Conference Transcription

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CONFERENCE DETAILS

Conference Date:	18 August 2011
Conference Time:	15:00 CET
Conference Duration:	Approximately 54 minutes
Chairperson:	Thomas Schmee

ACT Operator

Welcome to the Vienna Insurance Group Results for the First Half 2011 conference call. During today's presentation all parties will be in a listen-only mode. Following the presentation the conference will be open for questions. If you have a question, please press *1 on your touchtone phone. If you would like to withdraw your question, you can press *2 and if you are using speaker equipment today, please lift the handset before making your selection. This conference is being recorded today, Thursday, 18 August 2011.

I would now like to turn the conference over to Thomas, please go ahead.

Thomas Schmee

Thank you, Alicia. Ladies and gentlemen, welcome to this conference for the half year results of Vienna Insurance Group. The team in Vienna is led by Peter Hagen, Member of the Managing Board, and the table round consists also of Peter Hoefinger, Member of the Managing Board, Roland Groell, Head of Group Finance and Accounting. I will pass the floor now to Peter who will guide you through a short presentation and this will be followed by Q&A section. Go ahead.

Peter Hagen

Thank you, Thomas. Ladies and gentlemen welcome. My pleasure to present to you the half year results. Maybe in a nutshell I think VIG is again showing that it is following its sustainable path of continuously growing its business, further improving the bottom line by a whole set of measures and capitalising on its strong strategic position in CEE. This probably in a nutshell is what the results in six months 2011 are showing.

To mention a few highlights only and that is for me a very important one. First time now CEE share in total is more than 50% not only in premiums but also in the bottom line. I think that is something which is expected by our investors since a while and we are very pleased that we are now able to deliver. We have also shown clear outperformance of major European peers, I will give some evidence a little bit later in the presentation.

We gained additional market shares even in countries where we are already very well positioned as the number one player like the Czech Republic or Slovakia where we now have market shares way over 30%. We have improved our position in Poland to a number three position. Many of you will remember where we were just a couple of years ago, I think a major achievement. But again what I wanted to say is exceeding the 50% also on the profit side I think that's a major news.

As concerns Romania I have informed you as of fourth quarter last year that we see some problems there. I am pleased to say that first improvement are showing however I also want to mention immediately here that with all the restructuring underway we still expect Romania to show a subdue performance for the next one, two quarters at least.

On slide five, just a few figures. €282 million of profit before tax up 10.4% and therefore in line with our guidance. 14.4% strong premium growth in CEE double digit certainly to a certain degree also exceeding our expectations. A certain backdrop coming particularly from single premium life insurance in Austria and Liechtenstein. Discounted with that a nice growth of 6.5% in regular premiums. And also as projected - provided the absence of any major natural catastrophe - improvement of the combined ratio to 97%.

The financial highlights I guess we do not have to go into details. It's I think self-explaining, maybe just a word to the earnings per share. Following the advice of a set of analysts and investors we have now deducted the hybrid interest from the earnings per share so this is now if you want so netted for this effect.

I want to draw your particular attention to the two following slides starting with slide eight. I think that is one slide on which we are particularly proud of and which is also evidencing the whole management's philosophy of VIG. We have continuously, even in times of severe recession worldwide global financial crisis, been able to grow the business also on the bottom line. We have a substantially lower volatility in our results than major competitors like Allianz or Generali which we are showing in this graph. If you index the results in middle of 2007 when the world was still a nice place to live in, of 100 we are now coming in with 131 by the end of second quarter 2011 with major competitors somewhere around 50. I think that is one very essential evidence for how we want to manage this company.

The second slide I want to shortly comment is slide nine. Another very important pillar of our management strategy and philosophy. We want to be able and to guide our businesses in a way that we are generating outperforming return on equity without any compromises on our security. If you just compare the white dots which are the June 2011 results then you can see that we are delivering an RoE in excess of what Allianz and slightly below Generali but with solvency ratios way in excess of these two major competitors. We do not have data for Uniqa at this point, our major Austrian competitor, as they have not published their June 2011 results yet.

