Conference Transcription

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CONFERENCE DETAILS

Conference Date:	31 March 2010
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Chairperson:	Thomas Schmee

ACT Operator

Ladies and gentlemen, welcome to the Vienna Insurance Group Release of Results and Embedded Value 2009 conference call on 31 March 2010. I will now hand the conference over to Thomas Schmee. Please go ahead, sir.

Thomas Schmee

Thank you, operator. Ladies and gentlemen, good afternoon and good morning and welcome to the telephone conference for the full year 2009 results release. Our team here in Vienna consists of Martin Simhandl, CFO.

Martin Simhandl, CFO

Good afternoon.

Thomas Schmee

Peter Hagen, member of the Managing Board.

Peter Hagen

Good afternoon.

Thomas Schmee

Peter Hofinger, member of the Managing Board.

Peter Hoefinger

Good afternoon.

Thomas Schmee

Roland Groell, head of the Group Finance and Accounting.

Roland Groell

Good afternoon.

Thomas Schmee

And Kurt Ebner, Group Actuary in Chief.

Kurt Ebner

Good afternoon.

Thomas Schmee

Martin Simhandl and Kurt Ebner will give you a short presentation about the results and this will be followed by a Q&A section. Martin, please go ahead.

Martin Simhandl

Thank you, Thomas. Ladies and gentlemen, it's a great pleasure for me to present to you the final year-end result 2009 of Vienna Insurance Group. Before I step into the details of the figures, two items concerning expansion of insurance business. One is Montenegro. We are planning to establish a life company there. Montenegro a rather small country near Serbia where we are already present and we will do this business in cooperation with Erste Bank Group which is already present in Montenegro. Secondly, Lithuania. As you know, we are in the Baltic in life insurance since 2007 which has developed quite well and now we are planning to establish a branch office in non-life in Lithuania. This will be a branch office out of Poland, our Polish company, Compensa Non-life.

Let's go into the figures now – the year-end 2009 highlights, slide 5 of your presentation. The year ended with a profit before tax of €441 million - a solid performance, stable combined ratio at 96.3%. This day in the morning we have presented to you the Group embedded value. We can show an increase of embedded value to roughly €4.6 billion which means return on embedded value of more than 15%. More details will be elaborated on that afterwards. I just want to point out the development of the APE ratios which both in CEE and in Austria and Germany have increased

More details to the financial highlights on the next slides 6 and 7. Growth rates in premium for the first time over €8 billion for our Group. Profit before tax I already mentioned. Net profit after tax and minorities – €340 million. Combined ratio stable as I already said. Earning per shares – €2.66 per share. Taking into account capital increase of the year 2008, ROE before tax 10%.

Slides 9 and 10 show more details about income statement and the balance sheet of our Group. Income statement, as I already mentioned, more than €8 billion growth rates in premium. The net earned premiums up by 4%, €77.5 million taxes which means a corporate tax level of 77.5%. Minorities went down from €33.8 million to €23.2 million. Balance sheet on the asset side – an increase of investment by roughly €5.5% to nearly €26 billion. And on the liability side, the shareholders' equity an increase by nearly 12% to €4.6 billion.

Slide 11 and 12 give more details about the gross written premiums Slide 11 on euro basis, slide 12 on local currency basis. As you know there were some negative developments in some CEE currencies last year which affected the gross written premiums. If we look at the different countries we have also in euro a solid growth in Austria, Czech, Slovakia and other CEE countries. In Romania on euro basis a slight decrease, on local basis an increase by roughly 14%, 15%. Here comes out our programme to make our non-life business more profitable and in Poland the decrease which is driven by this single premium life business.

Expenses for claims incurred in the developmental of debt is shown on slide 13. The Group loss ratio increased slightly to 65.3%. In Austria and in the Czech Republic, the increase came out from the natural catastrophic claim side. In Slovakia, we have to take into account the contribution to reserve for claims from former state monopoly. In Poland, we had an increase due to some legal changes where we have increased the claims reserves out of that. In Romania, we already saw a decrease in 2009 to a level of slightly below 70% and that gives a combined ratio in Romania of slightly below 100%. Other CEE countries negatively have been influenced especially by Turkey and Ukraine.

