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Conference Transcription
Questions & Answers

VIENNA INSURANCE GROUP (VIG)
Results and Embedded Value for the year 2014

Conference Date:	**April, 14th 2015**
Conference Time:	**15:00 Central European Time**
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Speakers:	**Peter Hagen, CEO** **Martin Simhandl, CFO** **Peter Höfinger** **Roland Gröll** **Werner Matula**
Chairperson:	**Nina Higatzberger**

Operator

Thank you, ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press * followed by 1 on your touchtone telephone. If you wish to remove yourself from the question queue you may press * followed by 2. If you are using speaker equipment today please lift the handset before making your selections. Anyone who has a question may press * followed by 1 at this time. One moment for the first question, please.

Our first question today comes from the line of Ralph Hebgen of KBW; please go ahead.

Ralph Hebgen

Yes hi, Ralph Hebgen from KBW. I've got three things, they're all specific details. The return on equity you kindly specified how that was calculated, can I also ask the equity does that also exclude the perpetual debt which is included in the shareholders' funds under IFRS? The second question is the P&C return in the embedded value calculation, I'm just looking for this, on slide 21 the number 203.6, can you just remind us how that is calculated and how that relates to the IFRS pre-tax profit number of 310 in P&C? Third, the write-downs which you specified in the bonds did they all go through to pre-tax profits, in other words that's all held in the P&C funds or is some of that held in the live funds and therefore shared with policyholders? And finally were there any other positive or negative one-offs or write-downs in the results? Thank you very much.

Peter Hagen

Okay, Ralph referring to your first question, return on equity. The Perpetual is in, obviously on both sides as well, the interest we pay on it as well as the amount. Concerning the P&C return and embedded value I would ask Werner to answer that.

Werner Matula

Ok, regarding the P&C return there are basically two components to consider. On the one hand as I mentioned already this is the operating profits which is more or less comparable to the results that you also see in the financial statements only this is based on statutory numbers and only the results in the scope of the group embedded value this means a couple of companies are excluded here since they are included on their book value base. Plus the second component would be the change in the unrecognised capital gains if this was the case.

Peter Hagen — Third question, Martin please.

Martin Simhandl — When it comes to the Hypo/Heta bonds and the effects, policyholders/shareholder we have to take into account that the profit participation decision is done before the year end and that has insofar not been changed. And we have effects as we said already, the last decision was made by the FMA in March and insofar that could not go to the policyholder. So the overall impact was nearly completely on the shareholder side. When it comes to the overall effect what you would see if you look at the investment result is the significant increase in the impairments and that reflects Hypo/Heta and the rest is more or less equal to the last year.

Ralph Hebgen — Thank you very much and were there any other positive or negative one-offs in the results?

Peter Hagen — Ralph, we completely basically repeated what was last year so we always have a little bit of gains and a little bit of losses but if you look at the overall figure it's basically when it comes to capital gains it's the same as last year.

Ralph Hebgen — Okay fantastic. Thank you very much indeed, guys.

Operator — And our next question comes from the line of Dhruv Galhaut of HSBC; please go ahead.

Dhruv Galhaut — Good afternoon thanks for taking my questions, I've got a couple of them. Firstly, it seems the gross weather losses they are down 26%, on slide 12 but the net claims are up. Have you made any changes to your reinsurance programme in terms of the retention levels for 2015? Secondly, in terms of the new money yield what you provided for Austria could you share how this number would look if you take it on a group-wide basis including the CE market? And, thirdly, in terms of this bond in payment which you have taken any updates regarding the court ruling on this and when can we expect something?

