



Conference Transcription

Questions & Answers

Conference title : **VIENNA INSURANCE GROUP (VIG)
Results for the first three quarters
2013
Conference Call**

Date of conference: Thursday, 28th November 2013

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CONFERENCE DETAILS

Conference Date: 28 November 2013

Conference Time: 15:00 Central European Time

Conference Duration: Approximately 80 minutes

Speaker: Martin Simhandl, CEO

Chairperson: Nina Higatzberger

Operator And our first question today comes from the line of Vinit Malhotra from Goldman Sachs, please go ahead.

Vinit Malhotra Yes, good afternoon it's Vinit from Goldman Sachs, hi. A few questions: if I look at the Austrian combined ratio, excluding Italy, in third quarter, discrete quarter, I still get a very high number, somewhere near 102%. I was wondering if you could clarify how to look at this number, was it a one-off here, because that's clearly not the level one would expect in Austria?

Second thing is staying with Austrian Life, I notice a very strong pick up and I understand that it's something to do with the real estate re-consolidation effects. Could you just clarify if there's any other reserving movement there that we should note? Lastly, on non-motor proportion in the CEE markets, I'm referring to slide nine; I see a very strong increase between 2012 and nine months. And I'm just wondering if this is part of this whole Romanian shift out of MTPL or is there something else going on? And just lastly, sorry, on the same slide: the 2% for Material costs has also suddenly decreased a lot. I was wondering if there was something else there or is that largely currency or other factors? Thank you.

Martin Simhandl Maybe before we start answering, could you repeat the last question, because I think that acoustically we have not got?

Vinit Malhotra Sorry. The same slide, nine, has P&C administrative cost ratios split into Personnel and Material, and in the material section I see a sharp move, a very sudden, sharp move in nine months versus the previous 2012, 10 and 11. The

number is 2%; 2012 was 2.6. I just wanted any comments on that. Thank you.

Martin Simhandl

Okay. We will try to answer your questions. The first block I would like to answer, second block will be done by Peter Höfinger, and the cost side maybe Roland Gröll. First, combined ratio development in Austria: we have to bear in mind, our Italian business is in a branch office. It is a branch office of Donau; Donau is located in Austria, so this is part of the Austrian segment. And this affects the combined ratio.

Vinit Malhotra

Sorry, if I can just follow up on that. In the discrete third quarter, I understand that Italy had a restructuring charge of 13 million, which would be around 3 points or so, or 4 points on the combined ratio for Austria. And that would be, that means that the 105.5 3Q number becomes 102. So was there anything else in Austria, any of you? Thank you.

Martin Simhandl

I think if we closer then we have to add two things. The one what you mentioned; and the second, maybe I have not expressed it clearly enough, that Donau has not only done additional reserving for past years, what we have reported last time. But also has increased the reserving level for Italian business, for current Italian business and, of course, this also burdens the year 2013.

Vinit Malhotra

So is it expected to now become normal in next year? So I'm just thinking from the point of view of forecasting the Austrian combined ratio.

Martin Simhandl

Well, we have to be aware that a big part of that reserving is IBNR. And IBNR, given the fact that this is a business where we only have a history of two, three years, it's extremely hard

to calculate. Of course, it should come down over time. When Donau feels comfortable enough to do, we will see. For us, we think it's more important that we have no negative surprises out of that and, of course, that has an impact on the current result, that's clear.

Vinit Malhotra

All right, thanks.

Martin Simhandl

The second question was concerning Austrian Life results and you spoke about real estate. I think I can do it a bit more in general. In Austrian Life we have some effects, positive effects, also coming from investment results and that includes – that includes gains out of the real estate project. Maybe we step on with your question concerning non-motor 2009, 2010, Peter, please be so kind.

Peter Höfing

Thank you. Clearly, we have a shift in our portfolio in CEE between the motor and the non-motor. So, since one and a half years we had the strategic initiatives what concerns SME business. So we are having in every country a clear designed strategy, we have designed new products, and also made a clear distribution channel approach, how to approach SME business in the respective countries. One has to say, if I say SME business, in a lot of our countries this is maybe more to be understood as micro business. This allows us also to leverage our distribution channels, which we have for motor, now also stronger for non-motor business and generate here more premiums, which is a very profitable business. For example, overall in the Group, for the first three quarters we have also achieved a growth well above 8% in this line of business, which is supporting this change of mix in our portfolio.

