# Conference Transcription

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| **Date of conference** | **:** | **15 November 2011** |
| **Conference title** | **:** | **Vienna Insurance Group – Results for the First Three Quarters 2011** |

# CONFERENCE DETAILS

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| Conference Date: | 15 November 2011 |
| Conference Time: | 15:00 CET |
| Conference Duration: | Approximately 81 minutes |
| Chairperson: | Nina Higatzberger |

**ACT Operator**

Welcome to the Vienna Insurance Group Results for the First Three Quarters 2011 Conference Call on 15 November 2011. 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 phone for operator assistance.

I will now hand the conference over to Ms Nina Higatzberger. Please go ahead, madam.

**Nina Higatzberger**

Thank you. Good afternoon, ladies and gentlemen, and welcome to today's conference call of Vienna Insurance Group. The presenting team here in Vienna is led by Martin Simhandl, CFO.

**Martin Simhandl**

Hello, good afternoon.

**Nina Higatzberger**

And also consists of Peter Hoefinger, Member of the Managing Board.

**Peter Hoefinger**

Good afternoon.

**Nina Higatzberger**

And Roland Groell, Head of Group Finance and Accounting.

**Roland Groell**

Good afternoon.

**Nina Higatzberger**

I will hand over to Martin Simhandl who will guide you through a short presentation.

**Martin Simhandl**

Thank you, Nina. Ladies and gentlemen, it's a great pleasure for me to present to you the results of Vienna Insurance Group for the first nine months of 2011. And I think I am able to present to you a sound development, nine months' results in line with our guidance and also in line with our strategy for providing long-term earnings growth. I think what I could find too is that the CEE share in our earnings exceeds in the meantime 50%.

The performance of the nine months on the one hand is negatively influenced by adverse financial market conditions and also by the development in Romania and on the other hand this is balanced by better results in other core markets. In the last months we have entered Bosnia-Herzegovina by acquiring a company there and we also did an acquisition in Albania increasing our market share there. Last but not least I want to mention that we have three mergers underway: one in Poland, PZMot and Interrisk; one in Romania, BCR non-life insurance with Omniasig; and in Bulgaria, Bulstrad with Bulgarski Imoti targeting to reach more efficiency in these countries.

Ladies and gentlemen, the main performance indicators are shown on slide five of your presentation. I can report €414 million profit before tax, this is a plus of nearly 10% and a sound premium growth in CEE, more than 12.5% mainly from Czech and Poland. The combined ratio that was more than 98% last year it's down at 97.2%. And the premium development, if I look at development of the regular premiums including the single premium business in life there is a plus of 6.6%.

The next slide give an overview on the financial highlights. Gross written premiums overall a plus of 4% to a level of €6.8 billion. Profit before tax, this I already mentioned. Net profit after taxes and minorities up €313 million. Combined ratio I also mentioned with 97.2%. The earnings per share on a level of, in the meantime, €2.95 per share and the ROE before tax slightly increased to 11%.

The next slide, beginning at slide nine give an overview on the income statement and the balance sheet of the first nine months'. Income statement, on the gross written premium development I will closer elaborate later, also on the financial result which is down by roughly 11% in comparison to last year. On the other hand we see that the expenses for claims and insurance benefits only increased by 0.2% and the acquisition and admin expenses only increased by 1.5%. These are the main drivers for the result which I already mentioned €414 million, taxes of €77.7 which is an increase in comparison to last year but we have also this year a favourable corporate tax ratio roughly 18.7%. This ends up in a net profit before minorities of €336 million and net profit after minorities as I have said €313 million.

The next slide shows the balance sheet. I just want to point out two things. On the asset side I draw your attention on the one hand to the investments, on the other hand to the position cash and cash equivalents. These two positions have been looked at together to reflect more or less the total investment capacity. And all together we saw this position increased by more than 1% which is more than €300 million also this year. On the liability side I wanted to draw your attention to shareholders' equity which has increased, I think in market situations as we see it today this is a fairly positive development.

Slide 11 shows a more detailed overview on the development of the gross written premium country by country. In Austria on the non-life side I think we see a stabilising effect on the motor market, we see a sound non-motor growth without motor insurance. We have the whole year a weak single premium life business, this comes from the new tax regulation which punishes single premiums contracts with a duration of less than 15 years.

In the Czech Republic, despite a weak motor market we have an increase in non-life up to 3%. We have a sound increase of more than 17% on the life segment which is an effect of our positive cooperation with Erste Bank in the Czech Republic. Also in Slovakia the positive development in life has influenced cooperation with the Erste Bank Group. In Poland we see as well on the life as on the non-life side a very positive development, both lines growing faster than the market, more than 15% on the non-life side. In the life insurance sector we more than doubled our premium which reflects the dynamic in a tax-driven single premium product.

Last but not the least Romania. Romania, in non-life we have seen a decrease in premiums and this reflects the weak motor business, the weak motor comprehensive business. On the other hand we see a quite positive development in the life segment, this is an effect of our positive cooperation with Erste Bank Group. All over the countries our life insurance cooperation with the Erste Bank Group is shown on the slide 11, we see a clear increase in comparison to last year in premium volume of roughly 15%.

Expenses for claims incurred are shown on slide 12 of the presentation. The Group loss ratio is slightly down by 0.8% points. In Austria and Czech Republic even more 1.2% and 2.8% points. This is more or less a consequence of better weather conditions this year. Also in Poland we have seen a decrease in the loss ratio of more than 2%, 2.3%, from the better weather conditions. In Slovakia we had fairly stable development, we see first positive impacts from motor business restructuring. And last but not least in Romania, we saw a sharp increase of the claims ratio of more than 8%, this is clearly reflecting the difficult situation in the motor business. In the remaining countries the loss ratio improved by more than 3% points, you see that mainly coming from Ukraine, Hungary and Germany.

