

## **VIG – A Top Player in the CEE region**

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**UBS Global Insurance Conference, London - 27 June, 2008**

**A** **VIG on a steady path of growth**

**B** **Growth potential in CEE**

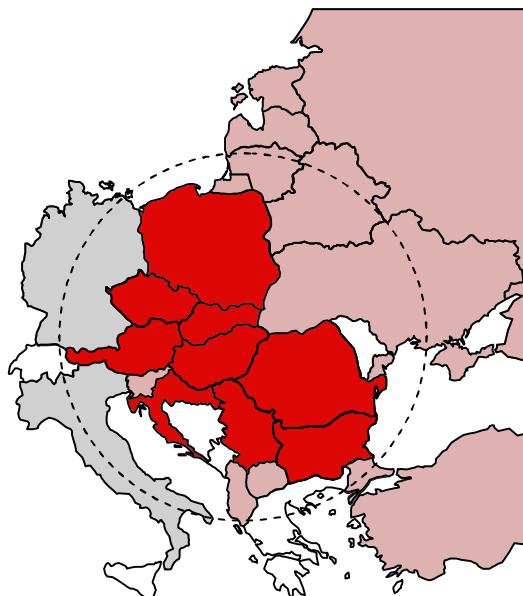
**C** **Exploiting the potential – recent acquisition**

**D** **VIG strategy delivers**

# Geographical Overview

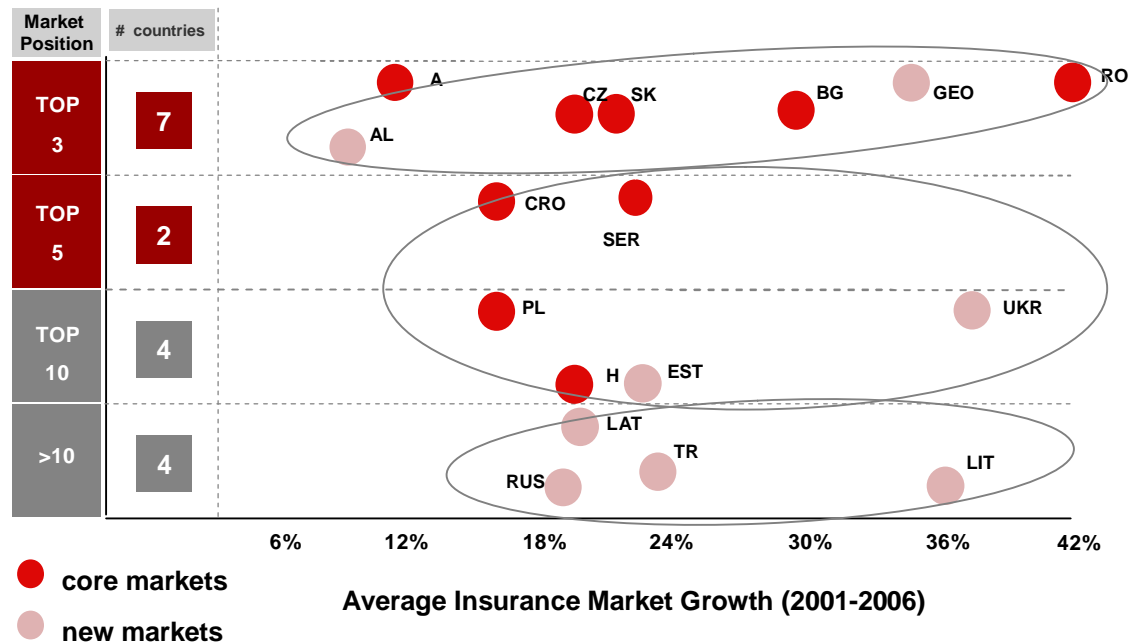
VIG is the leading Austrian insurance group operating in 23 countries

