VIENNA INSURANCE GROUP (VIG)

Results for the half-year 2016

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Conference Call Q&A-Session Transcription

Conference Duration:	**Approximately 90 minutes**
Speakers:	**Elisabeth Stadler, CEO** **Martin Simhandl, CFO** **Roland Gröll** **Judit Havasi** **Peter Höfinger**
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 followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. And the first question is from the line of Michael Huttner of JP Morgan.

Michael Huttner

Thank you very much. I have three questions, if I may, please. On the combined ratio, it also seems to have worsened, and I just wondered, is that part of the plan to, kind of, worsen it? It seems contrary to your targets. I was a bit puzzled, and I just wondered how much of that worsening is, kind of, one-off and how much is repeating? On Solvency II, I just wondered if you could give us an update of the number now. So, I calculated, pro forma, on interest rates were probably around 180, but it's a bit rough and ready. And also, I wonder if you could provide a feeling for the rate of capital creation from retained earnings? Then finally, it's great news that you've confirmed the outlook for 2016, but I just wondered if you could give us an indication of how the profit outlook would look like for 2017 and onward. Thank you.

Elisabeth Stadler

Thank you for your questions. Outlook 2017, I already asked you to wait until we have finalised our planning process. Please understand that we are in the middle of this process and, until now, we have not received all the figures and facts of our countries, and therefore we need some more time to give you this outlook. Concerning combined ratio, Martin?

Martin Simhandl

Combined ratio, Austria, it is completely clear that we are not intentionally worsening our combined ratio, but from time to time, of course, you have effects that maybe you have not calculated on the one hand, and that was already mentioned, that’s weather. The weather conditions, you simply cannot predict, and there was some hail, as I understand, in the second quarter in Austria. That's the one hand. On the other hand, we have effects on the cost side, and this is also, as far as I understand, coming from the personal provisions, and there were some recalculations done, including some changes of parameters that were used. And that's it, but be aware our focus is always to improve the combined ratio and not the other way round.

Elisabeth Stadler	Judit?
Judit Havasi	Solvency II, actually, for the half-year, we have a rough estimation of between 175% and 180%.
Michael Huttner	Thank you.
Elisabeth Stadler	Thank you.
Operator	And the next question is from the line of Dhruv Gahlaut of HSBC. Please, go ahead.
Dhruv Gahlaut	Yes, good afternoon. Thanks for taking my questions. I've got a couple of them. Firstly, could you tell us how the claim inflation compares with the pricing environment in Austria, Czech Republic and Slovakia? Are you putting in higher rates versus what you're seeing in terms of claims? That's one. Secondly, I think you talked about digitalisation, is there a need to increase investments in the group at this stage? Any guidance there would be helpful. Thirdly, then, if I could look at the polish market firstly, and if you could talk about what is happening on rates and do you expect any improvement there? And secondly, also, Poland remains a place where you still want to increase the market share above 10% in the medium term; could you define what medium term is? And also, are you seeing any opportunities there at this point? Thanks.
Elisabeth Stadler	Thank you. I would like to start, again, with the third question concerning the Polish market. You are asking what I define under medium term. We already explained this sometimes. Medium term, for us, means three to five years, and you're touching a special point, especially our target concerning the Polish market is one which we are not really focussing on at the moment, because as all of us know, there are a lot of difficulties in the Polish market concerning regulatory restrictions and concerning tax restrictions, so we are, I would say, at the moment, observing the Polish market and we have turned back our medium term for this year for the next year.
Martin Simhandl	But Dhruv, maybe to turn it like this, as you said, are there opportunities? Maybe it's too early. Let's see what happens.
Dhruv Gahlaut	Right.
Elisabeth Stadler	Concerning digitalisation and our budget, therefore, I would like to hand over to Roland.

