Conference Transcription

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Conference title	**:**	**Vienna Insurance Group Release of First Half Year 2009 Results**

CONFERENCE DETAILS

Conference Date:	20 August 2009
Conference Time:	15:00 CET
Conference Duration:	Approximately 73 minutes
Chairperson:	Thomas Schmee

ACT Operator

Ladies and gentlemen, thank you for holding. Welcome to the Release of Results First Half Year 2009 Vienna Insurance Group Presentation on 20 August 2009. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulties hearing the presentation, please press *0 on your telephone for an operator assistance.

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

Thomas Schmee

Thank you, Pamela. Good morning and good afternoon, ladies and gentlemen and welcome to this Vienna Insurance Group telephone conference for the release of the half year 2009 results. With me here in Vienna is Peter Hagen, member of the Management Board.

Peter Hagen

Good afternoon.

Thomas Schmee

Peter Hoefinger, Member of the Management Board.

Peter Hoefinger

Good afternoon.

Thomas Schmee

Roland Groell, Head of the Group Accounting.

Roland Groell

Good afternoon.

Thomas Schmee

Peter Hagen will give you now a short presentation for the results and this section will be followed by a Q&A. Peter, please go ahead.

Peter Hagen

Thank you, Thomas. Ladies and gentlemen, thanks for your interest in Vienna Insurance Group. What we present today to you is what we believe living up to the commitments which we have provided to you over the last years. Always emphasising on the fact that we want to generate most of our profits from strong underwriting income obviously in the particular difficult environment of capital markets and the economic situation in general. This goal became even more important during the last, I would say, three quarter and is also reflected in our result.

Overall as you can see from the presentation we are reporting profit before tax of €230 million which we believe is a very outstanding performance compared also to our international competitors. Just may be a short reminder to the fact that this is exceeding our results of 2007 and I think in this environment, I was referring to before, quite an achievement.

Also in terms of growth I don't think we have to elaborate too much about the economic situations. I do believe if we discount for the very volatile single premium business a 3% premium growth is compared to what we can see elsewhere in the region again outperforming market and peers. What is particularly important and necessary to say in this respect is that obviously in this environment our general approach to invest into growth has been, I would say, a little bit more narrowed in a way that we are more focussing on immediately profitable growth and rather postpone more long-term or mid-term investments in growth for better times from a general economic perspective.

In line with this we have speeded up our synergy projects by launching a particular action plan in order to improve profitability particularly also by means of cost savings. And I am happy to report that we already are harvesting first fruits from this about €40 million have been achieved in cost savings partially by synergy projects which were already launched before and partially by the recently announced action programme already.

We have also critically reviewed our reinsurance programme given our increased risk bearing capabilities. And we have in all those areas where we believed that we are ceding profits are necessarily to reinsurers we have optimised the reinsurance programmes without compromising particularly on the catastrophe protection. And by doing so, and you can see this when you compare the written premium to the net earned premiums, we have reduced our sessions to reinsurers, also this, it obviously improved our net income and we come to this later.

Our gross written premium including, as I mentioned, the adverse development on the single premium life still shows a growth of almost 1%. Profit before tax compared to the outstanding year 2008 dropped by around 20% to €230 million. After tax obviously we achieved to reduce the effective tax rate to now about 17.5%, so after tax the reduction is considerably lower.

Particular achievement and also an expression of what I mentioned before particularly on the cost side is the combined ratio. We brought the combined ratio down to 95.5% and I will refer to this later. You will see that this is coming exclusively from the cost side as actually the loss ratio increased in first half year 2009 due to various reasons I will elaborate a little bit later. Earnings per share at €2.8, actually if you would go for cash earnings per share including hybrid interest we are at about €2.9.

If we go now to the income statement, not a lot of surprises, top line as I mentioned 1% growth. Net earned premiums as I have mentioned before growing by 4.1% mainly reflecting the reinsurance programme optimisation I mentioned before. Financial result lower than last year mainly also because of extraordinary income we were recording last year, you might remember the sales of BA-CA Versicherung and Unita which obviously were not repeated this year.

Operating expenses, when I was mentioning before that we have reduced by €40 million and you still see the increase here, this is due to the inclusion of new companies which were meeting the requirements for consolidation in first half year 2009. The profit, as I mentioned before, before tax €230 million. Tax is 17.5% effective tax rate. Minorities going down as expected basically coming from the fact that with the sale of BA-CA Versicherung we were loosing also high minority share which other companies had in BA-CA Versicherung whereas the Sparkassen Versicherung insurance company which we acquired from Erste Bank obviously do not carry such minorities anymore.

On the balance sheet, again nothing particularly different to first quarter 2009. Slight increase in the intangibles due to some second quarter inclusions of mainly Albania, Macedonia but not very prominent differences to quarter one. May be one thing, in terms of the other assets you can see a drop from €730 million to €580 million. Compared to quarter one this is mainly due to the fact that the improvement on the capital markets led to the fact that also the policyholder share in future losses was reduced.

On the gross written premium side obviously it is very much influenced also by exchange rates. I might recall that we have said we will not hedge the top line as we don't believe this makes a lot of sense. We do hedge in the main currencies as a result. Obviously our gross is distorted very much by the exchange rates and I will come back to this may be later. Otherwise, I think overall the picture in gross written premium is reflecting the underlying still solid growth, certainly not as substantial as before, as I said here offset by a currency exchange rate developments.