The operating expense development is shown on slide 14. The Group cost ratio has decreased by roughly 1%. This is an effect out of our cost cutting programme in the

Group. In Austria, we have to take into account that the retention rate in the reinsurance have increased so there were lower commissions out of that which have a negative influence on the cost ratio of the deposit on the claims ratio. We have quite significant decreases in the cost ratio as well in the Czech Republic, in Slovakia, in Poland and Romania.

Slide 15 and ongoing shows the financial result and our portfolio of investments. The financial result increased from €918 million to roughly €930 million. The portfolio overview is given on slide 16, a plus of 5.5% in the investment, a quite huge increase in the bonds which are now on the level of 62% of the total investment portfolio.

More details we can see on slide 17. I just want to draw your attention to the figure on the left side – issuers of the bonds, the increase of bonds issued by government or government guaranteed from 33% to 44%.

One detail on slide 18 to real estate – as you know we have some 13% real estate in our portfolio but what I want to clearly point out is that nearly two-thirds of that portfolio are real estates held by regulated Austrian housing societies. These are companies who provide flats at low rents for customers. These are companies having a special legal regulation in Austria. These are companies being supported by the state on the one hand, on the other hand the rents are limited so from it's profit side, this is a marginal business but it's also a very low risk business. And what's also important, the residents of these flats are customers of our Group so this is good for our customer bases.

Slide 19 shows the development of the shareholders' equity in 2009 and we see an increase by roughly €500 million despite dividend payments including the dividends on the hybrid of nearly €300 million.

Ladies and gentlemen, for more details concerning the European Embedded Value 2009 of our Group, I now would like to hand over to Kurt Ebner. Kurt, the floor is yours.

Kurt Ebner

Thank you, Martin. Ladies and gentlemen, the Group embedded value 2009 reflects the impacts of three distinctive developments which significantly influence the results of the business activities of Vienna Insurance Group during the reporting period.

First, there is a solid technical result within the context of the core business not at least due to an efficiency program which was started in 2009 and which shall provide a reduction of costs amounting to €100 million till the end of 2010. Second, there was a slowing down in the growth of the life insurance business as a result of the financial crisis due to the economic drain which was experienced by the private households and by corporate institutions throughout the CEE region. And third, with a recovery of the capital markets providing better investment performances due to narrowing credit spreads to lower volatility and an increase of share prices.

Before I go into details regarding the embedded value results, let me have a word on the scope of the evaluated companies and the quality of the GEV reporting. The former Erste Bank insurance operations in the Czech Republic and Slovakia have for the first time done their calculations using EEV methodology and since the newly established VIG Re in Prague has started its business activity only in 2009, it therefore is included in the Group embedded value on the basis of its IFRS book value contained in the adjusted methods as value of its shareholders.

As far as methodology is concerned, we have determined the European embedded value compliant with the principles set out by the CFO Forum. VIG upgraded its GEV methodology by allowing for many aspects of the principles like the cost of residual nonhedgeable risk. The reason why the stochastic embedded value still is classified as a European embedded value instead of the market consistent embedded value is the use of the liquidity margin.

The reference interest rates for the EEV calculations are based on the corresponding swap rates. In order to appropriately reflect the long-term and relatively illiquid nature of insurance liabilities, VIG applies a liquidity margin of 25 basis points to the swap rates. Hence, the Group embedded value of 2008 has liquidity premium of 50 basis points was applied to the swap rates. We allowed for a significant decrease of this parameter in 2009. Six VIG companies are still included in the Group embedded value with their traditional embedded value.

Let me come to the results. The Group embedded value 2009 announced to €4,585 million. Last year's reported Group embedded value amounted to €4.16 billion. Last year's restated and adjusted Group embedded value amounted to €3,970 million. This value is mainly the consequence of dividend payments in 2009 amounting to €256 million including the payments of a bonus dividend in October last year for the year 2008. The return of the total Group embedded value therefore is €611 million, respectively 15.4%. The final Group embedded value of 2009 of course allows for all consolidation effects and is reported net of minorities and taxes. Taking into consideration that geographical splits of the full Group embedded value it is obvious that the CEE part has grown again compared to the Austria-Germany part of the GEV.