## Footprint



● Core Markets

## VIG Is Well Positioned in its Markets

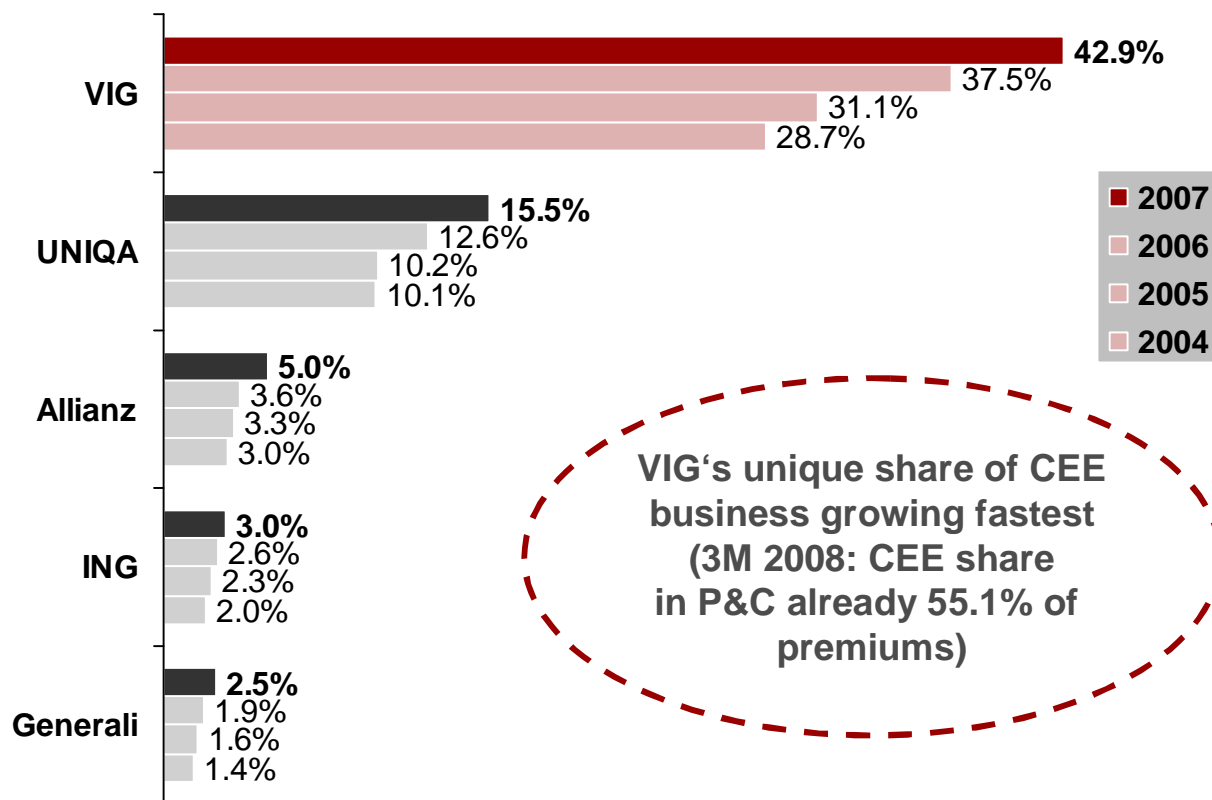


Source: Swiss RE 04/2007, company data YE 2007, VVO

# Purest CEE Insurance Play

VIG is the only international insurer with 43% of business from CEE

## CEE Premiums as % of Total Group Premiums



### Situation of VIG in 1990

- § VIG is pioneer in CEE; start of expansion in 1990
- § “Big fish in a small pond”
- § VIG decided to concentrate on neighbouring region because of management capacity and financial resources
- § Going east immediately after the fall of the iron curtain due to potential of emerging markets and proximity

Two core strategies:

- § Expansion of its position in Austria
- § Expansion of CEE business through acquisitions and organic growth