Peter Hagen	Ok, the issue on page 12 is not a change in the reinsurance programme it's a change in the character of the losses we suffered. So basically 2013 was characterised by one or two major natural catastrophes, whereas in 2014 we have rather seen a series of small and medium sized weather-related claims. And traditional reinsurance programme our natural catastrophe programme obviously is much better in protecting you from the one big one than from the series of small ones. And this is why the net impact of the series of small ones in the end is higher than if you have one big one. So it's no change in the reinsurance agreements it's more the fact that we see a slight tendency towards an increase in the frequency and Peter Höfinger and his team have started to work on this also with reinsurance in order to protect itself more efficiently from this, if I may so, sideways exposure already for 2015. So no change in reinsurance in this respect. When it comes to the question that concerns investment I will hand over to Martin.
Martin Simhandl	Concerning the new investment yield I think what we should look at is which countries are investing in which currencies. And clearly we have, so to say, a block of companies being in the Eurozone and by far the most important means and we elaborated on that is the Austrian companies. Apart from that we have two entities in Germany having by far less impact. We have entities in Slovakia which on a volume of investment goals have by far a smaller impact and we have a little effect on the Euro side also in the Baltics. And for all the Euro countries more or less counts the same because it's the same environment. When it comes to the other countries the main effect is the development in Czech because the Czech interest rates have gone down practically to Euro levels over the last year. We cannot foresee if this will stay because out of the macroeconomic developments Czech clearly would indicate for a different development. But given the impact of the quantitative easing by the EZB simply we see that and from my point of view I would also expect it does not change in short-term.

This is, so to say, the block I would see more or less in the same way. All the other countries are significantly different. We have seen sharp decreases in the interest rates also in Poland but not to that level and when it comes to a country like, for example, Romania or others then we have a completely different story but we have to take into account that the investment volume of those countries is by far lower. And again here when we are talking about Austria we simply are reflecting by far the biggest blocks of our investments.

Peter Hagen

And when it comes to the court, or the situation with the court proceedings concerning the Hypo/Heta bonds I can inform you, and I need now to be a little bit particular and I apologise for that but according to Austrian law you may only refer to the Constitutional Courts because you believe a law is unconstitutional if you are fulfilling two requirements. First, this law must have affected you directly into your rights which is obviously the case, and, second, you may not have any other option to get a court decision other than the one from the Constitutional Court.

Now this second, we have appealed to the Constitutional Court as many others have done and the Constitutional Court now ruled that we do have other ways so we have no right to appeal to him directly. We have in fact anticipated such a decision because it's very rarely the case that the Constitutional Court accepts direct appeals, therefore we have brought in civil proceedings against Hypo Alpe Adria and the Province of Carinthia at the normal civil courts. These proceedings are ongoing. Most of the proceedings are currently now under, this is the second way to come to the Constitutional Courts, are now interrupted by the relevant Judge by saying I can only decide on the civil issue brought to me when and if the Constitutional Court tells me whether or not the law was constitutional.

So in fact what is the legal situation now is that nobody so far has made a judgment in the issue as such but the Constitutional Court just blocked one way to appeal to him and gained some time with it. So we expect now that a decision about whether or not the law is constitutional will come up sometime in late autumn 2015.

Dhruv Galhaut: Thanks very much for that.

Operator: Our next question comes from the line of Michael Huttner of JP Morgan; please go ahead.

Michael Huttner: Thank you very much. On this outlook on slide 25 just to ask because I don't quite understand it, is what you are effectively saying would be the profit, the net profit, the 367 million which you reported for 2014 is likely to be the same in 2015 due to the low investment income? Or is it that we should correct for the hypo stuff the 70-odd million, so add that back? And the reason I'm confused is it says ordinary financial results so I'm kind of thinking do I compare with ordinary… Anyway any help would be gratefully received.

On the return equity targets which you've now given could you say what the figure is of shareholders' equity which you use? And I understand I have to strip out Perpetual but that would be really helpful. And then finally with the low interest rates is there a risk at some stage that you might actually have to inject capital into your life unit in Austria? Thank you.

Peter Hagen: Coming to the interpretation of what we have said about this is that we do believe at this point of time that due to the sharp drop in new investment returns and also basically the maturing of higher interest rate carrying older instruments, that this effect will not be compensated by the underwriting result and thus therefore also not mean that you can simply adjust for the extraordinary items this year and then calculate the net profit. So we at this point of time rather expect that the 2015 result will be closer to 2014 than way above it. And when Martin was telling you before about the interest rate levels we obviously have to consider where various countries were coming from is in this respect very important.