This is a very strong message we want to send and this will also be a continuous and sustainable message. We will never compromise on security of the company so we will always go for strong capitalisation but we want to support the strong capitalisation by above average profitability. I think I do not want to emphasise too much on the figures on slide 11 and 12. They are just explaining what I have talked about before on income statement side. On the balance sheet side not much changes since the end of last year.

Let me just talk a little bit more about the premium development in the various lines of business and countries. Let's start with non-life. Austria, nice improvement, 7% up over last year mainly due to the fact that premium rates as expected in motor are now levelling out so there is no further decrease in this area and the growth is supported by increases in commercial as well as also in other private lines non-life.

Czech Republic, we still see a very competitive motor market. Still very profitable but very competitive and the growth is mainly based on slightly improving situation on the commercial business side following again of the economic development and particularly again also on the private non-life non motor which shows very nice growth rate however given the relatively small size of this segment in total yet this double digit growth in this segment does not yet compensate for the more or less flat or slightly minus development in motor TPL.

Slovakia, 2.4% is quite good achievement for the Slovakia market currently. Basically we have seen still quite a substantial competition on the motor side and we have decided to follow a very selective underwriting approach particularly in the fleet business and that is obviously currently limiting our growth potential in Slovakia. In Slovakia we have set, particularly my colleague in the board Mr Hoefinger, a whole set of initiatives to improve also our position on the commercial business in Slovakia which we are implementing now in the forthcoming months.

Poland, obviously a very nice development. I had explained to you at our last conference about the positive developments on the Polish market particularly as concerns motor rates but also private lines non-life following PZU's privatisation and obviously the insight of the whole market that premium rates in motor in Poland do have to grow and on the non-life non-motor side personal line basically also the rate increases are reflection of the major natural events last year. Overall, we are outperforming the market but our performance is also supported by market performance.

Romania, the good news is that obviously we are levelling out now in terms of premium reduction. Actually quarter two already shows a nice increase, seen by itself. Having said so this is the premium side. As I mentioned before it will take us another one, two quarters at least following our restructuring of the companies and the ongoing processes for example merging Omniasig and Asirom – sorry, Omniasig and BCR non-life until we also got the similar positive development on the bottom line. Remaining non-life performing growing with more than 16% obviously quite satisfying.

On the life side we see the major drawback in life in Austria which is exclusively due to the change in tax law as concerns single premium business which is a substantial drop. The regular premium business is slowing.

Czech Republic, very nice development mainly supported by the Pojistovna Ceske Sporitelny, the insurance company which we have acquired from Erste Bank in the Czech Republic. But also Kooperativa has very nice growth in the Czech Republic, very new. There is an information actually that for the first time now VIG in the Czech Republic is the largest car insurer, has overtaken the joint operation of the former monopoly and Generali and is now insuring more cars than them. I think again also it considered that somebody started 20 years ago with zero market share and zero cars, actually in this case it’s ten years ago because the monopolisation was only in 2000. Within ten years we were able to basically takeover the lead also in this line of business in Czech Republic.

Slovakia life insurance very healthy development. Poland, a dramatic increase. You might remember at the beginning of the crisis we had decided that this particular successful product in Poland called the Anti-Belka tax product that did not offer enough margin for us to properly compensate for what we believe was the risk included in that product as it was structured at that time. Now as this product has been restructured and the risk basically has been shifted away from the insurance company we have re-entered that market and that is mainly the reason for this very, very substantial increase. It shows that once we have included a product into our portfolio obviously we have a very high distribution power also in Poland achieved, we immediately push the business.

