



# Conference Transcription

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**Conference title** : **Vienna Insurance Group  
Release of Results  
1st Quarter 2010**

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## CONFERENCE DETAILS

Conference Date: 20 May 2010

Conference Time: 15:00 CET

Conference Duration: Approximately 29 minutes

Chairperson: Thomas Schmee

## **ACT Operator**

Welcome to the Release of Results First Quarter 2010 conference call on 20 May 2010. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press \*0 on your telephone for operator's assistance.

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

## **Thomas Schmee**

Thank you, operator. Good afternoon ladies and gentlemen and welcome to this telephone conference at the occasion of the First Quarter Results Release of Vienna Insurance Group. Our table round here in Vienna consists of Martin Simhandl, CFO, Peter Hagen, Member of the Managing Board, Peter Hofinger, Member of the Managing Board, and Roland Groll, Head of Group Finance and Accounting. Martin Simhandl will guide you through a short presentation about the results and this section will be followed by a Q&A. Martin, please go ahead.

## **Martin Simhandl**

Thank you, Thomas. Ladies and gentlemen, good afternoon. I am very pleased to present to you the results of the First Quarter 2010 of Vienna Insurance Group and I think I can present to you quite good developments. I want to start with the development of our life insurance business.

In the first quarter of this year Vienna Insurance Group out of the international insurance groups has become the number one also in life insurance in its CEE core markets. And this positive development mainly has been driven by the banking distribution. I think it has proved to be a good idea that we have refocused our business versus life what we did in 2008 by acquiring the Erste Bank insurance business and the fruits are coming out now.

We want to expand our life insurance business and we show that on slide four of the presentation with a new entity we want to establish in Macedonia. In Macedonia we are already present with a non-life company and the life insurance company we want to establish will cooperate with the local Erste Bank so the cooperation then will be in 10 countries.

Slide five of the presentation gives you an overview of the highlights of first quarter. Earnings before taxes more than €133 million; that's the best first quarter we ever had. Gross written premiums up by roughly 8% and as I said substantially supported by the life insurance development and this substantially supported by the excellent banking distribution. The combined ratio is slightly up to 97.5% coming out from higher retention rates combined with some Nat Cat effects; the weather conditions in the first quarter in some countries have not been very favourable.

The next slide gives you the financial highlights of the first quarter. Gross written premiums for the first time more than €2.5 billion in the first quarter. Profit before tax plus of more than 10%. Net profit after tax and minorities more than €100 million. The net combined ratio at 97.5% as I already mentioned. This leads to €3.16 earnings per share and an ROE before tax of more than 11% despite quite significant increase of the equity. I will come back to that later on.

Let's step into more details of the income statement and the balance sheet. The income statement is shown on slide nine. Not only the gross written premiums has grown

significantly, the net earned premiums has increased even more, nearly 14% more than €2 billion net earned premiums in the first quarter. Concerning the balance sheet I just want to point out the development of the shareholders' equity a plus of more than €200 million to more than €4.8 billion.

The next slide starting at slide 11 gives a short overview about some P&L position, gross written premiums across the regions. Austria a plus of 4.5%. Very good growth in Czech Republic 12.4% especially in life insurance. Also in Slovakia, life insurance growth very good. Romania, tremendous growth in life insurance. Poland on the other hand a tremendous growth in non-life. And other CEE, a slight decrease.

On slide 11 we also pointed out and wanted to point out the development of the life business of s Versicherung Group to give you an impression about the dynamic of that business. The Austrian entity of s Versicherung Group a plus of nearly 10% and the CEE business grew by more than 70%.

Expenses for claims incurred are shown on slide 12. We see a better loss ratio despite the negative weather conditions in the first quarter. Across the regions it's a differentiated picture. A slight decrease in Austria, quite significant increase as well in Czech as in Poland due to the weather conditions. In Slovakia it decreased and a very significant decrease in Romania which comes out from higher premium rates in motor business, the introduction of deductibles but also out from certain positive currency effects.