Next slide gives an overview on acquisition and admin expenses. Group cost ratio decreased by 0.2% points. We see a slight reduction in Austria, we see a stable cost ratio in Czech, we see an increase in Slovakia which comes mainly from lower reinsurance commissions. We see in Poland a reduction by roughly 2% points, here we see the effect of economies of scale and also in Romania the lower cost ratio which is an effect of the restructuring of the companies. In the remaining countries we see an increase in the cost ratio by 3% points, this is influenced by Germany where we had a change in reinsurance structure. Here on the other hand we see a decrease as I have shown in the claims ratio.

Last but not least the financial result, overall we see a decrease from €895 million for the first nine months last year to €798 million this year. Despite a better current income we see less income from depreciation, less income from disposal of investments, we have impairments on investments of roughly €57 million and losses from disposal of investments of roughly €62 millions. All together as I've said a minus of roughly 11% to €798 million.

The next slide gives an overview on the investment portfolio. On slide 15 on the left side we see the investment portfolio as such practically unchanged to last year. On the right side we see the investment portfolio including the position cash and cash equivalents which clearly in situations of shaky market conditions becomes more important, and what we see here is that overall we have an increase of 1.3% which means more than €300 million even in this year.

The bond portfolio is shown in more details on slide 16. What we can say is that the government part in our bond portfolio further increased, the financial part further decreased. And the rating structure improved significantly. This reflects some rating upgrades we have seen in CEE, especially the upgrade of Czech Republic. Last but not least on the bond side, our government exposure in PIIGS countries, which is very limited, as you know we have written down already in the end of the last year our Irish portfolio and our Greece portfolio to the level of roughly 80%, we further decreased that level in Greece to 50%. We impaired Italy by around 10% to 90% which is now €13 million. And all together this means 0.3% of total investments which is clearly below the portions we see in other groups.

Last but not least composition of real estate, what I want to point out is that we have two different kinds of real estates within our portfolio. The one is the real estate belonging to the insurance companies to cover the technical reserves roughly 4% points of the total investment portfolio and others are roughly 10% points which are real estate in housing societies. But I clearly want to point out that this is a different risk, it is not comparable with other real estate risks because these are companies which are supported by the state, they are offering flats for low rents, this is marginal business which means low profitability but also extremely low risk. In fact the only risk we have with such real estates is the vacancy risk which is extremely limited in these real estates.

Slide 19 gives an overview of the development of the shareholders equity, all together a slight increase in the equity this year. And the last page, page 20, gives the outlook and the dividend policy. Concerning the outlook I want to state that we are always trying to avoid volatilities, volatilities in the top line, the premiums, as well as in the bottom line in profit. And this is something which we want to continue also for the future. Concerning the dividend policy our policy is to pay out at minimum 30% of the group net profit. This is something we want to stick to.

Ladies and gentlemen, thank you very much for your attention. We are ready for your questions now. Thank you.

**Nina Higatzberger**

Thank you. Operator, we are ready for Q&A.

**ACT Operator**

Yes, madam. Thank you. 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 Maciej Wasilewicz from Morgan Stanley. Please go ahead, your line is open.

**Maciej Wasilewicz – Morgan Stanley**

Hi and thank you very much for taking my question. It is Maciej from Morgan Stanley. I've got two questions. Number one, I wanted to find out a little bit more about your capital. I note that you have put on the slide 19 that your Solvency 1 ratio is more than 200%, for most of your competitors in Europe Solvency 1 fell in 3Q. I wanted to first know how much if and how much your own Solvency 1 ratio fell in the quarter?

Secondly, how much space is there within your capital given the macro events that have happened for you still to potentially buy WARTA and not need to take any other action to boost your capital if you buy WARTA? Just trying to get the margin of capacity you have got for buying WARTA and withstanding the current market and still having a robust capital structure.

The second question I have is on the real estate front. I know it sounds like a very, very safe investment with the government as a tenant effectively in housing societies but what I wanted to know was some of the stories we are getting out of Austria at the moment is that there is a bit of an austerity drive and a bit of unclear exactly what the government will do to try to save a little bit of money and keep the deficit down. Do you see any risk that 10 percentage points of your entire AUM is invested in this one asset class. Is there any risk that the government will create any kind of an unfavourable decrease in Housing Benefits or anything like that that might deteriorate in any way the value of that investment? Those are my two questions.

**Martin Simhandl**

Hopefully, we understood you clearly because there were some sounds in the line. The first question, as I understood it is the Solvency 1 capital position. Sorry, we have some sounds in the line always, operator could you please work on that. Hello.

**Maciej Wasilewicz – Morgan Stanley**

Can you hear me, now?

**Martin Simhandl**

I can hear you, yes. The Solvency I position as it developed and the second part of the first question was to say what is capacity for acquisitions. The second question is housing society and could there be an adverse effect coming from savings of the public which could be done now.

Let me start with the second question. What could happen is that the republic or government or local governments would not provide the same amount of money for erecting new houses in that way, so means that the increase of the volume of these houses could be shrinked but it could not be that the existing houses are effected because this is done in the way that in the beginning the government provides a long-term low interest loan for those houses, normally a loan of a period of 30, 35 years and normally with an interest rate of 1%. In certain cases instead of a loan, so to say a donation is given, money that has not to be paid back at all. Out of the existing portfolio there could not be any effect in my opinion.

