Conference Transcription

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CONFERENCE DETAILS

Conference Date:	19 August 2010
Conference Time:	14:00 UK Time
Conference Duration:	Approximately 52 minutes
Chairperson:	Thomas Schmee

ACT Operator

Ladies and gentlemen, welcome to the Release of Results First Half Year 2010 Conference Call on 19 August 2010. Throughout today's 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 difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

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

Thomas Schmee

Thank you operator. Ladies and gentlemen, welcome to this Half Year Telephone Conference of Vienna Insurance Group. Our team here in Vienna is lead by Peter Hagen, Member of the Managing Board.

Peter Hagen

Hello.

Thomas Schmee

Also with us is Peter Hoefinger, Member of the Managing Board.

Peter Hoefinger

Good afternoon.

Thomas Schmee

And Roland Groell, Head of Group Finance and Accounting.

Roland Groell

Good afternoon.

Thomas Schmee

I will pass the floor now to Peter Hagen, who will do a short presentation along the brochure that we have published today. And this will then be followed by a Q&A section. Peter, please go ahead.

Peter Hagen

Thank you, Thomas. Good afternoon or good morning everybody. I want just to shortly go through the presentation, just a few highlights. The good thing, right at the start we are completely in line with our plan. Gross profit was €256 million, basically what we had projected when saying that we expect gross profit up by 10% plus. Single digit growth although I have to say rather higher single digits than we expected. And combined ratios still, and I want to emphasise a little bit on this, below 100%.

In fact, second quarter or actually the whole first half year we can say one good thing that we are talking more about insurance again than on investment. The bad thing about it is we are talking about insurance because of a whole series of natural catastrophes. And in this context let me just elaborate a little bit on this right here because this is really the characterising element in first half year particularly on the non-life side of course.

We had natural catastrophe losses gross of about €102 million as of the current status. These are the pure losses, this does not include any sort of additional expenses we obviously incur when you have suddenly thousands of claims more than normal. That is something which is basically build into the normal expenses and however should be considered as well. As well as some ancillary losses which we simply experienced from adverse weather conditions like heavy snow or ice which can lead to natural catastrophes when turning into water. But at the first point they are increasing claims frequency particularly in motor insurance.

Having said this altogether we are quite happy that still in such a situation where our net accounts were effected by around €50 million by this natural catastrophes in the first half year. The combined ratio is, we believe, very good 98.3%. If you would discount for this catastrophe losses then basically we would be pretty much similar to last year's combined ratio.

Another highlight certainly for the first two quarters is the performance of the insurance companies which we have acquired from Erste Bank. We had presented to investors our projections particularly also as concerns earnings for s Versicherung and I am happy to say that half year results in 2010 are already in excess of what we had presented in 2008. Very satisfying situation particularly considering the economic situation in most of the countries in which we are operating. But I might want to come back to this a little bit later.

Another important issue is that we have acquired the remaining stake of 40% in TBIH from Kardan Financial Services which made us now the sole shareholder also in one of the largest Ukraine companies, UIG. By doing so, we basically more than doubled our premium income in the Ukraine and this lead also to a change in what kind of status Ukraine enjoys within the portfolio of our countries.

We have invested a lot of management attention in the last six to nine months to the Ukraine. Our colleague Martin Divis spent many, many days there together with his team in order to analyse and assess the situation in the Ukraine. And the result of this is that we have decided also taking the opportunity of basically doubling our position there with acquiring UIG completely, that we declare Ukraine as one of our core markets with a clear goal to develop our leading position there in the retail business.

We do believe that the political situation is to a high degree stabilising and we also see first signs of economic environment stabilising, so we do believe that this is now a good time to really commit ourselves to the Ukraine. Having said this, I mean we should always keep in mind we are talking about dimensions in the areas of couple of dozen million euros, we don't talk hundreds of millions of euros. But that is certainly something which is worth mentioning.

