Conference Transcription

Date of conference	**:**	**31 March 2011**
Conference title	**:**	**Vienna Insurance Group Results and Embedded Value for the Year 2010 Conference Call**

CONFERENCE DETAILS

Conference Date:	31 March 2011
Conference Time:	10:00 CET
Conference Duration:	Approximately 53 minutes
Chairperson:	Thomas Schmee

ACT Operator

Ladies and gentlemen, welcome to the Vienna Insurance Group Result and Embedded Value for the Year 2010 Conference Call on 31 March 2011. 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 difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

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

Thomas Schmee

Thank you. Good morning ladies and gentlemen for this telephone conference for the Full Year Results of Vienna Insurance Group. Our table round here in Vienna consists of Martin Simhandl, CFO.

Martin Simhandl

Hello, good morning.

Thomas Schmee

Peter Hagen, Member of the Managing Board.

Peter Hagen

Good morning.

Thomas Schmee

Peter Hoefinger, Member of the Managing Board.

Peter Hoefinger

Good morning.

Thomas Schmee

Kurt Ebner, Group Actuary in Chief.

Kurt Ebner

Good morning.

Thomas Schmee

And Roland Groell, Head of Group Finance and Accounting.

Roland Groell

Good morning.

Thomas Schmee

Martin Simhandl and Kurt Ebner will give you a short overview of main numbers of our presentation which will be followed by a Q&A section. I will hand over now to Martin.

Martin Simhandl

Thank you, Thomas. Ladies and gentlemen, it's a pleasure for me to present to you the year-end result 2010 of Vienna Insurance Group. Within that presentation we will give you information concerning the group embedded value, this part of the presentation will be done by Kurt Ebner.

Let me start with the highlights of the last year. We had earnings profit before taxes of roughly €508 million which is a plus of more than 15%. This in a situation where we have the increase of the combined ratio to 98.4% influenced by the NatCat losses of the last year. The group embedded value we will present to you shows an increase to more than €5 billion, return on embedded value of more than 9% and increase of the APE ratio to a level of more than 45%.

The gross written premium of our Group increased by roughly 7.2% to €8.6 billion. The net profit after tax and minorities is up to a level of €380 million. Earnings per shares nearly €3 per share, €2.97, and the ROE before tax increased to 10.5%.

The next slides in your presentation, starting with slide eight, give you more details to the income statement and the balance sheet. Concerning the income statement I want to additionally focus on the net earned premiums which is up by 8.5%, the improvement of the financial result by more than 20%. On the other hand the expenses for claims and insurance benefits up by more than 11%, not only influenced by the NatCat effects but also by the increase of the future profit participation reflecting the better investment income. And last but not least taxes roughly €95 million meaning a corporate tax burden of roughly 18.6% in the last year.

Concerning the balance sheet, on the asset side the main change is the increase in the investment by more than €2 billion to more than €28 billion, even more increase by 18% in the unit and index linked investments. On the liability side the shareholders equity up to more than €5 billion and also the increase in the underwriting provision, the technical provision, also unit and index linked altogether up by more than €1.5 billion.

The next slide give more details to the gross written premiums, slide ten, an overview by markets. We see especially a very positive development in the life insurance as well in Austria, Czech, Slovakia and Poland also. And we see a mixed picture in non-life. We see some pressure in the motor markets which accounts for Austria, which accounts for Czech, which accounts also somehow for Slovakia. We see more selective underwriting in Slovakia. We see a focus on profitability and the decreasing premium volume in Romania. We see a very positive development in non-life in Poland.

Concerning the life insurance very important for this year was the development of the entities of the s Versicherung's group, the insurance entities we have bought in 2008 from Erste Bank Group. These entities excluding BCR non-life in Romania had an increase in premium volume by more than 30%.

The expenses for claims incurred are mainly influenced by the NatCat effects that comes especially for the Czech Republic but also partly for Poland and partly also for Austria.

The operating expenses, we see a slight increase in the Group cost ratio and this is mainly an effect that we have more premium income from those regions having the higher cost ratios. The premium shift is the main reason here. But there is also some influence out of lower reinsurance commissions for example in Czech and Slovakia. We see in Romania a combination of a decrease in premium volume, a sharp decrease in the claims ratio and an increase in the cost ratio mainly due to the portfolio cleanup where we have managed to bring down the personnel cost but we have relatively stable material costs.