Concerning your first question, I want to start with the second part. Clearly given as you said WARTA or whatever, what we never would do now is to do rights issue. And you can be sure that there is no need for that. Concerning the Solvency 1 ratio development maybe I could hand over to Roland Groell.

**Roland Groell**

At the end of last year and that's true also during the first three quarters this year we were and are permanently above 200%, that means that we have more than double the equity than our regulator or our law requires that we should have or we have to have. That means more than double the equity than we needed under the Solvency 1 regulation.

**Nina Higatzberger**

Does this answer your question?

**Maciej Wasilewicz – Morgan Stanley**

Yes, it does. Just on the capital though I mean it doesn't give me a lot of idea of how much it moved in 3Q because I mean for some companies it moved down quite a lot and for some companies it moved down very little. Your shareholders' equity came down a little bit in the quarter. Is there anything you can tell me about that what happened in the quarter. I mean I guess may be it's something you don't disclose but I just want to get comfort that the movement in 3Q if repeated in 4Q wouldn't necessarily bring you below 200%, may be you can answer that question.

**Martin Simhandl**

What I can tell you is that we published these figures in the yearend every year and that's what we will do again. We haven't published that in the quarters but it's a quite comfortable level we have and also development makes no fear.

**Maciej Wasilewicz – Morgan Stanley**

OK, thank you very much. Thank you.

**ACT Operator**

The next question comes from Mr Bernd Maurer from RCB. Please go ahead, sir. Your line is open.

**Bernd Maurer – RCB**

Hello, good afternoon gentlemen. One brief question I do have, I do not know if you make it public. Do you state sovereign exposure you invested in Hungary and French bonds because it is a question we were asked several time and so far you made – did not tell it publicly. Do you do it now in the conference call?

**Martin Simhandl**

Concerning our government exposure in Hungary I have not the clear figures now, I will get it in the next seconds or minutes. What I want to state is it is very limited on the one hand. Secondly these are governments which are invested by our Hungarian entities in Hungarian currency. You should be very aware that our liabilities and our assets are covered in the same way, so if there would be an effect on the assets normally you should expect because then it's a question of the development of currency also have it on the liability side. But overall, it's an extremely limited amount which is significantly below 0.5% of our assets, significantly.

**Bernd Maurer – RCB**

OK. Thank you.

**ACT Operator**

The next question comes from Maarten Altena from ING. Please go ahead.

**Maarten Altena – ING**

Good afternoon gentlemen. Two questions also from my side. The first is on impairments and first of all on the Italian impairments. Could you elaborate on the back which triggers or regulation you decide to impair your Italian IFS exposure by 10%? Second on the Greek impairments. Why did you not take an impairment to market value as some of your peers have done in order to prevent negative publicity in the fourth quarter again?

The second question is a follow up on solvency, the economic solvency ratio in this respect. Would you be able to comment on the third quarter fluctuation on the economic solvency ratio and what it would look like at the end of third quarter? These are my questions.

**Martin Simhandl**

Sorry, we have not understood everything what you asked. You were asking about the impairments on Italy. There was a second part of your first question where you said why did we not impair, what?

**Maarten Altena – ING**

Why did you not impair your Greek exposure to market value as some of your peers did?

**Martin Simhandl**

OK. The second, what's the economic solvency ratio?

**Maarten Altena – ING**

Exactly. And how did that fluctuate during the quarter?

**Martin Simhandl**

What do you mean with economic solvency ratio?

**Maarten Altena – ING**

More like the market consistent solvency ratio including market impact such as interest rate decrease and so on.

**Martin Simhandl**

Well solvency by definition is a question of regulation. Regulation is done by law, what we are doing is on existing laws. There is no market solvency ratio existing, sorry.

**Maarten Altena – ING**

But more like a solvency II?

**Martin Simhandl**

There is a discussion on solvency II and as you know the solvency II regime is not fixed, till now it's not fixed. Last week there were new guidance or new drafts of regulations published, they are different from others. We clearly have to state that we have done some work on that internally. We have not and never published that and we think we will not do that because definitely in that time its not fixed. We would always talk about moving targets. We feel quite comfortable in that respect, that is quite clear. But we are for the time being not in a position to calculate something which will be the same, which will be required by law in the end of the day. This concerning the solvency II ratio or economic solvency ratio as you called it.

**Maarten Altena – ING**

If I may comment on that. I think you in the past commented that the economic or solvency II ratio was in between 150% and 180%, is that a total different ratio or?

**Martin Simhandl**

This is something what you have heard about one of the QIS studies which we did. And already out of that you know and you see how broad the interpretation possibilities are. What I can tell you all these ratios are before using internal models, so at the end of the day we will clearly see when it is fixed. For the time being I cannot give you an ultimate answer to that. I would not think it would be fair and it would be transparent but you can be quite sure that we are also feeling comfortable as far as we see the coming solvency II regime.

**Maarten Altena – ING**

OK, very clear.

**Martin Simhandl**

Second impairments, well the reason for Italy, frankly spoken, was that we had in the last days the fact that Italy came somehow under the surveillance of the International Monetary Fund and this is a development which we think is not quite something that is in the ordinary course of a country. Therefore we thought it could be appropriate given the fact that we always want to be prudent on that side. We are not talking, as you know, about huge volumes. Our volume of governments in Italy is €13 million. Also 10% is a quite limited amount. Concerning Greek, for the time being we stick to what has been negotiated between Greece and the European Commission. If this would change clearly we would look on it differently.

**Maarten Altena – ING**

OK, much appreciated. Thanks.

**ACT Operator**

The next question comes from Daria Asadullaeva from Bank of America Merrill Lynch. Please go ahead.