As concerns the financial highlights I guess you have already browsed through with. I think the most important that we have touch base on it already. We have basically fulfilled our guidance with the 10% plus increase in gross profits. I'll just shortly come to the income statement, most of the important issues we have mentioned. Premium growth at around 8%, loss ratios obviously influenced by natural catastrophe losses and to a certain degree also to particularly in Romania by motor claims. I will come back to this shortly.

Operating expenses, obviously influenced by our cost cutting programme on the one hand side. On the other hand side, we have experienced lower reinsurance commissions and also an increase in the commission or in the acquisition costs side which was partly offsetting the cost savings on the admin side. Overall, we have a net profit after minorities of €196 million, up 9% over last year. Basically also because minorities have increased as particularly those countries where we do have minority shareholdings like Czech Republic and particularly also s Versicherung, where still the Erste Bank for strategic reasons also does have a share in, were particularly profitable.

No particular items which I would want to comment on the balance sheet, so if there are any questions obviously we are more than happy to comment on this. To go further to the premium development in the individual countries, non-life side characterised, and this is true basically for all countries including Poland by a competitive environment for motor. On the one hand side due to the economic crisis, on the other hand side the people in general are switching to smaller cars which obviously also does have an impact on cars sales. On top of this obviously the incentive programmes that has been run last year lead to a some pre-purchases which obviously are now missing.

On the other non-life side I think we see a very nice development particularly in Poland. We are growing very nicely in Poland on non-life in general but particularly on a non-motor non-life. We have stronger focus now on commercial and also community business, in particular interest in Poland is focussing very much on community business and that is proving to be quite successful.

In Romania, as you know, we had deliberately reduced or we have not deliberately reduced I shouldn't say this. We have increased our premium rate and we have accepted that this might lead to losses in terms of numbers of policies which obviously was the case. It showed to a high degree already in the loss ratio that we in terms of profits we went the right way. However, in terms of top line obviously it still has an impact as long as other insurers in the country are ready to give insufficient prices.

On the claims side, as I said, basically the increase in claims is only due to the natural catastrophes and adverse weather condition related claims, I would say. This is true for Czech Republic, for Poland and also to a degree for Austria. However Austria was more than offset by lower losses in other than catastrophe losses. Romania saw a decrease by more than 7%, this I have to say, is not only due to our increase in premium rates. There are various factors influencing this, one of this is also the foreign exchange development in Romania, a high number of policies particularly in the motor own damage area are issued on a euro basis, so they are also to a high degree dependant on the euro exchange rate.

But there is also particular influence involved here which is reducing the losses and is increasing the cost area, that is that until this year recourses had been booked as other technical income and went then in the formula into costs whereas now they are directly offset from loss reserves. That obviously had an impact on the loss ratio as well and other effect which was increasing loss experience in Romania was obviously also natural catastrophe.

On the cost side, basically where we see increases it is mainly due to increased acquisition costs. In general admin costs are stable or actually go down still. One exception again is Romania, part of this increase is also due to this new type of booking of recourses. If you look at the basic admin costs they are stable which is not yet a success I have to say because we are working very hard to decrease these costs in Romania further.

When we turn focus shortly on the financial result or the investment income result I think two remarks only. Ordinary income, current income from investment basically flat reflecting the current interest rate situation. And the major improvement basically cost from significantly less impairment and depreciation this year over last year.

As concerns the investment split, a further tendency towards quality bonds, basically particularly into government bonds of well established rated governments. You can also see from the rating structure quite within six months a shift by more than 10% in the AAA area. And just to anticipate a question we are in the per mill area as concerns government bonds and guarantees in the gypsy countries.

Another achievement I think for the first half year we succeeded to further increase our equity by another €260 million which leaves us with a quite comfortable solvency margin obviously still on Solvency I basis of way over 200%.

That brings me to the outlook which obviously is not very different from what we had presented the last two presentations. We have with the result of the first half year confirmed the top line projections as well as the bottom line. And we have no reason why we would want to change the outlook for 2010 yearend. This in a nutshell will be the presentation.