### Assessment of Markets

#### General parameters for market entry

- § Economic situation and potential
- § Legal and political stability

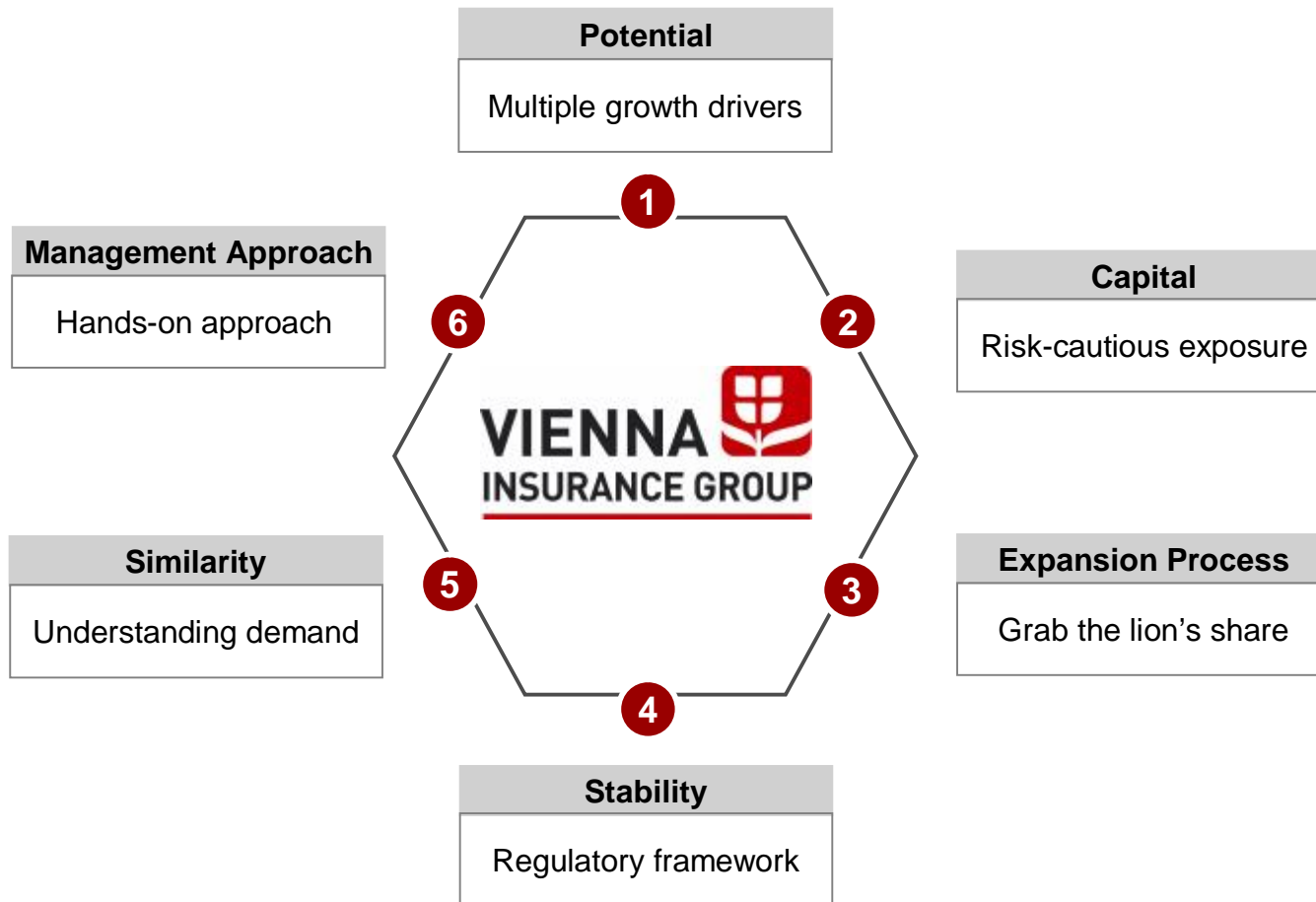


#### Insurance market parameters

- § Current market size
- § Growth of insurance premium volume
- § Insurance density and insurance penetration
- § Distribution of household income and development of wealth composition
- § Market structure
- § Specific parameters like private vs. corporate business, reinsurance business

# Why Focus on the CEE Region?

## Cornerstones of the CEE story



**A** **VIG on a steady path of growth**

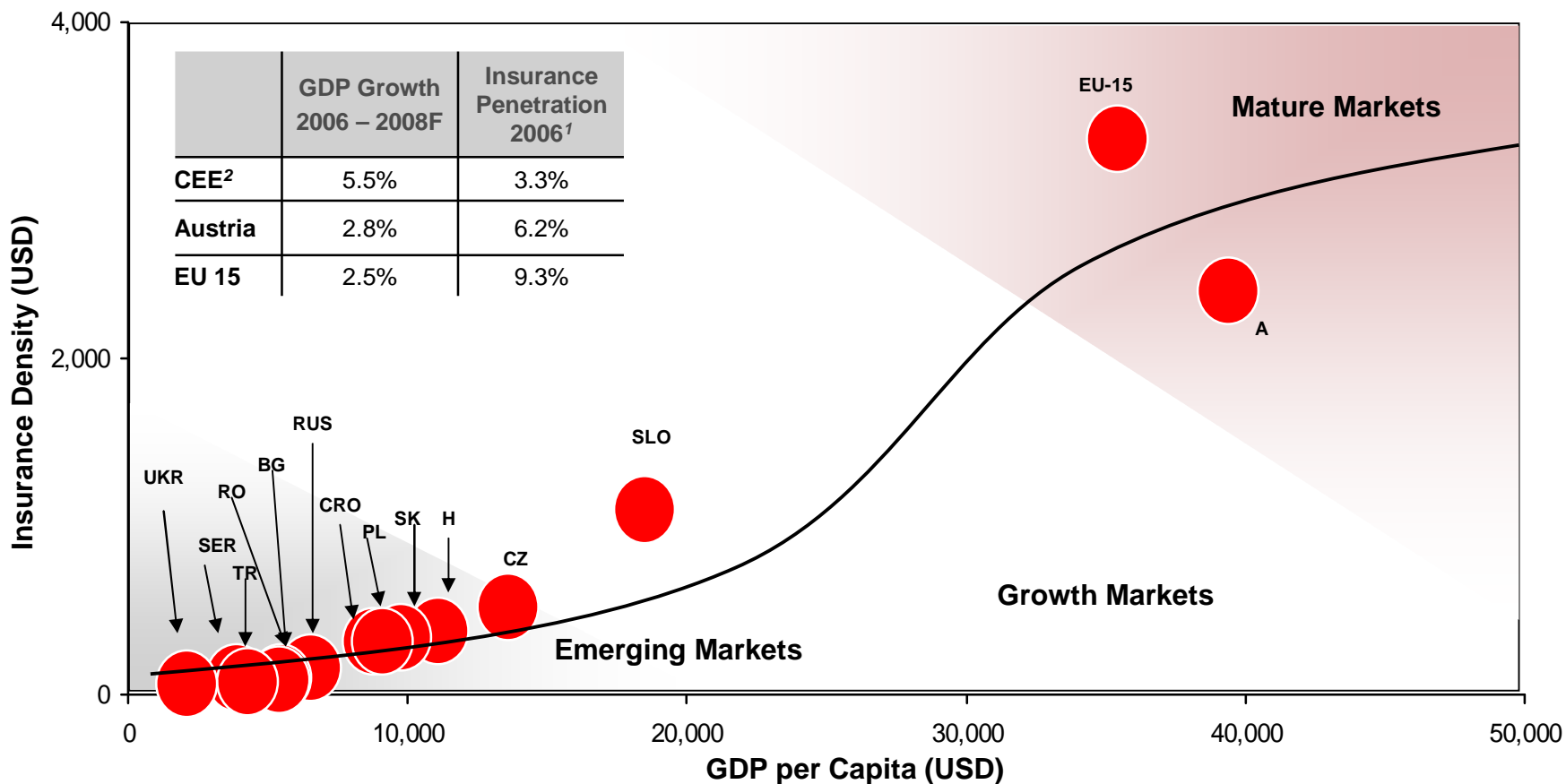
**B** **Growth potential in CEE**

**C** **Exploiting the potential – recent acquisition**

**D** **VIG strategy delivers**

# CEE Region Offers Multiple Growth (I)

Insurance density growing above GDP increase



<sup>1</sup> Premiums in % of GDP.