**Daria Asadullaeva – Bank of America Merrill Lynch**

Yes, thank you very much. I would like to ask two questions, please. First one is, can you please talk about the pricing development by country in Q3 and what are the bright spots and what are you seeing so far in Q4?

The second one is, as I can see from your disclosure the Q3 claims ratio appears to have deteriorated in Poland, Slovakia and Romania. If you could talk about what's driving the claims ratio deterioration in these markets? Thank you.

**Martin Simhandl**

First, I want to clear up the question. The second question was about the development of the claims ratio – in what countries?

**Daria Asadullaeva – Bank of America Merrill Lynch**

It's Poland, Slovakia and Romania.

**Martin Simhandl**

OK. The first question will be answered by Peter Hoefinger.

**Daria Asadullaeva – Bank of America Merrill Lynch**

Thank you.

**Peter Hoefinger**

The first question was concerning some pricing tendencies and I would emphasise that we just can talk about tendencies. What we see in Austria is on one-hand side stabilising in the motor market. We even see in certain, and I would say, fleet business that there are certain tendencies of hardening of the market. But again these are first tendencies which we see in the motor market in Austria.

In non-life non-motor what concerns property business also here, we have a stable development in Austria with certain elements of, maybe not hardening the premium but having a more detailed discussion about deductibles and more detailed discussion about certain clauses within the contract. Generally the tendency is of having a more restrictive underwriting by the markets to certain risks.

If we go on to Czech Republic, different picture here, although in the motor market still fierce competition. Nevertheless one has to be aware that the market, specifically also in our case we are comfortable in motor TPL but feel fierce competition here and that they are competitive. In corporate business in Czech Republic it's quite stable with certain tendencies of hardening. Slovakia is also still in motor business not hardening, it is maybe stabilising. We have decided here not to participate in certain price competition and to be more selective in underwriting. There it is stable and partly further softening.

Different picture in Poland. Poland most probably also driven by Nat-Cat events in last year and also certain ownership changes of our main competitors we do see a clear hardening there. We are able to increase our prices in motor as well as in property. We do have a quite prominent position in motor where we are currently benefiting in property, where we are still eager to increase our market share. We are also now able to do this with quite attractive premiums.

Romania, here market in motor business is stable but still premium level is not happy sign. Also here we deliberately have decided not to enter nor to participate in this price war and more restrictive in our underwriting in motor business which you can also see there in the end by a negative premium development in non-life. Romania also in corporate business due to the overall difficult economic situation it's a flat environment from a premium level with certain tendencies to further softening. These I think are the overall to be said trends which we see in Central and Eastern Europe and our main markets.

**Martin Simhandl**

The second question concerning claims ratios will be answered by Roland Groell. Roland, please.

**Roland Groell**

If you look at the loss ratio development in the countries you mentioned, Slovakia, Poland and Romania, let's start with Slovakia which is a very stable development of some percentage points below 60%, at 57%. In Poland there is a decreasing in the loss ratio coming down from nearly 70% to 67.5%. This means more than 2 percentage points effect in last year mainly driven out of very favourable situations if we look at natural catastrophes and only driven by increasing prices in the non-life business in Poland.

Quite the opposite is true in Romania. As Peter mentioned there the competition and the market conditions are not the best. What we saw especially in the third quarter is a rather low premium volume, rather high claims frequency and in addition some laws which try to earn money out to claim insurance companies. All this together leads to the situation that we see in Romania increasing loss ratio situation of nearly 9%.

**Martin Simhandl**

All your questions are answered?

**Daria Asadullaeva – Bank of America Merrill Lynch**

Yes, I'd probably take some of that offline as well. I was just looking more at the Q3 in particular and possibly at what you see in Q4, so do these trends continue in Q4 as well?

**Roland Groell**

I do expect that the main trend we will also see in Q4. What I expect is in Slovakia a stable development on very low levels. I expect for Poland in the last quarter even a slightly better development and if we look at Romania we will see also in the last quarter levels of the combined ratio far above 100, perhaps we will see in the last quarter a slightly better situation but that's by far not for sure.

**Daria Asadullaeva – Bank of America Merrill Lynch**

OK. Thank you.

**ACT Operator**

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

**Ralph Hebgen – KBW**

Yes, hello. Ralph Hebgen from KBW. Good afternoon. Just got a number of things – first of all, I am just looking at the slide presentation and it says on slide 21, I quote this, VIG had a solvency 1 ratio of more than 200%. Can you just confirm that this statement relates to the nine months? In other words, do you have solvency 1 ratio exceeding 200% as at 30 September 2011, is that what that means? That's question number one.

**Martin Simhandl**

Easy to answer them first so we can finish this – yes.

**Ralph Hebgen – KBW**

OK. Sorry did you say, yes?

**Martin Simhandl**

I said yes.

**Ralph Hebgen – KBW**

Excellent. Then, I am looking at slide 19 of the one-half presentation where it says the same thing, VIG has a solvency 1 ratio of more than 200%. Does that comment relate to a date as at 30 June 2011?

**Martin Simhandl**

Yes.

**Ralph Hebgen – KBW**

Cool. In other words, your solvency ratio has been stable in the last six months?

**Martin Simhandl**

Our solvency ratios has been above 200 in the end of the last year, in the end of the first quarter, in the end of the second quarter and then in the end of the third quarter.

**Ralph Hebgen – KBW**

Would you be able to say whether this has increased in the last quarter?

**Martin Simhandl**

I would not be able.

**Ralph Hebgen – KBW**

OK, perfect. Then my second question would relate to the outlook as stated on slide 20. Would you be able to share with us your reasoning why you did not repeat the 10% profit target which you repeated last in the interim presentation? Specifically, did you not repeat it because you expect impairment charges in the fourth quarter or do you expect a slow down in operating profit growth?