Now we are obviously more than happy to answer your questions. Thank you.

Thomas Schmee

Thank you, Peter. Operator we are ready to go into the Q&A section.

ACT Operator

Thank you, sir. If any participant 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 the order they are received. There will be a short pause whilst participants register for a question.

The first question comes from Enrico Mattioli. Please go ahead.

Enrico Mattioli – Deutsche Bank

Good afternoon to everybody. Just a couple of questions, one is on the natural catastrophe which has affected you like many other insurers in Europe this quarter. I wanted to know if you have a budget in term of impact on the loss ratio and the combined ratio that you can disclose, I don't know? Do you expect in a normal year 2% of the combined ratio from natural catastrophe or something different, if you can disclose it.

Another question is on s Versicherung. I just wanted to know, if you can disclose how much of the pre-tax profit of the Group was coming from there?

Then finally, if you can give us, please, a bit more of a colour on the pre-tax results by line within geographical area? Which by the way would be a very nice information to get in the presentation in the future, if it is possible. I mean obviously what you already give on property casualty, life and health divided also by main region. Thank you.

Peter Hagen

Natural catastrophe, yes we do have a budget. You can assume that we are expecting something like 1, 1.5 percentage points in combined ratio coming from NatCat in a normalised year, I would say. What we see this year is obviously a whole series and frequency and long lasting events which means also that for reinsurance purposes given the hours clause is normally included in natural catastrophe protections. You have to decide exactly where to put this hour clauses and where to put this so called windows which leaves you also with a lot of losses un-reinsured. And that is the reason why currently we are running about €50 million out of the €100 million net. That is something which is certainly an issue we will address particularly also when dealing with the next year's planning process. But in general as I said.

s Versicherung has contributed a little bit more than €40 million to the overall result which is comparing to something like €11 million last year.

Enrico Mattioli – Deutsche Bank

This is pre-tax right.

Peter Hagen

That's pre-tax.

Enrico Mattioli – Deutsche Bank

OK. Thanks.

Peter Hagen

OK. And now the question to the lines of business, I mean we do have according to regions. You can see the P&L according to our main reporting regions in the annex to the presentation from Austria, Czech Republic, Slovakia, Romania and other CEE and others. That gives you some ideas about the comparison. And we do also have an annex, it is actually page 27, where you can see combined ratios and net combined ratios and profit before taxes for the individual regions and even a split down also for the other CEE. This is, may be –

Enrico Mattioli – Deutsche Bank

What I meant was the split between non-life and life by areas, so I suppose with the combined ratio we can assume the technical result. But I suppose the driver was mostly coming from life also in Czech Republic and let's say in the other areas where you improved.

Peter Hagen

Yes, well this is definitely true. This year certainly life played a more important role also due to the reason what I have mentioned before as concerns the non-recurring need for impairments which had effected to a high degree the life section in the last two years particularly on the bond side. That obviously did not materialise again this year, so obviously the life results were normalising if you want so.

What we do not disclose currently is the further details now at this point on the life side. What I can confirm is that for example, we will do again more detail when we are talking about embedded value calculations yearend about the profitability of the new business in the various countries and regions.

What I can say is that if you take the new business values of the embedded value calculation last year at this point of time we are pretty much in line with them, a little bit improved I would say, as also the APE ratios have improved again.

Enrico Mattioli – Deutsche Bank

OK. Thank you.

ACT Operator

The next question comes from Ralph Hagen. Please go ahead sir.

Ralph Hebgen – Keefe, Bruyette & Woods

Yes, hello. Ralph Hebgen from KBW. Good afternoon. Just one question which, I apologise I always ask this, you know this. It's the contribution of net realised gains to pre-tax profits in the half year. Just to be specific what I mean is you had realised gains of €117 million in 1H 10, realised losses of €25 million, so that gives me net realised gains of €93 million. And of those €93 million how much of that actually flew through to pre-tax profits at Group level? That's question number one.