The investment income, the financial result shown on the slide 13, we see an increase in the current income, a decrease in the income from disposal of investments. On the other hand the main positive development the impairments of investment has gone down significantly and the losses from disposal of investments, so altogether that ends up in a total financial result of €1.12 billion which is a plus of roughly 20%.

The next slide give you an overview of the investment split. The investment portfolio has increased to a level of €28.2 billion. The structure of investment portfolio is more or less unchanged. If we look closer to the bond portfolio we see that we have a change from financial issuers to governments, this is a tendency we have seen all over the last year and in the meantime the government part in the bond portfolio is more than 50%. If we look at the bond portfolio out of the rating view the situation in comparison with last year is more of less unchanged.

I just want to point your attention especially to the real estate investments because we have to point out that within the real estate investments roughly 70% are real estate within housing societies. These are low risk investments on the one hand, highly leveraged investments, and these are apart from those real estate investments 30% which are for covering of the technical reserves of the insurance companies of our Group. Within that 30% there are hidden reserves of roughly €500 million.

The development of the shareholders' equity is shown on slide 17. Overall an increase by roughly €400 million mainly coming out from the profit of the period.

Now I want to hand over to Kurt to give you information about the Group Embedded Value. Please Kurt.

Kurt Ebner

Thank you, Martin. Ladies and gentlemen, it is my pleasure to give you a short introduction to the GEV results for the business year 2010. This GEV reflects the impact of three distinctive developments which significantly influenced the results of the business activities of the Vienna Insurance Group during this reporting period. First one is a significant increase of life insurance business in Central and Eastern Europe which led to a solid increase of the full New Business Value by 50% compared to the year 2009. An increase that shows more business as such as well as improved profitability of the new business.

Second, redundancies in claims reserves which have grown again by another 10%, a sure sign of a solid reserving policy. And third, the full execution of an efficiency programme which finally led to a reduction of expenses amounting to €100 million. A move that visibly supported the growth of the present value of future profits and further on of the value of in force of the life and health business.

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 GEV reporting. We included the value of in force in the adjusted net asset value for Komunalna in Slovakia and for the VIG RE in the Czech Republic for the first time, plus in addition we added the newly established VIG Holding Company which is shown under the P&C segment with its adjusted net asset value. In accordance with VIG's goal of continually improving the GEV reporting VIG has applied European embedded value methodology for all evaluated life and health insurance business. All deterministic models which have been used for several companies in previous years have been substituted by stochastic model in 2010.

Formally the group embedded value is shown as a European embedded value even though the MCEV principles, as they have been published by the CFO forum in 2008, were widely applied. The referenced 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 the insurance liabilities VIG applied a liquidity premium of 25 basis points to the swap rates. Generally it must be stated that lower interest rates in all our major life insurance markets in 2010 had a significant influence on the development of the group embedded value. Most obviously the growth of the value of in force was negatively impacted by an increase of the time value of financial options and guarantees which has to be set off against the present value of future profits.

But now let me come to the results. The group embedded value 2010 amounts to €5.1 billion thereof a value of in force for the life and health insurance business amounting to €2 billion and an adjusted net asset value for all business amounting to €3.1 billion. Last year's reported GEV amounted to €4.59 billion and last year's restated and adjusted group embedded value amounted to €4.64 billion. The comparison to the reported group embedded value, to which it is pretty similar, is mainly driven first by the deduction of dividend payments in 2010 amounting to €115.2 million and second by the inclusion of Komunalna and VIG RE. The return of the total GEV therefore is €424 million respectively 9.1%. The final GEV 2010 of course allows for all consolidation effects in this reported net of minorities and taxes.

Taking into consideration the geographical split of the full GEV it easily can be seen that the CEE part has grown stronger compared to the Austria Germany part of the GEV. Focussing on the new business value it is obvious that new business in the life segment has gained significance especially the new business value in the CEE region has increased. The corresponding new business margins showing upwards trend as well. Total APE ratio and total PVNBP ratio have clearly increased compared to last years. 75% of the full new business value amounting to €199 million in total is related to new life insurance business in Central and Eastern Europe.