<sup>2</sup> Weighted average for CEE. CEE is defined as Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

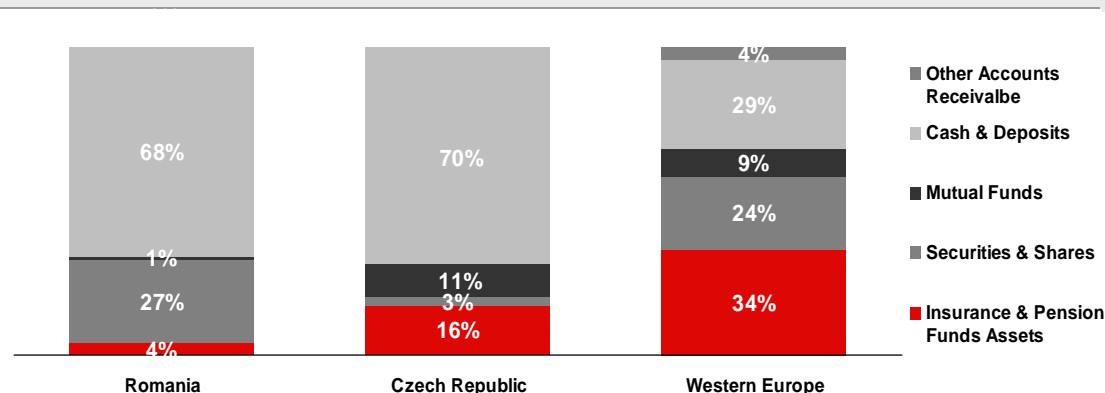
Source: For GDP Growth IMF (World Economic Outlook as of 2007). For all other data Swiss Re Sigma Nr. 4/2007 (July 2007)



# CEE Region Offers Multiple Growth (II)

GDP, insurance penetration, wealth composition are growth drivers

## Shift in Households' Financial Wealth Composition



## Comments

- § With increasing wealth household asset allocation in CEE is to change in favour of insurance products
- § VIG is well positioned to capture this growth through the long term agreement with Erste Bank

Source: UniCredit CEE Households' Wealth and Debt Monitor (November 2007) based on 2006 data

## Austrian Insurance Market

## CEE Insurance Markets in 2006

Year	Premium income (EUR bn)	Insurance penetration (%)	Density (EUR)	GDP/Capita (EUR)
1967	0.59	2.8%	79	2,813
1977	2.19	3.7%	289	7,883
1982	3.44	4.4%	454	11,140
2000	11.68	5.7%	1,440	25,486

x 1.5 (between 1977 and 2000)  
x 3.2 (between 1977 and 2000)

	Insurance penetration (%)	Density (EUR)	GDP/Capita (EUR)
Serbia	1.8%	61	3,267
Romania	1.7%	75	4,504
Bulgaria	2.6%	80	3,260
Croatia	3.3%	245	7,780
Poland	3.5%	247	7,123
Slovakia	3.4%	268	8,156
Hungary	3.4%	299	8,847
Czech Republic	3.8%	414	10,977

Source: VVO, Erste Bank, SwissRe Sigma 04/2007

**A** **VIG on a steady path of growth**

**B** **Growth potential in CEE**

**C** **Exploiting the potential – recent acquisition**

**D** **VIG strategy delivers**

### New Market Entry

- § Risk-cautious exposure of capital in new markets
- § Recognize opportunity – benefit from it



- 1 Acquiring a small player or setting up a Greenfield operation**
  - § Learning about the mechanics of the market
  - § Understanding the customer demand
  - § Establishing relationships
- 2 Confidence in the market environment is the engine for further expansion**
  - § Getting reasonable size to make use of economies of scale
  - § Improve profitability by shared services

### Acquisition Process

#### Criteria

- § Sound risk assessment of target company
- § What does the company add to help us grab the lion's share of future growth
- § Appraisal of management skills

#### Principles

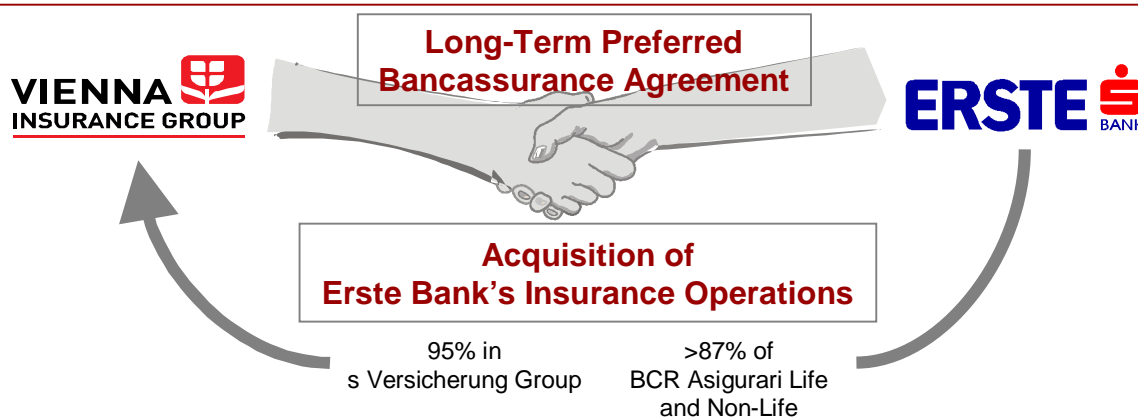
- § Leveraging of local brand names in the context of multi-brand approach combined with shared services concept for back office
- § Strong local management with in-depth market experience and full discretionary power
- § Backed by Group and supervision (re-insurance, actuarial, asset management)
- § Long-term goal to reach CZ and SK ROE levels (>20%)