The operating expenses are shown on slide 13. The Group cost ratio increased by 1.7%. Also here a mixed picture. Quite stable development in Austria and Poland. In Czech and Slovakia a decrease in the cost ratio and quite significant increase in Romania, which I want to explain a bit. This is mainly coming out from currency exchange effects from Europe denominated motor policies. These effects are shown in the other technical income which are part of the cost ratio.

Slide 14 shows the details of the financial result, an increase from €238 million to €310 million mainly coming out from lower depreciations and especially significantly lower impairments in comparison to last year.

The next slide, slide 15, gives an overview about the investment spilt, investment portfolio, which has stayed quite stable over the last months.

The next slide, slide 16, I have to apologise we have had to change it. The first version you have got in the left columns did not show the year end 2009 what was mentioned but the year end 2008. The year end 2009 now is in the new form of presentation and since the year end 2009 there are no significant changes as well in the structure by issuer as in the rating. In comparison to year end 2009 we have seen a significant increase in the government part and a decrease in the financial part of the portfolio.

The real estate portfolio which is 12% of the total investment portfolio is broken down on slide 17. As I already mentioned last time, some 60% out of that are real estate owned by regulated Austrian housing societies. The rest is owned by the insurance companies of the Group and in that there are hidden reserves of more than €400 million.

Slide 18 shows the positive development of the shareholders' equity. We have seen positive effects on the currency side, it's about €37 million. We have seen very positive effects in the unrealised gains of the available for sale portfolio more than €80 million. That together with the profit of the period leads to a shareholders' equity of €4.852 billion.

Last but not least, on slide 19, the outlook for 2010. We stick to what we have said that we expect a single digit premium growth and profit before taxes to be raised by more than 10% this year.

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

**Thomas Schmee**

Thank you, Martin. Operator, we are ready to take questions. Please start the Q&A section.

**ACT Operator**

Thank you, sir. If any participant would like to ask a question, please press \*1 on your telephone. If you wish to cancel this request, please press \*2. Your questions will be polled in the order they are received. There will be a short pause whilst participants register for a question.

The first question comes from Ralph Hedgen. Please go ahead.

**Ralph Hedgen – KBW**

Hello and good afternoon. Ralph Hedgen from KBW. Just two short ones. The first one is the one I always ask which is the contribution of net realised gains to pre-tax profit in the quarter. And the second one, would you able to indicate how much the efficiency programme contributed to pre-tax profit again in 1Q '10? Thank you very much.

**Martin Simhandl**

Well, concerning the net realised gains I want to answer you question. The second will be answered by Roland Groll. If you look on slide 14, you see realised gains in non-life which has increased from €31 million to €39 million. This is the part that directly goes into the result.

**Ralph Hedgen – KBW**

Sorry, just to confirm, so it's 100% of the net realised gains which crystallised in the P&C segment?

**Martin Simhandl**

To make it more clear, it's 100% of P&C, it's 100% of health. Health has gone down from roughly €7 million to one point something million and it's apart between 10% and 20% in life.

**Ralph Hedgen – KBW**

Sorry to hop in on this, would you be able to identify a number?

**Martin Simhandl**

Well, in life you see €32 million income from disposal of investments and out of that you can estimate some €5 million or something like that.

**Ralph Hedgen – KBW**

OK, so it's 10% to 20% of net realised gains in life, 100% P&C and health?

**Martin Simhandl**

That's it.

**Ralph Hedgen – KBW**

That's lovely. Thank you.

**Roland Groll**

Your second question was the contribution of our efficiency programme in the first quarter 2010. As we explained, due the results of 2009 there was a positive effect of €60 million in addition we saw in the first quarter 2010, in addition €10 million.

**Ralph Hedgen – KBW**

Thank you.

**ACT Operator**

Thank you. The next question comes from Charles Graham. Please go ahead.

**Charles Graham - ING**

Charles Graham from ING. Just two areas of question. One, could you talk a little bit more about how the business is developing in Austria? Obviously that's the area where you have seen profits decline this quarter. Some idea as to the outlook and how you see the business developing there would be useful. I am not sure if you quantify it anywhere but can you give a figure for the size of the weather-related loss that impacted your performance in the quarter particularly in Poland? And also do you have any comment on the recent floods at all?

**Thomas Schmee**

All three questions will be answered by Peter Hagen.