Romania, the growth is mainly supported also there from by the insurance company which we have acquired and which is cooperating with BCR Bank, the Erste Bank representative banking in Romania. Remaining the drop in life is basically exclusively due to Lichtenstein single premium discounted with that this would be around 12%, 13% plus. In total the growth as we had projected and also given in our guidance around 3% or 3.1%.

When I come to the loss situation given the fact that there were no major natural catastrophes as we have also projected to we see a drop in the loss ratio by 1.6 percentage point particularly obviously in countries which were heavily exposed to natural catastrophe losses last year like the Czech Republic also Poland. And as you can see in the loss ratio in Romania we still see an increase in the loss ratio this is what I was referring to before. We will still have to work on this issue for another quarters in order to turn around the situation there. As concerns to remaining market particularly due to improvement in the Ukraine, Hungary and Germany we see a substantial improvement of the loss ratio into a total of 65.4%.

On the operating side, operating costs side this is including obviously acquisition cost as well, Austria shows an improvement, Czech Republic here I should mention that Czech Republic has improved its cost accounting system and is now more evenly distributing costs over the quarters and more adequately and therefore taking away load from the later quarters and distributing it more evenly which now showing a little increase over the corresponding period of last year. If you compare this with first quarter result you can already see the segment is level out over the year so for Czech Republic we actually except rather a drop of the cost ratio.

Slovakia, the impact is mainly due to change of reinsurance programmes and a lower amount of reinsurance commission received which is pushing net cost ratio up. Nice improvement in Poland, still no finished also in Poland. As you know we have announced that we will further restructure, we are in the process now of organising the merger between PZM and InterRisk and for this we are expecting further costs savings. The same and even more so applies in Romania. Also there we showed a certain drop in cost ratio but the restructuring we are expecting costs savings at least in the range of €10 million.

Remaining, an increase. The main reasons for the increase is actually Germany. The reasons for this is that Germany produces very nice businesses, very nice margins and we had ceeded a part of this to reinsurers. Reinsurers were compensating for this business quite substantially in terms of commissions. However we still received a very nice margin due to very nice loss ratio. We have decided to no longer continue this kind of policy and have basically taken back this reinsurance which automatically increased the cost ratio but they have corresponding improvement on the loss ratio. In total we have increased our margin. We have to see this together with the loss ratio in Germany. Overall basically when we discount for the statistical differences and the accounting period differences we are basically flat on our costs side.

On the financials few words only. We have increased our ordinary income, current income from €664 million to €720 million. There is a clear reduction in income from disposal. We had last year mainly disposal of real estate in Austria where we generated a profit which is obviously not repeated this year. And another point also is that last year to the six months of 2010 the holding VIG did not yet exist. The cost of what is now the holding was basically cost of an operating insurance company which is no longer the case as the holding is now basically holding its participations and now obviously many of its costs are now included in the cost of the financial investments for the management of the equity holdings.

That's in a nutshell on the financial income. It's not very surprising. Mainly one, only one word of caution and explanation once more we explained it already at first quarter. Again due to the fact that we have established the holding, certain holdings particularly the social building societies are now direct participations of the holding which is a non-life company. Part of these holdings were before under the life section and there was now a shift from the life section to the non-life section simply because the holding was formed and these participations are now under the holding. This is distorting comparison in many of these items between the sections P&C and life and it will take obviously a few quarters until you can compare this again in a consistent way.

Investment split development of bond portfolio etc., there is no big changes to end of last year. You are very well aware of it. Maybe just a word on our exposure to government bonds in the PIIGS countries. As you can see it's not very substantial amount. I just want to mention that our provisions for Irish and Greek bonds are already on the dimension as it is currently discussed as a private contribution to the rescue plan. Basically if the rescue plan of Mr Ackermann and others would become effective and we were to participate in this we basically have already anticipated any charge we had out of this. I think that's also a message very few companies can convey to you.

Composition of real estate shareholders equity I think has nothing particularly to comment there and it concerns the outlook it's very simple to state we continue to basically give the same guidance as we gave in the end of last year. That's in a nutshell what I wanted to convey to you as the result of the six months 2011. Thank you very much for your time.