So we have, we see a drop by more than 100 basis points in Austria but we see a drop of more than 100 basis point in the Czech Republic or in Poland. So basically the new investment rate overall which is relevant for us is decreasing compared to the previous year probably by more than 200 basis points overall. So that gives you an indication, roughly. The issue about

	the ROE target we are somewhere at slightly lower than 4.6 billion.
Michael Huttner	That includes the sub-debt, the hybrid, sorry?
Peter Hagen	Yes, but does not include the revaluation reserve and the minorities.
Martin Simhandl	Sorry, it does not exclude the hybrid but it excludes the minorities.
Peter Hagen	Yes, which is what I said, I think.
Michael Huttner	I understand.
Peter Hagen	Maybe I was misunderstood.
Michael Huttner	No, thank you that's very clear. And the capital injection?
Nina Higatzberger	Could you repeat your question, please?
Michael Huttner	Normally what happens if you have a life company which underperforms significantly, particularly if it affects the statutory earnings, is that the regulator will turn round and say could you put more money in, please? And I'm just wondering whether this most recent development puts you in that situation.
Martin Simhandl	I think first you should take into account that in Austria out of the three companies we have two are composite insurance companies.
Michael Huttner	Okay so no risk then. Lovely, that's really helpful thank you.
Operator	And our next question comes from the line of Sami Taipalus of Berenberg; please go ahead.
Sami Taipalus	Hi thanks for taking my question. First of all, a question I was, kind of, hoping someone else would ask but basically on the Solvency II ratio there's no chance you could give us an update number for 2014 year end rather than 2013; I'm guessing there's not but could you at least maybe comment to say whether we should… whether there's any reason to expect your capital ratio to have moved any differently to what we've seen, for example,

	Allianz and General moved? Then the second question is on the Austrian life business where you've reported, I think if we exclude all the Italian stuff for combined ratio of maybe 96 for 2014, which is about two points higher than what you reported in 2007 but obviously interest rates were about 3/400 basis points above where they are now back then. So what I'm wondering is why haven't you been able to improve the Austrian combined ratio and should we expect you to be able to improve going forward? And then the final question is on the Austrian life business and the question is simply how much of the business with the maximum guarantee did you write in 2014? How much premium and could you maybe just give us a little insight into what the IRR was on that, I think it was 5% for the Austrian life business on the whole?
Peter Hagen	Ok, let's start with Solvency II ratio, Martin please.
Martin Simhandl	I think what we have done is, insofar the maximum, we have commented on the only published standard formula figure that exists and it's a sample of the total industry and we have given you an indication where in that sample we are. All the rest that is published is published on group own defined economic balance sheet numbers which for the time being nobody can exactly say what will be the outcome. If we would compare that with our group it would be the comparison with the outcome of the partial internal model. As I said we are preparing to file that in the middle of the year and when we will be sure enough that and to what extent we will get it we will be able to calculate it in a way that it's also fairly to be transmitted to our shareholders and the capital markets.
Sami Taipalus	But just on that if we include the, sorry if we exclude the internal model and look at it just in a standard model place I'd guess I'm interested in the delta, would it be fair to say that it would be comparable to what we've seen, kind of, the large caps report or would that be…?
Martin Simhandl	There are for the time being no reports on the standard formula. Nobody has reported on the standard formula so far.
Sami Taipalus	But you gave a number on the slide.

Martin Simhandl	Yes but the number is out of the sample published by EIOPA. Not saying the solvency numbers of each and every company or group but simply saying out of the quantile and how many groups and companies are in and insofar we commented on it.
Sami Taipalus	Okay fine.
Peter Hagen	As concerns the Austrian non-life, Austrian non-life is in 2014 still very much in terms of the combined ratio apart from the fact that we have improved there, fortunately we are again below 100. But coming back to this it is certainly impacted by the Italian business of Donau. We have substantially, due to the restructuring of the business, substantially lowered the exposure. However, the whole burden now comes less from the loss side. Also we continue with a very conservative reserve and we are reserving the business of 2014 still with a loss ratio in excess of 105. Mainly it's reserve because we just want the conservative side. On top of this is that while running down the current business we still have to deal with the losses of the time when we had much more business. That's simple, the admin costs are relatively high due to the claim settlement cost. On top of this, we are, given the fact that we are reducing the business substantially we obviously need to prepare for the restructuring of our whole organisation which is in Italy a very costly issue and we have also provided for that.
Sami Taipalus	Sorry, apologies for interrupting, my question actually excluded the Italian business so I think we agreed on the last call…
Peter Hagen	If we exclude the Italian business we are roughly around 95.
Sami Taipalus	Yes so the question was given the fall in interest rates why haven't you been able to compensate by a better combined ratio compared to where we were at the time when interest rates were much higher?
Peter Hagen	I do not understand properly what the interest rates…