**Peter Hagen**

OK. Business development in Austria, as you can also see from the figures and as we have communicated before, I will start with non-life, you can see that the motor market is continuing to be competitive. We see the whole market shrink. This is not only due to crisis situation which means that less cars are sold but also an issue of that favourable results of the last couple of years, obviously still leave the room for margin squeezings.

We tried to be very selective in our underwriting which is also showing in the improvement of loss ratios despite certain Nat Cat losses in Austria. Overall, motor is going down. This being offset by still quite reasonable increase on the other non-life lines of business, so we see down but typically for Austria a low single digit growth on the personal line side as well as also in certain areas of the commercial lines, particularly on the liability side. So far on the non-life side in terms of premium as concerns the loss side I think I mentioned we have – we see certain weather-related losses or natural catastrophe losses in first quarter also in Austria and that being offset by a better situation particularly also on the motor side.

Health is developing same like years, so very, very small changes. On the life side we have to say that life certainly is for the first quarter better than we expected, when you will recall what we have said at the last conference call that we were not so confident about Austria developing the way it did. Having said this particularly also on the bank distribution, life is performing odds in Austria quite well and on the single premium side. Whether this is sustainable during the whole year, frankly speaking, I cannot tell you. We are still continuing to be cautious in this respect.

The question about the profitability is certainly driven mainly by life and the results of the life side in 2009 where 2010 basically goes back to a more normalised situation I would say on the life side. There was an impact last year also from the reduction of the profit participation.

As concerns to weather losses in first quarter, actually we had two types of catastrophe losses in first quarter. One being the earthquake in Chile which has hit us with some industrial clients, also with Austrian clients which also are represented in Chile. And the weather-related loss is particularly in Poland and even more so in the Czech Republic in the first quarter mainly in end of January, February and beginning of March. Together the gross loss out of this currently is around €36 million, €37 million. Our net loss which goes into obviously the loss ratio is particularly also in the Czech Republic where the main part is coming from them is around €15 million, €16 million.

The current losses or the current weather situation obviously will generate losses also in the second quarter for the time being. We have been already notified nothing big so far. Number of small losses heading up to low single digit figures in terms of million euros. However, having said so, as you know, it's still raining and usually people in the first days have other things to do than to call their insurance company. We do expect this to rise. If nothing big will be affected it will have a certain impact obviously but it shouldn't have any material impact.

**Charles Graham - ING**

OK. Thank you very much.

**Peter Hagen**

Welcome.

**ACT Operator**

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

**Jelena Bjelanovic – Bank of America Merrill Lynch**

Good afternoon. It's Jelena Bjelanovic from Bank of America Merrill Lynch. I had two questions, probably one is more important. Within the life portfolio you have a somewhat higher claims in benefits ratio. Can you comment a little bit on how the persistency of the underlying book is performing? Are you seeing any changes there and to what extent are these just regular policies maturing? Thank you.

**Martin Simhandl**

Well, in life the development is always driven mainly by when regular aims of policies are seen. This could sometimes also be influenced by lapse ratios, but lapse ratios this year had gone down.

**Jelena Bjelanovic – Bank of America Merrill Lynch**

OK, thank you. And then for the rest of the year your expectation is to broadly stay at the same level as Q1?

**Martin Simhandl**

No indication otherwise.

**Jelena Bjelanovic – Bank of America Merrill Lynch**

OK, thank you.

**ACT Operator**

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

We have a question from Michael Haid. Please go ahead.

**Michael Haid – CA Cheuvreux**

Thank you. Good afternoon. Three questions. First of all in P&C the gross premiums written increased in P&C only by 0.9% and when I look at different countries, Slovakia minus 11%, Romania minus 20% and other CEE minus 7%, is this the result of only your selective underwriting or is anything else playing a role here? How is pricing developing in these countries? Is the retention up in the non-motor lines or what happens here?

Second question, with regard to recurring investment income in life insurance that fell significantly in the first quarter 2010 from €278 million to €257 million. Can you give us an idea about the sustainable recurring investment income going forward?

And last question, in life I noticed a strong increase in premiums in Germany and Austria. Do you sell short-term capitalisation products in Germany and if yes, how much was the effect of this?