Finally it can been said that the GEV results 2010 indicate a strong performance after a slight slowdown in 2009 and confirm the strategic decision to concentrate on the CEE region because of its growth potential and profitability in insurance business.

So much for a short survey of the GEV results and I may hand back to Martin.

Martin Simhandl

Thank you very much, Kurt. Ladies and gentlemen, slide 23 of your presentation gives you an overview of the development of the profitability of our Group on the one hand and the development of the dividend over the last five years. What I can say here is that we stick to our dividend policy which is defined as a payout ratio of minimum 30% of the Group net profit and for this year that means €1 per share.

Thank you very much ladies and gentlemen and we are open for all your questions now. Thank you.

Thomas Schmee

Thank you, Martin and Kurt, for this presentation and operator we are ready to go into the Q&A section now.

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. And there will be a short pause whilst participants register for a question.

The first question comes from Michael Haid. Please go ahead.

Michael Haid

Thank you. Good morning. Two questions. First on the regulatory changes in Austrian life business. It is expected that you have lower single premium business in 2011 and higher recurring premium business. Is this a trend that you confirm already for the first three months of this year? And how much of the new business in life in Austria is usually written in the fourth quarter? Usually it is evenly distributed over the four quarters.

Second question, very simple, embedded value you first included VIG RE and Komunalna and the Vienna Holding. How much is the affect of this on the embedded value?

Kurt Ebner

I would like to answer first question that the new legal situation for life insurance here in Austria does not really impact the new business. So the stretch of the minimum term from 10 to 15 years hardly influences the new business volume since 15 years are a stretch of time, a term, for policies that our clients accept in a way that it just provides higher returns by the end of the term, so I do not see a slowdown in single premium business at all.

As far as the second part of your question is concerned business is evenly distributed over the year may be with a slight slowdown during the third quarter. This is the holiday season that normally shows lower new business figures than the other quarters. But there certainly is not a significant increase during the fourth quarter of the year.

Is that a satisfying answer to your question?

Michael Haid

Yes. May be one follow-up then. You expect for 2011 in total for the Group a low single digit percentage growth of premium and the reason to my understanding in the past was that you expect for single premium business in Austria a slowdown. Now you tell us that you don’t expect it for this year. So what is the growth – I think differently can we expect for 2011 then a higher growth of premiums in total for Vienna?

Martin Simhandl

Maybe I could answer that for you. Of course, it’s our hope that the influence of the new regulations are not too bad but it’s on the one hand very unpredictable. And coming back to your first question naturally that at the 31 March you cannot have the quarter figures. And the first two months not always in a development of the year are completely in line with what ends up especially if regulation changes. But of course we see a certain influence and we will see how it comes out, so I think we have to be cautious on the single premium side.

Michael Haid

OK. Great.

Kurt Ebner

OK. As far as your second question is concerned, the embedded value for VIG RE and Komunalna makes up for roughly 5% of the total group embedded value.

Michael Haid

Perfect, thank you very much.

ACT Operator

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

Dhruv Gahlaut

Good morning guys, two questions. Firstly on – if you could say what is the value in fact on your combined ratio of reserve release?

Secondly on margins in CEE, that has gone up significantly. Could you say what's driving that?

Roland Groell

Your first question if I understood you right was release of redundancies in our claims reserves.

Dhruv Gahlaut

That' s right.

Roland Groell

Quite the opposite is true. If you look at our published embedded value calculations the redundancies in the claims reserve for 2009 is €440 million and went up last year to €482 million. We increased our redundancies and we do not reduce it.

Dhruv Gahlaut

Just a follow-up on that one, so you think there was no reserve release last year?

Peter Hagen

Of course there was a reserve release but the balance between the releases and the additions obviously was a plus. That's the point. By the way the figures mentioned were net of tax because in the embedded value calculation we did closing net of tax, so if you are grossing up the 40 something you are getting up in the net increase in redundancies of about 50 plus.

Dhruv Gahlaut

How much would be the positive in terms of release? Would you say anything on that?