# Acquisition of s Versicherung

Unique opportunity to capture growth potential in life

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## Acquisition Highlights



## Rationale

- § Vienna Insurance Group (“VIG”) strengthens its No. 1 position in Central and Eastern Europe (CEE)<sup>1</sup>
- § Erste Bank is a regional partner with similar mindset and corporate culture
- § VIG successfully diversifies its distribution channels in core markets
- § Erste Bank’s distribution system is a perfect fit for VIG
- § Right time to boost life insurance business








## Details

- § Total consideration of € 1.45bn
- § Acquisition expected to close by the third quarter 2008

# Potential of 16mn Erste Bank Clients

**Bancassurance agreement offering outstanding access to clients**

## Acquisition of Insurance Operations

s Versicherung Group			
Austria		<b>GWP</b> <b>Market #</b>	
		Life	€791.7m      2
Czech Republic		<b>GWP</b> <b>Rank #</b>	
		Life	€231.0m      4
Slovakia		<b>GWP</b> <b>Rank #</b>	
		Life	€24.8m      8
Hungary		<b>GWP</b> <b>Rank #</b>	
		Life	€36.0m      13
Croatia		<b>GWP</b> <b>Rank #</b>	
		Life	€8.9m      11
BCR Asigurari Companies			
Romania		<b>GWP</b> <b>Rank #</b>	
		Non-life	€155.2m      3
Romania		<b>GWP</b> <b>Rank #</b>	
		Life	€23.0m      7

**Total premiums of €1,289mn in 2007**

## Mutual Distribution Agreement

- § Preferred partnership for sale of life, non-life and health products – building on existing P&C cooperation
- § Long-term agreement: 15 years plus renewal for 10 years
- § Countries covered: Austria, Croatia, Czech Republic, Hungary, Romania, Serbia, Slovakia, Ukraine
- § Terms and conditions to be agreed according to local environment
- § Erste Bank targets strong increase in its penetration of retail clients with insurance products



**Creates significant growth potential going forward**

### Erste Bank Strengths

- § Largest retail bank in the CEE region
- § More than 16mn customers and 2,900 branches
- § Present in nearly all existing core markets, home market of 120mn people
- § s Versicherung already integrated in Erste Bank IT systems – easy data handling
- § Existing P&C cooperation

### Erste Bank Facts

Total  
Branches: 2,908  
Clients (m): 16.4

**Austria**  
Market share: 19.3%  
Branches: 993  
Clients (m): 2.8

**Czech Republic**  
Market share: 31.9%  
Branches: 636  
Clients (m): 5.3

**Hungary**  
Market share: 6.1%  
Branches: 197  
Clients (m): 0.8

**Slovakia**  
Market share: 31.3%  
Branches: 273  
Clients (m): 2.5

**Romania**  
Market share: 27.7%  
Branches: 562  
Clients (m): 4.0

**Serbia**  
Market share: 2.8%  
Branches: 61  
Clients (m): 0.2

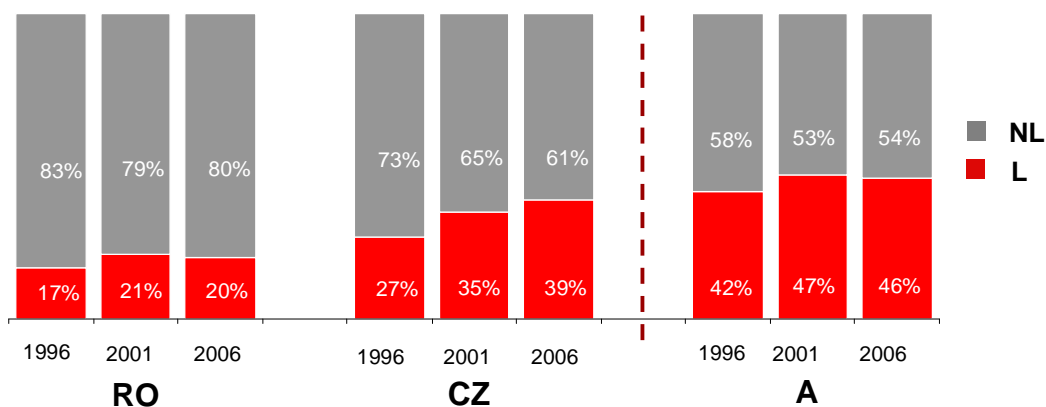
**Ukraine**  
Market share: 0.1%  
Branches: 71  
Clients (m): 0.1