Question number two is the efficiency programme. Would you be able to give us an update on how that is progressing and in particular what are the costs savings? What's the contribution from costs savings arising in the efficiency programme accrued in the second quarter 2010? These are the questions actually. Thank you very much.

Peter Hagen

OK. I will start with the last one and then Roland Groell will answer your first one, your traditional one. On the efficiency programme we are currently at the status of about 80%, which means for second quarter we have realised around €10 million. And that is more or less evenly split between non-personnel costs and personnel costs. A little bit leaning towards the non-personal costs in fact which we also would expect because a lot of 2009 just came from one-offs as well connection with reserves for vacations etc which we were able to dissolve. But the reduction in personnel, we have reduced by more than 2,000 people overall since 1 January 2009.

Obviously the benefits of this, particularly as most of these people were coming from the CEE region are showing more in the non-personnel cost side as those costs which are related which having a headcount, a desk, telephone, a computer, software licenses etc, etc, this is coming in now and is no longer a set of severance payments and things like this. We are very confident obviously that for the next – as we have projected if you remember at the end of last year we were basically projecting that the remaining €40 million will be split evenly over the four quarters and this looks very much so to be the case.

Ralph Hebgen – Keefe, Bruyette & Woods

OK. Cool.

Peter Hagen

OK. First question about contribution of net realised gains to bottom line will be answered by Roland Groell.

Roland Groell

As you mentioned our extraordinary investment result in the first half year was about €90 million. If you look at the extraordinary investment results in the P&C business the whole amount influenced directly the profit that's about €20 million, €25 million. The rest is shown in the life segment and at life segment out of this extraordinary income about 80% belongs to the policyholder and 20% to the shareholder. That means from this €90 million something between €35 million up to €40 million we show in the profit.

Ralph Hebgen – Keefe, Bruyette & Woods

Just to confirm, so that means that between €55 million and €65 million let's say this year went through to pre-tax profit, sorry in the half year.

Roland Groell

€35 million to €40 million.

Ralph Hebgen – Keefe, Bruyette & Woods

€35 million to €40 million.

Roland Groell

Yes.

Ralph Hebgen – Keefe, Bruyette & Woods

I thought that only related to the life section, I got this wrong then. €35 million to €40 million for the Group?

Roland Groell

For the Group.

Ralph Hebgen – Keefe, Bruyette & Woods

For the Group. OK. Thank you.

Roland Groell

Group life business.

ACT Operator

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

Michael Haid – Cheuvreux

Thank you, good afternoon. Michael Haid, Cheuvreux, three questions. First of all the €102 million gross losses, from NatCat if I understood correctly that is around €50 million net. Can you give us a breakdown for the various countries, I think that is Poland, the Czech Republic and Romania?

Second question, reserve releases from prior year reserving. Can you give us an idea of how much the combined ratio was influenced by this reserves from prior year reserving? I have in mind that usually 7% to 8% of initial reserves are released in every year.

Last question, current investment income. When I look at P&C and life then I see that current investment income in P&C increased significantly while in life it decreased to some extent and this comes as a assets – while assets grew more or less the same. Is there a particular reason here why this is the case or is it just noise within the quarters?

Peter Hagen

I start with the natural catastrophe question. On a gross – you wanted to have a net one in fact, the net loss total was about €50 million. Of this about more than 40% is Czech Republic in the net side, 40% is Czech Republic. About 20%, a little bit more, is Austria and then we have basically evenly distributed somehow between Slovakia, Poland and Romania.

Michael Haid – Cheuvreux

I thought Poland was much more but OK.

Peter Hagen

It is – the point in Poland is that the insurance density on natural catastrophe is much lower than you would see for example in Czech Republic. And the reason is that the tradition of having natural catastrophes in Poland is much, much lower than or much scarcer than in Czech Republic or other countries, Slovakia or Austria, Romania. Poland to a high degree was taken by a surprise by this event now, particularly by the ones not so much what you saw now but what you saw in end of January, February, March. So the snow, ice and then turning this into water, this was highly unusual in Poland. And so people are not very much insured against that. If you had the same event in the Czech Republic, in Austria, in Romania losses would be much higher. Having said this they are high enough, I would say.