If we go into the written premium in more detail, and may be I can give you in addition to what you can anyway read in the chart some figures about the organic growth, excluding the foreign exchange development for major countries then we are for example in the Czech Republic at the growth rate of more than 5%, we are in Slovakia at about 4%, we are in Poland non-life at around 5%. In life in Poland we have dropped of almost 33% which is due to the fact that we have stopped selling low margin single premium policies there, one of our immediate measures in order to reduce any load to the bottom line.

And Romania minus 10% basically resulting from the fact that also there, as we have reported also in the quarters before, we see deteriorating results mainly in motor insurance. And so we have decided to considerably increase the rate which obviously had an impact on our growth there. Other CEE was growing in total by 3% with countries Hungary one of my favourites actually growing by 29%. This, I do believe, is good evidence for the fact that despite all what you might read about Central Eastern Europe the underlying growth is still exceeding what we can see in Western Europe and this is exactly what we have projected.

The Group loss ratio did increase to 65.1%, this is mainly influenced by catastrophe losses which we have suffered in June and also to a certain degree by higher loss ratios recorded in Slovakia still we are at a very comfortable level at 60% but still there is a deterioration. And one particular issue in Poland, in Poland you might recall there was a special tax on motor TPL premium. This tax was abolished however at the same moment the policyholders got the options or claimants got the option to also claim for pain and suffering. What we basically did is we were using the funds released from the fact that we no longer have to pay the tax, to strengthen the reserves to prepare for any such claims that might come.

The other point is Romania, I mentioned already before that we saw in the couple of quarters now a deterioration in the motor claims performance. In order to offset this we did substantially increased premiums as you can see and as we can see from the claims ration this is probably not yet enough. There is a whole set of measures not just on the premium side but also on the claim side. We just actually successfully launched new programme software which we have successfully implemented and tested in Poland before in order to have a better control over the claims settlement process from which we expect also quite substantial savings in this side.

Loss ratio up to 65%, offset however by the group cost ratio being down by 2.1 percentage points to 30.4% mainly achieved in countries like – actually all across the organisation. Obviously in countries where the cost ratio was already more efficient the relative reduction is lower. But if you look for example in Poland you will see a substantial reduction in cost ratio. Some part of this obviously also because of the abolition of the Religa tax, I was referring to before, and this had been exchanged by strengthening of loss reserves and shows in the loss ratio.

Particularly I want to highlight Romania where you can see that we have decreased in a relatively short period of time by 6.4 percentage points. If there should be any questions on this I think this is a very successful example for the synergy project we are undergoing since already some while. And also it is a reflection of the fact that the BCR organisation which we have acquired with the Erste Bank deal has a very low cost sales organisation.

In total, as mentioned before, these achievements lead to the fact that the combined ratio is going down to 95.5% without – and I want to particularly emphasise on that, without any comprising on loss reserving. I think that should be very evident. Probably different than some others, we are not improving our combined ratio by working on the reserve releasing issue.

Financial result, obviously very much influenced also again from capital market situation and the fact that there was no more sales of BA-CA Versicherung and Unita as it was in the first half of 2008. And that means in total financial result obviously being down from €618 million to €472 million.

In the investment split, not a lot of changes. We went even more conservative than before. We are now at around 60% bonds. Within the bond section we have increased the part of government bonds and we tried obviously to improve also in this respect the quality of our portfolio. You see also a slight increase on the real estate share, this is mainly due to the fact that we have acquired two office buildings for our own purposes in Vienna.

Shareholders' equity, following particularly also the request from some of you we have included this graph and explained particularly also the development of the unrealised gains and losses. What I particularly like on this one is that we were able to increase the equity by about €100 million, not including the hybrid and obviously also not the dividend payout, which I do believe is quite a success.

Solvency ratio basically stayed the same, so we are comfortably over the 180% of the requirements. We are currently working on building up an internal model for solvency II purposes. We have already since two years, we obviously testing our risk situation based on the standard model which all of the tests showed that we are comfortable with all the requirements of Solvency II. However, we do believe that the standard model as it has been published now does not properly reflect the risk situation of our Group and therefore we are now, of course not only since now but always, since rather now obviously was particular focussed building up on own internal capital model which should reflect our risk situation better. And we expect from this also due to balancing effect over countries' lines of business and also asset and liability side of the balance sheet that the capital requirements according to our internal capital model will be lower than what the standard model would require.

In terms of outlook, I probably do have to disappoint some of you. We still don't believe that it is prudent to forecast any annual profit before tax. We are – as the line is indicating, we do believe – we are doing our best in order to improve our underwriting results. We will continue to screen the portfolio. We will continue to make sure that we grow only in profitable lines of business, also if we would have to short-term compromise on growth at this point of time as long as the economic environment is like this. And we obviously will continue to implement our action plan as concerns the cost side. We expect, as we have presented last time, this to materialise in about €100 million in savings as of the end of 2010.

This having said, I would want to finish my presentation and obviously we are more than happy to answer your questions. Thank you very much indeed.

Thomas Schmee

Thank you, Peter. Operator, please go ahead with introduction for the Q&A section.