Thomas Schmee

Thank you, Peter for this presentation of the half year results. Alicia, we are ready to go into the Q&A section.

ACT Operator

Thank you, sir. Ladies and gentleman, as a reminder if you have a question please press *1 on your touchtone phone. If you would like to withdraw your question you can press *2. And if you are using speaker equipment please lift the handset before making your selection.

Our first question is from the line of Marc Thiele. Please go ahead.

Marc Thiele - UBS

Yes, thank you good afternoon. Marc Thiele here from UBS. The Austrian ten-year government bond yield has declined from 3.5% end of June to 2.7% now similar to other countries. Can you provide us with sensitivities for the earnings impact? The second question is in this low bond yield environment how do you protect the profit margins? Can you provide us with a bit of anecdote or evidence and have you changed the product focus?

Roland Groell

Your question according to sensitivities especially if you look at the yields in Austria the same is true even more true for the German bonds. There are two main items if you look at the first half year. First of all we are faced with a situation and that was not really planned for 100%. If you look at our life development we saw a decline in premium volume. That means the positive cash flows were not as high as under normal circumstances. That means that there was a rather low volume we were able to re-invest.

The second main issue is that if you look at our current yield on our fixed income portfolio we are still on a level of about 4.5% that's rather high. What we have done within the first six months this year is to look closer for example to the Slovakian governments. The same is true for Polish government which have still a rating of A or A plus at the debt level and have still on Euro basis a yield between 4% and 5%. It depends if you discuss ten years maturity up to 15 years maturity. There we invest parts of our positive cash flow and we did also some investments in mainly Austrian corporate bonds where we expect the yield of 4% and even above 4%.

That's the reason that nevertheless the development of the government yields dropped down significantly that has till now no influence on our fixed income portfolio. I hope that answers the question.

Marc Thiele - UBS

Yes, in another words what you are suggesting is that even if the bond yield stay at these low levels you would probably only anticipate a very small decline to eat into the bond yields as a result of this offsetting factors. Would that reading be correct?

Roland Groell

Generally, yes.

ACT Operator

Thank you. The next question is from the line of Enrico Mattioli. Please go ahead.

Enrico Mattioli – Deutsche Bank

Hi, good morning, good afternoon to everybody. A couple of questions, one is regarding the competition you are witnessing in Slovakia, Poland and Czech Republic. Is there any – can you give us some colour about what you think the competition on market level is going to be in those three countries in particular by anything else interesting in other countries?

In terms of, you mentioned that €10 million possible saving in Romania, I was wondering whether you can extend that figure to a group level or basically you are – if you have any cost cutting activity which could be summed up to this taking it to a sizeable level like you did in the past couple of years.

In Austria, the non-life premiums went up surprisingly very much close to double digit level. Can you give us some colour where this is coming from?

Finally you mentioned not many NatCat events, I suppose it's zero for first half. Can you give us possibly the figure for first half 2010 in order to have a net comparison? Thank you.

Peter Hagen

Sure. I will start in the reverse order of your questions, NatCat events. We have to separate NatCat events which are covered by NatCat protection and NatCat or natural catastrophe events, how we consider them to be but does not matter whether we have re-insurance or not for that.. Last year we had in the half year about €50 million, roughly close to €50 million of net expenditures for NatCat event which are in this broader sense of NatCat definition. This year it's a single million digit.

Enrico Mattioli

Sorry?

Peter Hagen

It's a single million digit.

Enrico Mattioli

OK. Thanks.

Peter Hagen

Austrian non-life, as I mentioned in my presentation there is - the first reason is there is no further drop. Actually it's a slight increase to see in motor business. Motor has subdued performance in the last quarters and last years. This has now to a certain degree levelled out. That's the first.