**Martin Simhandl**

Also to answer that –

**Ralph Hebgen – KBW**

Yes, thank you.

**Martin Simhandl**

We have not reiterated our targets but we have not taken it back. What we think is that the situation under capital markets is quite shaky. We have seen that also over the last days it's really not easy and I think practically impossible to predict the development from now to the end of the year. I think out of that nobody could guarantee you now what will be in the end of the year. And given that we would not think this would be fair if we had repeated it.

**Ralph Hebgen – KBW**

No doubt, that makes sense, I appreciate that clarification. Can I however just say that on slide 22 in the interim results presentation you state that 10% profit growth target explicitly by making the qualification and "subject to overall economic and legal environment". In other words the general caveat that of course the economic environment needs to be, let's say, stable I think was already included in your thinking when you last repeated that target. So can I –

**Martin Simhandl**

We are completely clear, we always said this is under certain conditions. What we want to state now is that the conditions have become significantly more shaky and I think everybody can see that.

**Ralph Hebgen – KBW**

If you then refer to your aim to keep a sound capitalisation of the Group, why did you specifically state that? What's your reasoning behind that?

**Martin Simhandl**

Well, I think this is something what we have shown. We have shown that over the last years and that's what's our strategy to go on. I think what we have shown is we have shown that our Company has a development which is less volatile than other groups. I think we have shown that we have a sound capitalisation and I think this is something under the conditions given is positive. And what we say is that our aim is to maintain this, to be well capitalised also in the future, to be not volatile or not as volatile as others are. You have seen the results being presented in the last days showing a clear volatility, a high volatility. And therefore we thought it would be good to point that out.

**Ralph Hebgen – KBW**

OK. Just one follow-up question so that it goes back to another question on the conference call earlier. You would be – I mean in the context of discussing at least in the press a acquisition of WARTA would you say that your Group is sufficiently strong from a capital point of view to do this acquisition potentially and maintain comfortable capital levels?

**Martin Simhandl**

I think - as I already said - I said that we will have no Rights Issue if we are doing that. I think that implicitly answers your question.

**Ralph Hebgen – KBW**

It does. And then just one final thing which is a detail. Would you be happy to share with us the exact amount of the Greek and Italian writes down which contributed to pre-tax profits? In other words, by how much was the pre-tax profits diminished as a consequence of the Greek and Italian write-down?

**Martin Simhandl**

This will be answered by Roland Groell.

**Ralph Hebgen – KBW**

Thank you.

**Roland Groell**

As you know our PIIGS exposure in the meantime quite well, we are not talking about high volumes. If you once again look at our Greek and our Italian exposure it's quite smaller. We discuss about the nominal values of something like €50 million.

**Ralph Hebgen – KBW**

If I assume single digit euro millions would that be reasonable?

**Roland Groell**

That's reasonable yes.

**Ralph Hebgen – KBW**

Thank you very much.

**ACT Operator**

The next question comes from Enrico Mattioli from Deutsche Bank. Please go ahead sir.

**Enrico Mattioli - Deutsche Bank**

Good afternoon to everybody. I have a few questions left. One, if you can tell us about Romania, I mean you said that the market conditions are tough but you also are trying to merge companies, actually you are merging companies you are trying to save costs there. I would like to know how much is in your hands and how much is due to market condition in terms of seeing maybe a break-even the next year, do you see that, do you see combined ratio approaching 100% next year and the Group there having break-even next year or do you think it is going to be slower?

Then still on cost savings, you have actions of merging companies not only in Romania, so could you remind us how much do you expect in terms of total cost savings? If you can say that or maybe in the past you mentioned something just about one of these countries. I don't know if you can elaborate more on the total.

Then I was wondering two more questions. P&C in Austria, it still continues to be very strong. You mentioned market stabilising not even hardening in the motor, so I was wondering where this strong increase is coming from? If you can explain this growth which has even accelerated in 3Q.

The final question is in health business. You have investment going down from €1.1 billion to €800 million which surprise me. Can you tell us where does it come from? Is it a switch of investment to some other factors or there are drop in some of the assets? Thank you.

**Martin Simhandl**

I would answer first question number two and number four, if I understood it right, and number one and number three will be answered by Peter Hoefinger. If we are talking about the cost effect overall also in Poland and so on, we have not published numbers to that. I think it is insofar not as well necessary and not really transparent as this is only part of what we are doing on the cost side. We are practically all the time and everywhere elaborating on the cost which does not only means that we are merging companies, we are putting together back offices also besides merging companies etcetera. What you can clearly see is the effect on the cost ratio, I have given some comments to that in the different countries.

Concerning the investments I am not completely clear if I understood it right. If the question was meant in that way the investment volume as such has diminished, it is right to point out that we have to see in combination the investment volume with the position cash and cash equivalent. Was that your question or have I understood it wrong?

**Enrico Mattioli - Deutsche Bank**

Yes, I was wondering why the health business went down €300 million so I suppose it's not due –

**Martin Simhandl**

All together these positions went up by more than €300 millions that only means that we are for the time being holding more liquid assets, means more cash and cash equivalents, deposits, which in our opinion in such a time is a good thing. This has also counted for example in the end of 2008, beginning of 2009. Under these circumstances I think it is better to look at these both positions together.

Question number one and question number three, Peter, please.

