



# Conference Transcription

## Questions & Answers

**Conference title** : **VIENNA INSURANCE GROUP (VIG)  
Results for the First Half 2013  
Conference Call**

**Date of conference:** Thursday, 29th August 2013

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## CONFERENCE DETAILS

Conference Date: 29 August 2013

Conference Time: 15:00 Central European Time

Conference Duration: Approximately 57 minutes

Speaker: Martin Simhandl, CEO

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 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 they are received. If you are using speaker equipment today, please lift the handset before making your selection. Anyone who has a question may press star and one at this time. One moment for the first question please. And the first question come from Mr. Farquhar Murray of Autonomous, please go ahead.

Farquhar Murray: Good afternoon gentlemen. Firstly, could you just give a little colour on the nature of the additional precautionary charges of 35 million in Romania and 15 million in Italy. In particular, are those coming through ... are they actually related to claimed reserves or they are actually related to kind of restructuring on the cost side? Secondly, on the topic of looking on the dividend at year end, clearly the 125 million of pre-tax, goodwill impairments and precautionary charges will weight on the full year results. Should we apply that mechanically against the fixed payout ratio, or should we look through those numbers, at particular the goodwill impairment in much the same way that you are already showing at the operating results in the presentation pack? Those are my questions, thanks.

Martin Simhandl: Maybe to answer both questions, starting with the dividends, what I can tell you, in principle is that our dividend policy is unchanged. If you should do a dividend calculation mechanically or not, it is up to you. I think for us it is important that we have to take a decision, I think within the first quarter of 2014. And I think at that time, there is not more to add. Secondly, concerning the precautions measures, which are 15 million in Romania, part of the impairment of goodwill of 75 million, and the 35 million concerning the Italian branch of Donau. Starting with last the biggest part out of that is

additional claims reserve - more detailed IBNR reserve. On the other hand, in Romania, applied for substantial part of that are precautionary measures concerning premium receivables.

Farquhar Murray: Okay, thanks very much.

Operator: And the next question is Mr. Michael Van Wegen of bank of America. Please go ahead.

Michael Van Wegen: Yes, hi guys. Good afternoon. It is Michael Van Wegen from Merrill Lynch. Three things, and I guess they are partly related to what Farquhar has just asked. First of all, on Romania, I mean, I guess it is safe to say that based on the half-year results and the goodwill impairment, you are clearly behind on how you expected Romania to improve this year and next year. What are your expectations going forward and what can you do yourself to improve these results to a more acceptable level going forward. Secondly, going back to Italy, I am afraid, the 35 million charge to me, given the size of the operations down there, looks very sizeable. So, just IBNR sounds to me a bit difficult to match. Can you talk a little bit further about what is going on in that business? Yes, how you feel about the profitability and the reserve strength of that business going forward. And finally, you announced in the press release this morning that you in August bought back the second tranche of your Hybrid capital, can you indicate whether that is done at par, or whether there is a gain or loss involved in that transaction? Thank you very much.

Martin Simhandl: Maybe starting with the third question. You should not expect in P&L a huge result effect, out of the payback of hybrid. Second, concerning Italy, maybe a bit more details: As it was said already in the press conference this morning, Donau in Italy had over years a business in non-life, except motor business, stepped into the motor business; the motor business quite substantially developing and especially motor third party liability. The problem

is always, if you are, so to say, developing in a new country, you never can be completely sure what will be the long-term development and what will be the ultimate loss ratio, you know, that the IBNR calculations for portfolios, they do not exist for a very long time, are very uneasy to be made. And given that, we think it is better to be on the safer side and to build additional reserves than to have negative experiences. And as I have said, the bigger part out of that ... of that 35 million is dedicated to that. Concerning Romania, maybe I hand over to Peter.