Sami Taipalus	So the non-life business, the interest rates in Austria were, I don't know 3.5% roughly at the five year end in 2007 and the combined ratio then was about 94%. If we, kind of, wind forward to now interest rates are zero and the combined ratio is 95%. So I'm wondering why in that time period hasn't combined ratio improved; why have you not been able to offset the fall in interest rates with a better combined ratio? And if there's any potential to maybe do that going forwards.
Peter Hagen	I still do not understand the connection between combined ratio and interest rate but if you think that we can substantially improve combined ratio in a mature market like Austria substantially below 95 I think that'll be very challenging.
Sami Taipalus	I think we've seen that happen in a number of other markets that's why I was asking.
Peter Hagen	So I do believe that to go substantially below 95 and do not forget we are talking here most of the impacts of, for example, the weather claims that I referred to before which added 21 million in additional claims over last year net, is referring to Austria just for another feature to that. So basically, as I said, to expect Austria to be sustainable under 95 I do not expect that.
Sami Taipalus	So you expect the combined ratio to go up next year in Austria?
Peter Hagen	No I do not expect it to go up but I do not expect it sustainably to be a lot below 95.
Sami Taipalus	Okay.
Peter Hagen	Life issue will be addressed by Werner.
Werner Matula	I think I can probably guide you a little bit regarding your question in the new business life. Maybe I should refer to the new business value of disclosure where we are seeing that in the region, Austria, Germany we were writing a premium volume of roughly €207 million APE. Your question I guess was related to how much of this business was sold at the maximum guarantee.
Sami Taipalus	Yes.

Werner Matula	The maximum guarantee first of all in 2014 was 1.75% on the Austrian market. We are not disclosing this exactly but I would say roughly, maybe two-third of this volume was sold as a traditional business, the rest was sold as a, either unit-linked business or a State-sponsored business, which has either no guarantee or zero guarantee.
Sami Taipalus	Okay and have you got a rough figure for the IRR on this business?
Werner Matula	Overall?
Sami Taipalus	No overall I think it was about 5%, but for this traditional business specifically.
Werner Matula	We have it only for the overall Austrian Market I'm sorry.
Sami Taipalus	Okay all right thank you.
Operator	Ladies and gentlemen as a reminder if you would like to ask a question please press * followed by 1. And our next question comes from the line Paul Psaila of Morgan Stanley; please go ahead.
Paul Psaila	Hi thanks for taking my question. I'm going to talk quickly about Romania which is obviously a large market where you have large market share and an improvement in combined ratio could partially offset, you know, losses in investment income. But I guess the question is as you mention the regulator is trying to reform the market more towards EU standards and as we know one of the large players who had been writing policies, third party motor that were non-economic, let's say, this guy's now under special administration. But it seems like the pricing in the market really hadn't improved that much it seems like there still are other players in the market that are writing third party motor that's probably non-economic as well and continue to pressure the market. So obviously there's improvement, it seems like most of the combined ratio improvement is mainly actions that you have done as opposed to a significant improvement in the market as it does move towards more EU standards. So I guess the question is does this

market need some sort of deeper restructuring with more companies, perhaps, under administration or do you think just given time that the market, you know, will normalise over time and, you know, profitability will grow?

Peter Hagen

When it comes to… Your last statement I fully endorse, yes it needs more still in restructuring this is also why I say the regulator is on the way, it's not yet finished and it's still, let's say, I can only endorse the efforts, the leadership of the regulatory authority is going towards.

But coming back to the issue about improving combined ratio rate, etc, I'm not absolutely sure about your statement that rates didn't go up; particularly in MTPL we saw substantial rate increases, up to in the triple digits. When it comes to actually, and this is a little feature on the side, most of the companies were increasing, for example, the premium for young drivers by the factor of three. Then there was a public outcry that this is too expensive and now it's probably a factor of two and a half. So there were rate increases, one thing, and second, and this is the case with us that we certainly are more selective in what we are writing and what not, but I completely endorse what you were saying. We're not at the end yet, in this respect, so we have to continue to increase premium, or premium rates, particularly in MTPL, and we have, and this is also another goal that we have long term; we have to make sure that we get a better diversification in our non-life portfolio, between motor and non-motor.