Roland Gröll	We have worked on digitisation issues for more than five years, so for us, in the meantime, it's daily business. If we look at our investments we plan for digitalisation, it's, of course, within the plans for the next years. Generally, if you look at our investments for IT in total, on average of the last years, we spent roughly 100 million per year, and the share of digitalisation was, five, six years ago, something like 20%. What will happen is that, on average, the investments will stay at the same level, but the proportion we invest in digitalisation will get more and more important. That's it. But I, personally, do not expect, if we look at the total IT investment, a significantly higher number of investments, but within our investments, the part of digitalisation will be, by far, more prominent and more important.
Elisabeth Stadler	Claims and pricing, Peter?
Peter Höfinger	Maybe, to your question of claims inflation, clearly claims inflation is an important part of our pricing strategy, but maybe also a general word about it. On the one hand, you have claims inflation influencing your pricing, and on the other hand, you have the market. What we see, specifically in Motor TPL, we have to differentiate between bodily injuries and material claims, whereby the material claims, we can see that there is a flat, more or less, over the group, there's more flat development; on the bodily injuries, we see a higher inflation in claims. On the other hand, this is sometimes a little bit set off by less severe bodily injuries due to the better security of cars and, in some of our countries, where the police are becoming stricter in observing the rules and people are better behaving for speeding. So it is generally said, an important aspect, but on the other hand, there's also market, where we have to look at how much of these topics we can put into our pricing strategy.
Dhruv Gahlaut	Right. But can I just follow up on this? Are you able to put rates above claim inflation at this point, in your core markets, as in Austria, Czech Republic and Slovakia, if you look at the total?
Dhruv Gahlaut	I meant Austria in total, Czech in total and Slovakia in total.
Peter Höfinger	I would believe that we are able to do this in Austria, and I also would believe that we were able to do this in the past in the Czech Republic; developments in Poland are a bit different, specifically, what concerns bodily injuries.

Dhruv Gahlaut	Right. And do you expect rates to go up in Poland any time soon, or are you seeing any rate momentum there, above?
Peter Höfinger	Looking on the overall results of the Polish motor market, and seeing what are the results of our competitors, and the information which I have, they are running in motor TPL combined ratios above 100. I would assume, at a certain point, there should be prices going up.
Dhruv Gahlaut	Thanks.
Operator	The next question is from the line of Daniel Bischof of Baader Helvea. Please, go ahead.
Daniel Bischof	Yes, good afternoon. A couple of things. The first one, on slide 15, where you talk about the ROE development, I think last year, this time, you came up with this ROE target of 100 to 150 basis points above the cost of equity. I know this is currently not part of your target-setting, but would this kind of ambition still be the right one for VIG. And for the second one, on page five, you talk about strategic initiatives to strengthen the group's profitability, I mean, could you provide me with some more details on this, and also maybe quantify that, and then, also, some comments on the timeline there? And then, the last one, on the Baltics, where you mentioned some start-up costs as the reason for the weak 2016 development. Could you quantify the impact here, and also how long do you expect an additional drag related to this ramp-up phase?
Martin Simhandl	Maybe I'll start with the third. The vast majority of the result simply comes out from that. It's very easy. What we did here is we started from scratch, and we built up a certain portfolio and, from a certain level on, we transferred it to a newly-established company. But we are still, if you look at the whole process, we are still in a development phase of this business, in so far as it is not only this year but, of course, reduced effect, I would not expect that company to be positive already, next year. It will be two, three years that we will have, but apart from that, as I said, we have acquired another company, so we will also closely investigate what we can do to improve the situation, in so far maybe it is too early to give a clear number. What concerns the ROE, I think let's put it the other way round. We thought that it could have happened that you think that we are not looking at the ROE anymore, and this we clearly wanted to reflect. And, of course, if you have a target for a year, then the ROE somehow, as the

equity does not change over the years so much… it changes of course, we have seen the IFRS portfolio and things like that, but not that tremendous, you can see roughly where the ROE lands, and that the ROE, this year, probably will not land, what was the target of last year was clear, but we simply wanted that you see clearly we have a focus on that.

The second thing, we wanted to elaborate on here is the return on tangible equity, because, very often, when it comes to look at our group and wider valuation on the market is where it is, we accept that, of course, there is quite a huge part of intangibles in our book, and therefore it is also important to see what we earn on the tangible equity and, you know, where the market value of our group for the time being is, the total market value and were the tangible equities and I think it's worth thinking about that.