Focusing on the new business value, it is obvious that new business in the life segment has slowed down. The new business value in both geographical regions Austria-Germany and Central and Eastern Europe has decreased but the new business margins again show an upwards trend. APE ratios have clearly increased compared to last year and main driver behind this strengthening of the margins certainly is the ongoing efficiency programme which I already mentioned.

The positive influence of the recovering capital markets can easily be seen in the new business value as well as in the full Group embedded value in a clear decrease of the cost of financial options as guaranteed a level to a significant increase of the present value of future profits in life and health insurance, again in both regions – Austria-Germany and Central and Eastern Europe.

Finally, it can be said that Group embedded value result indicate a strong performance in times of difficult economic environment and confirms the strategic decisions to concentrate on the CEE region because of its implied profitability of its insurance market. So much a short survey of GEV results. Thank you for your attention and I hand back to Martin.

Martin Simhandl

Thank you, Kurt. I wanted to finish our presentation showing you the path of profitability of our Group on slide 25 of the presentation. You can see in the result combined annual growth rate of roughly 16.4%. And for the year 2010, we expect on the one hand a single digit premium growth and on the other hand the profit before tax to be raised by at least 10%. Ladies and gentlemen, thank you very much for your attention and we are ready for your questions now, thank you.

Thomas Schmee

Thank you, Martin. Operator, please go ahead with the Q&A section.

ACT Operator

Thank you, sir. The first question comes from Charles Graham. Please go ahead, sir.

Charles Graham – ING

Good afternoon. Could you talk a little bit about how you see the outlook in the domestic Austrian market for both life and P&C sales and whether you are any more optimistic about that market than perhaps you were earlier in the year? And then second question, I was just going through the embedded value disclosure, but for certain assets you have chosen not to mark them to market and made an adjustment for that. Could you just explain what those assets are and what changes have you made?

Thomas Schmee

Your first question will be answered by Peter Hagen and your second question by Kurt Ebner.

Peter Hagen

The dynamics of the Austrian market, I would summarise very shortly in a way that we do not expect the market and the development of the market to deviate a lot from what we have expected in January. We have seen in the first month in our Group a certain, let us say development which might look if it were better than expected. However we think that still what we have indicated at the beginning of the year that we expect a rather flat development, with a single-digit growth if any still to be valid. What we can see that on the life insurance side the issue of single premium payment is still going on. What we can also see is that surrenders are going down, so we see a levelling out of surrenders quite significantly but we do not expect to see a real, the market really recuperating a lot in 2010.

On the non-life side, again same issue in a market where basically non-life is growing around the growth of GDP. Obviously with the current expectations of GDP growth, we do not expect a tremendous growth on non-life side either. Overall, we have some indications in the first quarter that we might do a little bit better than originally expected, I would not want at this point to change our outlook for Austria.

Kurt Ebner

OK, as far as the second question is concerned, the assets which are not evaluated with a marked-to-market principle are the stakes we hold in affiliated companies. They are shown with their IFRS book value.

Charles Graham – ING

OK, right, thank you.

ACT Operator

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

Ralph Hebgen – Keefe, Bruyette & Woods

Yes, hello, good afternoon. My first question is related to net realised gains which in the fourth quarter was €67 million. That is a lot higher than the run rate in the second and third quarter and it will be interesting if you could make some comments on what drove that result.

The second question is related – what is the contribution of that net realised gain to pre-tax profits? Third, the net investment income in full year 2009 in P&C was €165 million. I just mentioned this as a reference point. In the fourth quarter, that a small loss of minus €2 million. That establishes a completely different order of magnitude for the run rate in the previous quarters and I was wondering whether the dynamics dividing that may relate to a reallocation of assets which you have done between P&C and life or indeed if you could just explain what drove this dynamic.

