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Questions & Answers

VIENNA INSURANCE GROUP (VIG) Results and Embedded Value for the year 2013 Conference Call

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Speakers:	**Peter Hagen, CEO** **Martin Simhandl, CFO**
Chairperson:	**Nina Higatzberger**

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Operator: And the first question is from Daniel Bischof of Helvea. Please go ahead.

Daniel Bischof: Yes, good morning … good afternoon sorry. Three questions from my side. Firstly on life insurance in Austria, their volumes were down by 11 per cent in Q4. Was this in anticipation of the changes in terms of tax exemption that was lower from 15 to 10 years, or where there any other reasons for this weak Q4 development? Then secondly on Romania, you expect a return to profitability in 2014. We are in mid-April now, could you give us a sense whether the business in Romania so far developed more or less in line with expectations or what the experience was until now. Then the last one just quickly on non-life in Czech Republic, could you tell us how the claims ratio developed year-over-year on an underlying basis so excluding the large weather related claims. Thank you.

Peter Hagen: Peter Hagen speaking. I will start with the last question, non-life Czech Republic – my favourite one. Claims ratios in Czech Republic have overall slightly increased mainly due to the fact that motor rates were going down from a very, very good level. We are going down consistently since actually 2011 and the improved claims ratio in other non-motor P&C business could not offset this deterioration in motor completely. However, having said this, I am very pleased to say that since beginning this year we see a substantial increase again after three years of continuously reduction of average premiums. Average premiums going up again by roughly – in our portfolio – by roughly 10 per cent, this is now materialising over the next months. Basically, the whole market has – and I have to say this, the whole market has –

taken action and has increased between 5 and I would say 15 per cent. In our company we are in the range of between 10 and 15 per cent, so I think the one reason why claims ratios were slightly deteriorating when discounting natural catastrophe has been tackled and we hope that that will have a very positive impact in the next quarters. Having said this please, be aware of the fact that out of converted Euro we will suffer compared to 2013 from the substantial reduction in exchange or reducing of the value of the Czech Crown in Euro terms in fourth quarter 2013.

So, overall good expectation and if you look at Czech Republic's combined ratio including the weather related claims then we are, again, in our companies oscillating around the 90. Again when discounting for the national catastrophes; so this is Czech Republic.

Romania: Romania, in terms of what we did in 2013 as much as we could we definitely took away any potential burden of the past for year 2014 onwards. As has been mentioned, we have completely changed our assumptions about payment patterns, we have adjusted premium receivables because of that, we have adjusted recourse expectations because of that, we have written down deferred acquisition costs because of that; so we do believe overall that should make sure that result 2014 are really reflecting 2014 business and not '13 and earlier. Having said this, when I look at the three companies I can say that we are on a very good track with Omniasig. This is also because they started early to further diversify the portfolio. They went out of motor even more than did Asirom, so Omniasig I expect to do very well.

On the Life side we will need another couple of months in order to re-organise the company. Martin has not mentioned that the new CEO is actually recruited from or was a major senior manager from BCR Bank, so therefore we are now in even better shape in co-operating with the bank or with the bank's counter. This will be shown in the next months to come, maybe not completely first quarter, but we are definitely sure that BCR Life will turn profitable again in 2014. Actually, for me, the most difficult company in really making a turnaround will be Asirom. Here we still have a way to go. I have to say we are now running a very, very intensive programme. We have actually appointed, if you want, some sort of a special administrator, which is with the long-term general manager of our Slovakian company who is over-seeing the implementation of all the measures in Asirom, but I'm quite sure that in Asirom we will probably need a little bit longer than for Omniasig. Overall, for 2014 I expect Life as well as non-Life to be positive. We have presented for various reasons in detail our plans for '14 and onwards also to our auditor, you know also to make sure we have good assumptions for our impairment tests and particular the Romanian auditor and they all confirmed that we have all reason to believe that that will work out that way. When it comes to Life in Austria, Martin will respond.

Martin Simhandl: The development in Life in Austria in the last quarter is driven by the single premium business. I would not estimate that this is something that comes from an expected change in the regulation for single premium. It simply comes from the natural fluctuation from the single premium business over quarters. This is a business that is not continuous the same in each and every quarter.