ACT Operator

Yes, certainly, sir. Ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in order they are received. There will be a short pause while participants register for a question.

The first question from Michael Huttner. Please go ahead with your question.

Michael Huttner – JP Morgan

Hi, there. Thanks a lot. I had a question. Can you give a flavour of your capital position? There is a lot of comment about building an internal model and obviously you raised €250 million hybrid in April. I just wondered where that leaves you? Also, obviously you feel very strong having reduced the amount of reinsurance you buy. I just wanted to gain a better feeling. The reason for the question is lots of financials at the moment are doing right issues thinking oh, high, high prices, let's just use the opportunity and it will be nice to have a feel for where the position is.

The other thing is if you, if I assume that you can cut cost further, you cut cost by annualised €40 million in first half and you've the target of €100 million. If you achieve €100 million, where would that leave your combined ratio? Do you see and also including if you could be the benefit of the rate rise and other measures in Romania? That will be very helpful, thank you.

Peter Hagen

OK. Capital strength, well currently our excess capital is a little bit over €1 billion, between €1 billion and €1.2 billion. Obviously this is placing us very comfortable and there is no immediate need nor any plans to issue any sort of rights in order to further increase that. Having said so, if you bring me some super deal in some of these countries, probably that would change our mind.

Michael Huttner – JP Morgan

But could you – you know you have got some room on the hybrids because you are going to do 500, you did 250 –

Peter Hagen

We did 500. We did 500 - we had a 500 hybrid plan as of May 2008 for one year. And so we did 250 in May 2008 and another 250 in April 2009.

Michael Huttner – JP Morgan

I understand. Sorry about that.

Peter Hagen

OK. Cost cutting, question about combined ratio, unfortunately combined ratio is obviously a combined ratio. Obviously the cost cutting shall lead to a cost reduction. We have a little bit more problems in projecting the 2010 loss ratio. But having all others equal, obviously I would expect to further lower the combined ratio to something below 95%. But obviously all this is under the caveat that loss ratios do not substantially deteriorate, which we do not expect at this point of time quite to the contrary.

Michael Huttner – JP Morgan

Thank you.

Peter Hagen

You're welcome.

ACT Operator

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

Ralph Hebgen – Keefe, Bruyette & Woods

Yes, hi. Good afternoon. It's Ralph Hebgen from KBW. I actually have five questions but I am not going to ask them all. May be I can come back later. First of all, so I am asking two, the contribution from the Erste acquisition on pre-tax profit in the first and also the second quarter, I wonder whether it will be possible to share that with us, how much that was?

Second, would you be able to tell us what the contribution of net realised gains to pre-tax profit was in the second quarter? Clearly, we can calculate what net realised gains are from your helpful breakdown of investment income but what we never know is how much of that actually flew into the pre-tax profits given that there are transfers to the policyholder bonus reserve.

Peter Hagen

OK. I will answer to the first one. You can say that in the first half year, Erste Bank did contribute or Erste Bank acquisition contributed about €10 million to PBT. And for the second question about the net realised gains and how much flew of that into bottom line, I would hand over to Roland Groell. Please, Roland.

Roland Groell

If you look at the net realised gains, we have two main issues. We have realised losses of about €150 million. The main part of this is cleaning up some of our financial positions. And you will see on the other hand realised gains of about €200 million mainly influenced by first of all trading gains and as you note and we spoke of, for example, Wüstenrot Versicherung, so if you look at the net figure we are talking about €50 million and that's also the effect on the bottom line.

Ralph Hebgen – Keefe, Bruyette & Woods

Can I just clarify that? If I take the realised gains of €227 million in the first half I deduct €156 million of realised losses in the first half, then I get to net realised gains of €71 million in the first half. Of that €71 million you are saying €50 million were actually contributing to pre-tax profit in the first half. Did I understand that correctly?

Roland Groell

That's right.

Ralph Hebgen – Keefe, Bruyette & Woods

OK. That's very helpful. Thank you very much indeed.

ACT Operator

Thank you, sir. The next question come from Marion Swoboda. Please go ahead with your question.

Marion Swoboda-Brachvogel – CA Cheuvreux

Hi, good afternoon. It's Marion Swoboda-Brachvogel from Cheuvreux. Actually, basically, two areas of question. First one is also on the investment portfolio. I was wondering, first of all, about the hedging at the moment. Is your, I mean how much of your equity exposure is hedged, I mean basically, currently and not at the end of the second quarters? Were there any changes basically since the end of the second quarter? Have you may be increased the equities position or can we assume it's basically still the same?

And then on the impairment on investments, when I look correctly then the impairments of the investments in the second quarter is still I think about twice the amount we saw in the previous period or in the comparison period, so basically in the second quarter of '08. I was wondering on what investments basically those impairments were? I mean, was it on the bond portfolio or in equities? And if you have any feeling, I mean, what it might be the rate for the next quarters on that?

The combined ratio, I mean improved obviously because of the cost cutting programme. I was just wondering was there any FX impact too because if I remember correctly then in some countries you also have income in hard currency, so I guess in euro and cost I would assume are mainly in local currency. I was just wondering in some countries whether there was a positive impact on the combined ratio due to a FX depreciation?

Peter Hagen

I might start with the last question actually. Actually we are calculating the cost reduction based on the local cost reduction and then just transfer it into euro, so there is no impact of the exchange rate to these cost savings I was mentioning.