Having said this, this is particularly difficult in Romania because Romania is so much driven by motor. So, coming back to your initial questions, I do believe we see, also from the market situation, clear improvements. We do see substantial rate increases. Do I believe we need more? Yes, we do. Do we maybe have to even more do sophisticated underwriting? Yes we do. Do we have to diversify more between non-motor and motor? Yes we do, but I think in all these areas we are in good track as the improvement shows.

On top of this, obviously, a lot also was helped by reducing simply our costs continuously. We currently have, just to give you one indicator; we have currently a little bit over 2,300 people working for us in Romania. 2008 we were way over 5,000, just to give you an indication of what we did on the cost side, in order, obviously, to be able to afford this sharp reduction in turnover, given the unprofitable situation.

Now, when it comes to the market restructuring as such, obviously the regulator has, to my opinion, quite effectively, made sure that the major mavericks, as I called them, are either under forced administration or have to follow a restructuring plan. He has now initiated a further initiative, together with EIOPA whereby roughly 80%, so all major players in the market are checked whether the assets they carry in their balance sheets do really carry the value they carry in the balance sheets, again, something which we very much endorse.

There are a lot of other things concerning insurance distribution, where he really tries to come up, as I said, to come up with initiatives, which should bring the Romanian market mid-term on European standards.

Is this a shaky development? Yes it is. We are still very cautious. I was, whenever it comes to any forecast concerning Romania I was wrong, and therefore I'll be more cautious than ever, however, as I say, what we can see for the time being, I'm cautiously optimistic.

Paul Psaila

I mean, part of my question; this is a quick follow up, is that if you look at gross written premiums for the entire market, and maybe the data's not 100% accurate, it doesn't seem to be really growing. In fact, the latest data I saw, I saw it actually shrinking relative to GDP.

Peter Hagen

Yes.

Paul Psaila

But one would assume, you know, given your comments about the pricing and the restructuring that at some point it should start to grow, and obviously penetration's very low, and you can't expect on growing relative to GDP, but it should start to grow.

Peter Hagen

Yes, I endorse it. It should start to grow. One of the reasons why you cannot see it immediately on the 2014 figures is that… I will put it this way. Some of the premiums that were recorded by some of the mavericks probably were not premium. Okay? So this was one of the issues that there was business recorded as

	premiums which probably never was business, and that putting them under forced administration, etc, obviously did no longer show up as it never was there.
Paul Psaila	Okay. That's helpful. Thank you.
Operator	We have a follow up question from the line of Michael Huttner of JP Morgan. Please go ahead.
Michael Huttner	Thank you so much. Thanks for this opportunity. Just on the ROE, I didn't quite catch it, but I think you said 2014 on your definition was about 8.6%; I think that's right? Now…
Peter Hagen	8.1.
Michael Huttner	8.1? Ah. Brilliant. Fantastic. Thank you. So, this is really naughty, because I know you don't do guidance and stuff, but to open the door. So, the shareholders´ equity has gone up by the difference between net profit and dividend, so it's, I'm rounding here, it's about 1/20th, so it's about 5%, so if we have, and again, I'm rounding a lot, effectively I'm getting to a figure of, in terms of return on equity, because the equity base is up and the earnings could be about the same - this is my assumption now - that would be slightly lower, which is fine; that's what you're saying, and that's helpful. The question really is when do you think we will get back to higher levels of profitability on this definition? So more towards the 8.5% or 9% end of the ROE rather than the 8% or below 8%? Thank you.
Peter Hagen	When you look at it… We have shared with you what is our mid term goal, so mid term goal to come to this 100, 150 basis points in excess of cost of capital, is certainly sometimes in the next three to five years. It has two developments, as deliberately we do not say a particular return on equity; we say return on equity in excess of cost of capital, because obviously it's a moving target, and we are also working with a lot of the programmes that we have launched in 2013, as well as this year, also to work on our cost of capital, obviously, to optimise our capital structure.