Peter Hagen

It's in line with the long year standard, so it's always oscillating between 6% and 8%.

Dhruv Gahlaut

OK. Thanks.

ACT Operator

Thank you. The next question comes from Marc Thiele. Please go ahead.

Marc Thiele – UBS

Good morning Marc Thiele from UBS. My first question is related to P&C Insurance. Can you talk about the recent developments in terms of frequency. There has been a pick up in frequencies in the number of markets and I was just wondering if you experience something similar in your business.

Then the other thing I am interested in, in terms of P&C Insurance is if you could give us an update on how you look at pricing environment. I got the impression that on the January conference call you appear more optimistic regarding the potential turnaround in some of the countries.

My other question is related to life insurance. There has been a decline in terms of the claims and the benefits that have been boosting your fourth quarter. I was just wondering was that any mortality gain that was exceptional or should we assume pretty good margins going forward?

Peter Hagen

Starting with you P&C questions, frequency. Yes, we have seen increasing frequencies in a couple of markets and I am talking about 2010 particularly the last two quarters. Particularly in Poland on a motor side, very clear increase, we have seen it since a while in Romania, there it is now flattening out. By the way also in Poland but I will come back to that also when it comes to pricing. And we have seen a deterioration in frequency particularly also in Bulgaria.

Now in other countries, frequencies are relatively stable or even following actually the long-term trend again improving however slightly. That has to do with road safety programmes, particularly in CEE countries road safety programmes, alcohol limits, etc, etc. This frequency increases particularly in Poland probably also a little bit supported by the fact that PZU was now a listed company has also led to increase in pricing. You could see in Poland in motor double digit increases in average rate. We have in our companies increased the rates actually already three times by now including one which will take effect I think this month, actually April, as of tomorrow and always in double digits. The first months of 2011 they do not show a further increase in the frequencies. But having said so I think the rate increase should help to level out some of the adverse effects of this frequency development.

Romania, the increase in frequency was an issue already since one and a half, two years, you know and you can also see from the figures of 2010 how we have reacted on that. We have clearly reduced our exposure to the motor business substantially accepted that we went down in premium. It also showed already in our claims ratio. Having said this we are still not yet satisfied and there will be further steps in this area also when it comes to pricing. But in terms of the frequency also in Romania although on an unsatisfying level we see a levelling out.

One of the countries where we still have work to do not only us but all the market participants there is certainly Bulgaria. When I say work to do it means in terms of pricing as well as on better claim settlement, I would say. Is that fair overview.

Marc Thiele – UBS

Perfect. Thanks for the answer.

ACT Operator

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

Ralph Hebgen – KBW

Good morning Ralph Hebgen from KBW. Two questions relating to the embedded value. One is relating to the adjusted net asset value, I noticed that in P&C that the ANAV went down whereas it increased very potently. Would you be able to explain these dynamics in particular also whether there was a reclassification present whereby you would have reclassified businesses previously as part of the P&C segment and now you would include them in the life segment? That was question number one.

Question number two focuses on the exceptional increase in profitability in Central and Eastern European life business. Again it will be excellent if you could comment on the dynamics there again perhaps separating technical elements in the embedded value changes in the calculation methodology changes in scope but also of course focussing of the organic part perhaps if you could make us understand why the profitability increased so much? What is the type of business you are selling there? How is it different this year from last year and perhaps other organic dynamics which influenced the exceptional increase in profitability? Thank you

Kurt Ebner

If you allow I would like to answer your second question first because the answer there is much shorter than for the first question. We are definitely stressing profitability of life insurance business in Central and Eastern Europe. The increasing profitability is organic and is mainly driven by activities that mean to clean up our portfolios in a way that we try to get rid of unprofitable business which has historically grown mainly before we purchased companies there and turn it into profitable business in a way that we convert the contracts from these old fashion styled policies to more modern policies which means if it is classic life insurance policies with a low moderate technical interest trades, normally we offer 2.5% in the Central and Eastern European region nowadays or even more favourable turning these contracts into index or unit liked products. This is certainly a driver for the increase of profitability.