Peter Hagen: Having said this, may I add that we can see on the first weeks of the new tax legislation being enforced that we see, I would say, a positive effect. I am not yet prepared to say that this is a trend, but our general managers of our Austrian companies are quite confident that this improvement will show also in the overall figures in the months to come.

Daniel Bischof: Thank you very much.

Operator: The next question is from the line of Michael Huttner from J.P. Morgan. Please go ahead.

Michael Huttner: Thank you very much. Just three questions, on Solvency II can you give an indication where you are and how you see it. On Italy, I notice the old management is gone. I was not sure if the new management has arrived yet and normally for the turnaround to kind of start, the new management has to feel they own it and I am not sure if they have not arrived yet how much one can expect a recovery already in 2014. Then the final point, in terms of your 96 combined ratio, I calculated excluding one-offs 2013 the combined ratio was 98 per cent. I just wondered if you can give a feel for how you see us getting to the 96 per cent in terms of either with countries or with processes or any indication would be great. Thank you very much.

Peter Hagen: Okay, let me start this again with the last one – Peter Hagen speaking. We were very conservative in saying what are one-offs. To give you an example we have not included in this one-off the very conservative attitude as concerns the reserving of the Italian business for 2013. Given the fact that we had to make reserve strengthenings for the years '11 and '12 although we have already set a whole set of measures in 2013, we are reserving the underwriting year 2013 to a level of 105 per cent, which we are quite confident that this is more than sufficient. However, we wanted to do this attitude and I did not include this kind of, let us say, very excess reserving as a one-off so that has an impact on the combined ratio. Also when it comes to Romania, we also did not include in the one-offs a whole set of issues, which are/were affecting the year 2013, which we do not expect to repeat itself in 2014. However, which we consider to part of the bad but normal business, so this is subject to the normal improvement. Again, we did not include this into one-off section.

Thirdly, just what I mentioned about the Czech Republic. Czech Republic did suffer from natural catastrophes which brought the combined ratio in the area of 93. If you are discounting for that and also considering that we do believe that this change in motor rates will have an effect on total results end of the year that brings you very close to the 96. Then we will have to work on the admin expenses again and again and again. So that should give you any idea of about where it comes from.

Michael Huttner: Yes, thank you.

Peter Hagen: Is that okay?

Michael Huttner: Thank you very much.

Peter Hagen: Coming to Italy and the Donau issue. I can promise everybody is now taking Italy as his/her personal responsibility but on top of this one of the new board members of Donau, Mr Riener, an Austrian who worked for us in Croatia and did basically make sure that we turned around the operations in Croatia, is now a board member of Donau and has the special task to basically in an organised way reduce our exposure over already '13 and particularly '14 and obviously also improve the results. Actually the strategy in Italy is very, very clear – back to where we were. So, simply reducing the motor business as fast as we can, this is not so easy and we have to use a whole set of measures in Italy in order to achieve this goal including the reduction mainly of our producers. You have seen in the slide, we have already since the middle of 2013 reduced the number of agencies working for us by 45 per cent and this is an ongoing process.

Mr Riener was, the day before yesterday, in Italy and was calling me that he has basically achieved to close down another eight agencies, so this is an on-going process. So, you can be assured there is a person assigned and also the new management of Donau are obviously appointed. Mr Riener and Mr Lahner is the long-term CFO of our Czech operations so I think although so young a very experienced person. So we have full trust that they address the issue and I can tell you we like them address the issue. So having said this, Italy will still be a burden also in 2014 mainly due to the fact that we will not go away from this conservative reserving approach. However, obviously on a much, much lower basis so the total impact of this will be much lower than in 2013 and on top of this we do not expect in 2013 to have again to provide for former periods.

Michael Huttner: Excellent. That's very good, thank you.

Peter Hagen: Solvency II, maybe Martin wants to continue.