And the fourth point is on solvency. It will be helpful if you could disclose the Solvency I ratio, but also in particular comment on the reasons, statements made by your CEO who indicated that you might need €1 billion in additional capital to be ready for Solvency II although he did add that would have been on a worst case scenario. Nevertheless, it will be interesting to hear your view on the context in which this was said and what the potential consequences might be. Thank you very much.

Martin Simhandl

Well, the first question will be answered by me. Net realised gain is going up beginning in the fourth quarter. As far as I remembered, the main items came out from the bond side where we had sort of buybacks or finishing bonds which contributed to the realised gains. The effect on the pre-tax profit will be given to you afterwards by Roland Groell.

Your third question concerning the development of P&C in the investment income in the fourth quarter – we have done some write-downs in the fourth quarter. We already mentioned in January Ukraine and this affected the P&C investment income. Solvency I ratio as we disclosed today is above 200% and concerning Solvency II, this is real interesting question where you can talk a lot and very long and maybe I hand over to Peter Hagen for more details.

Peter Hagen

I think when we talk about Solvency II obviously, and I promise I won't be that long, we are all talking now about preliminary issues. We also have to see that a lot of the currently driving discussions in the various ways we are preparing for QIS 5, the determination on the parameters, a lot of politics is involved. And we want to position ourselves and also make sure of it towards not only the authorities but also to politicians what kind of impacts certain of their ideas could have. If you want to do this you must be very explicit. So, therefore we have done a study together with other Austrian groups based on figures which have been prepared by the Austrian Supervisory Authority what could be the worst situation for Austrian insurance companies in total. And based on this it was just basically broken down in a very rough estimate saying OK, if €11 billion is the situation for the Austrian markets, given the situation of VIG and its position in this market and given its good equity position and solvency position according to Solvency I, we would expect something to be around a billion. Again this figure has to be interpreted and this is as much as I can say now within the context of a whole lot of political discussions around the issue of Solvency II now. Do not take this as a precisely calculated figure.

OK, that is as much as I can say now.

Ralph Hebgen – Keefe, Bruyette & Woods

No, that is clear. I think I am – the English expression is I am hearing you.

Peter Hagen

OK, very good.

Ralph Hebgen – Keefe, Bruyette & Woods

Can I just - there is a follow-up on the very small investment loss in P&C. I understand that will be clearly affected by goodwill write-downs, etc., but it does establish completely different order of magnitude, does it not? I mean it was €80 million in the third quarter, €30 million second, €50 million first quarter. It seems as if there is more at play than the €20 million goodwill write-down.

Martin Simhandl

It is not only the €20 million goodwill write-down. We have done also some other write-downs, for example, concerning a holding called TBIH which is €30 million. So we have done so to say some more cautious things here.

Ralph Hebgen – Keefe, Bruyette & Woods

And these write-downs are all included in which line? Is this all in impairments? Because that is €23 million in the fourth quarter for P&C?

Roland Groell

Yes, it is included in the impairments.

Ralph Hebgen – Keefe, Bruyette & Woods

OK, cool. And the final thing is the contribution to pre-tax profits from the net realised gains?

Roland Groell

If you look at the net realised gains, we have in the third quarter something like €90 million and in the whole year 2009 €150 million, so the difference is €60 million more net realised gain losses and about two-thirds are affecting the profit.

Ralph Hebgen – Keefe, Bruyette & Woods

OK, just to be clear on this, I do apologise. What are you saying? Can I just restate my question simpler? In the fourth quarter 2009, what do you think the net contribution was to pre-tax profits? So this is €67 million net realised gains in the fourth quarter. How much of that may have flown through the pre-tax profits?

Roland Groell

Two-thirds of this amount.

Ralph Hebgen – Keefe, Bruyette & Woods

Two-thirds of that, lovely. Thank you very much indeed.

ACT Operator

Thank you. The next question comes from Dhruv Gahlaut. Please go ahead.

Dhruv Gahlaut – HSBC

Good afternoon, just two questions. One on pricing – if you could just give trends in pricing, what's happening on the non-life pricing side in your main market. Second also is – in the P&C segment, I see other expenses. Would it be possible if you give any colour on that number of €93 million? Thanks.