Of course the new business value shows a slight impact of changing methodology and inclusion of the two new companies but that is only roughly 10% of the increase, the rest of the increase is driven by this strengthening of profitable business in the more important markets specially Czech Republic and Slovakia. For the first question this reclassification of business automatically happened in the course of the splitting off of the VIG Holding Company. Since the holding company took most of the participations with it and the holding company in the embedded result is shown under property and casualty it was a shift of these values from life to property and casualty to an extent as you mentioned in your question roughly amounting to €350 million to €400 million. Since these book values are then redistributed either to companies that show their own embedded value or companies that are situated in the CEE regions, so their value again is shown in the CEE segments that means a shift from property and casualty to life, decrease of ANAV in P&C compared to last year and increase of the ANAV in life and health again compared to last year.

Ralph Hebgen

OK. Thank you.

Kurt Ebner

You are welcome.

ACT Operator

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

There appears to be no further questions at this time. Please continue with any other points you wish to raise.

Thomas Schmee

Thank you operator and thank you very much – it seems there is another questions. Operator, could you check this, please?

ACT Operator

I think we have a question from Ralph Hebgen. Please go ahead.

Ralph Hebgen

This is just one point of detail. Would you be able to share with us the contribution of the net realised gains to pre-tax profits in 2010?

Roland Groell

If you look at the net realised gains just to clear the definition we called it the extraordinary investment income which consists of realised gains, realised losses, impairments and depreciations without the ordinary depreciation of land and building and write offs. This figure is about €90 million for the year 2010 and out of this €90 million about €30 million (one third) contributes to the profit.

Ralph Hebgen

€30 million for full year in 2010?

Martin Simhandl

That's it.

Roland Groell

Yes.

Ralph Hebgen

OK. just I am under the impression that in the nine months stage that number was €51 million. If that is true there would have been net realised gains loss.

Roland Groell

We did in the last quarter additional write offs.

Ralph Hebgen

OK. Fine, brilliant. Thank you very much indeed.

ACT Operator

Thank you. The next question comes from Enrico Mattioli. Please go ahead.

Enrico Mattioli

Good morning. Just a question on Solvency II. I wonder if you can give us some details on how the QIS 5 test went or in general terms how you regard your capital strength given that you said that you wanted to issue subordinated bonds, they are more related with future expansion and the macro situation which prompts you to feel safe around the capital side. Thanks.

Peter Hagen

As concerns your Solvency II question I think we came out pretty well out of the QIS 5. I don't think we have to elaborate on the methodology of QIS 5 and how much it could be disputed. Overall it is very difficult actually to tell about the significance of the one single figure which is then the end of all the calculations and the sum ups. In total you can say and we prefer to talk about a range of the group as such it came out with something between 150 and 180 of ratio. There is obviously the individual major operating companies are doing much better are now oscillating around 200. That's about QIS 5.

In total if I would say Solvency II and the impact on our business I think we are looking now a little bit more relaxed as concerns our equity situation and our solvency situation under the assumed future regime of solvency regulation. Having said this still we do believe that there is a lot of inconsistency in what is prepared and obviously we are concerned about the delays. But overall we are looking at the issue a little bit more relaxed than we might have a half year, three quarters of the year ago. Having said this there are certain issues as I mentioned where we still are not very happy particularly when it comes to real estate investment issues and for example also the way how natural catastrophes are provided for in the standard model.

So far nobody could explain to me what is the correlation which is actually assumed between a winter storm and a summer storm and as long as they cannot do so it looks to me pretty inconsistent. While we are working on the partial internal model particularly to address those issues where we believe that what the standard model in its current form is providing for does not properly reflect our risk situation. But overall I think as I have mentioned we feel much more comfortable.

Enrico Mattioli

Thank you.

Martin Simhandl

Concerning the potential issue of subordinated bond. What we always said is that we look at that from a rather opportunistic point given the fact that in the end of the year we have seen a widening of spreads and since then we have seen an increase of the interest rate environment from its basics and for the time being we would rather not see this issue actually.

Enrico Mattioli

Thank you.