Martin Simhandl: Solvency II; two things to answer, the first preparation itself. We expect Solvency II to be in place with 2016. There are interim measures starting from the mid of this year. There is a law in Austria in preparation or nearly finished that will implement that phasing in. It concerns especially the government side. It concerns the risk and solvency assessment and it concerns some parts of the reporting and we are preparing and prepared for that, that is the one thing. The second is the calculation itself. We have done that several times also in the last year. We have done that based on the standard formula as well as on the partial internal models we are going for. We are going for partial internal models for non-Life and for real estate and what I can tell you for the last years is that what we have got out are sound ratios, so we see no negative impacts here. For 2013 we have not finished a calculation till now it is underway but I do not expect any deterioration here.

Michael Huttner: And would there be any impact from what Allianz mentioned, you know the possibility that there might be a capital decline to back government bonds?

Martin Simhandl: I think this comes from the fact that Allianz is using a complete internal model. I would not expect that that counts for those groups that do not apply for a total internal model.

Michael Huttner: Excellent, thank you.

Operator: Next question is from the line of Avinash Singh of Nomura. Please go ahead.

Avinash Singh: Hi, good afternoon. Just two questions, the first one is that you have some kind of a target of below 96 per cent combined. Why do not you have some target as a pre-tax earnings or a net income especially in a scenario where you are saying that okay the past is kind of cleaned up in Romania and Italy. So, if not for the quarter or the medium-term what your return target into the pre-tax earnings or return on equity. Second question, on your increased dividend despite of your poor net income backed by your strong cap pledges, is it some kind of sign that you are now focusing on more of a kind of organic growth and not really actively looking for inorganic growth opportunities? Thank you.

Peter Hagen: Peter Hagen, again it starts to become a tradition starting with the last question, organic growth or not. In some countries we simply have no alternative to organic growth because in markets where we have 33 plus market share probably acquisitions will become a little bit more difficult. Having said this, our appetite for acquisitions has not stopped. We are continuously looking into possibilities in Poland; as always the consolidation process in Poland is continuing, as you know and we will be a very active participant in this. We will also streamline our organisation a little bit in Poland. Actually we will merge our two companies in Benefia Life and Compensa Life in order to make the whole thing a little more manageable, particular also in preparing for potential future acquisitions.

There is also other areas where we are always looking into possibilities to acquire. Hungary is a good example; you know we have now acquired AXA business in Hungary. Basically you have to always wait for exits of other foreign investors but maybe there will be some again. So we will certainly look for that. Other areas; even the Ukraine, obviously currently despite all the political discussion, the underlying issues in the Ukraine I do believe are still worth to have a look into it. Given the prices and the potential in the Ukraine currently I think it would be imprudent not to have a look in this. And also the Baltic States, for example, offer fantastic opportunities. We are growing now on the Life side in high double digits, top and bottom line and we do believe that with the economic improvement in many of these Baltic States they are being very impressive. This is a good time for also going more substantial into non-Life and this can be organically or can be via acquisition.

So, I cannot confirm that we will only want to grow organically. We will need to grow organically in some of the markets because of anti-trust but otherwise we are continuing to look into acquisition opportunities if we believe that it is an opportunity. So, for example, the sale of Croatia in Croatia we did believe to be an opportunity and therefore we did not participate in the tender. So, is that an answer to your question?

Avinash Singh: Yes, thank you and the other …

Peter Hagen: And when it comes to the combined ratio or the other targets. Maybe I can help you a little bit, that the overall mid-term goal in terms of profitability is that we are achieving something around at least one per cent or a hundred basis points in excess of our weighted costs of capital. Not sure whether this is helping you too much, but that is what is our goal.

Avinash Singh: Yes, okay fine. Thank you.

Operator: The next question is from the line of Kamil Stolarsky of Espirito Santo. Please go ahead.

Kamil Stolanski: Good afternoon. I have some follow-up questions on Romania. In my opinion the performance of your business in Romania is dependent mostly on market environment rather than on the clearing of historical accounting. So I would have two types of question in this area; first of all, what steps do you expect to be taken by the Regulator. In my opinion, the Regulator in Romania has … the chairman of the Regulator in Romania has been changed quite often historically and why do you expect that this time the change will have not to your impact on the business. Second of all, I believe that when it comes to your business in Romania still more than 60 per cent of your business there is car business and to what dynamics of prices of car insurance do you expect for Romania for this year? Thank you.