**Peter Hoefinger**

If you look to Romania we have to consider the current economic situation in Romania. You know that there also currently a lot of reforms are going on like salary cutting for civil servants by 25% etcetera. The overall economic environment is not favourable in Romania. This on one hand side is bringing us to the opinion that also we should put more emphasis on back office efficiency therefore we are now doing the merger of BCR and Omniasig. We do believe that when the market will recover we should not have lost any of our distribution capacity by this merger but we also believe that it is now the right time to take these actions in cost savings and as you can see already we have achieved in the first nine months a decreasing expense ratio, so first actions in this field show first successes. This will continue throughout the year and also next year.

There is a very strong will by our local management that the turnover will be seen next year. I believe that it will be profitable by next year, we will improve our combined ratio, it should become better our combined ratio. If it will go below 100 I cannot now 100% gives you here a guarantee. We are also depending there on the performance of the Casco market which is the volume driver and which has an important influence on the combined ratio. We saw that the Casco market was not performing this year as people were not taking out any kind of leasing cars. If this is again starting with some momentum this will support our turnaround significantly.

When we come to Austria, may be here I can remind you on our premium result of last year. Last year we had been negative in the motor business. We deliberately last year did not enter price competition in Austria which prove to be right from the profitability side as we have seen stabilising in the motor business and as I said for example in fleet business even hardening. We are again back to the market in motor business actively, so this is one of the driver for our growth.

On the other hand side we are also further growing our retail non-life portfolios in our two companies. And corporate business is performing quite well with new business here with specific respects to certain programme business. This is programmed for customers which do have subsidiaries entities in Central Eastern Europe where we make a programme for them here in Austria covering the risk all over the region which is performing quite well.

**Enrico Mattioli - Deutsche Bank**

Thank you very much.

**Peter Hoefinger**

My pleasure.

**ACT Operator**

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

**Michael Haid – MainFirst Bank**

Yes, thank you very much. Good afternoon. Three questions, first I am still interested in Romania as you mentioned there was a sharp increase in claims in motor insurance, a situation which you call difficult. Can you shed some light on that why are these claim are up, how lasting this is and what do you do against this? I understood that you merged companies there but I think you do more than that.

Second question, if equity markets stood as they are today what would be the expected level of write-downs on equities in the fourth quarter? I understand that your write-down rule is 20% for six months or 50% below cost, so expected write-downs for the fourth quarter.

Last in Poland you sold again or you started selling again capitalisation product. Can you tell us how profitable these products so far are for you at this stage and what kind of guarantees you give to the clients?

**Martin Simhandl**

The first question will be answered by Peter Hoefinger and the second will be answered by Roland Groell and the third I will start with. Short-term single premium business in Poland you might remember that we have stopped that in the crisis, the reason for that was that the spread we were earning in our opinion did not cover the credit risk on the bank delivering this product because at that time this product was constructed in a way that bank normally did not give the cash to the insurance but gave own bonds or things like that. We at that time stopped that business not all of it.

In the meantime the structure of this product has changed, so normally you are getting the cash out of that and out of the actual possibilities to invest you are creating your guarantee, so your guarantee is not something which takes for a longer time and you construct it in a way that you are earning a margin, a margin which is not an extreme one but which makes it in a way profitable that in our opinion is just a good thing to do now. We would not have done it in the way as it was before the crisis you will also clearly see that we looked at that from a clear point of view and a clear earnings point of view otherwise we would not have stopped it at that time.

Now I shift to Peter to answer the first question.

**Peter Hoefinger**

Coming back to Romania what we have been seeing specifically in the third quarter was an increase of reserving for bodily injuries as mentioned already by Roland as a certain tendency of law firms trying to specialise in this respect. We are facing here various issues, one issue is that there is until now not a clear rule or a clear law or a clear regulation about the amount which needs to be paid out for bodily injuries. Through the association of insurance companies in Romania we tried to push that there will be the guideline by the authorities what will be the amount for compensation for certain types of bodily injuries as it is a market problem and no single problem for us.

On the other hand side, and you see this in our premium development we are again increasing our tariffs, so we are focusing on the technical side and not just on the turnover combining this with the segmentation looking on one hand side territorial specific but also on car models or on driver specifics to have a better segmentation in our portfolio. This is combined with a strong examination of our distribution channels meaning by that we are looking on broker level, agents levels, sales point level on the claims ratio and also try to control here that we can reduce and stop any kind of premium inflow which is not profitable out of certain areas or out of specific distribution channels.

Another action which we can do in this kind of situation is a very proactive approach in the claims handling, it means as soon as we get a notification of the bodily injury that we are approaching the claimant and try to find an out of Court settlement at a quick and earlier stage to reduce here long lasting court cases which also are then reflected in our reserves. I hope somehow I could give you an idea, what are the broad actions that we are currently undertaking to getting under control this claim situation and to sustainably improve it.

**Michael Haid – MainFirst Bank**

Yes, perfect. One additional, add on here. If I remember correctly you increased prices in Romania already twice by 30%, so now on this level you further increased tariffs, is that a right assessment?

**Martin Simhandl**

The premium development in Romania and we also have stated that not continuously was only in one direction and when it went in the other direction we are very much focused that we could revise that.

**Michael Haid – MainFirst Bank**

OK.

**Peter Hoefinger**

OK.

**ACT Operator**

The next question comes from Mr Raphael Caruso from Raymond James. Please go ahead, sir.

**Raphael Caruso – Raymond James**

Thanks. Good afternoon everyone. Raphael Caruso from Raymond James. I have two questions. The first one is concerning the new regulation on life Austrian market. I would like to know is it something recurring or do you plan to offset this negative impact in the next quarter?

The second question, I am sorry to ask that again but I do not understand why do you impair the Italian and Irish debt but above all the Italian debt because even if you have a very small exposure all these impairments have an impact on life business, on life P&L. Can you just come back on the reason why you have impaired Italy, please?