Peter Höfing:

Maybe coming to Romania, very clearly, we are not what we have expected to be. For various reasons, on the one hand side it is still the economic environment, where we would have expected in the past that Romania will pick up earlier or quicker, which has not been realised and we are also now more cautious in assessing the economic development in the nearer future. Also this, I think here we clearly changed our assessment of Romania in relation to the past. On the other hand side, similar, I have to say also on the insurance market in Romania developments are not changing or becoming better, what has been our expectation in the past, believing, looking on the overall results of all the insurance companies in Romania that there will come certain pressure, also on the technical results for all the participants on the market, we do not see yet these changes. Also this has led that we are making a more cautious assessment for the nearer future in Romania. What can we do in this environment under these circumstances? I think we have done quite some homework on the cost side, so in absolute terms, we have reduced our admin costs by 30 per cent within the last 18 months, which I think is quite an achievement. We are radical now in our underwriting. So we are only writing motor business, where we believe this is a sufficient technical rate. Very frankly speaking, this leads also to the reduction of our turnover there, as there are still local competitors, who are following a dumping strategy and due to the economic situation in

Romania, people are very price-sensitive in this area. So there, we are losing business, we are losing turnover. But by no way we are willing to offer premiums which are not technically justified. We have made in the last months, on one hand side, certain changes in our management. We are also putting additional capacities of management to Romania, from some other central Eastern European markets. So people which are experienced within the region, to support there in Romania - in this difficult situation. And have also the full management focus on this topic. A specific topic where we are working heavily is the claims management, so on one hand side it is the underwriting but on the other hand side it is the claims management. We have a very strong hand on this. Strictly, also starting centralising wherever we can centralise it and having also strong involvement of new technology for controlling the whole process. So I believe, what we can do, we are doing, whatever resources we have, and put them there. On the other hand side and this is then also reflected, I think, in our impairment, the environment has developed differently than we were expecting and we also have adjusted our assessment for the nearer future in the environment of Romania.

Michael Van Wegen:

Okay, thank you. Perhaps one follow-up if I may, on again Italy. Do I understand correctly that basically, given the uncertain claims experiences as it is still a new market and more recently, I guess things have turned a little bit unfavourable compared to what you initially expected. You have put in now a buffer or have you in your view put in just enough to cover current experience that you are seeing?

Martin Simhandl:

I think what we have tried to do here is to be more cautious and of course, nobody can predict it really, you know. Long-term development in MTPL, we are talking here about IBNRs. If you have no old long-term existing portfolio in such a country, you could only get indications as far as possible from others. You cannot take experiences from other countries and insofar, you

need to, if something develops not that way, and you have indications that it does not develop that way that you originally thought, you should set additional reserves. If these reserves, in the end of the day are used or not, if I could predict it clearly, then maybe I would be more precise to set them or not to set them.

Michael Van Wegen: Thank you very much.

Operator: And the next question is from Mr. Raphael Caruso of Raymond James. Please go ahead.

Raphael Caruso: Hello everyone. Two quick questions from my side. First of all, in Italy, what is the exact perimeter of your activity? I remember that you wanted to develop the commercial insurance but the IBNR concern mainly MTPL. So can you give us more colour on the exact businesses impacted by the reserve strengthening? Moreover in, still in Italy, the Italian insurance market is saturated with big international players. So, what is the strategy in the country? And do you have any interest to remain in this country? I mean, it is a small contributor to the group earnings. But it cost you EUR35 million this quarter. So, can you give us more colour on your strategy in Italy, please? Thank you.

Martin Simhandl: I think, when I am talking about strategy in Italy, maybe I have to go back in history. I am not sure if you are aware that Donau Versicherung was an international insurer, for many decades in the 20<sup>th</sup> century. But first part of this international business Donau lost immediately after the Second World War, when some of the CEE countries became communistic and this business had been nationalised. And on the other hand, Wiener Städtische has acquired Donau that was a very complicated way, because there was a long-term struggle about that between the 60s and it was ended in the 1970s, and this struggle was ended in that way that Donau at that time somehow was divided. The Austrian business was taken over by Wiener Städtische and the remaining Western

European business, which was Italian business, was taken over by Zurich. And Zurich led that business for many years in Italy under the name of Donau, meaning Danubio. And then as far as I know, the name was changed and Donau started out of Austria to somehow redevelop the business in Italy. There were old, so to say, relationships. And in the beginning that was not that much and it was non-motor, non-life business. And some years ago, the idea was to further develop it also into the motor market. This has led to an increase in the premium volume. This has now led also to that additional measures that we have taken. I think we will clearly also here be focused on a further development which should be a profitable one. Be it more, be it less, we will assess about that. But in the end of the day for us profitability is important. .