Peter Hagen: So I am breaking the tradition. First question first, regulator: I fully agree with you. Regulators have changed regularly, but there were also Regulators where we did make profits. So I just want to repeat that in the period until 2008 we earned roughly a little bit more than a hundred million Euros in Romania and there was a Regulator as well. However, having said this, I certainly agree with you that in the recent and particularly in the economic crisis environment I could have imagined a better performance of some of the Regulators. Obviously also some people share now my opinion as the last Regulator is now in prison, but I agree also that the crucial point is the market environment. In general the macroeconomic environment there, we can see that there is an improvement going on. Last year the Romanian economy was growing by more than 3 per cent.

On the other hand side I think one of the most crucial steps that have been taken in the recent weeks was the putting of Astra into some sort of forced administration and only yesterday the current administrator, which happens to be KPMG announced that they will need this year a capital increase in Astra of 110 million Euros, which gives an indication about how much they are under-reserved etc, etc. They will need an immediate cash inflow of 60 million. They have called an extraordinary shareholder meeting for the 12th May so we will see what will be the impact of that, but all of this is obviously going into the right direction. Obviously, my preference would be that somebody would take over Astra rather than that this is put into bankruptcy because that is never good for market overall.

The first positive impact, I would say, that we can see is that we get already questions particularly from, let us say, more professional brokers whether we are prepared to accept business that they have currently placed with Astra. Obviously, we have still discussions about the price increases because they need to be substantial in order for us to do that. On the motor side, as well, we see first improvements on the motor side but you should not forget that most of the motor business for a year is renewed, Motor TPL, at the end of the previous year as of 1/1 and so therefore the impact of this we will only see in the next months to come. The next major renewal date will be the middle of the year, but then again it takes another half a year and therefore we will continue with our policy that if the rates are not in line with what we believe we will not write that business. So, we could definitely see in our case, in motor business continues reduction in 2014 due to the fact that a lot of the rates that have an impact on the 2014 results were still set in 2013 before all the actions of Astra.

But the overall tendency, I believe and this is backing our optimism, the overall tendency is correct. Can we be disappointed by a new Regulator? Yes, we can but I think it will be very difficult to argue now to take – after everything has been put on the table as concerns Astra – that all this is not true. So, therefore this if for me quite some sort of a making my comfort level a little bit more based, I would say, or more with a certain substance. Rather than the change of Regulator, the very fact that they have put Astra into this kind of forced administration and clearly put pressure on Carpatica to change its policy. This is what makes me more optimistic.

Kamil Stolarski: Just a follow-up, would you be interested in acquisition of assets like Astra and second of all, do I understand correctly that you expect the prices of MTPL the average price event of MTLP in your portfolio to run down year-on-year in 2014 in Romania still?

Peter Hagen: Both questions are 'no'. We do not expect that our rates will go down in 2014. Our rates will continue to go up, as they did in the last couple of years, but that might have an impact still on how much premium we will generate because there might still be somebody running around offering at lower terms. However, that will be less and less the case of the months to come. The crucial point, what I wanted to mention is that lots of Motor TPL business is renewed on 1/1, on 1/1 in 2014. The measures concerning Astra have not been taken yet. Therefore, the impact of the measures taken will be shown only at the next renewal dates and this is 1st July but again, mostly then again, late Autumn for 2015. What I have said is because our rates will then continuously be on the high side we are also accepting that we might even lose more business for the time being in order to improve our profitability there. And are we interested to acquire Astra? Definite not, this is actually one of my nightmares even to think about it.

Kamil Stolarski: Okay, so thank you for your comment.

Peter Hagen: Okay.

Operator: The next question is from the Ralph Hebgen of KBW. Please go ahead.

