

Conference Transcription Questions & Answers

VIENNA INSURANCE GROUP (VIG) Results for the first quarter 2015

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Conference Duration:	Approximately 35 minutes
Speakers:	Martin Simhandl, CFO Peter Höfing Roland Gröll
Chairperson:	Nina Higatzberger

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Operator The first question comes from the line of Daniel Bischof of Helvea. Please go ahead, sir.

Daniel Bischof Good afternoon. A couple of points on Romania on the 22% top-line growth on the P&C side. How much of that was growth of policies in force and how much came from actual rate increases? And also could you provide the split or some details whether the growth mainly came from MTPL or also from non-motor business? And then, just lastly, could you quickly confirm that new business written meets the ROE guidance of 100 bps of cost of equity also in Romania? The second point is on the investment side and the low rates. Are there any specific actions that you're planning to take in order to offset some of the pressure that you're seeing on the fixed-income side? For instance, how does the pipeline look like on the real estate side?

Martin Simhandl Maybe I'll start with your last question coming to the investment side. As you have seen over the last years, we have steadily increased the real estate part in our portfolio. This is an ongoing process. Of course, we have to be very careful insofar, because out of the interest rate development, also prices in the real estate sometimes and in some regions have gone up. So, insofar we have to be careful. But we are ongoing buying real estate.

When it comes to real estate we have to take into account two other items, both are related to Solvency II. The one is that real estate is rather heavily burdened with equity needs in Solvency II. Here we are preparing for a partially internal model to offset that. It's on the way, but we will see what comes out in the process of approval. And the second item, which I think is very important, is that real estate is a very good possibility to mitigate the interest rate risk as far as you are dealing with conservative real estate items, as we are doing, meaning residential. But in Solvency II, for the time being, it's not possible to take that into account in the interest rate solvency calculation, in the interest rate risk calculation, insofar this is limited. You have seen we have now roughly 6%, a bit more than 6% of the portfolio, the overall portfolio that you see on slide 15 of our presentation, that is more or less unchanged. But in real estate over the time, steadily, in small portions, increasing. By the way, what you also see on slide 15 of

the presentation is that we are seeing a slight, further, increase also in equities to 4.2%. But overall, and that's completely clear given the fact that the big part of our investment portfolio stands against traditional life business, the bond portfolio is the most important one. Insofar to your first question concerning Romania, I will hand over to Peter.

Peter Höfinger

Yes, we are experiencing growth in Romania. This is mainly driven by the motor TPL. Depending on the segments, we are achieving an increase of our average premium of up to 30%. We believe now this is a level where we can write this business on a technically acceptable basis. We are also growing in non-motor, not at the speed as in the motor business. There is also one effect due to the situation with Astra. Also the portfolio of Astra gets more and more distributed to the other market members and we are benefiting also out of this effect.

Martin Simhandl

What stays is your second question and maybe here I have to ask first if I've understood it right. Was the question that our ROE guidance counts also for Romania? If this is the question, then I have to say yes, it counts, but will we reach it in short term, most probably no. This is something we have to develop over time.

Daniel Bischof

Excellent. Thank you.

Operator

Next question comes from the line of Ralph Hebgen of KBW. Please go ahead.

Ralph Hebgen

Hi. Good afternoon. Ralph Hebgen from KBW. I've got three points of detail; perhaps if you can help me with these. The first one is I noticed that in the life segment the other expenses line is exceptionally high. It's minus... it's €102 million. Why is that? The second point is the claims ratio in life, which I calculate simply as claims divided by net premiums earned, is 90%. That, in light of previous run rates, is very low. Again, if you could help us with highlighting the dynamics behind that. And finally just a comment on slide five. There you say as part of the bullet points, and you mentioned this also in your commentary, there was a precaution, I'm quoting this, for personnel provisions in Austria. Again, it would be interesting to understand what that is and how much that was and in which line that item was included. Thank you.

Martin Simhandl

Thank you Ralph. Maybe I'll start with the third question. When it comes to the provision for personnel, this is a provision that is actuarially calculated, normally once a year. Given the further decrease of interest rate in the first quarter, there was a lump sum for a possible increase of that provision created which is, let's say, high single-digit million euro amount. To your question where it's allocated. As it's personnel out of the Austrian companies which belongs to all parts of the business, it's clear that also the provision belongs to all parts of the business. When it comes to the first two questions dealing with life insurance, maybe I hand over to Roland to answer.

Roland Gröll

First of all, your question according other expenses in life, there is a significant increase of roughly €80 million and the only effect is simply the FX development Euro/Swiss francs. As you know, we have a large company in Lichtenstein and this 80 million one-to-one is also reflected in the mathematical reserve. And that answers perhaps also your second question, because we have plus 80 million out of the future movement of the value of the Swiss francs. We have also this 80-million movement in the mathematical reserve in the other direction. That means less mathematical reserve and that means automatically a change in the claims ratio in life. In addition if you look at our split in the first quarter this year we have a significant plus in current premium of about 7-8% and a minus in the single premium business. And that also means automatically that the ratios in life differ to the previous years.