ACT Operator

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

Jelena Bjelanovic

Good morning. Would you be able to give us a bit more colour on your combined ratio guidance for 2011? If I could remove the extraordinary natural catastrophe losses I would get to about 97% combined ratio. You have talked about pricing, getting better service with some of the motor lines, is this just a timing issue or have I forgotten to think about something here?

Then I also have a second question. You mentioned the move to more modern policies in CEE specifically in Czech Republic. I wonder if you could give us just a rough idea of what the conversion rate is from the old traditional policies to the new policies? I believe you started these a long time ago, 2004 or so. Thank you.

Peter Hagen

First question, combined ratio. No you did not miss anything, just that we do have to expect that also 2010 some natural catastrophes will happen, so obviously we are factoring in some sort of an average exposure to natural catastrophes. And having said so we do certainly see that there is an increase in the frequency of natural catastrophes also in our region not only worldwide. And that had also an impact on our reinsurance terms for 2011. The volatility under our natural catastrophe cover particularly as concerns to retention in certain areas or against certain types of catastrophe risks have increased. And because of that obviously this higher retentions are increasing the volatility when and if something is happening. This is obviously what we have factored in. In fact in '97 do already include some sort of improvements on the other lines of business in order to get along but –

Jelena Bjelanovic

Just a follow up on that. I think at the full year – when you released the premium numbers you said that you expect roughly about €30 million of large natural catastrophe losses. Is that just for 2010 or is that going forward as well?

Peter Hagen

Say again.

Jelena Bjelanovic

Sorry.

Peter Hagen

I did not get your last sentence, please.

Jelena Bjelanovic

Was that just for 2010 or is that going forward as well?

Peter Hagen

You can assume sort of a basic net exposure if nothing particular happens in any one country then we expect natural catastrophe claims of around net between €25 million and €35 million, yes.

Jelena Bjelanovic

Great. Thank you.

Peter Hagen

The Czech Republic and the product, yes you are right. Already in 2004 there were certain starts but they concerned a different type of product. The conversion which is taking place actually started now, it was started at the end of actually last quarters 2009 but took really momentum in 2010 is particularly affecting products which according to new tax legislations are no longer tax deductible. The clients are very receptive in converting this into tax deductible products and this has the additional benefit for us that we are converting policies with a higher guaranteed interest into either the policies with lower guaranteed interest rate, the current one, or as had been mentioned to unit linked. The driver is actually at this point of time mainly tax incentive. Conversion rate in 2010 of the overall portfolio of the eligible products, I would say, about 25%.

Jelena Bjelanovic

Great. Thank you very much.

Peter Hagen

You are welcome.

ACT Operator

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

Ralph Hebgen

I am again interested in the same dynamic in Central and Eastern Europe. First question is, you just currently shared that 25% of the overall portfolio is converted into higher margin products, in particular unit linked. Would you say that this conversion rate is sustainable in 2011 and beyond?

Question number two is, it would be interesting if you could share with us the internal rate of return on the new business written in Central and Eastern Europe, both this year and also last year.

Peter Hagen

Your first question, Ralph, to make it clear I was talking about conversion of the portfolio of the eligible products and not the overall portfolio.

Ralph Hebgen

Yes. OK.

Peter Hagen

Because obviously the conversion is affecting older products which as I said are no longer tax deductible and it is concerning Czech Republic in this respect which is the main driver in this respect. As I have said of this portfolio about 25% have been converted and this was one of the main drivers of the increase in the new business value. We have no indication at this point that in 2011 there would be a change in this conversion momentum, I would say, however it is obviously too early to say whether this is sustainable over the year but we do expect this.

The driver in other areas you might have recognised that one of the most dynamic growths we are recording in the companies which we have acquired from Erste Bank which are supported and working together with the bank and using bank distribution and there the products are very often going into more unit linked side rather than guaranteed interest rate. And where they are using guaranteed interest rates they are using now the current, much lower one. Yes, we do believe the momentum will continue as also the bank life insurance companies are also so far this year a driver for positive development on life.

Kurt Ebner

Coming to your second question, Ralph, I have to give the same answer as I do every year since we use stochastic models we certainly do not have an exact internal rate for our calculations. But if I calculate back from the results to the basic parameters that we answer for calculations, the internal rate range is depending on the market between 5% and 7%.