Michael Haid – Cheuvreux

In Austria what was it –

Peter Hagen

The net was a little bit more than – it is around €11 million, so little bit more than 20%.

Michael Haid – Cheuvreux

Where did it come from, what event?

Peter Hagen

A whole set of. These were flooding, snow pressure, you name it we had it.

Michael Haid – Cheuvreux

OK.

Peter Hagen

The next one, reserve release, nothing different to previous years, no special releases. In fact we have a little bit strengthened, this is one reason why the combined ratio or loss ratio for the Ukraine deteriorated, we have even strengthened reserves in the Ukraine. But otherwise reserve releases are no different than in prior years.

As concerns to the question for the investment income I would again hand over to Roland Groell.

Roland Groell

If you look at the development of the current income in life and you look at the portfolio we have in life it is dominated by fixed interest bonds. What we see there is in first step lower interest rates by our new investments. And the second reason, if you look at life, is the increase of our premium is nearly 20% but increase of our investments is far below this 20% life. First of all a high portion of our growth in life is caused by unit and index linked products which have no influence on the current income.

While it is quite the opposite in non-life. In non-life the fixed interest investments has not this dominant role if you compare it with life. And especially if you look at our investment the funds portfolio, our fund portfolio we changed it and there is a shift of dividend out of this funds and that is the reason why you see different developments in life and non-life.

Michael Haid – Cheuvreux

In P&C the increase comes to some extent from higher dividend, more dividends.

Roland Groell

That's right.

Michael Haid – Cheuvreux

OK.

ACT Operator

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

Dhruv Gahlaut – HSBC

Good afternoon, Dhruv from HSBC. I have just got one question, rest have been answered. I just want to know the rest 20% of the cost savings, how does it split between life and non-life?

Peter Hagen

That's difficult to say frankly speaking because if you are saving, if you are re-negotiating rents or reducing office space you need, when you are a composite insurer like in Austria it is very difficult to say exactly. But as a rule of thumb we have mentioned this before, you can basically assume a 50:50 situation.

Dhruv Gahlaut – HSBC

OK. Thank you.

ACT Operator

We have a follow up question from Ralph Hebgen. Please go ahead.

Ralph Hebgen - Keefe, Bruyette & Woods

Yes, hi. It's me again. Just one observation on the net realised gains and the way they are split between the segments. Now I refer to the second quarter and it struck me that in P&C we have a rounded zero in net realised gains, in life we have €31 million and the rest in health. If you express that, let's say, as a percentage then you see that in the second quarter virtually all of net realised gains accrued in the life and health segments and pretty much nothing at all in P&C. But in the first quarter about 40% of net realised gains accrued in the life and health segments and the remainder in P&C. Would you be able to illustrate why that quite material difference rose between the quarters?

Roland Groell

Yes. In the first quarter our extraordinary income specially our income out of disposal of investments was caused by trading gains and the one property deal, we sold one property, and that was mainly dominated in the non-life business.

In the second quarter a major part of our gains of disposals was simply caused because the maturity of some of our bonds. And it is the first year, this year 2010 if you compare it with the last three years where we have no significant impairments. But what happens to last year that yearly up to €200 million €300 million we impaired our bond portfolio. And if now the maturity of this bond ends it means automatically that we show a gain out of disposals of these bond investments. That's not really trading gains that's simply because we have impaired a lot of these bonds within the last three years and if the maturity end automatically you have to show realised gains. And that is the main reason why we have this differences in the first and the second quarter.

Ralph Hebgen - Keefe, Bruyette & Woods

OK. Thank you.

ACT Operator

We have a follow up question from Enrico Mattioli. Please go ahead.