Second, we see an improvement on the commercial side in terms of the amount of business and also in certain areas of the rate and we were quite successful, particularly the team of Peter Hoefinger was very successful in getting business there. We have substantially improved our cooperation with major broker houses as well which are now also giving us more business in Austria because we are their preferred partner in CEE due to our most extensive network there. Basically if you want so it's a nice kickback we have from being the number one in CEE. It's also fostering our business in Austria.

The third thing is quite satisfying development in the non-life personal line non-motor, so household, homeowners etc. We see a quite nice development also in let's say lines of business which are complimentary - general liability as legal protection insurance and things like that. It's not one single reason, it's a whole set of it.

The €10 million cost saving I was mentioning was referring only to the expected savings out of the announced merger of Omniasig with BCR life, so this is not the expected savings for Romania in total. It's the expected savings only because of this merger. Obviously not all of this will go down this year because the merger is initiated now, we need regulatory approval etc etc so we expect that if we are lucky we will have authorisation by the end of the year however I would not bet on it.

We did not launch at this point of time a group wide programme as we did during crisis, however what we are doing is we are basically working on a priority list downwards on where we believe where there is the highest leverage in immediate cost savings. One of this was Romania and another one as I have mentioned as well in the presentation is Poland where we have now started with the process of merging PZM and InterRisk and that will be an ongoing process. We have started this process already also last year. We have merged companies in Slovakia, we have merged companies in Croatia and that is an ongoing process now notwithstanding the fact that we continue to follow the multi-brand approach. However the brands have now to meet a higher let's say benchmark in order to survive as an individual brand particularly as concerns their profit contribution.

The competitive situation in the Czech Republic as I have mentioned particular issue on the motor side. We see - also due to the fact that motor is performing very well in the Czech Republic in terms of results - we see still pressure on rates. We had a few new incoming CEOs in some companies to show that they also can do good work in other companies and this is a certain issue currently. Overall what is supporting the growth in the Czech Republic as I have mentioned was for example also the improvement of economy again and with that also again possibilities in commercial insurance. Particularly pleasing because it's also a market which is, where it's not a problem to take away clients from any competitors more that you are the first at the client to ask. The whole non-life personal line non-motor part is performing quite well. Here the competition does not play such a role simply because this is such a still empty field.

Slovakia, the point is also there, particularly motor TPL. Competition is quite strong and we see a slight improvement in the situation in motor own damage insurance. Motor own damage insurance suffered very much in the last years due to the basically collapse of the leasing business where usually the motor own damage was tied to. This has now as economies are improving at least slowly and leasing business again to a certain degree catching up again, this is improving again.

In commercial line Slovakia, as I have mentioned, VIG has not yet the position we would want to have and there is a special taskforce in Peter Hoefinger's department on a holding level which is now together with the Slovakian colleagues developing a strategy in basically giving us a market position in commercial line in Slovakia as well as we enjoy it in Austria or in the Czech Republic. We think the time is right for the Slovak economy has come through crisis relatively well, certainly not as well and this is now the third market as Poland.

In Poland as I have mentioned a competitive situation has I would say improved because all companies clearly felt the need to do something on the motor side. I guess this feeling was well spread already before this year however before this year obviously the fact that PZU more or less state owned did not really help to get PZU moving also into this direction and if PZU does not move then it's a problem for the whole market. Now **PZU** and the classic I think is doing a good job in moving as well. Needs to move as well as we cannot expect so many profits, anymore channels up from the life operations into the non-life operations.

There we see – I would say I am tracking now more closely the Polish market for about ten years and this is probably now the best time I have ever seen in Poland in terms of non-life. Is that OK?

Enrico Mattioli

Thank you very much, very clear.

ACT Operator

Thank you. The next question is from the line of Christoph Schultes. Please go ahead.

Christoph Schultes – Erste Group

Yes. Good afternoon. This is Christoph Schultes from Erste Group. I would have also a question. When I look through the PBT split of your countries I see that the losses in the Netherlands have increased. I think this is from TBIH. Can you a little bit elaborate on that and probably give us an outlook what we can expect in the next quarters? Thank you.