**Martin Simhandl**

OK, let me try to answer your question. New tax regulation in Austria came in force on 1 January. The content is - I have to try to elaborate a bit on that. In Austria, in insurance as well as in life insurance you have to pay a premium tax, so called Versicherungssteuer. This in life is normally an amount of 4% of the premium. On the other hand you have no income tax on what comes out from life insurance.

In single premium business, regulation until the end of the last year was that if you would have concluded the single premium policy which lasted less than ten years on the one hand to have a product which is less than ten years or on the other hand to finish an existing product before the end of ten years then you have not 4% but 11%, 11% is clearly prohibitive.

This legal situation has changed insofar as from beginning from 1 January not single premium contract which are below ten years are punished but single premium policies which are below 15 years. And there is a lot of people who are not willing to bind their money for such a long time and that's the reason why we have seen quite a significant decrease in the single premium business this year. I would not expect that to become better in fourth quarter, I would not see what would change. This is concerning your first question.

Concerning your second question, well maybe government impairment are more in the focus. As you might have seen in our financial results the impairments all together are roughly €60 millions, there are also other impairments. We try to be prudent, you always have to think what are you doing and clearly there is certain space concerning Ireland, concerning Greece in the end of the last year the situation was that they needed help from the European Union and were in negotiations. And that was the reason or the main reason for us to impair. If we look at Ireland for example in the meantime things have become better, if we look at Greece it has become worse and we have written it down to a level of 50%.

If we look at Italy what we have seen there, I already stated that, is that the development especially of the last weeks we have seen on the one hand that the market have clearly indicated with the interest rate development that they see here a higher risk than a normal government bond. And on the other hand I think that's also very important we have seen a situation where Italy now is under a certain control of the International Monetary Fund and that was a situation when we thought we should reflect that also somehow in our portfolio. Clearly said - others could look at that differently, that's the way how we look at it. We try to be prudent, that's it.

**Raphael Caruso – Raymond James**

OK. Thanks a lot.

**ACT Operator**

The next question comes from Mr Michael Broom from Berenberg. Please go ahead, sir.

**Michael Broom – Berenberg**

Hi, afternoon. I am just wondering whether you can help me to reconcile the comment you have made about the Greek impairments hitting, I think it was pre-tax by single digit euro millions, so maybe just confirm it is pre-tax but I guess it doesn't make a huge amount of difference. But then looking at slide 17 you show the book value of Greek Sovereigns at €21 million. Now I am assuming that market value is something like 35%, now you have impaired by 30% in the third quarter which would imply kind of and I could well be missing something obviously, but that could imply an impairment in your third quarter P&L of a high teens getting on for €20 million number. I am just wondering whether you can help me reconcile from that number approaching €20 million down to the single digit euro million amount you said hit pre-tax. Obviously there could be live policyholders in there but basically can you walk me through that getting on for €20 million number through to the single digit euro number that you mentioned a short while ago. Thanks very much.

**Martin Simhandl**

Maybe I'll start and then I hand over to Roland Groell. We started with a volume increase of over €40 million in the end of the last year. We wrote it down to some €30 million, I do not know €32 million, €33 million, something like that. In the end of last year we wrote it down now to roughly €20 million which mean 50% of what it was originally. This is of course before taxes and its also before participation of life insurance policyholders. And maybe a bit more detail Roland Groell will tell you.

**Roland Groell**

I think Martin has told you even every detail. So just to sum it up - this year we were effected by about €12 million if you look at our Greece impairments till now. And out of this €12 million a single digit amount affects the bottom line. This means to say it in the opposite way that the main parts of this impairments are in life and that means that also profit participation and policyholder part of investment income is effected.

**Michael Broom – Berenberg**

OK. To be clear, slide 17, I know that the title on there is book value but are those numbers on slide 17 the market values or are they the written down costs?

**Martin Simhandl**

These are our book values now.

**Michael Broom – Berenberg**

That is market value?

**Martin Simhandl**

After depreciation. As I said we started with roughly €40 million. If you would impair that to a level of 35% or something like that then down from that –

**Michael Broom – Berenberg**

OK. The numbers on slide 17, my misunderstanding, are not market values per se, they are historical cost written down by the impairments?

**Roland Groell**

That's right.

**Michael Broom – Berenberg**

OK, fine. And to be clear, you said single digit million amount bottom line. Does that mean it is probably roughly just about a double digit million amount at the pre-tax level?

**Roland Groell**

Pre-tax level is double digit but not high double digit. Perhaps once again our calculation and I try to keep it simple. We started with a nominal value that means our acquisition costs out of our Greece government investments of €40 million. Out of this €40 million we impaired last year 20%, which means €8 million. This year we impaired additional 30%, so that we are now in a level of impairment of 50%. It is 30% in an absolute amount is €12 million which is a double digit figure. And if we would impair in addition a

15% for to a level of for example for 35% that means in addition €6 million if we would do this.

**Michael Broom – Berenberg**

I am not writing down my notes very clearly here but the €12 million you mentioned the 30% that was pre-tax?

**Martin Simhandl**

That's all pre-tax.

**Michael Broom – Berenberg**

That's pre-tax. OK, and that €12 million pre-tax you can just – I know that's very small amount but anyway for this if you can just very roughly split that between non-life and life, could you?

**Roland Groell**

By far the main part is in life.