Ralph Hebgen

That's very clear. Just one follow-up on the lump sum for personnel provisions. Does that have something to do with pension provisions? Or, what is this, precisely?

Martin Simhandl

This is pension and there is a certain severance payment that has to be done by ending the working contract. This is out of legal regulations in Austria.

Ralph Hebgen

That's great. Thank you very much indeed.

Roland Gröll

You're welcome.

Operator

Next question comes from the line of Bernd Maurer of RCB. Please go ahead, sir.

Bernd Maurer

Good afternoon. Parts of my questions have already been answered or asked by the colleagues. One remains on my list and I want to come to Poland. With non-life premiums down in all lines in Q1 we see in your report. I do not wonder that much about the decline in the motor businesses as competition and decline of average premiums I think is well known. I more wonder about the decline in the non-motor business in 1Q. Can you explain the double-digit decline a bit in more detail? You mentioned before it's about competition but is it more, does it more refer to prices or to any issues with particular products you're selling or not selling?

Martin Simhandl

Maybe this will be answered by Peter. What I wanted to add because that's what I already said. I said there is an increased competition not only in motor but also in non-motor. This is not atypical that if you have a competition in a market over a certain time and that's in the beginning concentrated on one line that it could extend also to other lines. But maybe more details from Peter.

Peter Höfinger

Specifically in the first quarter, and one always has to take care comparing in an insurance business just quarter-by-quarter, but here you have the effect that one of our companies, it's quite well positioned and exposed to insurance business with communities. And we have seen in this community business a high frequency of claims. And there we have been more restricted to our position and we lost certain communities. That's why we see this in the first quarter.

Bernd Maurer

Thank you. One follow-up here. Mr. Simhandl you said competition is increasing. Would you say that motor competition was increasing at the beginning of this year versus the second half in 2014?

Martin Simhandl

Motor competition is, as far as I see in Poland, an item we see practically all over the last year and maybe even the year before. And what I know 'til now it has not become better.

Bernd Maurer

Thank you very much.

Operator Ladies and gentlemen, as a reminder, if you'd like to ask a question please press star, one. Next question comes from Rahul Parekh of JPMorgan. Please go ahead.

Rahul Parekh Hi. Three questions actually. The first one is that regarding the Hypo/Heta write-down in 2014 so I just wanted to know what is the net benefit in investment income expected in 2015, if any? And could it leave the year-end profit higher than the guidance? And second question on Romania which is, I guess, growing very strongly on economic terms. Is it a sustainable benefit you see in Vienna for 2015 and maybe '16? And the last question is the losses, regarding the losses in Italy. Can you just provide an update on it and any measures that you've taken for just to turn round it? Thanks.

Martin Simhandl Hopefully we have understood your questions right. First, when it comes to the effect out of HETA, I think you should look at that more globally. And what you see already this year is that, of course, at the first glance if you look at the financial results it looks similar to the last year. But, as I said, there were FX effects from hedging up technical reserves. If you deduct that simply the total financial result is below last year, so don't expect that positive effect on the extraordinary side. Maybe this for the first question. The second question, maybe to answer in general, we are very, very cautious when it comes to sustainability, because this is something what we do not know. But maybe Peter could answer it.

Peter Höfingler Romania, as Martin mentioned, we had to learn over the last years to take very much care in our assessment of future development in Romania. So, therefore, what we say is cautiously. On one hand side, we did a lot of restructuring efforts in the last 12, 18 months, and we believe that certain developments which we see now are the outcome of these restructuring efforts which we did. But this also combined with a market environment which has become better and is allowing us now to better perform. So, if the market will keep its development as we see it now, I think we have quite fair chances for sustainable development there.

Martin Simhandl When it comes to Italy and the loss-making business there, I think we have elaborated on that several times. What we did, we did a mass of measures there, inter alia,

we reduced - this is an ongoing process - also this year the premium volume. At the same time we are reserving the Italian business on a quite high level that burdens us on the claims-ratio side. And, last but not least, and this is something that maybe comes more in the focus as the business is shrinking, we had to build up quite substantial infrastructure there to deal with the business properly. And that, of course, in a shrinking premium volume heavily influences the cost side. This is something we will have to work on, that's clear. But on the other side here it's very important for us to dealing with that business properly and to do the claims handling properly and so on.

Rahul Parekh

Thanks.

Operator

Next question comes from the line of Thomas Neuhold of Kepler Cheuvreux. Please go ahead.

Thomas Neuhold

Thank you. I have two questions. The first question is on the impact of the low interest rate environment on the financial income. Can you please give us an indication on what the yield is on the portion of the fixed-income portfolio which is going to expire in the next two to three years compared to the new money yield? And the second question is on the growth in the remaining segment. It seems to me that a major portion is coming out of the life business in Lichtenstein. What is this business which you have in Lichtenstein and what is the reason for the increase there? Thank you.