We have implicit pressure on our cost of capital, simply from the very fact where we are working. So, as most of our central European and Eastern European countries do not enjoy the same risk rates as, for example, Austria or the Czech Republic, the more we grow in this area in attendances the more there's the pressure of the cost of capital upwards. Therefore we try, by restructuring our capital, to offset this effect and to bring down the costs, or at least to keep it on a stable level.

This having said, as I said, the goal for being roughly 100 to 150 basis points over this level is something we want to achieve within the next three to five years.

Given, again, that the interest rate level stays at this low level as we are expecting, for 2015 onwards. If we see a rise in this, a continuous but small rise, obviously, if things look much different then we could be there much earlier.

Michael Huttner	Just to explore that, I'm sorry, I don't… Your answer is so good I'm just thinking if I ask another question I'll get another really good answer. If I think about, so, investment income is obviously not the area where there can be a massive improvement, so this means, and I think this is part of the earlier topics about combined ratio and stuff; can you help us a little bit? Should we…? It's a big moving part here that Italy becomes… negligible never, but I mean, less relevant in terms of earnings, so that could be a couple of years out, or is the moving part that Romania becomes a 92% country like the rest of the CEE, or is it…? I think, from your answers, you, kind of, implied the Austria combined ratio is good roughly where it is, so I'm assuming that wouldn't change much. Can you help us out maybe just in the regional improvement where it could come? But, obviously…
Peter Hagen	Sure. And you should consider Italy, obviously. I try to give a bad answer now, in order to avoid another question.
Michael Huttner	Okay.
Peter Hagen	But if you look, Austria, including Italy, is currently reporting 99… over 99%, so if we are discounting Italy,

	and as you say, there will still be an impact 2015; 2016 I do not see a major impact - I hope so, at least. Then if we then come down, in a normal year, to something around 95 this means an improvement by more than four points on the Austrian business, so that's substantial. On top of this, as you rightfully say, I mean, I think it's a little bit challenging to expect Romania to come to 92; it would be a nice surprise, but I'm not so sure that I will still be in office by then, but certainly the goal must be clearly be now 97/96. Sure.
Michael Huttner	Yes.
Peter Hagen	Don't forget the Romania is very much natural catastrophe exposed, so we have to, to a high degree, also protect ourselves with natural catastrophe protection, which is costly, so therefore to expect there really to come to lower than 95, frankly speaking, I can't see this at this point of time, given the very structure of the Romanian market currently.
Michael Huttner	Yes. That's brilliant. That's so helpful. Thank you very much.
Peter Hagen	More than welcome.
Operator	We have another follow up question from the line of Ralph Hebgen of KBW. Please go ahead.
Ralph Hebgen	Yes, hi. Thank you for taking my follow up question. Just a few things to confirm and clarify, I'm afraid. Just on slide 14 to start off with, Solvency II, am I reading the slide, the fifth bullet point, which identifies a median Solvency II ratio of 159%, so if I said that is representative for VIG on a standard model, let's call it 160%, that would be as at the end of 2013, and if that is the case then presumably it would be reasonable to expect that number to be lower than 160% now. I'm not trying to put words in your mouth; I know you're not giving guidance, but if you could just perhaps clarify where we are with these numbers in time and, sort of, broadly directionally, where they might now be higher or lower.
Martin Simhandl	Nothing to add to your comments, I would think.

Ralph Hebgen | Cool. I'm answering my own questions. This is good.

Peter Hagen | We appreciate that as well.

Ralph Hebgen | Yes, excellent. Cool. So, moving on to the second part and that may well be a similar one. Apologies for asking this, and I'm sure everybody has understood this; I'm just being tedious. The pre-tax profit, sort of, the guidance, broadly, or in the wider sense, which you gave, when I look at the outlook statement you gave, and try to incorporate the sense of that into my projections, I think I understood you right; it would be sensible to start with the pre-tax profit level achieved in 2014 of 518, let's say as stated. It would not be prudent to reverse out the negative impact of the bond write-ons in that number. Is that a fair representation of what you said?

Peter Hagen | I will put it this way: we do not expect that if you were to reverse it, in addition to what we can do in improving the underwriting results, considering the lower investment yield would add to a substantial increase of the profit.