As concerns the hedging, as you know, we do not hedge other than for some of the currency like in the Czech Republic or Poland, also Romania. We do not hedge others than the profits. But the position is not -

Marion Swoboda-Brachvogel – CA Cheuvreux

Sorry, it was basically on the investment portfolio I think, I mean not on the currency impact of the premium. I was referring to the investment portfolio.

Peter Hagen

Very good. I would propose that this question as well as the one on impairment again Roland will answer.

Roland Groell

Within the first half year we still hedge our equity portfolio. That's one of the reason why you see a rather high realised losses of about €150 million. Especially if you look at the second quarter, we see a quite substantial improvement of equity prices. That means that our hedging was not necessary but nevertheless we are insurers and we do not worry, we are very happy if we pay a premium and we see no losses. The effect or that the costs of this hedging for the first half years are about €30 million.

Nevertheless, if you look at the second quarter we see a very impressive improve of our equity positions not because we have bought someone but because the prices went up. In sum we have an increase in our unrealised gains of about €200 million and about 50% out of equities and the rest out of fixed income.

Marion Swoboda-Brachvogel – CA Cheuvreux

Is it correct to assume, I mean the split you give on the investment portfolio, this equity portion, the 3% that's your net exposure after hedging?

Roland Groell

No, that's not our net exposure.

Marion Swoboda-Brachvogel – CA Cheuvreux

And what would it be, I mean net after hedging?

Roland Groell

After hedging ,we are talking about 1%.

Marion Swoboda-Brachvogel – CA Cheuvreux

OK. And that's still more or less unchanged since the second quarter.

Roland Groell

That's unchanged, yes.

Marion Swoboda-Brachvogel – CA Cheuvreux

OK. And on the impairments in the first half of the year, basically impairment on investments were €127 million and basically I think around €60 million in the second quarter so quite, I mean, also substantially more than in the first, in the second quarter of '08. Is that, I mean, is that coming from the equity side?

Roland Groell

No. The main part is coming from investment funds.

Marion Swoboda-Brachvogel – CA Cheuvreux
OK.

Roland Groell

And there we have two special topics. First of all, we have done some impairments out of our prudence principle. And the second special topic is that if you look at some investment funds, they reduced their volume. That means the value of the investment went down and this reduction which was impairment, on the other hand we received a more dividend or payments from investment. And it is one reason why the current income is increasing with a such high amount.

Marion Swoboda-Brachvogel – CA Cheuvreux

OK. Thank you.

ACT Operator

Thank you. The next question come from Frank Stoffel. Please go ahead with your question.

Frank Stoffel – Bank of America / Merrill Lynch

Yes. Hi, good afternoon. It's Frank Stoffel from Bank of America/Merrill Lynch. A few questions on the impairment side as well. I think in the Q1 call Dr Simhandl was asked, what his biggest concern was for the current year and he said it was default. I was just wondering whether this is still a valid comment?

The second question is on your reasons for not giving guidance. Is it because you are unsure about the capital market development or is it really the economic outlook that refrains you from giving a guidance?

Then lastly, on the catastrophe losses, could you give an indication of the catastrophe and macro catastrophe losses that have occurred in Q3? How much in terms of losses do you expect from that? Thank you.

Peter Hagen

We start again in reverse order, I start with the cat losses. Currently, we are estimating – this is an estimate, it's not fully supported by reported losses yet, but we estimate to be losses which are partially – also partially, I say going into quarter three on a gross basis to be around €60 million. However given our particular reinsurance program and also to protect us against certain frequency of catastrophe losses, the impact on the bottom line will be very, very remote in quarter three.

I have to say this with a certain caveat because it depends in the end in which countries these losses actually will finally be reported, whether our estimated split of where these losses did occur is actually a realistic one which we do believe. However, there can be some surprises that would have an impact on of how much of this close to €60 million I was mentioned would actually go down into net. But overall we do not expect any substantial net impact of the quarter three catastrophe.

On the reason for guidance, yes the reason is the very same as before, it is the capital markets. We are not so much concerned about the general economic situation when it comes to the result forecast. It is more as you said before it's the capital market situation. And third one on the impairment again Roland will answer.

Roland Groell

We have no additional impairment according to defaults. The defaults we have seen especially Lehman and Iceland Banks this impairments were done in the year 2008.

Frank Stoffel – Bank of America / Merrill Lynch

OK. I am asking the same question as was asked in the first quarter this year we were not talking about defaults values it is about impairments on your fixed income portfolio. Does this continue to be a major worry of yours?

Roland Groell

If you look at the impairments in the first half year, this €130 million roughly. About 50% out of this impairments are investment funds, 20% in equities and the remaining 30% in the fixed income and there the main part out of structure bonds and financials.

Peter Hagen

When it comes for the end of the year, so what are our biggest concerns, I would still tend to agree with Martin Simhandl's statement last quarter that obviously unfortunately defaults don't show up before and that is our major concern actually.

Frank Stoffel – Bank of America / Merrill Lynch

OK, great. Thank you very much.

ACT Operator

Thank you. The next question comes from William Elderkin. Please go ahead with your question.

