

Conference Transcription

Q&A

Date of conference: 24 January 2013

**Conference title : Vienna Insurance Group AG
Preliminary Unconsolidated
Premiums 2012
Conference Call**

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CONFERENCE DETAILS

Conference Date: 24 January 2013

Conference Time: 15:00 Central European Time

Conference Duration: Approximately 40 minutes

Chairperson: Nina Higatzberger

Operator:

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Your questions will be answered in the order that they are received. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star and one at this time. And the first question is from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz – Morgan Stanley:

Oh, hi, it is Maciej from Morgan Stanley. I have got two questions if I may. The first question relates to the Austrian single premium downturn. I guess this single premium law change has been around for a little while now. I am just wondering whether you think that we have now passed the negative step down in that business and from here on we should see a perhaps slight growth going forward or whether, for one reason or another, you think that that single premium business will continue to see declines in the future years. And associated with that, whether or not the Austrian government has made any other changes to regulations or is likely to in that area. And the second question I would like to ask is about capital. I do not know whether or not you can update us much on capital in terms of absolute amounts, but I would like to know, given that you have a slowdown in capital requirement growth due to the slow-down in the CEE region, whether or not we could consider at this juncture perhaps increasing the rate of capital repatriation to shareholders. Thank you.

Martin Simhandl:

Thank you for your question. The first question concerning the Austrian single premium business will be answered by Roland Gröll. Maybe as a start given all the developments we had in taxation in Austria in the last two years which was affecting life insurance, for the time being as far as I know; there is nothing on the way that further would affect us. But in details, maybe Roland.

Roland Gröll:

If you look at the single premium business in Austria, you have mentioned it, we saw last year a decline in VIG Austria of about 7 percent. There are no clear signs today that we will see this year significant growth rates in single premium business in Austria. Nevertheless, there are some signs that perhaps this year we see the bottom of the declining of the single premium business but it is too early to say that there are clear indications that the bottom is reached.

Martin Simhandl:

Your second question concerning capital position I think I have to go a bit more deeper. First, if we look at capital position for the time being, what is existing regulation is solvency I. Solvency I is a regulation that in phases like this with low interest rates leads to rather high solvency positions. You will see that also in other groups that solvency positions are improving, that is the one thing. The second thing and that makes it not easy, really not easy, is that now since years we are in discussion what will be the new regulations. And you know that it was expected that we would get a finalised new regulation in the second-half of last year, but it did not happen. So, we are in a position and it is for all the industry I would estimate not so easy, that we have to expect somewhere, maybe 2015, maybe 2016, new regulations but we do not know how they are. And the last thing that has been brought under way as you know is the so-called long-term guarantee assessment which is a study which will be done for the European

Commission and EIOPA between the end of January and the end of March to assess interest rate effects on life premium capital positions.

This makes it not extremely easy to deal with capital. In such situations, it is completely clear that each and everybody will stand rather to be cautious. That is the one thing. Second thing is if we look at the development overall, then of course we have a situation where premium and business growth is somehow connected to capital need. The faster you grow, the more needs you have. This also on the other hand affects your growth but again here, this is something in my opinion what you should not look at from the position of one or two years. You should look at it from a mid or long-term perspective and that is how we will deal with it.

Maciej Wasilewicz – Morgan Stanley:

Thank you.

Operator:

And the next question is from Dhruv Gahlaut from HSBC. Please, go ahead.

Dhruv Gahlaut - HSBC:

Good afternoon, Dhruv from HSBC. I have got a couple of questions; firstly, could you say what – how was the non-life position in Romania, have things improved or not in Q4 from a combined-ratio perspective. Secondly, even on your profitability, if you could say, have you taken any goodwill impairment there or not in the 585 number for this year? Thanks.

Martin Simhandl:

The first question will be answered by Peter Höfinger and the second I will answer immediately now because I will make it very short. Please, be aware that we are presenting today preliminary, unaudited figures, so I would not comment on detailed earnings effects. What I can tell you is, if we would not feel comfortable with the result we have predicted, we would not have presented it. Concerning your first question, Peter will answer.

Peter Höfinger:

Thank you. What you maybe have seen also from the premiums, which we are presenting today, we are minus 16 percent in our non-life premium situation also in the fourth quarter was continuing as it was in the quarters before. We see local competitors selling motor TPL policies which in our opinion are insufficiently calculated from the technical side. We have clearly decided throughout the year not to enter in this price competition and we are accepting losing volume, losing premiums in this area. At the same time we were quite successful to push stronger non-motor, non-life, so property and corporate business but in this market this has less total volume than in motor TPL. What I would expect to see as the whole market is struggling with the situation in motor TPL and most probably for the largest number of competitors; they are not doing profit in this line of business. That hopefully, in the nearer future we will see a change in the tendency of the pricing in motor TPL. So, we did not see a significant change in the fourth quarter.