Secondly, we also are running a strategic initiative in corporate business. So what we call larger corporate business within the region, here we have a clear competitive advantage due to our network within whole Central Eastern Europe; here we are offering our corporate clients what we call a master programme. So this is an insurance coverage for all his entities within Central Eastern Europe, but then we are issuing policies locally, in local language, we are getting the premiums in local currency and we're making claims handling on local basis. Which gives our corporate clients, I think, the benefits of both worlds: having the risk management centralised but, on the other hand side, having also the service in each and every country in Central Eastern Europe. Also here we are generating a very nice growth, which is contributing to the shift.

What is clear, that there is also an effect with the reducing of motor TPL in our Italian book and also in our Romanian book. But, on the other hand side, it is very much intended since one and a half years to increase our share in the non-motor, non-life part and I think on this way we are quite successful.

Vinit Malhotra

Okay, thank you.

Roland Gröll

On the cost situation – Roland Gröll is speaking – according to the cost situation, we are quite happy with our development, especially if you look at administration costs. First, some general remarks: there are three main reasons why we are able to reduce our administration ratio year-by-year. First of all, it's simply the economy of scales; the second reason is that we have nearly permanently cost

optimisation programmes. That's true for this year, for example, in Czech Republic, in Romania, but also in Austria and in Poland, and we simply call this to do our homework and this project leads to a cost reduction.

The third issue and that you have mentioned in your question is especially, if you look at the Material costs, how it's possible to reduce them so significantly. First of all, if you look at our cost measures, there are some savings in sponsoring, marketing, there are impressive savings, for example, if you look at our telecommunications costs, where we have new contracts, which are significantly cheaper than the old ones. And the third reason is, we have discussed Italy and that we have there serious problems with the claims handling company we have worked together. That means in the mean time we build up our own claims management department, that means higher Personnel costs but less Material costs.

Vinit Malhotra

Okay, thank you.

Operator

And our next question comes from Mr Farquhar Murray of Autonomous, please go ahead.

Farquhar Murray

Good afternoon, gentlemen, three questions actually, if I may. Firstly, could you give some colour on the status of discussions around the ZZR in Austria, potentially in terms of time frame for introduction and any earnings implications, if any? Secondly, with regards to the 48 million of reserve strengthening and restructuring in Italy in the nine months, could you just clarify how much of that came through the claims ratio and the cost ratio, and ideally, how that compares to the charges over the first half? And then, finally,

on Skandia Poland, I mean, this has been kind of mentioned with regards to the some of the mis-selling allegations in Poland. Did you secure any indemnification against those issues, within the terms of the purchase? Thanks.

Martin Simhandl

Maybe the first and the last questions I will try to answer and the second question I will hand over. First, concerning a potential additional reserve in life insurance in Austria, I think that was the question, in Austria it's called Zinszusatzreserve. This is an ongoing discussion; it would be a recommendation by the supervisory authority. There were proposals, I think till now it's still not finished and there are different items which are unclear. The first is the level, meaning the amount necessary; the second is on what burden it is done; the third is how it develops over time; and last, but not least, also that is very important, how to deal with that under local GAPP and under IFRS. So, for the time being, it's open and especially the last question is important, because it could happen that it would affect the results but it could also happen that, under IFRS, there's no effect at all. Apart from that it's interesting that it seems that the authority, if it comes, wants to put it into force already for this year, so we will have to have, within a very short time, a close look because the year has not many days left.

Roland Gröll

If we look at our very specific measures in Italy, as you have mentioned, in the first half year we did additional measures with an amount of 35 million. Out of the 35 million, the main part was strengthening our claims reserves. At the end of the third quarter we did, in addition, some €13 million and the main part of this additional measures for restructuring our Italian business has not affected the claims but part of that

additional, let's call it cautious provisioning, is affecting the combined ratio.