**Croatia**  
Market share: 12.0%  
Branches: 115  
Clients (m): 0.7

# Now is the Time for Life Business

Banking distribution is key for harvesting CEE life potential

## CEE Insurance Markets<sup>1</sup>

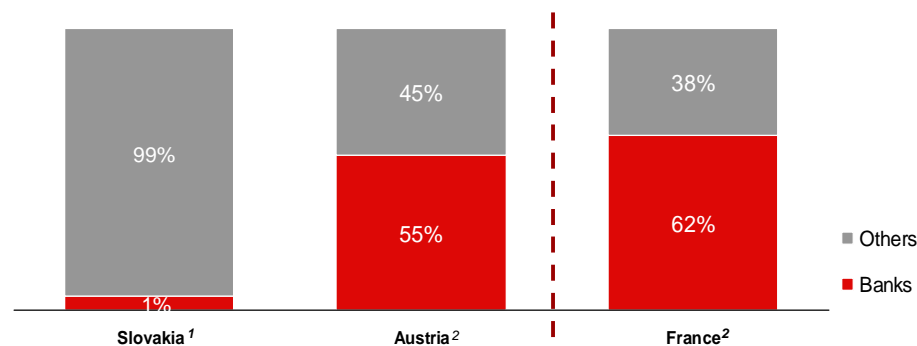


## Comments

- § Life gaining importance in mature markets
- § In EU-15 about 2/3 of insurance market is life business

<sup>1</sup> Source: Swiss RE Sigma 04/1998; 06/2002; 04/2007

## Distribution of Life Products



## Comments

- § In Western Europe the major part of life products is distributed via bancassurance

































# VIG – Distribution Is Key in Insurance

Multi-brand & multi-channel provide best customer access

## Multi-brand



## Multi-channel

	Tied agents	Banks	Brokers	Other
Austria				
Czech Republic				
Slovakia				
Romania				
Croatia				
Hungary				
Serbia				
Ukraine				

Multi-brand & multi-channel differentiate VIG from most of its competitors



### Business Growth

- § Extended product and service offering tailored to the bancassurance distribution channel
- § Streamline bancassurance distribution channel with clear focus to increase customer penetration with multiple insurance products
- § New product development using joint know-how while retaining established local brands
- § Improvement in underwriting procedures
- § Exploit cross-selling potential between VIG, s Versicherung and Erste Bank

### Performance

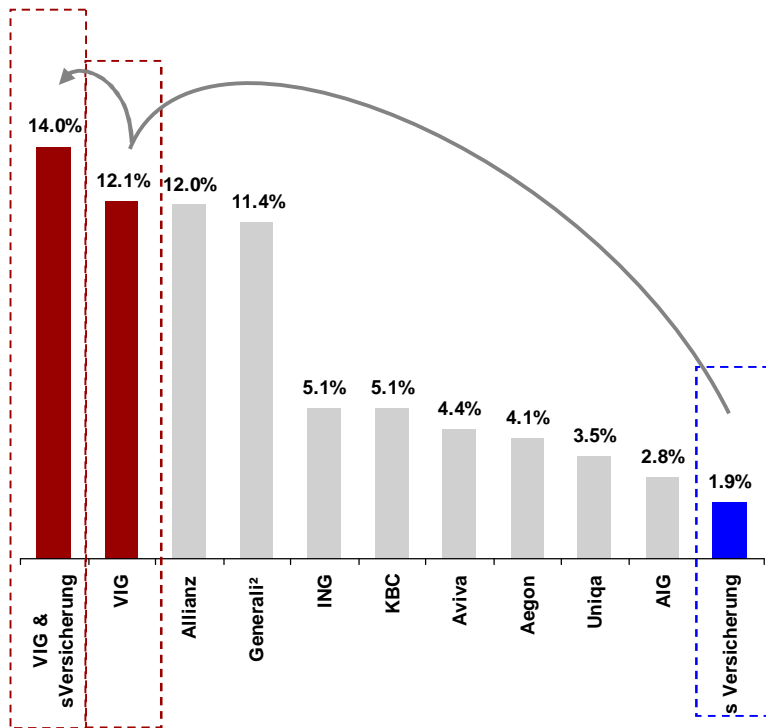
- § Economies of scale to result from strong business growth in CEE
- § VIG's has proven track record of managing bancassurance operations
- § Several s Versicherung group companies established only recently; carrying set-up costs
- § VIG buying s Versicherung's management power for business development in CEE
- § Integrated IT systems allow for start of cooperation right away

### Efficiency

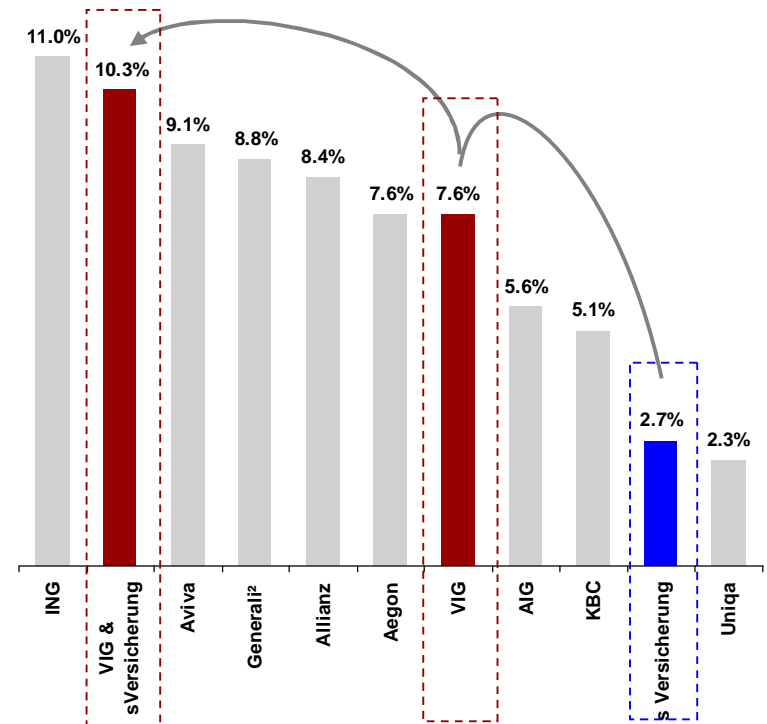
# Strengthening No.1 Position in CEE

Taking on leadership in life insurance

## Total Market Share in CEE<sup>1,2</sup>



## Market Share in CEE<sup>1,2</sup> Life



Source: National insurance associations of the respective countries as of YE 2007

1 CEE is defined as: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia and Slovakia 2 Including recent acquisitions

Note: All market shares in this presentation are based on industry statistics and define the markets from a production perspective. Please note that this perspective does not necessarily coincide with market definitions used for marketing research purposes, e.g. studies on customer demand, or merger control purposes.