Dhruv Gahlaut- HSBC:

All right, thanks.

Operator:

The next question is from Raphael Caruso from Raymond James.

Raphael Caruso - Raymond James:

Good afternoon everyone. I have just two quick questions linked on your profitability. Your pre-taxable profit margin dropped from 6.9 percent a year ago to 6.4 percent this year and your combined ratio is quite low. So, I guess that does not come from the non-life segment. So, it would come from a lack of profitability in life or a drop in financial revenues. So, can you give us more colour on that? And my second question which is an extension of the first one; your Q4 profit before tax is down 2 percent to EUR142 million, so what happens in Q4; how do you explain such a drop please?

Martin Simhandl:

Well, maybe I could answer your questions. First, you are insofar right that profitability in percentage on premium volume is affected from the life side. This is something, and maybe I have not pointed it out clear enough in the last telephone conference but I have tried to give you a flavour already. We have done and are doing some short-term endowment single premium business in Poland. This is a high volume, low margin business. But I also have said why we have done that business, it is not that the business itself attracts us so much, but that we are using that business to get other business, meaning current premium life business and non-life business in Poland. So, of course, and you are completely right, this has on a first glance view on the premium profit relation influenced the development.

If we look on the quarterly development, fourth quarter result is as far as I remember and see in line with third quarter results so, no big change.

Raphael Caruso - Raymond James:

Okay, that is very clear. Thanks.

Operator:

And the next question is from Bernd Maurer from RCB.

Bernd Maurer - RCB:

Hello, good afternoon, Bernd Maurer, RCB. Two shorter questions I do have. First, can you please comment if you have faced any large winter damages in the last weeks or even at the end of December and second question refers to the Polish non-life, especially Polish motor market. Can you comment on the current state of competition? Did the situation stabilise in the last month or did competition even increase further?

Martin Simhandl:

I think both of your questions will be answered by Peter. Please, Peter.

Peter Höfinger:

Maybe for the first question I will be quite quick. First weeks in January we are not having any knowledge of significant damages, this is too early. If there would be snow pressure, also this would take some more time. The snow is freezing on the roofs.

Second topic, motor business in Poland, yes, there is a fierce competition in pricing. Throughout the last year tendencies and one can just say that the feeling is that

we should have reached somehow the bottom line there. You sometimes get a first indication for this and therefore, this is just an indication if there are tenders for the fleet business. So if the prices are not going further down in these tenders, this, we believe, that we are seeing a bit more recently so there is bottom line hopefully reached and there should be a fair chance that prices hopefully throughout the year will come back up.

Bernd Maurer - RCB:

Okay, thank you very much.

Operator:

Next question is from Ralph Hebgen from KBW.

Ralph Hebgen - KBW:

Hello. Hi, good afternoon, Ralph Hebgen from KBW. Just one question on the single premium business in Poland. I was just wondering whether you can give us an indication of what the profitability of that business actually is. Let us say a simple metric, profits divided by premiums would be helpful. And the second part of that question is do you think that – I estimate that in 2012 you would have written about EUR 650 million of that business. Do you think that kind of volume is something which we can expect for the future to be sustainable? Thank you.

Martin Simhandl:

Concerning your first question, frankly spoken, for the time being, I am not really able to give you a clear answer but you will see that I think by far more clearer when we will come out with the Embedded Value result in beginning of April. That is for the first question but you can be sure it is by far lower than current premium business and also of course significantly lower than long-term single premium business.

Concerning your second question I think I want to elaborate what is our main interest again. Our main interest is not on the volume of that business; our main interest is in combination with that business to get other business. As far as we are able to reach that even with smaller volumes, of course, we would be prepared for it.

Operator:

Does this answer your question?

Ralph Hebgen - KBW:

Yes, I believe it does. Yes, thank you very much.

Operator:

Thank you. The next question is from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra - Goldman Sachs:

Yes, hello, good afternoon. Most of my questions have been addressed but if I could ask one quick one. In Slovakia in the life business I know there is a comment that the Erste Bank was up – the Erste Bank sales were up 20-odd percent versus the Slovakian business 4 percent so definitely Erste Bank contributing a lot. Could you just comment on that relationship there and obviously, it means that the other non-Erste Bank units are

not really selling much of life. But if I could just comment a bit on Slovakian life volumes. Thank you.

Martin Simhandl:

If we look on Slovakia maybe I have to look back also, yes, before 2012. The Erste Bank business overall has developed very well since we have acquired that. But not all countries to the same extent. Slovakia, frankly spoken, was lacking a bit behind. This has positively changed in Slovakia in 2012, so we had in the Erste Bank business significant premium growth but from a rather low level starting, insofar you have to relativate that if you look at the total Slovakian portfolio.

Vinit Malhotra - Goldman Sachs:

So is it one-fifth of the portfolio roughly or?