Ralph Hebgen: Yes, hi good afternoon Ralph Hebgen from KBW. Just three things, just back to Romania a question of detail, would you be able to tell us what the combined ratio impact was of the reserved increases taken just in the fourth quarter 2013 in isolation. And second, moving on from that, perhaps you have made quit extensive comments on this already, but just to give us a feel of what you think might be the future of further P&C reserve increases in Romania. I believe you have already indicated that you believe the story there is pretty much done and that the back book is cleaned up, but any additional comments you might make would be appreciated. The third part is just moving completely away from this, talking about cash flow within the Group, do you see any constraints on fungibility of capital fungibility of cash flow in the Group. Are there constraints which you experience in terms of upstreaming cash from the companies and operations in you run in Central and Eastern Europe to the holding. Thank you very much.

Peter Hagen: Hello Ralph, this is Peter speaking. Very simple answer to your last questions, in general we do not see any such constraints. There is one very limited, I would say, exception and that is that the Polish supervisor is recommending however backing this was quite strong way of recommending that not more than 75 per cent of net profit is paid out as dividends. He does not give any restrictions of how high the net profit is.

Ralph Hebgen: Okay.

Peter Hagen: So this is the only one that I am aware of actually and that we are confronted with. There is a more effective way, but that is just completely irrelevant as it is not even consolidated. We have a small operation in Belorussia and the way how taxes are calculated in Belorussia making sure that there is not a lot of dividend to be paid out of gross profit, but that is, as I said, it is a very small operation and not even consolidated so no impact on Group results in anyway. Otherwise we are not aware of any restrictions in this respect.

When it comes to your second question about Romania reserving, I want to re-emphasise it is not just reserving on the loss side where we do believe that we should be now on the safe side with what we did. We also completely revised the patterns of the receivables recoveries of recourses etc, etc, so basically when we go into technicalities usually you will taking a certain period of time you are looking at the patter and you are applying this pattern to the future. We have shortened now this period of time we look at completely at the crisis time and have basically projected this forward to the question of recoverability and that has meant that we have written of quite substantial amounts in premium receivables in terms of, as I said, recourses. We have substantially written down deferred acquisition costs, because we have applied again a more updated pattern, we have applied a more updated crisis pattern as concerns cancellations. So all this was adding up to the amounts that were mentioned. The impact in Q4 was roughly 54, 55 million or 52 something like this. Okay?

Ralph Hebgen: That is great, thank you very much indeed.

Peter Hagen: You are welcome.

Operator: And the next question is from the line of Maciej Wasilewicz of Morgan Stanley. Please go ahead.

Maciej Wasilewicz: Hi, it is Maciej of Morgan Stanley. I have got a couple of questions if I may. I guess the first question is on premium growth in 2014. You have already commented on this a little bit, but I was hoping for a little bit more colour. How much do you think the impact from the Polish single premium or Romania or Italy will continue to impact this year and do you think the growth of those impacts, where do you think growth could be this year? I guess you cannot give us an exact figure. But do you think it will be a strong struggle to get to zero or do you think we could get back to normalised rates this year? Do offsetting factors otherwise what colour can you give me on that front. The second question is on the natural catastrophes: the actual cost year-on-year did not seem to actually increase despite what we saw in 2013. I am just wondering if 120 million or the 3 percentage points of combined ratio; how far away is that from say a long-term average that you guys might have had? The final question, if I may, is just on the assumption changes in the EV. I think you mentioned that persistency changes led to a negative variance. What is the underlying problem there? What products, which lines were seeing a persistency change, a change in pattern that you had to reserve for? Thank you.

Peter Hagen: Okay, again Peter speaking concerning natcat. It is very difficult to say what is the real normalised way of weather related claims, as we call it, because it is not just that what reinsurers would call a natcat which is affecting is because it is a moving target. I would assume, but that is what we are also building into our own internal models, we are assuming something depending on the region between 1.5 and 2 percentage points of combined ratio being a more or less normal contribution of natcat so this year we would be roughly one point above. Is that okay?

Maciej Wasilewicz: That is excellent thank you.