**Martin Simhandl**

The first question will be answered by Peter Hagen. The second and the third will be answered by me. Do you want to?

**Peter Hagen**

Yes sure. Why do premiums go down? It's absolutely correct. I think we see a general pattern and I might shortly comment it in CEE currently whereas one side is Poland and all others if I may say so. Whereas in Poland we see also from a market side to a certain degree a growth of the non-life market and a rather shrinking of the life market - in most of the countries it is the other way round.

The reason why is relatively simple for the other countries, that is, motor insurance. As the car market or the number of new cars sold or the number of cars newly leased has dramatically dropped in these countries obviously also new business went down. And this shows that you have no big growth from new business. And this in connection with a more selective underwriting procedure also in line with the fact that we were particularly in countries like in Romania not satisfied with the motor results already before crisis led to this kind of decline in gross written premiums. It's a combination of the fact that the markets currently, the car market is not growing and the selective

underwriting particularly in the motor lines of business. Because motor is such a dominant line of business in many of these countries and the more you go east the more dominating it is, it usually cannot be offset by growth in other non-life, personal lines like for example it has been the case for Austria. That is something.

The other lines of business, non-life business, again it's a little bit different by market by market, but other lines of business do grow or at least do by far not decline as much as you would see on the motor side. This is basically the reason for the declining gross written premium.

I do have to say that obviously in countries like Romania where we have not been satisfied with the results and where we have dramatically increased our premium rates you see a much more significant drop than like for example, in Slovakia which is showing half of that because exactly for that reason that in Slovakia the reason is not so much the dramatically increase of premium and therefore lost clients. Whereas in Romania this is certainly the case. In Slovakia it's more the effects as I have mentioned before.

**Michael Haid - CA Cheuvreux**

If I remember correctly then you increase prices twice in Romania by something like 20% so the negative effect is then the volume effect?

**Peter Hagen**

Correct.

**Michael Haid - CA Cheuvreux**

And that must have been huge?

**Peter Hagen**

Yes.

**Michael Haid - CA Cheuvreux**

OK.

**Peter Hagen**

It is particularly in Romania. Basically all, I would say, serious players in Romania have increased prices. However as it looks we were the ones who were increasing the most. There is one locally owned player basically absorbing all what has not been taken by the more established players becoming now one – I think it's even now the largest motor player in the market, a locally owned company.

**Michael Haid - CA Cheuvreux**

OK.

**Martin Simhandl**

OK. Your second question concerning life insurance financial income, as I understand your question was the current income, the development of the current income. Well, there are two effects we have to see in the current life income. The one comes in some CEE countries from decreasing interest rates. And the second is a seasonal effect

because you have the current income out of investment funds over the year not always is in the same timing. That was your second question.

The third question concerning the other markets which means for us not only Germany but also Liechtenstein and that gives the answer. The increase does not come from Germany and we do not do capitalisation business in Germany. We had an increase in the single premium business in Liechtenstein.

**Michael Haid - CA Cheuvreux**

OK. In this respect coming back to the recurring or the current investment income question where do you – I mean it's coming down because of decreasing interest rates. Where do you see it at the more longer term? Should we expect it to come down year by year as long as interest rates remain at the levels where they are at this time or should we see a flattening out here?

**Martin Simhandl**

As I said, it's not only the one. It's two reasons so it's not completely. That's the one thing. Out of that you would see a flattening out. But when you asked me what would be the influence of the interest rate development giving the development of the interest rates over the next five years and I will give you the answer. That's not easy to predict, even not for one year what we have seen for example over the last year what we even have seen over the last weeks.

**Michael Haid - CA Cheuvreux**

OK. Thank you very much.

**ACT Operator**

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

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

**Thomas Schmee**

Thank you, operator. Ladies and gentlemen, thank you very much for taking part in this telephone conference today and our next event is scheduled for 19 August for the half-year results. We would be happy to have you with us then again. Thank you very much once again. Good bye.

**ACT Operator**

This concludes the Release of Results First Quarter 2010 conference call. Thank you for participating. You may now disconnect.

*END OF CONFERENCE*