Farquhar Murray Okay. But that went through the claims ratio presumably, through the cost ratio, sorry?

Roland Gröll Yes, but... Yes, not fully, but partially, yes.

Farquhar Murray Okay.

Martin Simhandl Third question I try to answer it that way, concerning Skandia – not disclosing what is not to be disclosed, I will answer it like that. Whenever we are negotiating a deal where we think we have some specific risks, we are always trying to deal with them within the contract in a way that makes us comfortable.

Farquhar Murray Okay, perfect. Thank you very much indeed.

Operator And our next question comes from the line of Daniel Bischof of Helvea, please go ahead.

Daniel Bischof Yes, good afternoon, two questions from my side. Firstly, could you provide some more details on the write-down on the investment fund in the health segment in Q3, in what asset class was it, why did these losses occur and do you have further unrealised losses from this investment quarter-to-date? And the second question is on the dividend: I mean, you have relatively broad dividend guidance of at least 30%. Could you give more details whether in a year, where the earnings volatility is as not as low as you envisaged, you at least intend to keep the dividend volatility as low as possible? Thanks.

Martin Simhandl

Concerning the investment result in health, this has been affected by the sale of investment funds, where the sales result was below book value because the level of impairment was not reached. Insofar, this is something that has been realised. Concerning dividend policy, maybe this will not be what is very satisfying you, but what we can tell for the time being is that we stick to our dividend policy. Our dividend policy is to pay out at minimum 30% of the Group net result.

Daniel Bischof

Okay, thanks.

Operator

And our next question comes from the line of Maciej Wasilewicz from Morgan Stanley, please go ahead.

Maciej Wasilewicz

Oh, hi, it's Maciej from Morgan Stanley. I've got a couple of questions, if I could, please. The first question is just on your capital: we've discussed it before, and your position on Solvency II and/or Economic Capital is that there's too much volatility in the potential rule set, such that if you revealed an economic capital figure it would be too volatile, quarter-on-quarter, in order to be useful to the investment community. If I understand it, we're getting very close to finalising that rule set now. If it is finalised, would you then...? Do you think that next year, if it was finalised this year, do you think from next year we might be able to see that figure, perhaps at least on an annual basis?

And the second question I had is somewhere in the slide pack, I think it was in the life section somewhere, you break down the the premiums that you sold with and without profits, and without profits policies rose quite dramatically year-on-

year. I just wanted to get an understanding of what are those policies, where are they being sold, what's their nature? I imagine they're still mostly in Austria. So is that a sign that you're able to sell non-traditional life policies in Austria a little bit more successfully than in the past? Those are my two questions.

Martin Simhandl

Well, let me answer your first question, concerning Solvency II. And again, I'm not sure it is very satisfying you. But if we look closer, what happens for the time being? Nobody till now published Solvency II standard formula figures, nobody. There are so-called economic capital figures published that are produced on a basis that is different from group to group. I'm even not sure if those economic capital figures are in line with models those groups want to be approved. Because more and more I get the feeling that groups who wanted to go for a complete internal model are stepping away from that. That's the first thing; the second thing is we have to be aware, given the fact that Solvency II rules are not in place, there is no internal model at all, that is approved now in Europe. How should it be done if the legal basis is not given?

So in fact what happened is that there are figures published that most probably are not comparable and maybe even change. What is completely clear that when the regulation is set, there will be an obligation for each and every group to publish Solvency II figures, and clearly we will do so. If this is next year, I'm not completely sure, but it will not last for a long time from now, this is also completely clear. Okay?

Maciej Wasilewicz

Yes, I guess, so some of your competitors now do publish at least economic solvency, I understand your position though.

Martin Simhandl During the roadshow for our bond I have tried to give a flavour of that. And what I can say is that our economic capital figure, if we would define it like that, is quite solid also in comparison to other groups. So we have to have no fear out of that. But in fact, we will publish it when it's fixed and then I think then we have comparable figures in the market and hopefully, that will help also to get more clarity.