Peter Hagen: Okay. As concerns the question of growth, we will certainly see a continuous and intended reduction in Italy. We actually tried to accelerate this as much as possible to get out of that business as quickly as possible, so there will certainly be still a negative in 2014 seen in the Austrian segment. Nonetheless, I believe that overall we should be able to have a positive development until the end of the year in Austrian segment as well. In Poland, certainly we are not intending the same action again as concerns the short-term endowment simply because we do not have so much anymore. So we do not intend the same action. We will see, I am a little bit hesitant about the organic growth in Poland because we have to react very, very quickly. Actually, we track this on a daily basis, what we see in motor rates and that will be very much influencing whether we grow and continue to grow more extensively or not in the motor business. This is why I am a little bit hesitant to exactly give you a figure about where Poland will be, but overall I can tell you that we are planning a growth in Poland as well. I can give you just some recent figures, not consolidated Czech Republic in the first quarter in crown currencies is growing by more than 6 percent so that gives you a flavour of where we are going.

Maciej Wasilewicz: Yes, thank you and sorry I did ask three questions I apologise for that, but the persistent changes…

Peter Hagen: Werner is coming for that.

Werner: Yes, Werner speaker let me answer your questions related to embedded value. Assumption changes, if I got you right, so basically we have an effect on assumptions on persistency levels in regions CEE and Austria. In the CEE region the major effect that is coming from the Romanian business related to the stop of the employee benefit product, which used to be a package of the Group product, and obviously the lapses related to that remaining parts. So excluding the employee benefit product, had a different lapse behaviour now and growth assumptions have been updated. In Austria the major effect is coming from a specific product which is the State sponsored pension product where this year 2013 was the first year. Basically the product is 10 years old and this was the first year where we could really observe the real lapse rates, since clients had the chance to leave the policies now. Now, based on the experience that we made this year we had to correct the assumptions on lapse rates in a negative way.

Maciej Wasilewicz: Thank you.

Werner: Welcome.

Operator: The next question is from the line of Vinit Malhotra from Goldman Sachs. Please go ahead.

Vinit Malhotra: Good afternoon; Vinit from Goldman. Just two questions a bit more strategic and one just clarification on Romania and Czech. Just on the whole approach on focusing more on non-motor and this is not just on Romania but every throughout the group we get this feeling in the past we also discussed in conference calls what kind of corporate business this is. Could you give a sense of how much better is the combined ratio of profitability in this non-motor block say if at 5 points better than or 7 points better or some rough flavour just so that we can see it as growing in various presentations, but just to get some sense of that. Second thing is that, if I remember right going back seven or eight years before the crisis, I mean from now, one of the ideas used to be to acquire companies and then to sort of centralise and then turn them around and all that. Then it seems that there was some period of time a decentralisation strategy was adopted and now is there instead of thinking that you would like to centralise more or again. If I could have your thoughts on what this means for management attention time or growth outlook or expenses or something, just is there a change in strategy that is happening or could happen and just what it could mean on the control time Austria exercises for the rest of the 24 countries.

And lastly, just this last clarification from Life in Romania; I see in the annual report in the initial few pages that there is a comment that- Peter you made a comment that Romania has created a healthy starting point for 2014 and now in the call you did mention that the issues in asset owned just I imagine roughly one-third of Romania. For you the issues in asset owned still continue, so are we looking at just about a break even sort of a situation for Romania this year? Thank you.

Peter Hagen: I start with the last point. You know when you come from a 99 million minus, just to break even I think is quite an effort. But seriously I do believe that and if you mean by just break even zero, we hope it should be more than zero. If you want to hear that I believe that in 2014 we make 50 million profits in Romania it is a 'no'. So, we do believe we will be profitable in Romania, but I would not expect a dramatic contribution to Group profits other than having no losses.

Vinit Malhotra: I was more worried about minus 50, so zero is very good. Sorry.

Peter Hagen: For me break even is zero zero. No, no we are talking plus. We do not talk big plus.

Vinit Malhotra: That is fine.