**Michael Broom – Berenberg**

OK perfect. Thanks. While I am on I just want take a moment coming back on something else. You are talking about solvency I ratio earlier, now on slide 9 of your half year pack you had a very helpful bubble chart that kind of infered that the half year solvency I ratio would be, I don't know looking at it 220% to 225% something like that. Given that you gave that precision of number at the half year is there any way you could kind of give us a little more guidance as to at the nine month stage, are you closer to 200%, are you closer to where you were at half year? I just wondering whether you are able to give a little bit more on what the solvency I ratio maybe at the nine month stage given that you did basically give us the number of the half year of 220%, 225%? If you don't want to give that number then that is fine but I am just wondering whether?

**Martin Simhandl**

Does this mean we should not have given this at the end of the second quarter.

**Michael Broom – Berenberg**

You need to be careful what you disclose because then when you don't disclose it again you get questions like that I guess. But if you are not willing to disclose that's fine.

**Martin Simhandl**

Normally that's the way we are disclosing it normally it's year by year and that's what we want to do.

**Michael Broom – Berenberg**

OK, all right. Thanks you so much, very kind. Thank you.

**ACT Operator**

The next question is a follow-up question from Mr Maciej Wasilewicz from Morgan Stanley. Please go ahead, sir.

**Maciej Wasilewicz – Morgan Stanley**

Thank you so much for letting me do a follow-up question. Just two minor questions. The first question would be I read the last S&P report on the Vienna Insurance Group and it is actually quite glowing I guess, it does say that you have got very strong capital and all the rest of it. I wonder whether or not you can comment because there has been a lot of talk at least of potential downgrades of Austria itself and suddenly one of your competitors is being downgraded. I wonder whether you could comment whether or not what are the key risks for yourself potentially being downgraded or I guess flip side is potentially being upgraded. And what downgrade of Austria might do to your rating and all your business, if anything?

The second question would be, I am just wondering whether or not you have put in place any hedges especially on your equity investments given the current market or whether your exposures are completely unhedged at this stage? Thanks.

**Martin Simhandl**

When I am talking about Austria, maybe I am talking about the country which is the eighth wealthiest in the world. More wealthy than the United States, more wealthy than Germany by half, more wealthy than Great Britain, more wealthy than a lot of other countries. I think we clearly have to state that the debt level of this country is below Western European average, far below US, below Great Britain clearly. We have developments in our debt. The fiscal deficit is on a level which is nearly 3%. There are not many countries being below that in Europe, by far less than the United States, by far less than Great Britain.

I think we have to take that in mind. What I want to state in addition I clearly appreciate that our government has decided to further improve that situation. I clearly appreciate that but we have to be very realistic and clearly there is a situation thinkable where none of the states and none of the corporates and nobody at all has a AAA in the world. That's a question of rating levels. I think if that happens somebody should talk to the rating agencies. By the way, the same rating agencies that rated a lot of papers that caused the last crisis on AAA as you know. I have no fear that there is a downgrade of Austria. I know this country very well, this country I am born in and I live in.

**Maciej Wasilewicz – Morgan Stanley**

That's very clear. And what about the hedging position on your own portfolio? Do you use equity hedges at all or?

**Martin Simhandl**

There are parts of the equities hedged on a future level and there are parts un-hedged.

**Maciej Wasilewicz – Morgan Stanley**

Is there any way you can tell us, because your overall AUM is like 4% I think, I am including cash, 3% including cash, half of it hedged we say or because that's –

**Martin Simhandl**

I have not got the question, sorry?

**Maciej Wasilewicz – Morgan Stanley**

Your overall assets under management is about 3% equities. Can you just for the purposes of calculating how the next quarter might impact your shareholder's equity, should we assume that 10% of that 3% is hedged if you know what I mean or should we assume just the entire impact of the market move will shift your equity as well?

**Martin Simhandl**

The bigger part is un-hedged.

**Maciej Wasilewicz – Morgan Stanley**

OK. Thank you.

**ACT Operator**

We have a follow-up question from Ms Asadullaeva. Please go ahead, Madam.

**Daria Asadullaeva – Bank of America Merrill Lynch**

Thank you. Just one question. Given the slight reallocation in the investments, what is your current running yields for the Group and for the life business? And if we compare it to the guarantees on the in-force, how does that compare?

**Martin Simhandl**

You could say roughly 4.5% running yield. Overall guaranteed level in the whole Group between 3% and 3.25%. I think that's quite comfortable.

**Daria Asadullaeva – Bank of America Merrill Lynch**

And 4.5%, is that on Group or on life only?

**Martin Simhandl**

This is on the whole Group but the biggest part of our investments refer to life, traditional life.

**Daria Asadullaeva – Bank of America Merrill Lynch**

OK. Thank you.

**ACT Operator**

The next question comes from Mr Bernd Maurer from RCB. Please go ahead, sir.

**Bernd Maurer – RCB**

Thanks for taking me again and sorry to come up to you again. But I didn't get the answer for my question I asked before about the sovereign exposure you are holding in Hungarian and French bonds. You were talking about Hungary and then stating that the portion is clearly below 0.5% of your total investments. Does this refer to Hungary only and leaves the French exposure open or is this clearly below 0.5% of total investment combining Hungarian and French exposure?

**Martin Simhandl**

This was Hungary which maybe I look a bit differently on it like on France. And on France it is also not extremely significant, it is roughly 0.5%.

**Bernd Maurer – RCB**

Thank you very much. Now it is clear.

**ACT Operator**

There appear to be no further questions, sir.

**Nina Higatzberger**

If there are no further questions, then thank you to everyone in participating in this conference call. A replay will be available later today. Goodbye.

**ACT Operator**

This concludes the Vienna Insurance Group presentation. Thank you for participating. You may now disconnect.

*END OF CONFERENCE*