Maciej Wasilewicz Okay, thank you.

Martin Simhandl The second question will be answered by Roland Gröll.

Roland Gröll You can imagine that of course the very low interest rate situation we have faced now has also some impacts on our product portfolio in the traditional life business. And I want to mention three major trends, which are the main reasons for this development. First of all, if you look at Austria and, you know, this tax supported pension life product in Austria. This is a traditional life product generally within VIG Austria but with no guaranteed interest rate. We have implemented and developed some new products, mainly in traditional life, but without a guaranteed interest rate. And the third reason is out of Czech Republic, where there was in the meantime, since two years, a conversion of traditional life products into unit-linked products, mainly out of exchanges earning in Czech Republic. And these three activities caused this reduction in traditional life, as you have seen it in our presentation.

Maciej Wasilewicz Thank you very much.

Operator And our next question comes from the line Michael Haid of Main First Bank, please go ahead.

Michael Haid

Thank you very much, good afternoon. Just two questions: first question, can you give us a little bit of information on how you see the current competitive position in Poland? Is it further deteriorating or is it even improving? And also the same for Austrian motor insurance, I would be very interested. And second question, regarding the combined ratio, Austria: I understand it includes the branch offices of Donau. But can you say how much the combined ratio of Austria is if you exclude the Italian business completely?

Martin Simhandl

Maybe I answer the last question first. Very shortly, it would be significantly below 100... The first two questions will be answered by Peter Höfinger.

Peter Höfinger

If we come on to the competitive landscape in Poland, if we look on the motor market, it's very competitive again. We see this specifically in the fleet business where, according to our perception again, there are prices offered in the market where we believe it's difficult to generate here profitable premiums in fleet business. This is also the reason why we are not making new business here. You also see it in the premium development in Poland, we had a negative premium development in the motor business as we are clearly standing out for an underwriting discipline. And are not willing to deteriorate our portfolio in joining into this competitive environment in fleet business.

It's a bit different in property corporate business. Here, traditionally one has to say that Poland always had a very low level of tariffs in property business on the last two or three years, on the one hand side, due to the floods two years ago. On the other hand side, there were also some large claims

two years ago. There was a hardening of the market; this hardening stayed until first/second quarter this year. Since then we see a flat development, a bit becoming more soft again. But here it is also possible not just to be successful over the premium level which you're offering but also in the way how you're structuring your coverages and the service you are providing. So the picture in property business is different than it is in motor business.

When we come to Austria... Austria, there is a competition in the motor market but the motor market is quite stable from the side of pricing, and therefore also we are having quite satisfying development in motor business in Austria, as such.

Michael Haid Maybe a clarification. You mentioned combined ratio in Austria excluding Italy, below 100%. I think that is expected; is it below 95%?

Martin Simhandl I have not got the figure now but I have to elaborate on it.

Michael Haid Okay, great, thank you very much.

Peter Höfinger Pleasure.

Operator And our next question comes from the line of Avinash Singh, from Nomura, please go ahead.

Avinash Singh Hi, good afternoon. A few questions, all around Romania. The first one on Romania that your cost ratio for the nine months is up around 11% year-on-year, as you have mentioned that premiums decreased sharply but the cost base will take time. So my question will be that after the

measures you have taken, what kind of cost ratio do you expect for the full year 2014? That was my first question. And the second question is more from a strategic view that now, even the Romania life operations have started to generate negative results and Romanian non-life continues to remain tough. And the measures you have been taking for the last two years have not yielded the result as expected. I mean, should you not be evaluating exiting the Romania market, as, if I see all at the Group level, Romania just contributes somewhere close to 4% of your Group premiums? And the third one, a small one: if you can just provide some figures for the current goodwill amount in your Romanian operations? Thank you.

Martin Simhandl

Maybe I start with the second question. Romanian development, you're completely right insofar that life has turned negative. I have said that we have implemented new CFOs and we have asked them to look very close to their balance sheets and there, of course, are some effects. And I even would not exclude, and this is for the time being, this is not finished, that we will see additional effects in the fourth quarter. But that does not mean, if I come to life, that we expect that this is a negative ongoing business; the other way round, of course, clearly we would expect next year in life to be again significantly positive.