Peter Hagen

Yes, that's very simple. It's more or less an accounting issue. When acquiring the holdings of TBIH we basically have acquired a holding TBIH had in the Netherlands and we have maintained this basically due to tax reasons. We have certain tax benefits there, losses carried forward we can use there and therefore we have left these operations in the Netherlands.

Now what is causing these losses in this schedule is that we are writing off in the Netherlands insurance portfolios we have acquired. We have deliberately chosen to assign parts of the goodwill of acquisitions as acquisitions of portfolios in order to be able to write them off on a regular basis. In fact we do this degressively following our conservative approach in this respect and not to carry this only as goodwill subject to impairment. That's the major reason why the Netherlands show a minus.

Christoph Schultes – Erste Group

And for the coming quarters, you think the losses will decline.

Peter Hagen

You will continue to see losses there because it's simply a regular write off of insurance portfolios that we have acquired. We just don't want to carry this as goodwill.

Christoph Schults – Erste Group

OK, thank you very much.

ACT Operator

Thank you. The next question is from the line of Ralph Hebgen. Please go ahead.

Ralph Hebgen – KBW

Yes, hi good afternoon. Ralph Hebgen from KBW. Just few items. First of all I noticed that profit growth was very substantial in some of your CEE countries, Poland and the Czech Republic. You already outlined what was the driver there but specifically on the loss ratio development which was also very strong, would you be able to give us some comments on how much of the improvement in the loss ratio specifically in Poland and Czech Republic was driven by the fact that there was a non-repeat of NatCat? That is question number one.

Second, you mentioned the strong Solvency I ratio. There is indeed a chart, I can't quite see how much that is. Would you be able to just tell us what the Solvency I ratio is precisely and also what the Solvency I ratio would be at the current date? Do you have any comments on Solvency II in that regard? And finally would you be able to share your thoughts on the Polish company WARTA with us? Thank you very much.

Peter Hagen

OK. Loss ratio development Poland, Czech Republic. Loss ratio improvement Czech Republic, I would say 90% due to the fact that there is no NatCat or no substantial natural catastrophe compared to last year. The balance 10% coming mainly from a shift in the portfolio structure as I have mentioned stronger growth on the non-motor personal lines etc. That's the Czech Republic, so mainly NatCat.

In Poland I can't give you – obviously also the absence of major natural catastrophe event did contribute to the improvement but there a substantial part of the improvement is also due to the rate increases I was mentioning before, so I can't give you a clear percentage how much it is but I would say it will be more – the longer the year will continue, the more it will be the contribution of the rate increases and the less it will be the absence of natural catastrophe, the impact of the improvement of the loss ratio. Currently I would probably say 50/50 if you would really want to have a figure.

Solvency I ratio is the – and I don't exactly know what you mean by currency because that's current, end of June 2011 is around 210%, 220%.

Ralph Hebgen – KBW

By current I meant today.

Peter Hagen

Well, no change to this. We don't make balance sheets everyday.

Ralph Hebgen – KBW

OK, so the drops in year and -

Peter Hagen

You can assume that you will not be far away from this 210%, 220% today either.

Ralph Hebgen – KBW

OK.

Peter Hagen

Yes. Solvency II, well I would love to comment something on Solvency II. If you tell me more about Solvency II, I will comment it, yes. In general I would say that fortunately there seems to be more and more insight and what certain issues would have meant also for the general economy if they had been implemented. Politicians are becoming more aware that this has an impact on general economy as well and it's not just an esoteric field of actuaries and auditory. That has helped, I would say.

Together also with also some major insurance groups obviously have changed minds and have basically found out that Solvency II in its original structure is not particularly helpful particularly in crisis situation. Overall I would say in terms of the financial and type of Solvency II other than the problem that we have to establish over systems and blah blah blah which we have to do anyway. But the financial aspect in terms of the equity requirements etc we are much, much less concerned than we had probably been a half year ago.