Raphael Caruso: Okay. Sorry, just a quick follow-up. So you do not plan to exit this market and you prefer focusing on optimising the existing business than exiting the country?

Martin Simhandl: As you know, Italy is not a core country of us. In the end of the day, it is not the core country; it is not something out of a strategic decision to exit or to stay. It is more an opportunistic decision in the end of the day if you are able to earn money or not.

Raphael Caruso: Yes, sure. Okay, thank you very much.

Operator: And the next question is from Mr. Michael Haid of MainFirst, please go ahead.

Michael Haid: Thank you very much. Good afternoon. Three questions. First question regarding the precautionary charges Italy and Romania. I noticed that you excluded them in your calculation for the operating profit. There were no exclusions for the first half year in 2012. And I am sorry I cannot remember but were there no extraordinary items in the first half 2012? That is my first question. Second question, in life insurance, I noticed that, it was a quite strong pre-tax profit that you were able to show. I wonder to what

extend that this is sustainable going forward. As the other way around, does the pre-tax profit in life include some extraordinary items? And the third question is regarding the combined ratio in Poland which was very strong. To my understanding, the competition in motor is rather increasing than decreasing. Nevertheless, you were able to show a very good combined ratio in Poland, which surprised me. Which is good. How much of your business in Poland, of your P&C business is non-motor. Can you explain why the combined ratio is so low?

Martin Simhandl:

Starting with your first question concerning Italy and Romania, these amounts are insofar extraordinary and non-operating profit of the period that their needs, if they are, are not coming up from the current period. That is the one thing and of course and also they have to a certain extent precautionary character. And I would not for the time being see that we would have had such effects last year. Insofar, I think it was clearly also to put the focus on that. Concerning life insurance, maybe I want to ask, what exactly did you mean? The overall life result?

Michael Haid:

Yes. The life result, pre-tax profit in the first half was 145 million; that is 61 million in the first quarter, 84 million in the second quarter. And the 145 compares very well to the 112 that you were able to show in the first half of last year. And it is surprising to me in this low interest rate environment, recurring investment income goes down. And you still were able to show a good increase in the pre-tax profit, in the life segment year over year, so I wanted to have an explanation for that.

Martin Simhandl:

Well, I think, maybe the explanation you can see if you look at the investment result. We see a fairly stable investment result, although we have practically nearly no influences out of overall, out of extraordinary effects, or very limited, on the positive as well as on the negative side. So we have further to take into account when we look at the investment result that we had the part of

housing societies, which were fully consolidated, now only equity consolidated, which had a negative impact, for an example, on the ordinary income or the current income in investment. So what we clearly can see here is that the investment portfolio is rather robust and stable and why out of that should there not be good life result?

Michael Haid: So, I ask differently, 145 times two, that would be almost 300 million pre-tax profit coming out of the life insurance segment for 2013, would that be realistic?

Martin Simhandl: I think what you have to differentiate then for instance is overall and quarters. Of course from one quarter to another quarter, you could have a certain fluctuation. Because, you know, especially in the investment income, it makes a difference if you are leading effects over P&L or not over P&L and this is to a certain extent all this difference between the quarters. Insofar, not automatically to say this is exact, and then exactly I double it. But overall, what I wanted to express is that there are no extraordinary effects in there, which we have done to lead to such a result.

Michael Haid: Perfect.

Martin Simhandl: So, concerning your second question. and maybe the third question, Peter will answer.