# VIG Benefits from Stability and Similarity

CEE region offers unique convergence

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## Unique Stability

**Nearly all VIG core markets are already member of the EU or on the way to become a member**

- § Emerging extended home market of about 120mn people
- § Political stability and common regulatory environment also for EU member aspirants
- § EU ensures focus on sound fiscal policy
- § Financial subsidies from EU to accelerate catch up process of CEE countries
- § Step by step extension of EURO into CEE – convergence of currencies

## Similarity

- § Austria and many CEE markets benefited from EU enlargement process
- § Partly joint tradition and history

- § VIG understands the mechanics of the markets and the needs of the customers
- § Market entry at the right point of time when relevant insurance business lines are to take off



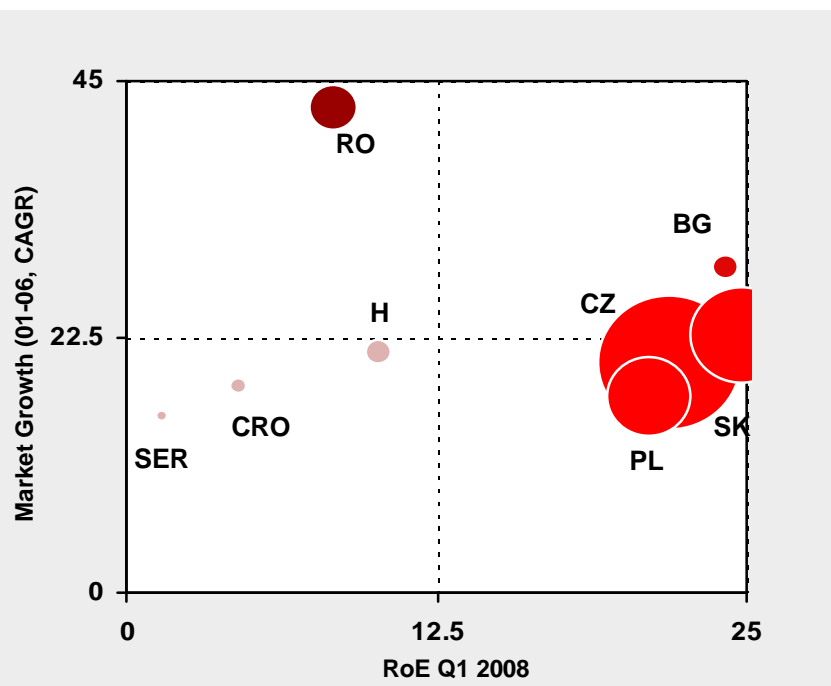
Management approach based on broad experience in similar conditions

### Management Approach

- § Each board member of VIG parent has direct responsibility for CEE countries
- § VIG board members closely involved in management of subsidiaries to build know-how and for quick decisions
- § Local incumbent management is responsible for sales and profitability - usually one board member delegated from Austria
- § Capital
  - available capital concentrated at parent level
  - allocation to Group companies according to their needs to fund organic growth

### Track Record

- § Success in one CEE market is transferable to other markets due to comparable market structures in different market cycles



Source: SwissRE Sigma 04/2007, 3M 2008 company data

# The Austrian Case

## VIG capitalises on catch-up potential in life insurance

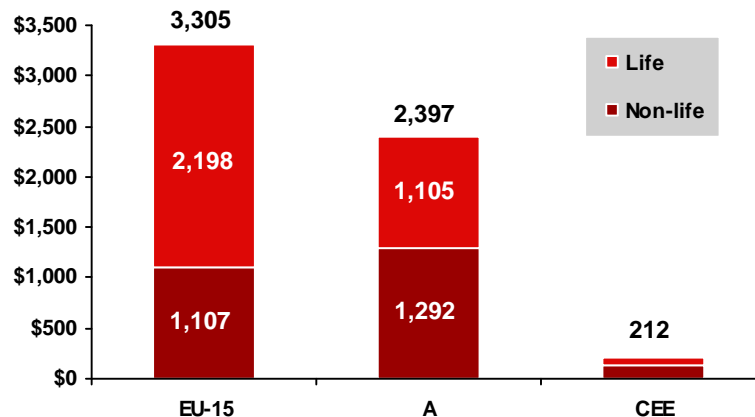
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### Situation in Austria