Concerning non-life, again, here, what we want to do, we want to lay a solid basis on our balance sheet side to base on that, to elaborate positively, even under these extremely challenging market conditions, to be positive. And you have seen, if you look close, that the motor share in our Romanian business has decreased substantially; MTPL in the meantime

is less than 30% of our motor business. So insofar I think this, of course, it's a lot of work to do; of course has quite a negative impact but again, we think this is an important market where we can work on.

Roland Gröll

If you look at the cost situation in Romania and especially the cost situation in the non-life business, there are two important developments. First of all, if you look at our administration costs, they're quite on a low level. What we have seen this year is simply a sharp reduction of our motor portfolio once again in Romania. But in addition, an increase in our non-motor portfolio. That means, if you look at the commissions, that the commissions in the non-motor portfolio are simply higher because this is profitable business and that's the reason, that's one of the reasons that the cost ratios went up in Romania.

And the second reason is a rather technical one. Last year it was significantly better out of the reason that we show currency effects out of the claims reserve in the other income, which is part of our cost ratio. And this positive effect we have seen last year we do not see this year. And that are the two main drivers that we see this differences in the cost ratio in Romania.

Martin Simhandl

Your third question, concerning goodwill: our non-life segment in Romania has a goodwill I think of roughly 150 million, after the impairment of 75 million we have done middle of the year.

Avinash Singh

Thank you.

Operator Our next question comes from the line of Ralph Hebgen, of KBW, please go ahead.

Ralph Hebgen Yes, hello, it's Ralph Hebgen from KBW. Just a few things on the specific items which you had in Italy and Romania. Now, I hear what you were saying, 35 million in second quarter, the majority of that was reserve increases, 13 million in the third quarter, the majority of that was restructuring costs. So if I just basically say well, let's say there was 25 million or so, it doesn't matter what number it was; it's just orders of magnitude I'm interested in. Let's say 25 million reserve increase in the second quarter, let's say a single digit, let's say 5 million in the third quarter. So here is now finally the question: this sort of sequencing, is it reasonable to expect or to assume that you reserved a lot less in the third quarter, trying to solve the Italian issue, than you did in the second quarter? This is the first question.

And the second question is do you have any clarity or any visibility of how much you might have to inject into reserves in the Italian motor insurance book in future? Third, and apologies, perhaps you mentioned that earlier on, I was late on the conference call. What remedial action have you taken to stem the issue in Italy and improve it? And then, moving on to Romania, specifically there, is the issue now spreading to your life business and what is the order of magnitude of the charge we might be expecting in the fourth quarter? Thank you very much indeed.

Martin Simhandl Well, let's try to answer. First, reserving. When we were talking about reserve strengthening first half year, and I said that already today, this means IBNRs for the past. Second,

what I also said already in this call is that Donau, in this year, in general has increased its reserving level. Of course that additionally burdens the result; this is not something what we have shown under extraordinary. This is so to say the ordinary course of the business, but it's burdening. And the third question, when it comes to the future, given what I have said now, hopefully and this we strongly believe, out from the past there should be no negative effects. But again here we are talking about IBNRs. That means in motor, this is something that you will see in the end of maybe three, four, five years, what comes out clearly. There is no history for that business; this is something what I always have to add.

Concerning what we have done in Italy, you are completely true. I have mentioned that, I just rapidly want to repeat it, it's also some of that is in our presentation. Apart from the things we have done and that have burdened our result, we have done a lot on the organisational side. We have heavily increased all the things for internal claims handling in Italy; we have changed the responsible branch manager in Italy. And – and this is something that is on the way – we have changed and we will change the portfolio. And that means we shrunked it down in general, and by shrinking what we in principle want to shrink is MTPL. In the same time, from a low basis, we have increased the non-motor part, so we want to have a better relation between motor and non-motor in Italy and regionally we want what we originally planned, to refocus to the north. That's in principles what's to say about the measures taken and the measures ongoing in Italy.