Martin Simhandl

Peter will answer the first question.

Peter Hagen

OK, on pricing in general – we can see over the markets very different developments in various lines of business. In general, you can say there is some pressure on pricing on the motor side. But again depending on the market you can see that for example in Poland, the prices are pretty stable. Even there is a little bit of an upward trend given the current situation and the need of PZU. Given the deal that they did with Eureko, there need to have be more income from their side. So, they have an interest as well to bring prices up. What we can see particularly on the motor side at least a stabilization, a little upward trend.

Romania is a very specific issue. On the motor side we have deliberately increased our rate in motor substantially which on the one hand side led to the very positive effect that we can also read in the paper and in the documents to this conference bringing down the combined ratio from more than 104 to clearly below 100, however having also the impact that we had to accept quite a big loss in the number of cars insured which were going to other insurers which did not follow at all or did not follow to the same extent the price increase as we did. So you see a very heterogeneous picture in Romania. There are some still going up, some will go substantially up which is us and some particularly still locally owned companies which are more or less keeping pricing stable or even going down. Having said this, this is an issue which even was now addressed by the Romanian Insurance Supervisory Authority. There is an initiative there in order to make sure that in 2010 there will be no, to say this way, no incentive particularly to domestically-owned companies to further bring prices in motor down.

In the Czech Republic, in Slovakia, we would not see any sort of indication that prices or price levels would go up. I think what we can say it will depend a little bit on the situation of the car market but in general we would expect this to be again flat in its development and the same applies to Austria. So the major non-life line which is motor, we believe prices, if you look all over the territory price levels, with a certain optimism we could say they remain the same. Having said this, this is obviously also driven by the fact not just by the crisis but that in most of the countries the claims experience, if I take Austria or Czech Republic, the claims experience is still developing favourably if I don't include any sort of impact of the worse weather condition. But we have countries like in Romania where we did see a tendency to higher claims. We did see a situation like this also in Poland due to legislation changes with the possibility to ask also for pain and suffering, damages that had a certain inflationary impact. But I have to say we have provided for this quite substantially and what we have provided for looks to be on the very safe side as the claims did not, at least not yet, materialise in the way we had expected.

On the other non-life areas, we see a stable development, no price level or price race going down on the personal non-life non-motor. Rather to the contrary, we see, I would say price levels going up more or less in line with inflation. So on the non-life personal line side positive development also in terms of selling these though there seems not to be too much of an impact of a crisis in this respect.

On the commercial side, again a very heterogeneous picture. There are – the tendency which we had seen in the last two years that more and more the companies again are given premium rates according to their merit, if you want. So their individual loss experience has continued. It's a very heterogeneous picture you see. Given – if you have a lot of experience, you will definitely see rate increases with the companies that's got lots of experiences can still trust in rate cut.

This is in a nutshell the situations on the prices. So overall we would not expect the overall non-life a substantial support for growth in increased pricing. We would also not expect a substantial pressure on premium levels going downwards. That's in a nutshell what the situation on the non-life side.

Dhruv Gahlaut – HSBC

Thank you.

Martin Simhandl

Second question will be answered by Roland Groell.

Roland Groell

If you look at the other expenditures, they consist of mainly three parts. First of all as mentioned before, if you look at the currency development euro to for example Czech crowns, Polish zloty, Romanian leu there we see currency losses. The second part are expenditures from non-insurance companies, for example housing societies or other non-insurance company. And the third part are provisions for receivables that are the main parts of the other expenditures.

Dhruv Gahlaut – HSBC

Alright. Thanks a lot.

ACT Operator

Thank you. And the next question comes from William Elderkin. Please go ahead sir.

William Elderkin – Citigroup

Good afternoon, everybody. Two questions, please. First one most, in terms of the developments of your claims ratio, looking at the calendar year '09 versus '08, what was the effect of large weather losses or large claims inside the '09 and '08 ratios and secondly what was the impact of prior year reserve movements on those calendar year claims ratios in '09 and '08?