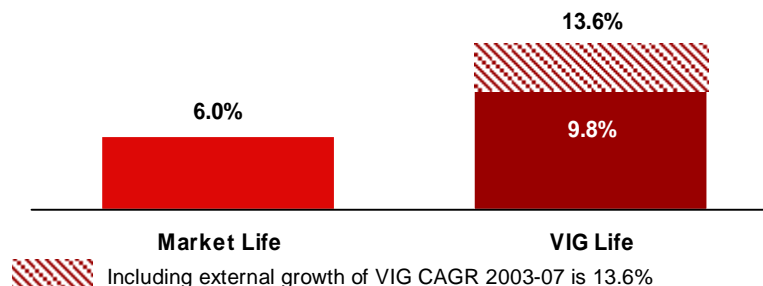
- § Austria is a largely mature market
- § Still strong growth potential in life: Austria lags behind EU-15 in premium per capita
- § Life insurance business in Austria is expected to deliver sustainable growth going forward
- § Ongoing reforms of social security system to generate strong demand for life savings and pension products
- § VIG has been growing faster than the market

### High Growth Potential

Life insurance density is low in Austria



VIG capitalises on life insurance growth (CAGR 2003-07)



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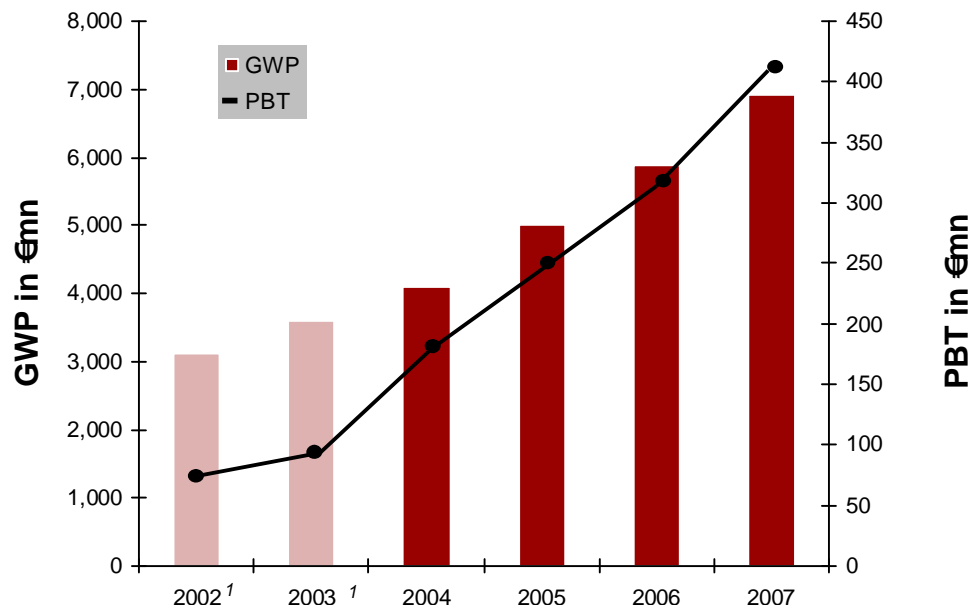
**D** **VIG strategy delivers**

# VIG Growth Strategy Delivers

Growth materialises in strong increase in profitability

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## VIG's Path of Profitability



**Profit before Tax YE 2007: €437mn**

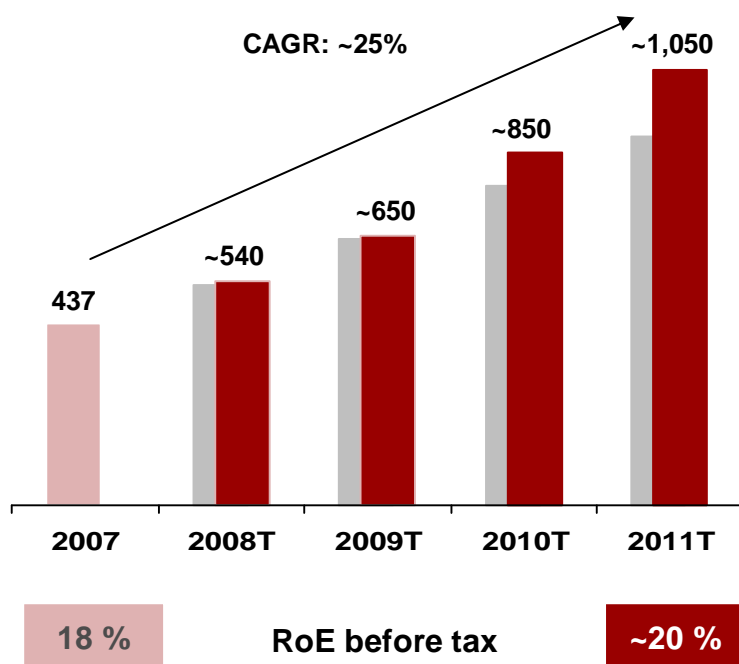
## Comments

- § VIG is one of the fastest growing insurance groups present in CEE
- § From 2002 to 2007 VIG succeeded in growing Group gross written premiums by more than 17% (CAGR) per year
- § From 2004 to 2007 VIG increases profit before tax from € 156mn to € 437mn corresponding to a CAGR of more than 41%

### VIG's Financial Targets

Premium Target for 2011: > EUR 12bn

Profit before tax targets in €mn



### Continuous Expansion

- § Further expansion through organic growth and acquisitions
  - § Improve market positions in less advanced markets
  - § Smaller to medium sized acquisitions in particular in Poland, Hungary, Ukraine and Turkey
- It is company philosophy to keep the Combined Ratio well below 100% throughout the business cycles
  - VIG dividend policy is defined as a payout ratio of min. 30% of Group net profit