Romania was your last question. The life insurance company, again here I want to repeat... What we have seen this year is

there is a product, which is an employee benefit plan. It's sold in the whole market, it's not only us who sold that. It's something that has so to say a tax advantage or an advantage for social security contribution. This somehow was questioned and, as you know, there were some investigation, not against us, but against some customers of us. And what we have done, we have stopped that business. We have completely stopped that business. That has effects on the top line, on the bottom line and, of course, it also has some effects out of uncollected premiums and things like that. And apart from that, as we have implemented a new CFO, we have asked her to have a very close look to each and every item in the balance sheet of that company because we want to be on a very solid side. And what I said is this is an ongoing process; what I do not know now is what comes out... If there comes something out, it will be seen in the fourth quarter. And this, of course, could affect the fourth quarter. Based on that, again, the next year in life should be a positive one.

Ralph Hebgen

Okay, thank you very much. Just one quick follow up. I think I understood that right, I hope. You were saying, relating to the motor insurance book in Italy, IBNR reserve strengthening might be ongoing. Did I interpret that correctly?

Martin Simhandl

I want to explain it like that. If you look at the end of the second quarter, you have a portfolio of 2012-2011, yes? And for that you had a reserve strengthening. That means you had a sort of an ultimate loss that you expect. And what you do is, for the current business – and that's what Donau is –

they are reserving to an ultimate loss that is significantly higher than what was done, for example, in 2012. So, of course, this again is mainly IBNR but it's current business.

Ralph Hebgen

Okay. I think you're saying you just haven't got the claims history statistically to reserve with confidence this very young book of business?

Martin Simhandl

This is completely true. Ralph, you are completely right.

Ralph Hebgen

Okay, thank you very much indeed.

Operator

And our next question comes from the line of Michael Van Wegen, from BoA, please go ahead.

Michael Van Wegen

Yes, hi there, Mike Van Wegen, Bank of America Merrill Lynch. I'm afraid I have to go back to Romania again, two things that I try to understand. You pointed out that essentially because your premiums have come down a lot, your cost ratio goes up, fine, I understand that. Also, if I look at the various measures that you point in the slide, 19 million for the nine months for Romania, I think it was 15 at H1 level, so that suggests 4 million. Can you explain to me why the claims ratio in Q3 went up this much? To what extent is that driven by essentially a write-down of receivables versus reserve strengthening? And if it's again reserve strengthening, how is that possible? What is the driver behind that? Because the issue in Romania is known for quite some time now, so I understand that price competition is affecting your appetite for new business. But just wondering what the ongoing issue remains with the back book. Thank you.

Martin Simhandl

Well, of course, in Romania, and even if after some time, again and again you have to discover things. And when it comes to claims, one of the parts that you have to discover, for example, are foreign claims, and these are often very much delayed. So, of course, you have effects on the claims ratio, also. Even if you try to do it proper as much as you could, you could have it out of that. On the other hand, as I told, if you are doing provisions for recourses, yes, this goes to the claims ratio. And again here, we are in an environment where the probability to get money back out of recourses, in our view, significantly has decreased. And then you have to reflect that in your balance sheet. So there are various things that impact the claims ratio. What we simply want to do, on the one hand, we have refocused the business that we have a bigger part of non-motor. You cannot step out completely of motor, because to a certain extent otherwise the rest of your business would be lost.

The second thing is, that we want, as good as possible, to be on a solid side in our balance sheet. And in Romania, given the economic development, from time to time, you could discover that you have additional needs. And if you have, then you should reflect that in your result. That burdens you of course. It's not something that is nice, to show such a negative result. But in our opinion it's necessary.

Michael Van Wegen

And in terms of the write-down of receivables, if there were any in Q3, can you quantify that please?

Martin Simhandl

Premium receivables was the bigger part that was done in the first half year; provisions for recourses, for example, as a reserve strengthening, that's more to the third quarter.

Michael Van Wegen

Okay, thank you.

Operator

And our next question comes from the line of Stolarski Kamil, from Espirito Santo, please go ahead.