Martin Simhandl

Both questions will be answered by Peter Hagen.

Peter Hagen

On the weather claim gross impact was about €130 million net which means after reinsurance it would be around 40.

William Elderkin – Citigroup

Is that 40 in both years?

Peter Hagen

Again.

William Elderkin – Citigroup

Was that the same 40 in both -

Peter Hagen

No, no, I am talking now 2009.

William Elderkin – Citigroup

Do you happen to have the figure to hand for '08?

Peter Hagen

I don't have it at hand, so – but it would be less. This I know for sure. I don't know the exact figure by heart but that we could certainly deliver. But that was 2009.

We had a couple of larger losses particularly in third and fourth quarter also outside of weather losses particularly on the fire side. The total net impact will depend a little bit on how they finally settle which is not – but we could still expect another 20 million, 30 million out of that which obviously is provided for. That's on the large losses side.

The reserve development - nothing of this – we have not changed in any way our reserve policy or reserving policy. So there was not more released or less released than in the years before. And in fact, if you look into the material to the embedded value you will see that the confirmed value of hidden reserve as they call in or redundancies in the claims reserve compared to 2008 has basically remained stable.

William Elderkin – Citigroup

It comes from first what - the prior year release effect actually was though? I can't see it.

Peter Hagen

Usually in the average, over years if you take the average it's usually about 7% to 8% of the income and reserve.

William Elderkin – Citigroup

Is there anywhere we can see that number in your account? I can't see it.

Peter Hagen

There is a triangle shown but it is difficult to interpret, the triangle shown in the annual report. I have made it difficult to see this from there but again in the – as I said if you look into the materials to the embedded value, there you have a confirmed PC surplus and claimed reserve and that is basically the same as last year.

William Elderkin – Citigroup

You mentioned that's it's been on average 7% to 8% established through the years of prior release. What is the similar number over '08 and '09?

Peter Hagen

Again, I am sorry, I didn't understand it there.

William Elderkin – Citigroup

If I understood you correctly, you mentioned that prior year releases have been a consistent seven to eight percentage points of your claims ratio averaged over time. If I understood that – if that's indeed correct, was the release's movement in '08 and '09 at a similar level to that longer term average you mentioned?

Peter Hagen

Yes, absolutely.

William Elderkin – Citigroup

Great. Thanks for your help.

ACT Operator

Thank you. The next question comes from Michael Haid. Please go ahead sir.

Michael Haid – CA Cheuvreux

Thank you very much. Michael Haid from Cheuvreux. Two questions are left from my side. First, on the recurring investment income, can you give us an indication where this recurring investment income will go in 2010 and 2011 based on the current low interest rate environment both for the life segment and also for the P&C segment? And my second question – based on the statements you made on pricing, what combined ratio can we expect for the Group for 2010? Can we expect the combined ratio will stay at the 96% level or should we rather think about a small increase?

Martin Simhandl

Both questions are not easy to answer. Always, dealing with future is not easy. But concerning the first question, recurring investment income, I would think there would be no tremendous changes also this year. Concerning the combined ratio, I would hand over Peter Hagen.

Peter Hagen

As I mentioned when I was talking about the pricing that a lot of the downward pressure on price level is the reflection of improved losses either in general like you see lower frequencies in motor TPL in Austria or in Czech Republic is the long trend or individually when it comes to commercial business. So overall, from the loss side, in fact what we are calculating with is a certain, let's say to be on a cautious side, increase on the loss ratio side. However, we are quite confident to be able to a high degree compensate this by further improvements on the cost side as we have shown this year. Kurt Ebner also mentioned before the cost cutting programme we have issued last year will continue this year and should give us enough leeway to compensate for some ordinary increases in loss ratio. So overall the policy which we have published remains the same. We are aiming for a combined ratio below 100. As we have mentioned, since many years now and have in the meantime also shown what we mean by below 100, I don't think there is a lot of intent from our side to see this different in the future.