Peter Höfinger: Coming to combined ratio Poland. Something like close to three years ago. There was a tendency in the Polish market where prices were increasing in the motor business at the time. We took advantage of it, and also we were able to increase our tariffs and increase our portfolio in motor business. What I do agree is, specifically since the beginning of the year, there is a fierce motor competition again in Poland. And also here I have to say we are currently losing premiums in motor business. The reason for it is that also in Poland we have a very disciplined motor underwriting. We are reducing and losing sometimes some fleet business. Fleet business is always the first indicator when a market becomes more

soft. So we are not entering here into the new fleet business. We have strong segmented tariffs, where we go to regions, car model, age, etc.. We believe that we can put out the profitable segments within motor. So, in motor business, we have a very disciplined and strict approach, which I think also shows in the claims ratio regarding motor. Regarding non-motor, non-life business, we do have a strong growth. We have invested, over the last years, in our know-how there, in underwriting know-how, in people, in know-how transfer from other countries for the underwriting of property business specifically. We are growing in property business double digit this year. And if you look in our portfolio, we have currently 42 per cent of our non-life portfolio is non-motor business. And this is very much supporting the favourable claims ratio overall and is enabling us in achieving this attractive combined ratio. Another effect what we are following in Poland over the last years is strict cost management. So also in costs, we are not increasing, we are flat there, which is also supporting in the end our combined ratio. I hope this is answering your question?

Michael Haid: Yes, absolutely. Thank you.

Operator: The next question is Mr. Ralph Hebgen of KBW. Please go ahead, sir.

Ralph Hebgen: Hi, Ralph Hebgen from KBW, thank you for taking my question. One quick question first. Would you be able to tell us what the premium volume is, you are actually sourcing in your Italian operations. I think it must be quite low?

Martin Simhandl: Could be roughly 100 million.

Ralph Hebgen: About 100 million? Okay. Thank you very much. And my real question is, to ask you about the reserving increases in Romania and Italy. I would just be interested in getting some commentary of what business lines were driving the deterioration in each country. Is it motor or non-motor? And also, what are the drivers? Is it the

claims severity, which you find is adverse, is different from your assumptions, or is it frequency? Or is it the price-competitive environment? And in particular, perhaps, talking about frequency in the Italian market, I mean, most of your competitors have disclosed quite good combined ratios or loss ratios in their Italian operations, citing decrease in frequency there. So if you have to increase reserves by a sizable amount in that market, I was wondering whether you perhaps experience different frequency trends in your operations there, or whether the reserve increase was driven by other dynamics. Thank you very much.

Martin Simhandl: Concerning Italy, well, as I said, here we are talking MTPL-IBNR, and the question of frequency also, if your portfolio is a rather young one, you will see in the end of the day what comes out. It could be higher than it was originally estimated. This is an effect. But if we knew it very clearly we would be in a position to make it a lot more precise. This is for the time being, what we think should be done. Concerning Romania, I think the situation is a bit different and people will understand.

Peter Höfinger: To Romania, our precautionary measures of 15 million is not in claim reserves. These precautionary measures are for receivables. We did these precautionary measures specifically with a focus of outstanding premiums but also for other receivables, which we believe that the situation is still bad in the environment, in Romania, that will have to do these precautionary measures. It is not claims reserves.

Ralph Hebgen: I see. So in Romania, it is basically credit risk?

Peter Höfinger: No.

Martin Simhandl: Credit insofar as it is mainly the credit risk of the customer.

Ralph Hebgen: Yes, precisely. Okay. All right. And in Italy, I still do not understand whether I understand correctly what you are saying; you said you ...

Martin Simhandl: I said, at the end of the day ...

Ralph Hebgen: If you knew better than you would give us a better answer. But does that mean you are unaware of whether it is frequency which is driving the deterioration in reserves, or claims severity, or does it actually mean it is just very hard to estimate given the immaturity of your portfolio?

Martin Simhandl: The last sentence you said is completely right. Of course it could end up in a higher frequency, but as I said, in a young portfolio, it is not easy to clearly estimate what comes out.

Ralph Hebgen: Okay. Thank you very much.

Operator: And the next question is from Mr. Avinash Singh of Nomura. Please go ahead.

Avinash Singh: Yes, hi. Just one question. I was wondering that okay, if I consider 2012 as the base year, and if I look at the underlying operating profit, how do you see the profitable growth to come in over the medium term, considering that three fourth of your premium are coming from Austria, Czech and Slovakia, they are more, I mean relatively a kind of mature market. And including Poland in these markets, your combined ratio is already at a very good level. And Romania turnaround continues to delay and is not very much winning the fight. So I was wondering that okay, how do you see the near-term profit growth developing in terms of business lines and geographies?