William Elderkin - Citigroup

Thanks. Good afternoon everybody, its William Elderkin from Citi. Couple of questions. First of all, what was the contribution to the second quarter earnings from the cost savings you have achieved?

Secondly, what was the contribution of hedging profits to the second quarter PBT?

Thirdly, what would be either first half or second quarter life insurance result look like. If you assumed that the investment income in the life insurance segment just consisted of the direct investment yield less the interest expenses and other expenses, so in other words, if you took out all the other sources of volatility that we have been talking about?

Peter Hagen

We had a little bit of problem to understand your last question, frankly speaking. Could you –

William Elderkin – Citigroup

I will try again. If you look at the second quarter life insurance profit €66 million or first half life insurance profit €66 million what would that number have been if looking at the investment income element of the life insurance line that investment income solely consisted of the direct yield current income less the interest expenses and other expenses. In other words you took out all the realised gains, realised losses, right ups right downs and all the rest of it. In other words what would be – what is the clean level of first half life insurance profit?

Peter Hagen

The contribution of the cost savings most of it obviously is in second quarter as you might remember – I was mentioning at the beginning that the €40 million in total are partially of the speed up synergy projects which we have started before. Some of this obviously did already materialised in first quarter. But the action plan I was particularly referring to obviously we have only published and initiated in the middle end of first quarter. So the first impact of this are only shown now in the second quarter. Overall I would say 75% of the mentioned amount is to be attributed to quarter two.

OK. About the question on the life result, Roland will –

William Elderkin – Citigroup

That's €40 million and the €100 million targeted has effectively what have been achieved. Is that €30 million of cost saves inside the second quarter earnings or is that as something like €30 million of the run rate inside the second quarter?

Peter Hagen

We have materialised €40 million in first half year, of this €30 million around €10 million don't nail me down on €10 million or €11 million has been already materialised and flew into the income statement of the first quarter and the balance in the statement for the second quarter.

The question on the profitability of life.

Roland Groell

If you look at the financial results of the life segment, it's nearly impossible to say what's a normal investment income in life. For example, if you look at the equity positions we have at investment funds we have bought them because we want to own this investments 10 or 20 years. It's a normal situation that which try out of this positions to realise trading gains. Because if you look at dividend yield that's not our motivation to buy such investments. Nevertheless, if you look at the current income in life, this position should stay on a stable volume. And on the other hand, we have now all Erste Bank insurance companies within our Group that means we have also a higher mathematically reserve and need for life higher financial results to earn profit participation.

But in sum, I would say that this first half year is nearly normal only one exception that the amount of the impairments. But the rest if you take the net realised gains and losses I would not say that there is something extremely extraordinary. If you look at our investments in life of €20 billion that we have within one and one-and-a-half year gains of €50 million out of this portfolio that not really extremely extraordinary. What's extraordinary is the impairments.

William Elderkin – Citigroup

Like I mean you have got – I mean first half impairment I think they are about €100 million. How much of that reflects through to the bottom line?

Roland Groell

Sorry.

William Elderkin – Citigroup

You had a first half impairments of €100 million I think within the life segments, of that how much would have passed through the bottom line and how much would have been shared (*Inaudible – technical difficulty*).

Thomas Schmee

William.

William Elderkin – Citigroup

Yes.

Peter Hagen

We can't hear you very well. Slowly please.

William Elderkin – Citigroup

Sure, of the €100 million or so of impairments in the first half how much roughly would have flowed through to the bottom line?

Roland Groell / Peter Hagen

What are the €100 million you are talking? What are they? We don't hear you very well actually.

William Elderkin – Citigroup

OK. I will try calling back again.

Peter Hagen

Hello.

ACT Operator

The next question is from Dhruv Gahlaut. Please go ahead with your question.

Dhruv Gahlaut – HSBC

Good Afternoon, Dhruv Gahlaut from HSBC. I had two questions, one on the provisions which you have taken for the flood in the first half, would you be expecting any more coming in the second half from these bonds?

Secondly, on the liquidity benefit which you assumed in your embedded value at the end of the year, would you shed some light on it where exactly it is, has it decreased or is it at the same level? Thanks.

Peter Hagen

On the flood side, what I was mentioning to you actually we had two major events. One was a flood, one was a hail storm basically or a wind storm. What I was mentioning before about the catastrophes which were also to be allocated into quarter three. These were estimates, these are not just the reported claims. We do believe that our estimates are reasonably conservative, so we do not expect to come anything on top of what I have told out of these events. If there will be more events to come, frankly speaking I would love to know that. but I do believe that we are very well protected in terms of reinsurance in order to protect us from any such frequency.

As concerns the embedded value, Roland will comment on that.

Roland Groell

This question comes too early because we are not discussing with our Actuaries now how we would calculate the embedded value for this year. If we would have the same situation like we see now at the end of the year. And of course we will also have to look what our competitors will do but I will assume that the methodology to add 50 basis points will be very, very similar.

Dhruv Gahlaut – HSBC

OK. Thanks a lot.

ACT Operator

Thank you, sir. We have a follow up question from Ralph Hebgen. Please go ahead with your question.

Ralph Hebgen – Keefe, Bruyette & Woods

Yes, hi. Can I go back to the cost savings of €40 million. I was wondering would you be able to share with us how they split within the segments? How much of it's accrued in life and how much in P&C?

