it appropriate, then we would do it. But given the fact that we are in total rather limited in such peripheral countries you see you should not be frightened about that.

Ralph Hebgen – KBW

OK. Thank you.

ACT Operator

Thank you. And the next question comes from Birgit Roeper-Gruener. Please go ahead with your question.

Birgit Roeper-Gruener – Societe Generale

Yes, hello. It's actually more on the outlook. Because you are taking a more cautious stance on the top line development for 2011 and you are expecting slightly better combined ratio for this year as well, so I am wondering is it just let's say a more conservative approach from your side regarding top line or do you expect a slow down for instance on the Austrian life insurance market?

Regarding the combined ratio it was addressed several times already but I am wondering whether you might have changed your reinsurance structure given the frequency you experienced last year? Thanks.

Martin Simhandl

The first question I would answer concerning the development of the top line; maybe the second we would do together, Peter Hoefinger and me.

Concerning the top line, you are right. One of our maybe so to say more cautious approaches is the question how the life market in Austria will develop and it's really not easy to be foreseen. I have spoken about some developments on the tax side. The one is in advantage for us and the other clearly in disadvantage. And for the time being we really cannot calculate what will be the outcome of that. We from our side would expect the development not to be too positive in the life market in Austria.

Concerning the non-life premium in general, of course increasing GDP should normally support that. We know we have a certain time lag and as the situation is as it is and we do not see it in our figures the increase which someday should come. Also, here you should be on a prudent side and not to estimate too much. That's concerning the top line growth.

Concerning the combined ratios, maybe one remark in advance and then I would hand over to Peter Hoefinger. Of course, there is a certain effect which we would estimate coming from a rather normalised development in nat cat.

Peter Hoefinger

To the nat cat programme which we are having, so first of all, generally, we are not changing our structure of the nat cat reinsurance programme which we have. What we are doing is we are placing our net cat coverage for whole Central Eastern Europe not country by country but we are doing by ourselves first of all to bundle all these risks therefore we get already a natural diversification before we go to the third party reinsurance market. This also enables us to have a stronger bargaining position offering reinsurance companies with one signature to be part of Central Eastern Europe. Therefore also having certain cost savings on the reinsurance side by our providers which should also give us a certain advantage in pricing in relation to some of our competitors. What we had to do differently by country to country we had to increase here and there a bit of self retention to have a good balance of the pricing.

Birgit Roeper-Gruener – Societe Generale

Perfect. Thanks.

ACT Operator

Thank you. The next question comes from Jelena Bjelanovic. Please go ahead with your question.

Jelena Bjelanovic – Bank of America Merrill Lynch

Hello there. Actually I wanted to follow up first of all on aspect of non-reinsurance. I seem to remember you were talking about changing the structure of the reinsurance programme for this year just to ensure that the length of something like the floods wouldn't impact the combined ration in the same manner as it did last year. So I wonder if you could update on that first of all.

Then second also last year you talked about repricing of the non-life portfolio as a result of the natural catastrophes. How did that play out in the end and how does it factor into your 97% combined ratio guidance for 2011? Thank you.

Martin Simhandl

Both of your questions will be answered by Peter Hoefinger.

Peter Hoefinger

First of all, when I said that more or less we kept the structure which we had last year. If we would have a similar unusual year as last year we would have similar effects also in the year 2011 that we had in the year 2010. But again last year is not representative if we look back more than one year so it should not be expected to have this. It is important also to have that balance with the pricing which we get from the reinsurance market.

Your second question was repricing of the non-life portfolio, do you mean what we are pricing to our clients or the pricing of the reinsurance to us.

Jelena Bjelanovic – Bank of America Merrill Lynch

I am sorry. I meant the price you are costing down to your customer not the reinsurance.

Peter Hoefinger

OK. Again here, we are very much also dependent on the overall market conditions, so also this must be seen then market-by-market how the overall market is also developing. Where we are market leader we are very much trying to push premiums up for this segment. But maybe as also mentioned before it is not just on the premium side it also on the coverage side to either have higher self retentions from the client or to have certain limits for nat cat events. This is driven differently country-by-country depending how much we are able to push that through.

Jelena Bjelanovic – Bank of America Merrill Lynch

OK. Thank you very much.

ACT Operator

As a reminder, ladies and gentlemen to ask a question, please press *1 on your telephone.

Thank you. And the next question comes from Ralph Hebgen. Please go ahead.

Ralph Hebgen – KBW

Yes, hi good afternoon, me again. One question is you mentioned in your outlook statement certain austerity measures which are going to come through in 2011. Would you be able to perhaps expand on that and comment on particular countries where you see particular challenges for you represented by such austerity measures?

Second just on solvency II, I mean I saw you mentioned a 200% solvency ratio. I believe that relates to solvency I. Would you be prepare to give us any update on solvency II? Thank you.

Martin Simhandl

If we are talking of our shrinking government budget to decrease the public debt in the area we are present may be one of the biggest influences we could see is specially here in Austria. Austria has performed quite well over the crisis but clearly we have now a cut down budget for this year and we have to expect also some cut downs for next year and the year after next year. And the dynamic of the growth may be able to come down. If you look at the growth projections in Austria but also Germany you will see that the projections for 2011 are slightly lower than the outcome for 2010.

We will see how it works out but we only can elaborate on what's the current basis. Of course there are some other countries where we had in parts some heavy effects last year but you have also some influences till now. If you look for example at Romania, where last year the cut down of the public wages by 25% and then in the same time an increase of the VAT by 5% this is not an effect that goes away within five months. So far your question number one.

Concerning solvency II I would estimate somehow this is a never ending story. The only thing that becomes more and more clear is that under all conditions the commissions wants to hold 1 January 2013 to implement. May be you have seen the draft for a European Union directive giving power to the commissions for transition period to take into force parts of solvency II. And within that draft to transition period that the power to give such periods, the power that is transferred to the commission comes to transition periods of up to 10 years, so that's the one thing.

The second thing is that in QIS 5 what clearly has come out is that the standard model has become so complex that I think there is a lot of uncertainty for the time being if the outcome qualitatively is overall comparable given the fact that even the supervisors in different countries could to a certain extend not explain how to interpret some of the rules. Given also the fact that more and more voices come up that the model itself should become less complex again for the time being I am not so sure when we clearly know what will go on.

From my estimation, from the tendency, from the impact itself since the mid of 2009 where we had proposals under the table coming from CEOPS which were rather on the upper end it tends to come into more normalised levels in general. What I would estimate is that hopefully in some months we will have clearer rules. I would estimate that we have some grandfathering periods, some transition periods, so overall the impact in the whole industry will be less then it would have been estimated before. From the system itself hopefully something additional will be done to reflect better the traditional life insurance product which till now the risk situation of that product is not clearly reflected in the models I think.

Ralph Hebgen – KBW

OK. Thank you very much.

ACT Operator

Thank you, sir. There appear to be no further questions at this time. Please continue with any further points you wish to raise.

Thomas Schmee

Thank you operator and thank you very much ladies and gentlemen for listening in today and we hope to have you with us on 31 March for the planned issue of the final year 2010 results. Thank you very much and I wish you a good day. Good bye.

ACT Operator

Thank you, ladies and gentlemen. This concludes the Vienna Insurance Group Preliminary Unconsolidated Premiums 2010 conference call. Thank you for participating.

END OF CONFERENCE