What we are still concerned, and particularly me is still concerned, is the amount of bureaucracy which is required by Solvency II which will add certainly to the costs and I am always surprised that people believe that these costs will be taken by I don't know, the management or the shareholder. I think that is something which we still have to work a lot to reduce this bureaucracy, the requirements in terms of reporting and producing of paper and producing paper to evidence any sort of even minor decisions etc etc. I think that's a process which still is going on. There are too many interested parties in producing that paper than not produce these papers. That's more concerning me currently, I guess.

And WARTA, what do you expect me to say to WARTA? WARTA is the number two in the Polish insurance market slightly before VIG and as much as I understood, KBC received the authorization of the European Union to sell its Polish operation including WARTA and we are now very keen to hear what they do with it. And if you ask me now if we are interested when we are asked, as we are polite Austrians, when we get a question we answer. Probably we will have a look at it but in the end WARTA is an interesting company but the attractiveness will be highly influenced by the price expectations.

Ralph Hebgen – KBW

OK, cool. Thank you very much.

ACT Operator

Thank you. The next question is from the line of Michael Haid. Please go ahead.

Michael Haid – MainFirst

Thank you very much. Michael Haid from MainFirst. Just one question regarding your life business. I noticed that your pre-tax profit in life in the second quarter was only €34 million. I understand that quarterly results in life insurance are always difficult to interpret especially also IFRS accounts. But when I look at the net realisations of capital gains in life the swing in investment income alone is too small to explain the swing in the pre-tax profit. Are there any other issues that explain the lower IFRS pre-tax profit in life?

Roland Groell

As you mentioned the main part out of lower profits is out of the investment income which was smaller than the first quarter. We do not expect that this will go on for the second half of the year. And the second reason why we show a lower profit in the second quarter is simply coming out from the calculation of the mathematic reserve and how we deal with the commission in our life business. That's the second reason and that will also flatten out till the end of this year.

Michael Haid – MainFirst

Sorry, I couldn't understand acoustically, the second reason.

Roland Groell

Our calculation of the mathematical reserve in life and how we deal with the commission, with our acquisition costs. As you know we do not show deferred acquisition costs - we do the zillmerisation method and that's the second reason why we show in the second quarter lower profit in life but this will also flatten out till the end of this year.

Michael Haid – MainFirst

OK, thank you very much.

ACT Operator

Thank you. Ladies and gentlemen, if there are any additional questions, please press *1 at this time. And as a reminder if you are using speaker equipment, please lift the handset before making your selection.

The next question is from the line of Maciej Wasilewicz. Please go ahead.

Maciej Wasilewicz – Morgan Stanley

Hi, Maciej Wasilewicz from Morgan Stanley. I have got a couple of questions. The first question is on your asset allocation. I have noticed within bonds there is a fairly high allocation to financials and also within the loans part of your asset allocation a part of that is also to financials. I am just wondering if you explain what sorts of financials do you have exposure to? Is it mainly Austrian financials? Are there also CEE financials in there or financials further afield? Second question is could you remind me what your asset and liability duration is? I know it's a simple question. And the last question is within the Polish market you have mentioned that there is better competitive conditions now. Just on a sort of like quarter-on-quarter basis, do you think we have seen a continuing rise of the prices in the Polish motor market in 2Q that we saw in the latter half of last year? Or would you say that we are still feeling the positive impacts from last year's price rises and this year rather the price increases have slowed down? Those are my three questions. Thanks.

Peter Hagen

Excuse me, we had a problem with your third question. I did not hear acoustically very well your third question. I just understood it was something about Polish motor rate.

Maciej Wasilewicz – Morgan Stanley

Yes, my apologies. It this better? Can you hear me now?

Peter Hagen

Yes, excellent.