Kamil Stolarski

Good afternoon. I have basically two questions. First of all, I'm a bit confused with the comment that you have given in the outlook, in the Investor Relations news note that you sent in the morning. You are saying there about volatilities in this year and I wonder, should I understand it that way, that at this moment you already expect some volatilities in earnings in the fourth quarter? That would be my first question.

Second is about profitability in Poland. Do you think it's, that the current profitability is sustainable? And maybe the last question, also. I'm still a bit confused with the total cost, non-recurring cost taken during the third quarter for Italy. Could you maybe quantify this ordinary business additional IBNRs on top on 13 million that you have taken during the third quarter for Italy?

Martin Simhandl

First, concerning your question about volatility. Again, here, in the meantime we have to take into account a lot of regulations. When it comes to outlook, we clearly have to state that we have no outlook for this year. The only thing that we have said last year is that we want to hold the volatilities low. Already in the first half year, you have seen that this has not worked out; also, in the third quarter, the volatility was higher than maybe could have been expected last year. And in such a situation, in our opinion, it was necessary to comment on that. To comment on that in a press release and to comment on it also in the outlook. This is simply also reflecting the regulations we are in.

Kamil Stolarski

Okay, so, excuse me, so at the moment you do not expect any volatilities for now?

Martin Simhandl

Look, I have elaborated a bit also on the fourth quarter. I've elaborated on some items that, for the time being, I cannot clearly calculate when it comes to Romania, especially Romania life, things like that. If I would be in a position to clearly predict the fourth quarter, maybe I would give a statement. For the time being simply I'm not able.

Concerning Poland, I want to hand over to Peter Höfing. I first want to mention – and as you are from Poland, I have to mention it in a very supportive, positive way – that this for us is a very important market. It has been, over years, a very challenging market but we now see that being very strict works out very well. And Peter is giving you the answer.

Peter Höfing

And if you look to Poland, and if you look on our history in Poland, as mentioned, you know that in the last years we did a lot on the back office side, finding the synergies between our numbers of companies which we have there. We are now realising the economies of scale together with the synergies from the cost base; I think this is one important topic and this is sustainable. Secondly, we do have a disciplined underwriting in motor, so we believe that with this strategy, we will have this level of profitability in the motor business which we are seeing currently. And we are growing double digit in non-motor, non-life business, which has a quite decent profitability. We have invested here in the last years in know-how, in people, in serving our clients, our property clients, corporate and SME clients. We have fostered our relations with the brokers. So we also do not have any

reason for believing that this dynamic of growth, which we have in the non-life non-motor, should not continue as we see it now, from the last two years. Therefore, profitability in Poland, in our opinion, is sustainable.

Martin Simhandl

Concerning your question about Italy, hopefully I'm able to elaborate in a way that it's more clear. What we have done in the first half-year, what we have said, is that we have strengthened IBNRs. If you have business out of 2011-12, where you have the feeling that the IBNRs would not be enough, then you have to do additional reserving. And this is what Donau is doing. Then out of that development and out of that experience, the level of reserving for the current business is increased. And, of course, as it's MTPL, a big part of that always is IBNR because MTPL is a long-tail business. So what we wanted to express is that there are burdens from the past, for what we have increased, and this is something where you only can do estimations. And we think this is something which we should have done and we have done so. And the second is that out of that, also for the current business, you should be on a level that you feel comfortable with.

Kamil Stolarski

Thank you.

Operator

And our next question is a follow up question from Mr Michael Haid from Main First Bank, please go ahead.

Michael Haid

Thank you very much again. I'm sorry, I apologise for coming back on Romania but I think there's still something not clear to me. I think about a year ago you mentioned that you want to approach the regulator in Romania to step into the dramatic situation in motor reserving. You also mentioned

kind of a rescue fund, for which VIG would hang in, if the situation got worse. Can you say where you stand on these two things today, how you see them today?

Martin Simhandl

Well, I think, and again this is something I think I already mentioned some time in a conference call. In that year, together with other big, western-based groups, we wrote a letter to the Supervisor that pointed out that we think there are market participants doing business on a non-sustainable basis. This is the one thing, this is so to say to give a clear signal to the Supervisor. I have to admit there was one action, there was one of the three local companies that lost but only I think for one month, the licence for MTPL, but it has got it back again.