Enrico Mattioli – Deutsche Bank

It's still me from Deutsche Bank. I just wanted to have a follow up on two aspects. One is the life business, you mentioned that unit linked actually do not impact the return on investment because they are third party investments. I wanted to know, do you have rough figure about net inflows in life including maturity and redemptions around this?

The other question is again on combined ratio. If you can give us the current year loss ratio or combined ratio for the first half of this year and last year? Thank you.

Peter Hagen

OK. I will start with the combined ratios. I am not sure whether we have the other one figure available but combined ratio net first six months 2010 as I mentioned 98.3%, first six month 2009, 95.5%. That is the figure, major changes as I said in the Czech Republic caused by an increase in the loss ratio.

Enrico Mattioli – Deutsche Bank

Sorry to interrupt you. But this is the current year combine ratio, so excluding prior year result.

Peter Hagen

What do you mean by prior year result?

Enrico Mattioli – Deutsche Bank

I mean, I was looking for the loss ratio, the combined ratio without the result coming from the sum of reserving and reserve also just the one of the current year.

Peter Hagen

As we have mentioned, as we have no change in reserving the releases over a year somewhere between 7 and 9 percentage points. You are ending up at something like it would be last year at about 103 and this year at about 105 but we do have this since about 10 years or 12 years actually, I know.

Enrico Mattioli – Deutsche Bank

OK.

Peter Hagen

Every year you have this kind of releases.

Enrico Mattioli – Deutsche Bank

OK.

Peter Hagen

You should compare this also with – included in the package on the embedded value you also see the confirmed redundancies in our loss reserves which were at the end of last year around €440 million. Basically this gives you an idea about how we do the reserving.

Enrico Mattioli – Deutsche Bank

OK.

Peter Hagen

End of last year €440 million confirmed and approved. We have that audited by the Deloitte, redundancies and loss reserves and a consistent applied policy that basically between 7% and 9% of the reserves are released.

Enrico Mattioli – Deutsche Bank

OK.

Peter Hagen

I think that's. Is that the answer to your question?

Enrico Mattioli – Deutsche Bank

Yes, absolutely. And for the life net inflows do you have this figure or?

Peter Hagen

We can to an approximation do this. We don't have the actual figure for the whole year projection with us but an approximation we can give you. Roland Groell will give.

Roland Groell

If you look at the first half we have a premium volume that's above €2 billion. If you compare this €2 billion with the payment out of life payments were about €1.2 billion. That means a positive cash flow out of the life business of approximately €800 million. If you compare it with the last year we have premiums less of about €300 million and the same payments out of surrenders and so on. That means we improved that our cash flow out of the life business is approximately €300 million.

Enrico Mattioli – Deutsche Bank

OK. Thank you.

ACT Operator

The next question comes from Jelena Bjelanovic. Please go ahead.

Jelena Bjelanovic – Bank of America Merrill Lynch

Hello there. I just had a quick question in non-life. How you are seeing pricing across the different markets respond to the higher than expected natural catastrophe losses?

Peter Hagen

Very good question. Again it is – I would have to say first of all when it comes to natural catastrophes it's not only a question of pricing, it's a question of the overall set up of the cover that you provide which means deductibles and what kind of underwriting and zoning you do and apply. Having said so I think certainly we will see in the Czech Republic for 2011 a movement not similar to this what we have seen after the 2002 floods because obviously 2002 floods were really kind of 1 in 200, 1 in 250. But again also these losses now and we had also in the third quarter already some losses from a hailstorm in the Prague region. So I do assume that on the Czech market certainly there will be improvements next year.

I am not sure whether this will necessarily mean in the pricing as such or only but as I said there will be a more refined zoning policy, there will be a more refined way of applying deductibles to different kinds of natural catastrophe exposures be it flood, be it hail, be it snows pressure. And there might be also some changes in applying certain hours clauses even in direct policies.

We will see certainly an impact in Poland. As I said before this is for Poland a very new experience. And we will see also re-insurers starting to completely reassess Poland. Poland enjoyed traditionally a very, very favourable situation when it came to reinsurance conditions on natural catastrophe. I guess there will be some changes and this must be reflected obviously also in the conditions for the direct policies.