Ralph Hebgen | If I were to reverse it. Okay, fine. Perfect. And the final one is, actually, a conceptual question; in your P&C overall result would you comment on the dynamics of reserve releases and prior year results? Where are you? Are you seeing recent accident years still adding to surplus? And how are the dynamics there?

Peter Hagen | It's very simple. There's no change to previous years in the policy, no particular extraordinary release nor particular extraordinary funding of loss reserves, and as you can see, Werner has mentioned this in his presentation, the redundancies in loss reserves and premium reserves in 2014 have, net of reinsurance and net of tax, have not changed.

Ralph Hebgen | Indeed; just as a follow up, I was more thinking about the overall dynamics rather than exceptional one-offs.

Peter Hagen | There is nothing particular. I mean, there were… I'm not sure whether you might refer to Poland, because one of our esteemed competitors in Poland has increased his reserves for claims from pain and suffering, or IBNR. We had no need to do so for historic reasons, because you might… you track us a long time; you might remember a particular tax in Poland called Religa tax, which was 12% on MTPL and was abolished end of 2009. Until then we had 12% of this MTPL premium to pay to the state, and others, once this had been abolished, we have not released this either into profits or reduced rates, but put this into reserves for particular pain and suffering of close relatives, which was at the same time introduced when the tax was abolished, and therefore we have no need to do any special actions in this respect.

As a long term tendency in terms of profitability we can see an increasing pressure on rates in Poland since already a year now again, particularly in the fleet business; this is also why we're very reluctant to write extensive fleet business, in order to keep up with the profitability.

We see substantial rate improvements in the Czech Republic for the first… We really saw the turnaround in 2014; effects of this will be seen more 15/16, I guess, and in the other countries there's nothing special coming up currently.

Ralph Hebgen: Okay, that's great. Thank you very much indeed.

Peter Hagen: You're welcome.

Operator: Our next question comes from the line of Thomas Unger of Erste Group. Please go ahead.

Thomas Unger: Hi, gentlemen. Thanks for taking my questions. I have two, if possible. Just one, coming back to one of your answers on the guidance questions and the regional perspectives; I'm not sure if I got that right, but in Austria you said that you don't expect a major impact from Italy in 2015 and 16; is that correct? So can we expect the combined ratio drifting down towards 95% in those two years already?

The second question, a more specific one, on the other operating expenses in Q4 look quite surprising high from here at least, and I saw that you had a write down of IT projects of €50 million and you did not flag that as a one-off, but still it depressed the profitability quite substantially. Could you explain what happened there

	and is there any effect that we should expect for the coming year? The current year, actually?
Peter Hagen	Okay. So, Italy; what I did say is that I do expect that Italy will have only a limited impact on 2015 and 16 when compared to 2013 and 14, so we'll still, we'll see an impact in 15, but substantially less than in 14, and this is what the expectation is currently. So therefore we should converge towards what I said is the expected combined ratio in Austria, but having said so, and please keep this in mind, a major national catastrophe or a series of catastrophes can change the actual combined ratio in Austria immediately. So this, what I say, is, so to speak, a normalised combined ratio, at which we are aiming at in Austria.
Thomas Unger	Okay.
Peter Hagen	Of course, currently, this is very clearly burdened by the development in Italy in 2014, as you can see, as we are far away from the 95, which we would expect, given the fact that there are no major catastrophes. Maybe we'll be, given the fact of the higher weather related other claims, we would be rather at something like 96, but nonetheless we are far away from this, and this is due to Italy.
Thomas Unger	Right.
Peter Hagen	Okay. As concerns the IT project this is a very simple one. You know we run, since quite a while, a Group wide project on developing, together with SAP, a standard software for insurance. This project is running now since quite a while, and we thought it prudent to have a complete assessment of this project, technical as well as financially. The technical analysis is still going forward, and we're looking, basically, into each line of code, if you want, so if it's okay, if it's performing well enough, or if it already has been overcome by a change in the business needs. In this course we have identified code functions that we have produced in the last couple of years that, to a high probability, will not longer respond to the business needs of the companies, once implemented, and for this reason