Maciej Wasilewicz – Morgan Stanley

Just on the Polish motor market what I am wondering is we heard a lot of price increases in the last half of last year. I am just wondering whether or not the benefits we are seeing now in the Polish motor market is that largely due to those old price increases or have you seen a new impetus in terms of price increases in 1Q and 2Q this year in the market? Or is it basically a price increase is slowing down, is my question.

Peter Hagen

OK, I will start with this last question. The increases we see in the first two quarters obviously is influenced also by the initiating increase or by the first increases of rate last year. However actually the major increases in rates happened this year. In quarter one and two I think the last increases our companies did was in May this year, if I remember correctly, don't nail me down. We do this in steps and some companies start a little bit earlier and other ones a little bit later but we have continuous increases in double digits in rates in motor also this year. I am not sure exactly how other companies are doing as I can just talk in this case for our company. When it comes to asset liability and the asset allocation Mr. Groell will answer.

Roland Groell

If you look at our development of our fund portfolio the major change is simply the reduction of our financials. That's true for the first half year 2011 and that was also true last year. If we look into the details, our financials are mainly by far mainly European financials and broadly diversified. In Austria but of course also in Germany, in France and so on. There is no one significant investment in one large bank it's a broadly diversified portfolio - mainly among the top five financial institutions if you look at it country by country.

Maciej Wasilewicz – Morgan Stanley

I guess that would be sort of – I guess it would be a higher percentage in Austria than in other countries. Would that be correct or do you mean genuinely diversified very broadly across Europe?

Roland Groell

Across Europe and that means France, Germany, Austria also partly in The Netherlands in Great Britain and so on. And within these countries the main part is out of the top five players country by country.

Maciej Wasilewicz – Morgan Stanley

And is it mainly –

Roland Groell

Large banks in Germany, Austria, France, Netherlands, of course also partly Switzerland.

Maciej Wasilewicz – Morgan Stanley

And is it mainly subordinator or senior or both?

Roland Groell

Well, it is by far mainly senior.

Maciej Wasilewicz – Morgan Stanley

Yes, sorry, senior debt. OK, and the last question was just the asset liability duration.

Roland Groell

Yes, we have an average duration on our asset side about seven, eight years and then our liability side about 11 years at our durations currently.

Peter Hagen

Assets discounting real estate - so it very much depends how much, what kind of duration you give to real estate investment. Then you probably come up with a perfect match.

Maciej Wasilewicz – Morgan Stanley

Thank you very much.

ACT Operator

Thank you, the next question is a follow-up from the line of Ralph Hebgen. Please go ahead.

Ralph Hebgen – KBW

Yes, here I am again. Just one question on net realised gains. I saw that there were €58 million, I think it was in the first half year 2011. How much of that went through to pre-tax profits?

Peter Hagen

We would have been very disappointed if we didn't ask that question –

Ralph Hebgen – KBW

I know. I forgot that I have to ask this.

Peter Hagen

Yes, you have missed it.

Roland Groell

Same procedure as every quarter. First once again if we look at the definition what we think is extraordinary income and that's not only the income from the disposal. We also include the income from appreciations, impairments and the losses from the disposal. If you add all these extraordinary items together we have about €40 million plus and out of €40 million about €20 million as an impact on the bottom line.

Ralph Hebgen – KBW

€20 million, OK, lovely. Thank you very much.

ACT Operator

Thank you. Once again ladies and gentlemen, if you would like to ask a question, please press *1 at this time. One moment please.There are no further questions at this time.

Thomas Schmee

OK, thank you very much. Ladies and gentlemen we would like to thank you for participating in our conference call today. Our next scheduled event is the results release for the third quarter which will take place on 15 November. We would like to have you with us again. Thank you very much and have a good day.

ACT Operator

Ladies and gentlemen, this concludes the conference call. You may now disconnect and thank you for using ACT Conferencing.

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