When we talk Austria and other countries where you can have multi-year contracts obviously to directly increase premiums in multi-year contracts is a little bit of problem. Therefore there the policy or the process is a more, let's say, cannot be so rapidly implemented as in countries where you have one year policies. Nonetheless we have started in Austria already since 2002 consistently and continuously to renew multi-year policies with higher prices for natural catastrophe. This is basically what I would expect obviously to continue in Austria, that is an ongoing process. Czech Republic is certainly the country probably which has to address this issue the most and will.

Jelena Bjelanovic – Bank of America Merrill Lynch

Sorry. Just a quick follow-up on Poland, are you seeing demand from the policy holders actually increase as well?

Peter Hagen

Not yet.

Jelena Bjelanovic – Bank of America Merrill Lynch

OK. Thank you.

ACT Operator

Next question comes from Stefan Maxian please go ahead.

Stefan Maxian – Raiffeisen Centrobank

All right thanks. The last question has already been answered, just one question left on banking or insurance tax you name it on kind of special tax. You are confronted with one in Hungary and what are your other expectations or what does it cost you in Hungary? Have you already provided for that? And what do you in expect in other countries to come?

Peter Hagen

Hungary, yes it will affect us in Hungary. We are assuming that it could have an impact up to 50% of the net profit, however as Hungary is not our most prominent country for Group perspective probably the impact will be limited. For Hungary it will mean that we basically we do half year around €2.5 million, so it would have an impact of about a €1 million, €1.5 million or take the whole year of €2 million, €2.5 million. For Hungary certainly it is not good news. For the whole Group certainly Hungary is not the biggest problem.

We have seen other taxes been introduced particularly for example the increase in the introduction of VAT in Romania for certain transactions that is obviously increasing loss ratios. That has to be reflected as well somehow in the pricing in the future. There are lots of discussions going on but obviously it's very difficult to comment on this.

You have so many ways or finance ministers have so many ways of implementing any sort of taxes on insurance companies. Some of these you might be able to pass on to the policy holders like if they increase VAT, introduce a premium tax. Some of it would not have an immediate impact or only a marginal impact on your income, like a tax on loss reserves. So it depends very much, we know that obviously there is a discussion but there is a discussion everywhere. It is very difficult to be more specific as there are no specifics on the table. Hungary is the only one country and even for Hungary I have to say for insurance company the whole, neither the basis of the tax nor the tax itself is completely clear yet.

Stefan Maxian – Raiffeisen Centrobank

All right. Thank you.

ACT Operator

We have a follow up question from Michael Haid. Please go ahead sir.

Michael Haid – Cheuvreux

Thank you. Just one more question on Romania. I am afraid I still don't fully understand 100% what's going on in Romania. To my understanding you increased prices twice by 30%, still the combined ratio in Romania is very high. I also noticed that the expense ratio is up year-over-year to 33%. I understand this comes from euro denominated policies but nevertheless I don't fully understand the effect or the reasons for all this. Could you give us some more insights or explanations for all this? Thank you.

Peter Hagen

Yes, I can. It will get very technical, I have to warn you it will be because this invoicing of euro policies and the impact on income and the various ratios is really difficult. But just to try to illustrate it, you are invoicing a policy in euros, you are also paying the losses in euros. You have a change in the exchange rate because you have to convert everything into RON for income statement purposes at that point of time. And so you have loss reserves in euro and the value of this loss reserves is changing according to the value of the euro.

On the other hand side, for example you have a premium reserve as well. Also there you have a valuation effect and this valuation effect are booked in different items in the income statement according to the Romanian GAAP. Some is booked directly into the losses, some is booked into other technical income or expenses. If it's there it goes into the cost ratio, if it's there it goes into the loss ratio. And other issues even on top of this obviously if you are covering these loss reserves and also the premium reserve in the same currency, what we obviously do, then you have gains or losses on the investment side on the foreign exchange.