Daniel Bischof	I was probably more thinking about the mid-term. I mean, your profit is obviously just for 2016, but…
Martin Simhandl	I think the way of how we will elaborate on that was also said. We are in the planning process, and then we want to disclose what our target result is, and then it's easy to find out on what way we are.
Elisabeth Stadler	Okay. And then, I would like to pass on to the strategic initiative. As you just have heard, we founded a new department, called Group Development and Strategy, which will focus on these strategic initiatives, for strengthening our profitability. And we have found some pilot projects. It's a little bit too early to talk too much about this, but this pilot projects are projects like fraud detection or closed-file review, where we are just implementing these projects in some of our countries, and where we expect to reach a positive result out of this.

Other initiatives, as I already mentioned in the last calls, that we will screen all our different countries in economic development, on insurance opportunities, and make a map, a road map, where we want to grow, in which lines of business. And the last initiative is that we would like to widen our health insurance solutions, sometimes in Austria and especially in some of the CEE countries, depending on the results of this road map, which other countries, or which we have identified as countries where we want to install health insurance.

And the last strategic initiative is that we want to strengthen our corporate business, where we are on a quite positive track in some countries, and we will widen out this over all or some other more countries, because

	this is a line of business which fits perfectly with our strategic goals.
Daniel Bischof	Excellent, thank you.
Elisabeth Stadler	Thank you.
Operator	The next question is from the line of Thomas Neuhold of Kepler Cheuvreux. Please, go ahead.
Thomas Neuhold	Yes, good afternoon. A couple of questions also from my side. Firstly, two accounting-related questions. You mentioned that you had a positive one-off effect in the other operating income, can you please elaborate on the nature and size of this positive one-off effect? And also accounting-related, can you give an indication of what kind of annual dividend contributions you have received from the housing societies, and, going forward, maybe what kind of dividend income we could expect here. I have two other questions.
Martin Simhandl	Do you want that we answer first the two question?
Thomas Neuhold	Yes, please.
Martin Simhandl	Okay. The positive one-off simply came from the fact that we were able to release some provisions that we had built up for maintenance IT contracts, simply out of renegotiations of contracts, and this enabled us to do so. It was an effect that was more than 20 million euro and insofar it offset the negative effect that came from the not-existing positive effects in the housing societies in the first half of the year. I start the answer for the second question. You have seen that, in the last year, we have accounted some, I think 47 million or 49 million result out of the housing societies; in the future, we will have a differentiation between what we will account totally and what we will account on the owned-book. In the past, the majority – was on the owned book; in the future, it will be exactly the other way round. We have given an indication of what we expect out of the housing societies for the second half of the year. This year, it's roughly 30 million, but it's by far the biggest part is non-controlling interest. The total direct dividend is roughly 2 million a year.
Thomas Neuhold	Thank you. The two other questions relate, firstly, to Romania. We've seen quite a strong increase in written premiums. Can you elaborate here, a little bit, what was the reason there? And the last question would be on your financial result, especially going forward, can you give us an indication where your new money yield currently stands at? And maybe also give us an update, strategy-wise, how you plan to react to the global

	interest-rate environment we have currently in Central Europe?
Elisabeth Stadler	Okay. For Romania, Roland.
Roland Gröll	If you look at Romania, we have two majors effects. First of all, if you look at the Romanian market, there were two local competitors, Astra and, some weeks ago, also a second local insurance company went bankrupt. And we have told you the story, for many years, that the market conditions in Romania are really difficult and the rates are significantly low, out of these local competitors; that's not true anymore. The market is… I do not want to say fully, but partly cleaned up, and that helps to increase rates significantly. Our average rate, especially in the MTPL business, went up 40%, something like that. In addition, the economic environment in Romania is quite favourable, in the meantime. They have a GDP growth rates far above 3%, unemployment rate went down, also the expectation for the next years is very positive, and that leads to the effect that we have not only growth rate in MTPL which is mainly caused out of local reasons, as I have mentioned – the bankruptcy of two local competitors – but we have also significant growth rates in all lines of business in the non-motor business. And these two positive effects lead simply to a rather high growth rate in Romania.
Elisabeth Stadler	Concerning the financial results, Martin will answer your question.
Martin Simhandl	Low interest rate environment – before I start to answer the question, I really want to comment on what happens now. Yes, this is a politic of the Europe Central Bank that is done under the view of strengthening the economy. From my point of view, this is not… simply not the case. We do not see any positive effect. The only positive effect I can see is that the burden for the countries is lower, that there is no pressure to make changes within structures that maybe have to be done, especially maybe in some countries where maybe some people of the ECB guiding them are coming from. But apart from that, we have that challenge. It's a real challenge. You asked about the new money yield. The new money yield in Austria, and it's the biggest part where we have euro-denominated assets, for the first half-year was around 2%, and I do not expect that we can hold that for the second half-year. Why? Because simply since ECB is buying corporate bonds, also the spread from corporate bonds, artificially, has gone down.