Martin Simhandl: I think we already have elaborated and when you are talking about Poland, you see, that this is a market, out of the CEE markets, where claims ratios traditionally, especially in the cities are quite high, and the discipline has shown, quite a substantial positive

effect. But again, here, you always have to work on that. And maybe also that, to clearly put into your focus, if you would have looked at the results of other countries, remaining countries, based for example on last year's figures you would have said, well, if you are growing there it has a minor effect, it is so small. If you are growing by 80 per cent, the small becomes bigger. And if you are growing again, then it becomes more bigger. And we have to be aware here, we are in countries where we recently had breakeven, for example like Turkey. So meaning that you have countries that were negative, that have turned around. And of course, there is a lot, a possibility of the development. Yes? And clearly, on the other hand, we have more mature markets, especially like Austria. But all over the last ten years, we have tried out of the situation to make the best, I think it is quite a good situation, that on the one hand they are very stable countries, stable cash flows and out of that you are able to develop other countries, which are maybe not so mature and more growing and offering more opportunities. Hello?

Avinash Singh: Yeah, thank you.

Operator: The next question is from Mr. Thomas Neuhold of Kepler Cheuvreux. Please go ahead.

Thomas Neuhold: Good afternoon. Only one question left from my side. You have seen quite a nice acceleration of growth in the life business in the Czech Republic and Austria, can you provide us with more details what were the key drivers here? Thank you.

Martin Simhandl: This answer will be given by Roland, please?

Roland Gröll: In both countries, in Austria but also in Czech Republic, the main driver is the cooperation with Erste Bank. Our sVersicherung companies in Austria and in Czech Republic have significantly higher growth in comparison to our other core companies in these countries, which have not such a strong bank distribution channel.

Nevertheless, if you look at the situation in Austria, we were faced with the situation that, I think in the meantime over the last three years, we have seen declining premium volumes year by year. You know the story of the change of the tax regulations that now the single premium business is at a minimum duration of 15 years in comparison to ten years two years ago. And we see in Austria the first signs that the bottom of the life volume in Austria is reached. I am not sure if this is a really turnaround, but there are first signs and hopefully it is not only the volatility of the single premium business but a turnaround, which hopefully will last for the next years.

Thomas Neuhold:

Thank you.

Operator:

And the next question is a follow-up question from Mr. Farquhar Murray of Autonomous. Please go ahead.

Farquhar Murray:

Good afternoon, gentlemen, again. Just two very quick ones, hopefully. On the Italian book, could you just confirm that the EUR100 million figure is an annual premium figure are not the total cumulative premiums since the book was originated? And then secondly, where just in regards to Romania, could you give us an update on the tax fraud issues that were in the press last month on that business year? And where that matter stands at the moment? Thanks.

Martin Simhandl:

Concerning the Italian business, we are talking about half-year figures. And concerning Romania, Peter will answer.

Peter Höfinger:

Concerning the tax fraud issue in Romania, first of all, one has to say, that this was mainly directed against some clients of our company. Our company and no statutory body of our company is under, I would say, investigation of the police. It is a product, single-premium product, where one can save certain social tax contribution. We are not involved in these cases, so we do not have all the detailed information. I can just tell you what we also

hear from some other sources, so there are some people from sales from us under investigation to this topic, in supporting or collaborating with clients in not paying the tax as it should have been. This is the current status, there is not so much more to say, as we are as company not involved in these investigations, so we are not involved in what is currently happening at court or by the police.

Farquhar Murray: Okay, thanks much indeed.

Peter Höfinger: Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please press the star followed by the one on your telephone. We are waiting for further questions.

Nina Higatzberger: If there are no further questions, we would end the conference. Thank you ladies and gentlemen for listening in. We hope to have you with us again on the 28<sup>th</sup> of November for the results presentation for the first three quarters of 2013 then. Good bye.