Secondly, on cost savings again. The €100 million, could confirm I think you said before that this you are hoping for that before you accrued by the end of 2010. Is that the case and if so is it still the case or you are hoping for that to accrue more quickly given that a large chunk of that has already crystallised in the second quarter? Thank you.

Peter Hagen

It's a question of terminology. If you ask me what I am projecting, I am projecting €100 million to materialise at the end of 2010. If you asking me what I am hoping, obviously I am hoping its materialising earlier. One thing you have to understand that in these cost savings obviously I think about where they have been achieved and how they have been achieved. At this point of time, obviously most of the savings are not coming from basically laying people off particularly in Central Eastern Europe where we have lost about 900 people so far. Because you have to pay severance payments etc, etc for a while so that would materialise only later.

Most of these are savings which are coming particularly in when it comes from savings in Central Eastern Europe. It is coming simply from the non-personal cost side which is simply materialised immediately simply when you have less headcount, which is office space, which is licenses, which is computers, which is all these kind of things. We obviously have also as I mentioned before we have very much worked on streamlining our processes, bringing together back offices, improving the use of software, reducing number of licenses, things like that. That is what it is flowing immediately in.

The savings in the personnel cost will highly materialise apart from some special issues like reduced reserving for vacations because simply people go on vocations etc. All the other things in terms of personnel cost will materialise only later. Do I want them to materialise earlier than end of 2010? Yes. Do I project it? No. That's about the point,

Cost savings according to the regions, I would say, roughly about half and half it is between Austria and Central Eastern Europe. And when it comes to which lines of business or according to the business segments, certainly there is more at this point of time to be seen particularly for the reasons I mentioned before on the non-life side rather than on the life side.

Ralph Hebgen – Keefe, Bruyette & Woods

But eventually would you project an even split between P&C and life in terms of the cost savings?

Peter Hagen

No.

Ralph Hebgen – Keefe, Bruyette & Woods

OK. Thank you.

ACT Operator

Thank you, sir. The next question comes from Michael Huttner. Please go ahead with your question.

Michael Huttner – JP Morgan

Thank you very much. Just to compare with the cat losses you mentioned €60 million net of insurance very low in now as it were. What was the figure in the first half?

And the other figure I wanted to ask is, what is the remaining impairments yet to come which you haven't put through the profit and loss account if markets remain where they are? Thank you.

Peter Hagen

Flood losses or cat losses accrued in the first half year around €55 million, maximum that retention on this would be less than €20 million.

Michael Huttner – JP Morgan

OK.

Peter Hagen

But that has been recorded already. On the impairments, Roland might want to comment.

Roland Groell

We would be very happy if we know in which direction the financial and the capital markets will develop in the second half year. If we are looking back there is nearly no impairment remaining. We are talking about a figure below than €15 million, so it's not a material figure we have now on impairment from the part. If you look at the average prices we have as one of our rules, if we have to impair or not. But of course there could come up additional impairments if we say a negative development in the second half year.

Michael Huttner – JP Morgan

OK. I understand. Thank you.

ACT Operator

Thank you. The next question comes from Radena Georgieva. Please go ahead with your question.

Radena Georgieva - UniCredit

Thank you. Good afternoon, I have a couple of questions. The first one is regarding the retention rate. If you can give us an indication what was the retention rate in the second quarter and what you expect it to be for the rest of the year?

Second question is regarding the property and casualty segment, you said that you haven't compromised with regard to the reserving. I noticed that in the first quarter the change in the outstanding reserve excluding the insurer's share was about €9 million which was substantially less from the periods. Can you please give us the figure for the second quarter and probably if you can comment why it was so less in the first quarter? Thank you.

Peter Hagen

When you talk about retention rate, you talk life insurance, you mean the life retention rate?

Radena Georgieva - UniCredit

In property and casualty as well.

Peter Hagen

OK. We do have to separate this. The property and casualty retention –

Radena Georgieva - UniCredit

Sorry, I am talking about the retention rate with regard to the premiums as a result of the change in the reinsurance policies.

Peter Hagen

OK, sorry. The retention rate can be a lot of things. On the reinsurance policies you cannot say it in general what is the retention rate because obviously it depends on what kind of risk you are talking about. The retention rate in terms of catastrophe risks remain basically unchanged to the previous years, so very-very low.

What we have done and what is the major change in the reinsurance programme and then obviously also then in the retention rate is we have frequency protection. Which we had traditionally brought for example, in the Czech Republic after the de-monopolisation of motor third party liability, so huge quota share agreements. These quota share agreements we did not renew anymore because first of all we feel comfortable enough with the statistical state in our available to assess the frequency risk after 10 years.

Second, we have seen that traditionally this was very profitable business and we were ceding excess profits to reinsurers which we believe were no longer justified. Actually the quota share agreement in Czech Republic is probably the most important change. We changed this from a frequency protection to a non-proportional severity protection.

We have done similar but smaller things in various in different countries, one of the contributors is also our reinsurance company which we have established for pooling some of our internal business. Particularly to get rid of the inefficiencies of protecting the balance sheet and income statements of small companies and paying penalty premiums to external reinsurers by pooling this in VIG RE and only protecting them on a pooled basis. Obviously we were realising again additional profit in fact the VIG RE was generating profits in the first half year of about €6.5 million, that is one of the benefits of the restructuring of the programme.