	we decided not to normally depreciate this, but simply write it off.
Thomas Unger	Okay, and that happened in Q4, right?
Peter Hagen	This happened in Q4, yes. This, the analysis is continuing, as we are working hard together with SAP, because very frankly speaking, we are not happy with the quality of the project so far.
Thomas Unger	Okay. Perfect. Thank you.
Peter Hagen	You're welcome.
Operator	We have a further follow up question from the line of Sami Taipalus of Berenberg. Please go ahead.
Sami Taipalus	Hi, sorry to drag out the call. Just one question on slide 18, where you've got the guarantees on the Austrian life business and it fell by eight basis points year on year within 14 and 13. I'm just wondering if you could give us, kind of, a short update on how we should expect this guarantee to develop; is, kind of, a fall rate of five to ten basis points a year, about right, or, you know, maybe if you just… Could you give us a bit of guidance on that? Then the second follow up is on your IT as well; just the fact that you had this write-down, I guess, and the fact that it takes you about three and a half months to produce your full year results, I guess I'm just wondering whether you feel that your IT systems are competitive, relative to peers, or whether you think that there's quite a lot more work to be done on them? Thank you.
Peter Hagen	Let me start with the last question. I think the fact that we need three and a half months is more due to the Austrian Minister of Finance than to my IT system. So, can we become more effective than this? Of course we can. As we are working on this; this is why I say because we are not satisfied so far with the quality of the programme we are assessing it, and we are assessing it inside out, currently, so yes, we are not satisfied with the efficiency of the system. However, having said so, we're talking here about the portfolio management system and not so much on the financial system. There are connections and

these connections have to be checked, are checked and as I said, yes, we can become more efficient.

This year it was highly impacted by the fact that we included as one of the only ones actually in the financial sector still included; the Heta development on 1st March, so we had to reopen certain balance sheets, but I would say both statements are correct. We are, to a degree, a victim of what happened on the Heta issue, and on the other hand side we have to become more efficient on the IT side and this is exactly why we do this project.

Sami Taipalus

Okay, great. I guess my question was a little bit broader than just that; I guess more broadly with your IT systems across the group are you happy with their efficiency or do you feel that maybe you need to, kind of, maybe invest a bit more, or…? I'm just trying to figure out whether there's a capital spend to come.

Peter Hagen

Well, the point is, depending on the analysis… Let's put it this way. We have, in the various countries, various systems, which are more or less running quite effectively. Nonetheless, about many years ago we decided we want to have, together with SAP we want to develop a standard software, which is basically covering all the needs of all the major companies, and established this.

We have found out in the mean time that this is a very complex issue and we are not so absolutely sure any more that we can do this efficiently, therefore we basically have decided, in summer last year, that we will do an in depth analysis of the economics of the technical background, of the system architecture and of the question whether or not we should continue in this way.

This process and this analysis is still underway, so there's not question of whether we need further IT investments or not; it's more a question of how do we, in the end, evaluate the SAP project and how do we want to continue with that? Do we expect then further investments in this area? Yes, but we would do anyway, so there's nothing particular at this point of time, to this area, and I have to mention in this respect that as concerns our IT spendings. In the Group as a whole, we are currently roughly, and this is including everything, so IT costs, depreciation, pension reserves for everybody

	who is working in IT, etc; we are a little bit over 2% of premium, which is way below what is the benchmark in European composite insurance level, which is way over 3%. So, having said this, we will continue to try to have a very, very, let's say, efficient, or let's say, low cost IT environment, but we are currently, and this is why I have to make a certain proviso on this, we are currently assessing the whole project upside down and results on this will only be available probably in autumn this year, and then we see how we go on from there, but the goal is very clearly to be more efficient.
Sami Taipalus	Okay, great. Thank you.
Martin Simhandl	When it comes to your question concerning the guaranteed development we should expect a further slight decrease of the average guarantees over the coming years, how many basis points per year I cannot tell you now, but it's a continuous effect.
Sami Taipalus	Okay, right. Thank you.
Operator	There are no further questions from the phone lines.
Nina Higatzberger	Okay, thank you. Ladies and gentlemen, thanks for your questions and for listening in. We hope to have you with us again for the release of the first quarter results on 20th May 2015. Goodbye.