The second thing is a general item. In principle, in Romania, if there would be an insurer unable to pay its debt, meaning its claims or whatever, meaning there would be a bankruptcy, then automatically all the other insurers out of the so-called guarantee funds, would have to contribute. A guarantee fund is so to say an amount of money that is still allocated by a percentage of the premium of the Romanian insurance business. It has a certain size, and as far as I remember it is administrated by the supervisory authority, but I'm not sure about that now. And if an insurer is unable to pay the claims in MTPL then it has to be done out of that guarantee fund. If that guarantee fund becomes empty then it would be completely clear that there would be an extra contribution that would be asked from the insurers. And that is also a reason why we have a high interest as other western-based insurance groups, that in general insurance business in Romania is done on a sustainable basis.

Michael Haid Do you know to what extent this fund is funded at the moment?

Martin Simhandl I think you have to ask the authority that is administrating the fund, maybe they give you an answer.

Michael Haid Okay, thank you very much.

Operator And our next question comes from the line Bernd Maurer, from RCB, please go ahead.

Bernd Maurer Hello, good afternoon. A lot of questions were already answered on Romania and Italy. I want to come back to the Austrian business. Adjusting Austria for Italian premiums, so seeing the full Austrian business, can you please comment on premium trends in the life and in the non-life business, especially is life still recovering as we saw it with UNIQA, for example, that life premiums were rising? Can you say something on the overall Austrian market development, please?

Martin Simhandl In principle, our Austrian development is quite sound. In the life business we have shown a growth. I think it's also in our presentation, I have a look... Austria is on page 15. And you see in the premium development in Austria a plus of 0.4 in our Group, the P&C is roughly stable, life is...

Bernd Maurer Are these pure Austrian figures?

Martin Simhandl No, this is not pure Austrian figures, and you have to take into account – and this is something what you also can see in the presentation – that the premium in Italy has decreased in comparison to last year by roughly 50 million in non-life.

Bernd Maurer Okay. All right, thank you.

Martin Simhandl So, if you correct that, then you see a positive development both in life and non-life in Austria.

Bernd Maurer Thank you.

Operator And we have a follow up question from the line of Avinash Singh, from Nomura, please go ahead.

Avinash Singh Yes, hi. I have one small question. If I look at your P&C segment, if I adjust your profit before tax number for 143 million of one-off in Romania and Italy, still for the nine months 2013 the profit before tax is around 195 million. That is kind of 45 million lower than 240 million figure in the nine months of 2012. Can you please explain what the reason behind this 45 million? Is it kind of pricing effect, or some sort of reduced reserve releases? If you can elaborate this 45 million reduction in profit before tax in the P&C? Thank you.

Martin Simhandl Again, here I come back to what I have already said: a significant part of that simply comes out from the current business in Italy. What we are showing extra is the past.

Avinash Singh Okay, thank you.

Operator We have another question; it's a follow up question from the line of Farquhar Murray, from Autonomous, please go ahead.

Farquhar Murray Gentlemen, just one final follow up actually. I mean, if I try and square the comment you've made there about Austria and the Italian branch being significantly below 100, and I try and square that against the kind of combined ratio for Austria of 103.2 for the nine months. I'm kind of ending up towards

the idea that the Italian branch has a combined ratio ultimately of something in the region of 200% or possibly more. Is that about ballpark right?

Martin Simhandl I'm not aware of how you have calculated but it seems to me significantly too high, that number.

Farquhar Murray Okay, thanks.

Operator So now it looks like there are no follow up questions, so go ahead, ladies and gentlemen, and please continue with any other points you wish to raise.

Nina Higatzberger Thank you Operator, and thank you, ladies and gentlemen, for listening in. We hope to have you with us again on 29th January 2014, for the release of preliminary unconsolidated premiums then. Goodbye.

Martin Simhandl Goodbye.

Roland Gröll Goodbye.

Peter Höfinger Goodbye.