But I cannot comment on any particular general retention rate. All I can say is that catastrophe as conservative as ever before and in the other lines particularly on the frequency risks in those countries where we felt more comfortable and in those countries where we had so far pro rata treaties in order to protect we have changed this to severity protection.

Radena Georgieva - UniCredit

OK. Thank you.

Peter Hagen

OK. As concerns to reserving I am not quite sure I understood question. Could you just shortly repeat it again.

Radena Georgieva - UniCredit

Sure, yes. In the property and casualty segment in the first quarter the change in the outstanding reserve was about €9 million, this was excluding the change in reinsurance share and this €9 million was substantially less than the change in reserves in the previous quarters. And my question was, if you can give us a figure for the second quarter because it was not yet published, a more detailed information. You have not published yet your second quarter report – first half report, so I just wanted to see how the change in reserve in the second quarter compared to the first quarter or may be you can give us a figure overall for the first half in 2009?

Peter Hagen

OK. Hold one second, actually Roland is looking for it because we do publish it.

Radena Georgieva - UniCredit

You do publish it but I just wanted to say that this has not been published yet I think the report comes a little bit later.

Peter Hagen

OK. Give him a minute.

Radena Georgieva - UniCredit

Sure.

Thomas Schmee

In the meantime, please go ahead with other questions. Operator?

ACT Operator

Certainly, sir.

Thomas Schmee

Yes.

ACT Operator

The next question comes from Ralph Hebgen. Please go ahead, sir.

Ralph Hebgen – Keefe, Bruyette & Woods

Hi, yes. It's me again. This is the last question from me. You said earlier that there were not any prior year releases in P&C which supported the results. Could you talk about that part in more detail, were there indeed none or were they very small? Would you be able to identify any even if they are small prior year releases which you have made and if you have not made any does that mean that the reserves in P&C can be expected to grow, let's say, solidly as presumably you will have had positive run off?

Peter Hagen

Yes. OK, thank you for that question Ralph because obviously I was not enough precise. Of course we do have prior year releases as we have every year since 20 years. On an annual basis our average release per year is around 8% of the loss reserve each and every year. And what I wanted to say and what I will refer to is that we have no change in the reserving practice and also in this practice in 2009. Actually this reserving practice, just to give an indication, when you look at the embedded value calculations which we have published and in the papers you can see that the net so after tax increased in redundancies in loss reserves of the Group has increased from 2007 to 2008 from around €400 million to around €450 million. Actually I would expect to see similar increases by the end of 2009.

Yes, there are prior year releases, they are completely in line with former policies which we follow since 20 years. If you do an average over the last 15 years if I can recall from the top of my head, the average release per year was 8% consistently. And I would expect something like this also to happen in 2009. Obviously there are always some ups and downs depending a little bit also on if any one large loss is settled very favourably obviously you are benefiting from this any one year.

Ralph Hebgen – Keefe, Bruyette & Woods

OK. Then I have just one follow up clarification. When you said 8%, does that mean 8 percentage points of the combined ratio?

Peter Hagen

No, it means 8% of the loss reserve at the beginning of the year. When I say the release is 8%, if I start with the loss reserve at the beginning of the year with a 100 I would release about 8 during the following year.

Ralph Hebgen – Keefe, Bruyette & Woods

OK, that's clear. Thank you very much.

ACT Operator

Thank you. The next question –

Peter Hagen

Hold on a second please, we would want to answer the question which we did not before.

Roland Groell

If you look at the development of the underwriting provisions in the segment of property and casualty, we have an amount of €4.4 billion at the end of the half year 2009. And at the end of the 2008, the amount was €4.1 billion that means an increase of about €350 million in underwriting provisions in non-life or property and casualty of course mainly driven by the claims reserve.

Peter Hagen

OK, next question.

ACT Operator

The next question comes from William Elderkin. Please go ahead with your question.

William Elderkin – Citigroup

Hello, everybody. This is William Elderkin again from Citi. Can you hear me.

Peter Hagen

Yes, now it's better. Just speak slowly we have some I don't know feedbacks or whatever in there.

William Elderkin – Citigroup

OK. Just one question then. What was the net written premiums in the first and second quarter in P&C segment?

Peter Hagen

OK. Hold on a second. Net written premium – OK, segment one 848, quarter two, 886.

William Elderkin – Citigroup

On those net earned premiums.

Peter Hagen

Yes.

William Elderkin – Citigroup

It also the net written premiums.

Peter Hagen

That I don't have available now. We will deliver this to you.

William Elderkin – Citigroup

OK. Can I just ask the question in different way then the retention ratio over 2008 in the P&C business was I think 81% with new reinsurance policies programme and so on. What might that 81% look like in 2009?

Peter Hagen

Certainly higher. I would expect it to go direction 90%.

William Elderkin – Citigroup

Towards 90%, lovely. Thank you very much.

Peter Hagen

You are welcome.

ACT Operator

Thank you. The next question comes from Radena Georgieva. Please go ahead with your question.

Radena Georgieva – UniCredit

Hi, thanks for the answer. Just a small clarification. I was actually referring to the change in outstanding claims in the profit and loss account, not the change in the balance. That change was – the charge on the P&L was €9 million which was substantially less than in the previous periods. This is what I was referring to. I mean the first quarter.