Ralph Hebgen

Depending in the market in Central and Eastern Europe, so that's –

Kurt Ebner

Yes, of course.

Ralph Hebgen

5% and 7% in 2010?

Kurt Ebner

2010, Yes.

Ralph Hebgen

Is that – what would that number be for 2009? The same sort of range?

Kurt Ebner

In 2009 it was slightly higher. It was I would say between 5.5% and 7.5% since the interest rates generally have decreased that had a direct impact on the internal rates of return of course and therefore I will reduce the 2009 rates by 50 basis points for 2010.

Ralph Hebgen

OK. Just as one follow-up, you mentioned 25% of the eligible portfolio was converted in 2010. Could you give us a guide, an idea of how much that eligible portfolio was in terms of the overall portfolio in Central and Eastern Europe? I am just trying to gauge what sort of increase in your business value we may be able to expect for 2011 as it is clearly an exceptional improvement in profitability.

Peter Hagen

I want to emphasise it once more, we are not talking about eligible product in Central and Eastern Europe but in the Czech Republic.

Ralph Hebgen

Yes. Sorry, I mean that was clear.

Peter Hagen

There is still some difference. The Czechs won't recognise this but there is a difference still, and of the portfolio, currently, and I am excluding now the portfolio of PCS which didn't have these kind of products but of mainly Kooperativa's portfolio these products made up for about 40% of total.

Ralph Hebgen

40% of the total sold in Czech Republic?

Peter Hagen

Of the total life portfolio of Kooperativa which is in this case the main driver because PCS didn't have this kind of product.

Ralph Hebgen

OK, fine. Right. Are there any other similar initiatives which you are planning for 2011 on either conversion of unprofitable products into profitable products, unit linked etc or a drive towards to the sales of higher margin risk products in the region?

Peter Hagen

As I have mentioned in the Czech Republic the initiative was mainly driven by a change in tax law, so obviously we are acting quickly if Czech tax laws are changing because they are a major incentive also for our clients. One of the dynamics I mentioned before in terms of further increase is the very fact that a high degree of the further growth is coming via the bank distribution which by definition basically is coming mostly in unit linked and index linked policies, so the shift in the portfolios towards the low risk area is simply a result of the success of the bank distribution.

Another issue which is a Group initiative is that as you know we are since years now developing and now we are basically in the implementation stage of implementing an SAP standard software also for our portfolio management. And obviously we are very much pushing our companies to clean up their product portfolio and streamline it in order to reduce migration costs. In this context obviously there is also conversion initiatives going on. That is however I have to say a much more difficult issue than if government gives a tax incentive but these initiatives exist. How big their impact will be is very difficult to say.

Ralph Hebgen

OK. Thank you very much.

ACT Operator

Thank you. Once again –

Peter Hagen

Hold on a second. There is one particular issue I want to mention from Slovakia, maybe Kurt can tell you this firsthand.

Kurt Ebner

Yes, certainly. Just to give you a detail of how these activities are done in other countries, as you know, I joined the management board of Komunalna one and a half years ago and have found the portfolio of life insurance contracts with a technical interest rate of 5% or even more. What we started in 2010 to do is to convert these contracts into either classic life insurance policies with only 2.5% technical interest rate plus a big pack of additional riders, profitable additional riders or the other way turning them into unit linked products.

During the year 2010, out of these 45,000 contracts we already could convert roughly 11,000 contracts and of course these activities are continued until we have cleared out this portfolio. And this is a activity that step by step will increase the profitability of our companies in the region. This for me is some kind of an initial product of a project, but certainly we will go on from there. Answering your question if these are sustainable from my point of view as a manager of Slovak company, I can say yes it is sustainable.

ACT Operator

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

There appear to be no further questions at this time. Please continue.

Thomas Schmee

Ladies and gentlemen, thank you very much for participating in this conference and we will be happy to have you with us again for the release of the result of the first quarter in May. Thank you very much and have good day. Goodbye.

ACT Operator

This concludes the Vienna Insurance Group Results and Embedded Value for the Year 2010 conference call. Thank you for participating. You may now disconnect.

END OF CONFERENCE