Peter Hagen: Okay, now the second question, frankly speaking, I do not understand so well because we have no change in strategy. The strategy was always in putting a lot of emphasis in making sure that local management is acting in an entrepreneurial way and that we not believe out of Vienna to be smartest people in the world and telling everybody what they should sell elsewhere in the region. So, what we did is we were acquiring companies not so much in a turnaround situation, but more in a situation where they have reached, I would say, their limit in terms of capital support or know-how support et cetera, et cetera. Because of local owners no longer being able to provide this, but companies which had particularly a sound distribution base, I think this was the crucial reason why we acquired companies. Obviously, there was sometimes also cases where we simply did not have enough critical size where we bought companies just because of the premium they had. But normally the crucial point was, and this was always the case, the issue of distribution and distribution is local and therefore we put a lot of emphasis that local people are doing this. So, nothing has changed in this. I think what is the crucial point and I am grateful that you raised this point actually is that we obviously particularly, because of what happened with Donau in Italy, we obviously had re-thought about our governance structure and whether we are still right with our approach. And I guess the conclusion we have taken is that we do not want because of this case to disturb an actually quite well functioning business model in the region. However, we probably have to be even more careful than we had been in selecting the right people in these top managerial positions.

We actually have launched a particular programme, particularly for improving our top management skills and the selection process for top management in the last two years. And we will continue to invest into this because that we believe that we must be even more careful and put more efforts into whom we put into responsible positions in the companies. This was, for us, the major conclusion of what happened in Donau. We must be more careful whom to select. However, what we do not want is because of this negative experience to basically, if I may take this example, just we should have because we should handcuff one or two board members we should not put all our boards into prison. This is what we want to avoid, so therefore the conclusion is when it comes to more centralisation it is basically in terms of the methods, in terms of techniques and instruments used when identifying potential board members and also in the training of these board members. This is our major conclusion out of what happened in the last two years.

Vinit Malhotra: Thanks, that is exactly what I was asking.

Peter Hagen: On the non-automotive side. You have to separate the non-motor side into SME Corporate business and obviously Personal Lines business. I would say roughly all over the region you could say that the SME Corporate side on average over a period is certainly showing a combined ratio at least 5 percentage points lower than motor. Some markets we see fantastic corporate like in the Czech Republic, but obviously it is fluctuating. You know you have a large loss and things look different and on the Personal Line it is more like it is coming closer to the ten than to the five. Having said this, you always have to be aware that compared to motor business the pickle of the Personal Lines non-life business still in the, let us say, developing stage in these countries and very much dependant on the general economic environment. This is also why we are now, given the fact that this is slightly improving again and that the signs for the future are a little brighter than for the past couple of years, that we are, let us say, cautiously optimistic. That concerns our combined ratio as well.

Vinit Malhotra: Alright. That is very clear. Thank you, Peter. Thank you.

Operator: Next question is from the line of Bernd Maurer of RCB. Please go ahead.

Bernd Maurer: Hello. One brief question on your latest acquisitions in Hungary and Poland, when do you think to consolidate Skandia and Accent in the two countries?

Peter Hagen: Simple answer, I assume somewhere in the middle of the year.

Bernd Maurer: Okay, so if we re-included it from second half onwards it is fine?

Peter Hagen: Yes.

Bernd Maurer: Alright, thank you.

Peter Hagen: Basically it depends on regulatory approval so…

Bernd Maurer: Of course, but you expect to have it…?

Peter Hagen: We are quite confident about Skandia in Poland, how long it will take in Hungary we will see. Peter Höfinger, who is in charge of Hungary is shaking his head. He is not absolutely sure we will make it for first half year.

Bernd Maurer: Okay. Alright, thank you.

Peter Hagen: Thank you.

Operator: The next question is from the line of Michael Haid of MainFirst Bank. Please go ahead.

Michael Haid: Thank you very much. Good afternoon, just one question. I understand you do not want to give a pre-tax profit target for 2014. I would like to take the adjusted pre-tax profit 2013 of 570 million as a basis to start with and I would like to get an idea about how the low interest rate environment still affects your P&L going forward. Could you provide us the durations of your fixed income portfolio for Life and non-Life portfolio both on the asset side and also on the liability side and tell us what the current re-investment yield is? What yields you would invest new money?