There are many, many aspects to this why and I have to say this is one of the most complicated issues to discuss on the phone frankly speaking without really having an example in front. I just wanted to illustrate the complexity. You have as concerns the loss ratio a couple of impacts which I tried to mention before. On the one hand side we have an impact of natural catastrophes obviously also on the loss ratio which is about 3 to 5 percentage points. We have this foreign exchange issue.

We have on the other hand side improvements from as concerns the let's say traditional losses simply by the increase in premium rates. However I have to say that still and I mentioned this already at the last conference call, we still are not happy with the level of premiums and the loss experience in Romania. We have seen now also an increase in the VAT as I mentioned before or actually introduction of VAT which will be or which has been already another contribution to increasing the loss ratio.

On the one hand you have the other situation that recourses, as I mentioned before, for this first time now have to be booked by directly offsetting them from the losses which again is decreasing the losses. Having said all this in a combination plus and minuses leads to the 7 percentage point that you see.

On the other hand side on the cost issue again as we have said if you have certain currency valuation or fluctuations in other technical income or losses this is shown in the cost ratio. Depending on this fluctuations and euro denominated policies do make our high share of total. This has a high impact on the cost ratio as well.

On top of this again also a lot of, let's say, for example rents are denominated in euros. Also there you have obviously an impact in the exchange rate. And the last thing again it is basically the flip side of what I said before in terms of recourses, before recourses were booked on the other technical income which then was going into the cost ratio. It is now going into the loss ratio obviously it's no longer lowering the cost ratio.

Michael Haid – Cheuvreux

And regarding –

Peter Hagen

And I agree with you it's a very confusing picture.

Michael Haid – Cheuvreux

Regarding prices in motor, after you have increased prices so much, is it sufficient? Does the loss ratio improve over the course of time or do you need to increase prices further?

Peter Hagen

The loss ratio – for the time being it's a little bit too early to say because obviously it's now half a year since the last substantial increase. For the time being I would not say that we are happy with the loss ratio. Having said this, we certainly obviously operate in a market and as we have been by far the forerunner is concerns increase of premium rates and as there is still competitors – others did follow not so extreme as us. For example also Allianz had increased its rate but by may be 20%. But there are others mainly one still Romania owned company which is dumping completely which has become actually the largest non-life insurer now simply by dumping motor policies.

Within this market – and you have then to see obviously also this is an impact again on the cost ratio. You can increase and you can improve your loss ratio by further increases but you obviously have to accept substantial loss in policies which then has an impact on your cost ratio because given the fact that Romania is a relatively large country with high need in infrastructure that you have to support. Obviously you need to have a certain minimum level in premium volume in order not to have an exploding cost ratio.

Michael Haid – Cheuvreux

Is it fair to assume that you are currently in a mode you wait and see whether your prices are sufficient and then you decide may be at yearend this year to what to do with the prices?

Peter Hagen

We are certainly not in a wait and see frankly speaking. Wait and see is usually wait and lose. The point is that we are working hard in shifting the portfolio for example more also towards the non-motor side. Where this is one of the issues, we are focussing a little bit more on commercial also with the help of our head office staff to improve our share in the commercial business for example.

Michael Haid – Cheuvreux

OK. Perfect.

Peter Hagen

This is something what we try to do to better balance the portfolio.

Michael Haid – Cheuvreux

OK. Thank you very much.

ACT Operator

Once again, if you would like to ask a question, please press *1 on your telephone. To cancel this request, please press *2.

There appears to be no further questions.

Thomas Schmee

Thank you, operator. And thank you ladies and gentlemen for participating in our telephone conference. Our next event on schedule is the release for the third quarter results in early November and we hope to have you with us then again. Thank you very much and have a good day. Bye.

Peter Hagen

Thank you. Bye.

ACT Operator

This concludes the Release of Result First Half Year 2010 conference call. Thank you for participating. You may now disconnect.

END OF CONFERENCE