Peter Hagen

Radena, I am sorry but we don't have this currently with us. We will deliver this after the conference to you. I am sorry.

Radena Georgieva – UniCredit

OK, sure. Thank you.

ACT Operator

Thank you. The next question is from Paolo Tamagnini. Please go ahead with your question.

Paolo Tamagnini – Deutsche Bank

Hi, good afternoon. I have noticed that growth is still there in local currencies in most of the CEE areas, in the CEE territories. However, in particularly if I look at non-life there is a slowdown of this growth in the second quarter. I was wondering what is the situation is there, it's a question I already made at the first quarter. What is the situation by territory, if you can give us an update, if the crisis is actually arriving now or you are actually seeing as we are forecasting for the rest of the world some recovery. There is a late tail or the opposite, you already experiencing some good growth coming back. Thank you.

Peter Hagen

As I have mentioned before when we talk now non-life what we can see in most of the countries we still do have growth in non-life insurance certainly in excess of what you would see in Western Europe. In so far we are in line that obviously CEE countries still are performing in this term better. What I can say for VIG as such is that we have given our focus on underwriting profits certainly being much more cautious in terms of investing into growth and what we are underwriting this particularly refers to Romania where still the non-life market was growing. However, we were recording a 10% minus basically because we were not willing to accept insufficient motor rates. At this point of time, we certainly focus much more on real profitable non-life business.

As concerns to crisis, do we feel the crisis? I mean the crucial point is actually that I think what we can particularly see now in the first two quarters now of 2009 and it is accelerated in the second quarter in some of the countries with the exception may be Poland where you can see an interesting adverse development. But in other countries certainly the crisis on a general economic term has gained momentum.

Now having said this I want to recall one thing which I have mentioned before and I give you again my favourite example Czech Republic, just assuming that Czech Republics gross domestic product would reduce by 5% in 2009, it means that the GDP per capita is still higher than in 2007. It is a relative thing for these people there in terms of what it means to have a crisis and what kind of impact this has on how they buy insurance. We basically see no change in the question particularly on the non-life side, how people are looking for insurance when they look for insurance? The only one thing we see is that obviously less cars are bought and therefore less motor Casco is needed, less motor TPL is needed.

But people do not necessarily get rid of their car, with very few exception they will continue to insure their cars. And now having said, so the crisis had one particular impact which is it was lowering inflation rates. And lowing inflation rates means that existing policies do not gain by indexation as much as before. That has an impact as well, in fact on the non-life side we are actually very happy about the fact that it has almost no impact the economic development so far on, the what I call, retention rate about as concerns cancellations.

We don't see a major change in cancellation on the non-life side. Where we see changes is particularly on the life side, particularly on the single premium side that people do not go into single premiums at this point of time or not so much as before or at very unattractive terms. This is also true because of the fact that particularly banks are offering competing products to improve liquidity, products which we don't want to compete.

On the regular premium side, just to give you a few figures on the regular premium side again, Czech Republic just one example, the gross rate of the Erste Bank subsidiary in Czech Republic which we acquired last year in the first half year on regular premium is

40% in the Czech Republic. Crisis yes, impact yes. I also do believe that actually we will see more of this impact in the coming quarters as concerns particularly growth on the life side. I would expect the whole situation actually to go also into 2010. I do not see a levelling out on the real side of the economy before the middle of 2010.

Actually, today we are still benefiting in these countries to a high degree from project which has still been launched when this economic situation was different. But I do believe that certain sectors of the economy if you think about construction for example, project insurance in this context that will be more effective probably in 2010 than in 2009.

Paolo Tamagnini – Deutsche Bank

Thank you very much.

ACT Operator

Thank you. We have a follow up question from Michael Huttner. Please go ahead with your question.

Michael Huttner – JP Morgan

Hello. It is actually not so much a question about Vienna but about your foundation parent. And may be you will say you can't provided it but I wonder if you just would have by any chance the amount of the debt the parent now carries. The reason is it's not so much relevant now but there was a story in the market that this was partly secured or supported by the Vienna share price, not an issue now the Vienna share price recovered but it was back then and I just wondered what the figure was also?

Peter Hagen

Unfortunately, frankly speaking as neither of us is represented on the parent company level - very frankly speaking I don't know it. All I know is that there was some debt and there is less debt.

Michael Huttner – JP Morgan

OK, Thank you sir.

Peter Hagen

But all I know as well is that the parent Company actually on our request because we were also asked by investors, the parent Company was issuing a statement that it does intend to hold long-term majority position. A substantial majority position obviously they could not issue such as statement if they would have been over debt.

Michael Huttner – JP Morgan

I understand, yes, fair enough. Thank you.

ACT Operator

Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone.

There appears to be no further question. Please continue with any other point you wish to raise.

Thomas Schmee

Thank you very much. Ladies and gentlemen, I would like to thank you very much for your interest in Vienna Insurance Group and for being with us in this telephone conference. And we would be happy to have you again with the telephone conference which is scheduled for 10 November for the third quarter release. Thank you very much. I wish you a good day.

ACT Operator

Ladies and gentlemen, this concludes the Release of Results First Half Year 2009 Vienna Insurance Group presentation. Thank you for your participating. You may now disconnect.

END OF CONFERENCE