Martin Simhandl

Maybe I start with the second one. In Lichtenstein there is more or less the biggest part of the business is unit-linked business and it's low premium business and it has a certain fluctuation that sometimes goes up and sometimes goes down. When it comes to the yields I cannot give you now a detailed number of the expiring yield but it's very simple. If you have a new money yield which we see in the euro countries of our group in the beginning of this year of not far above 1.5% then the impact is substantially... this is completely clear.

Thomas Neuhold

Thank you.

Operator

Next question comes from the line of Sami Taipalus of Berenberg. Please go ahead.

Sami Taipalus

Hi, everyone. Good afternoon. Two questions, please. First of all, on Poland, you mentioned there claims on pain and suffering I think. And I guess I'm wondering could you give us a little bit more detail on what this, what the development is here, whether this relates to old case files where you've revised upwards your estimates or whether you're setting more conservative reserves on the business that you're earning now. That's the first question. Then the second question was on Romania where you had a bit of an uptick in the loss ratio. And, again, I'm just wondering what caused that uptick, basically. That's it. Thank you.

Martin Simhandl

Maybe both questions could be answered by Peter.

Peter Höfinger

Maybe. When we come to Poland, according to the question, I have to answer both. It's, on one hand side, old cases where we have to change reserve and, clearly, we have to take this into account also for future cases. So, this is the effect in Poland for the pain and suffering. For Romania you see a higher claims ratio due to a faster growth in motor TPLs than in other non-life. And generally motor has a bit a higher claims ratio than other non-life and, thus, as the portfolio is a bit more orientated towards motor automatically the claims ratio goes upwards. On the other hand side you also see the effects out of the volume with the decrease of our cost ratio.

Sami Taipalus

Perfect. Thank you.

Operator

Ladies and gentlemen, there are no further questions at this time. Please continue any other points you wish to raise. Excuse me. There is a question coming from Dhruv Gahlaut of HSBC. Please go ahead.

Dhruv Gahlaut

Good afternoon. I have just a couple of questions. One just to follow-up on Poland. You just mentioned about the Poland claim cost as in you're still getting some clarity. Is this following the changes which happened in Poland about 12 to 18 months back on the court case which allowed for the cases from 2004 to 2008 to be opened up? Or is it coming from the rise in bodily-injury claims? Secondly, could you also comment on the Polish life industry in terms as in the life side, where PZU is

selling group life product. Is that something which you are looking at? Or any initiatives which you are doing given the margins on that line? Thanks.

Martin Simhandl

Thank you, Dhruv. Maybe I start with the second question and the first question then could be answered by Peter. When it comes to life insurance in Poland the one thing which you see on the whole market is that the short term endowment product that was, say, tax-incentivised indirectly more and more disappears and you see that on the whole market. Apart from that, as you know, this is a very low-margin business and so we have shrunk that down and this is now further going down substantially. When it comes to the other business, as you rightly said, one part is the group life and then it's the other life business. Of course, we have concentrated on all parts of the life business in Poland. And, again, as you said, in the group life business the position of PZU by far is the best one that comes out of the history of PZU. We have some years ago bought especially for that segment a life insurance company called Polisa that's doing group life business. But we have to be aware that this is a rather limited volume. It's growing quite substantially, but from a rather low basis. So, yes, we are trying to exploit also that potential but, yes, position of PZU in that business out of historical reasons is very strong.

Peter Höfinger

Coming to the topic of the claims costs, yes, this is mainly driven by this decision that you also can reclaim it from the past time.

Dhruv Gahlaut

Great. And can I just do a follow-up actually on different topic as in the reserve strengthening you've taken on in Austria as a precaution for the personnel provisions? Is that a risk for other markets as well in your portfolio? And then how close we are to those levels?

Martin Simhandl

When it comes to these kinds of personnel provisions, which are related to pensions on the one hand and severance payments in the end of the working contract, materially this exists in the group in Austria. The severance payments in that way as they exist legally in Austria, I do not know in other countries. There are some severance payments that you have to do under certain conditions, but these are normally effects if you are reorganising companies. So, if you are actively

reorganising from time to time you have effects, but these are normally not planable effects over a longer time. But, as we see it in Austria, and in that materiality, it's only in Austria.

Dhruv Gahlaut

Thank you.

Operator

Ladies and gentlemen, if you'd like to ask a question please press star, one. And there are no more further questions on the phone line.

Nina Higatzberger

Thank you, Operator. Ladies and gentlemen, thanks for listening in. We hope to have you with us again for the release of the half-year results on the 25th August this year. Thank you.

Martin Simhandl

Goodbye.

Peter Höfinger

Bye-bye.

Roland Gröll

Thanks.