Roland Gröll:

What do you mean with one-fifth of the portfolio? Which portfolio; life?

Vinit Malhotra - Goldman Sachs:

Life Slovakia.

Martin Simhandl:

Slovakia and out of it.

Vinit Malhotra - Goldman Sachs:

I am just curious, it is not that important.

Martin Simhandl:

We will try to answer that question afterwards.

Vinit Malhotra - Goldman Sachs:

No problem, thank you very much. Thank you very much. Bye.

Operator:

The next question is from Thomas Neuhold from Kepler Capital Markets.

Thomas Neuhold - Kepler Capital Markets:

Yes, good afternoon. I know it is still quite early in the year but can you maybe provide us an outlook regarding the potential growth in key segments, in key countries and can you maybe also talk us through about any potential upcoming positive or negative regulatory changes which could affect the business in 2013 in any country? Thank you.

Martin Simhandl:

This is a very interesting question and frankly spoken, if we would be able to answer it in details and in each and every aspect, it also for us would be extremely helpful. What we can give you is a view how we see the markets as they are now. What is always not easy, taking into account that we are in an economic environment that since maybe two, three, four years is quite shaky, how the overall development will be in details. Concerning the regulatory environment, the biggest impact that will be over time clearly

is Solvency II because that will be a regulation that will be valid for all European Union countries. But as I said, it has been postponed to at minimum, starting up 2015, maybe even later. There are for the time being discussions, if parts of that regulation should become in force earlier which in our opinion is not easy because in our opinion it is for example to introduce reporting duties, which are based on a regulation with the contents about that you should report is not in force. We cannot really see how that clearly could work. If we look at the developments of the markets maybe first on Austria, we have an on-going discussion on the tax supported old-age provisioning product. These are talks that are lasting now for some weeks and nobody knows exactly how it will end up but it would be very fruitful if there could be a good decision on that. The contents of that would be the minimum equity stake that has to be held in investments in that product would be lowered to some extent.

I think that is from this view maybe an interesting development in Austria. In the other countries in general what we see and what we have seen is that within this crisis as we had foreseen the CEE countries relatively perform better than Western European countries. This is something what in general we also would expect in the future. But what we not definitely can foresee is how positive or on-going or negative the development in Western Europe will be and of course, it influences the overall development also in the CEE countries.

Thomas Neuhold - Kepler Capital Markets:

Thank you very much.

Operator:

If you like to ask a question, please press star and one. And the next question is from Aviash Singh from Nomura.

Aviash Singh - Nomura:

Hello, good afternoon.

Martin Simhandl:

Hello.

Aviash Singh - Nomura:

Yes, Aviash Singh from Nomura. I have got one question; over the last few quarters we have seen our bond yield and benchmark rates coming down in certain Eastern European markets. Does this pose a significant challenge to your profitability in life and if yes, how are you responding on the product mix side and investment mix side?

Martin Simhandl:

If we look at interest rate development, so we have seen a clear development in the Euro-zone which of course is important for us in Austria but also in Slovakia having the Euro and we have seen at the end of last year also in some of other countries, especially in Czech and partly also in Poland decreasing interest rates. If we look closer, traditional life insurance which is a product that has a profit participation and guaranteed interest rates, the profitability of the product could be effected if interest rates are so low that you cannot provide an interest rate spread, so to say for the shareholder.

This is as far as I see, for the time being in CEE countries not the case. In Euro-zone the situation has become more challenging. Of course, also here you have to take into account that we are not talking about interest rates year by year but we are talking

about a portfolio and in traditional life and that is how our group always has seen it, you have a portfolio which is long-term so you have not only interest rates in from 2013 but you have interest rates in also from 2012, 2011, 2010, 2009, 2008 and so on. Meaning, you normally should not expect on a short-term impacts on that. Of course, if a situation with very low interest rates and low credit spreads would last over a long time, and till now, we are maybe not thinking that we will have to face a situation like in Japan the last 20 years, but then of course you have an impact on traditional life and then you also have to react on the product side.

If we look closer on the product side, overall what we can tell is and it is not the development of the last two years or the last three years when interest rates were falling, but it was a development that was valid already in 2005, 2006, 2007 that out from the new business in comparison to former times, non-traditional life meaning index-linked, unit-linked in portion has already increased.

Operator:

Has this answered your questions, Mr Singh?

Aviash Singh - Nomura:

Yes.

Operator:

Thank you.

Aviash Singh - Nomura:

Thank you.

Operator:

As a reminder, if you would like to ask a question, please press star and one on your touchtone telephone. And we are waiting for further questions. There are no further questions.

Nina Higatzberger:

Thank you. Then we will end the conference here. Thank you ladies and gentlemen for listening in. We hope to have you with us again on the 3rd April for the release of final results and imbedded value 2012. Goodbye.