Martin Simhandl: Okay, I want to give you a flavour. I think when we are talking about low interest rate environment – Martin speaking here we should focus mainly on Austria because it is a Euro currency market because, for example in Polish Zloty or in RON it looks quite different. In the Life book in Austria the duration on the fixed income part maybe is around 7 or something like that, but we have to be aware, rather such especially real estate that the duration is by far longer and the question how to calculate even is not so easy, that is the one thing. When it comes to the liability duration we have to be aware in Austria that we have to differentiate the traditional Life products into two parts; there is the Life products we had before the tax supported old age provisioning product was introduced, which are products having guaranteed interest rates of well at the high 4 percent and now down on 1.75. But the tax supported product is a product simply with a capital guarantee and when we look at the long end of the liability duration more and more and the biggest part comes from that product and that we have to take into account when we look at the asset liability matching. Overall, I would say, of course we are short on the asset side than on the liability side. This counts also for the fact in the traditional Life products we have a cancellation option for the customer in that you have to provide for that but taking into account the functionality of the tax supported old age provisioning product. The material affect is not that big.

Peter Hagen: Maybe, in addition, because you were asking for the investment yield. Again, particularly for Austria as the Life business in Austria is the most affected of this issue. You will find in the annex to the annual report the average guaranteed interest rate in Austria is roughly 2.46 percent and the investment yield last year in Austria was close to 4.

Martin Simhandl: The current yield and the new investment yield in Austria was around 3 percent last year.

Michael Haid: Okay, perfect. Thank you very much.

Operator: And we have a follow up question from Ralph Hebgen of KBW. Please go ahead.

Ralph Hebgen: Yes, hi thanks for taking my question. Just thinking back about the explanation of how you ensure that your board members and subsidiaries remain entrepreneurial and you very kindly explained that following the corporate governance issue you have seen in Italy. Now you are more careful about selecting them, training them, et cetera. The other side of this, and this is my question really, is of course also about control and so would be interested to hear how are your managers in the subsidiaries incentivised, which metrics are being used in order to steer their remuneration and how often is performance of the managers measured against these metrics? Thank you very much.

Peter Hebgen: Ralph this is different, obviously whether it is a company with 50 million or 500 million turnover. However, in general management is always incentivised by mainly by bottom line in some areas also top line and then they have specific tasks depending on the individual countries' needs. For example, certain IT projects or certain cost reduction project and in all also including the Group management contracts it is clearly stated that all this is on the basis that loss reserves are properly done. There is no definition in loss reserves and that also other business aspects are sustainably done on a conservative basis. If it should show up that this is not the case even bonuses that have been paid out are again collected, as has been the case for Donau management, for example. Their bonuses for '11 and '12 were collected again as part of the remedy of the situation. How often do we discuss these issues? Again, it depends very much on the importance of the company. We are talking very often obviously with Wiener Städtische as it is sitting in the same building. As I am responsible from a board perspective for the Czech Republic for obvious reasons, I am there once a week and discussing the major issues with the general managers of the companies there. Franz Fuchs is every week in Poland at least one or two days and he is now also every week in Romania at least one or two days. So he is spending exactly one day per week in Vienna if at all. So we are doing this on a permanent basis, obviously with the management board of Bulstrad Life I have to say Peter is obviously maybe doing this once every month. So, it is an approach which is going more along how much risk we think is involved. What we have learned from the Donau situation is that we are adding much more, let us say, analytical work from a head office side when it comes to assessing loss reserves, the building of deferred acquisition costs et cetera, et cetera. But this again is also quite often not an issue of, let us say, bad will or control issue from the side of the local companies but more it is know-how support. So it is very a rarely case that they do deliberately something wrong. We had a such a situation in Poland two years ago, but otherwise it is more a question of providing know-how as we do since many, many years in re-insurance, which also is the reason why in re-insurance we have never seen, even if we have been tested substantially by bad weather, you have never seen a problem in re-insurance.

Ralph Hebgen: Okay, fantastic. Thank you.

Peter Hagen: Thank you.

Operator: We have no further questions, if you would like have a question please press star followed by one. Excuse me there are no further questions at this time. Please continue with any other points you wish to raise.

Nina Higatzberger: Thank you. Ladies and gentlemen thanks for taking the time to listen in and for your interest. We hope to have you with us again on the 27th May for the release of the first quarter results 2014. Good-bye.

Peter Hagen: Thank you.

Martin Simhandl: Bye.