Michael Haid – CA Cheuvreux

OK. Coming back to the recurring investment income, can you give us the - I don't know whether you would state that in the annual report but can you give us the duration of the bond portfolio both in the P&C segment and in the life segment?

Martin Simhandl

Overall the duration of the bond portfolio is roughly seven years but we have to take into account the investment portfolio not only consists of the bond portfolio.

Michael Haid – CA Cheuvreux

OK, perfect. Thank you.

ACT Operator

We now have a follow-up question from Ralph Hebgen. Please go ahead, sir.

Ralph Hebgen – Keefe, Bruyette & Woods

Yes, it's me again. Two follow-up questions, in fact. One is just going back to the minus EUR 2mn from the investment result in P&C, you mentioned the above areas impairments, etc., responsible for this. Can we expect that to flip back if you like to its previous quarter run rate, so like €50 million or so? In other words, do you think that's an exceptional development this quarter or is there something which establishes a new baseline for the next few quarters? And the second question is just to confirm – you mentioned helpfully that the reserve release, the result from prior years in P&C was seven to eight percentage points on the combined ratio. So in other words, if in 2009 your combined ratio is 96% then the underlying, let's say, or the accident year combined ratio would be around 103%?

Martin Simhandl

The first question I will answer to you. The second question will be answered by Peter Hagen. First question – clearly, I do not expect such write-downs in each and every quarter frankly spoken. And concerning the second question, what I want to say in advance there is some misunderstanding and Peter will clear it up.

Peter Hagen

The misunderstanding is in the fact that it did not contribute seven or eight points to the combined ratio but what I was saying is that average release over the last 5 to 10 years actually not just the last two years is about 7% or 8% of the incoming reserve.

Ralph Hebgen – Keefe, Bruyette & Woods

Can you – clearly when I look at the combined ratio of 96.3% in 2009, how much in percent of the net premiums earned in 2009 was contributed from prior year runoff result?

Martin Simhandl

I think the main item which is misunderstood if you have a release from the last year and you have the same level of redundancies that means you have to have an over reserve of the current year.

Ralph Hebgen – Keefe, Bruyette & Woods

Correct.

Martin Simhandl

Egalises itself.

Ralph Hebgen – Keefe, Bruyette & Woods

This is why I am interested in this. I mean you have a very stable disclosure of excess reserve in the embedded value report over the last five years or so. Clearly if you have a well reserved book of business, there will be automatically the contribution from prior year results, you will have reserve releases. Now if however as you are to say the excess reserve remains constant then it would follow that every year you are actually able to write business and it comments with the higher profitability.

Peter Hagen

You have to consider the change of the mix of the portfolio.

Ralph Hebgen – Keefe, Bruyette & Woods

Yes, OK.

Peter Hagen

You have obviously lines of business and particularly when you go into personal lines non-life non-motor, where we grow in terms of premium which is one of the lines which we basically want to go where we see the growth market but which are not very much reserve building and so you don't have too many redundancies in this any way. The growing business is not necessarily an indication for the need of the redundancy in the loss reserve. You have to consider also the change in the business mix, the background.

Ralph Hebgen – Keefe, Bruyette & Woods

OK. Just finally just so that I understand what you said 7% to 8% on average over the last 10 years of incoming reserve. What does that actually means? Does that mean the sort of let's say -

Peter Hagen

Incoming reserve and you can expect from this incoming reserve beginning of the year a loss reserve. You will, in the average we will release about 7% to 8% of this as redundant into income. This will be fully or partially offset. Obviously, there are some differences over the year. Fully or partially offset by what you building new this very year. But you should never forget, as I said the business mix and their incoming reserve is the accumulation of all reserve of the past year whereas the building of the new reserve is always the impact of only one year. So therefore, you need a substantial if you want to over reserving in the new year in order to offset all the redundancies of the incoming year.

Ralph Hebgen – Keefe, Bruyette & Woods

OK. Fair enough, thank you very much.

ACT Operator

There appear to be no further questions. Please continue with any further points you wish to raise.

Thomas Schmee

Thank you very much ladies and gentleman for participating in the telephone conference.

END OF CONFERENCE