What to do? It's really challenging. The one thing that we are concentrating on, over the last years, we have steadily increased the part of real estate in our portfolio, because that kind of real estate we have, in our opinion, provides us stable cash flows, and it has also the positive effect that the real estate rates increase by inflation. So we are dealing, here, not with the nominal interest rate but with a real interest rate, and the real interest rate fluctuation is by far lower than the nominal one. And that fits better, in our opinion, in such a situation. But apart from that, of course, it's very challenging, and I think this is true for all the insurers for the time being.

Thomas Neuhold: Thank you very much.

Operator: Next question is from the line of Sami Taipalus of Berenberg. Please, go ahead.

Sami Taipalus: Yes, hi, thanks for taking my question. The first one is just on the combined ratio, coming back to that. You mentioned about bad luck with weather, could you just quantify how much worse the weather was than normal in H1 or Q2, preferably H1? Second question, you've been cutting back quite a lot on the single premium business over the last few years, and I'm just wondering, how much further is there to go on this? And what sort of P&L benefit can we expect from it? Or is it more about making sure that the benefit ratios, for example, don't actually get any worse? Then, finally, I was a little bit surprised by how low your sensitivity to interest rates was in your Solvency II ratio, is there any particular reason, aside from the fact that you used the volatility adjustment that causes that that's worth mentioning? Thank you.

Elisabeth Stadler: Thank you. For the question concerning combined ratio, I'll hand over to Peter.

Peter Höfinger: Maybe when I come to weather, we were also affected in May, late May, and early June. There were two slow-moving low pressure systems, Elvira and Frederike, where we had flash floods and thunderstorms and river flooding. In many of our countries, in total, gross this were around 28 million. We had, then, also a number of smaller events where we have been hit, and we also had in the same period last year, we had an unusual high event frequency. In net, so after reinsurance, for the year 2016, it's 52 million.

Sami Taipalus: And how would that compare to what you would, sort of, expect normally, in a half-year?

Peter Höfinger	It should be a bit less. It's always depending… We see that July, the weather conditions are always very prone for hail, it's either June or July, and this is, then, always depending on what is first half and what is second half. It is a bit above what are our general expectations we have.
Sami Taipalus	Roughly how much? Ten million? 15 million? Just ballpark, you don't have to go down to the million, obviously.
Peter Höfinger	It's something between 5 and 10 million.
Sami Taipalus	Okay, thank you.
Elisabeth Stadler	Thank you. Concerning sensitivities of Solvency II, Judit, please?
Judit Havasi	Yes, we have a very outbalanced portfolio in Austria and CEE. In CEE, you can find a lot of riders, a lot of risk insurance, which behave just the opposite to the contract as in Austria. They have no guarantees, and that's why this is a very outbalanced portfolio and also reflected in our sensitivities.
Sami Taipalus	Okay.
Elisabeth Stadler	Martin, for the single-premium business?
Martin Simhandl	You asked if we have a positive impact, I would say we avoided the negative.
Sami Taipalus	Okay, perfect, thank you.
Operator	Next question is from the line of Ralph Hebgen of KBW. Please, go ahead.
Ralph Hebgen	Yes, hi, thanks, guys, for taking my question. Actually, there's only one left which I wanted to ask, and it is a numbers-related question. If I can direct your attention to slide 25, where you give an overview of your own funds, the IFRS equity there is given as 5,058, but if we compare this number with another position, which you list on slide 17, there I also find that number 5,058, but it says that is the basis of the equity reported, whereas it is my understanding that the basis of equity adjusted for the revaluation of the housing societies ought to be the starting point for the Solvency II calculations. That number is given as 4,490. Now, I understand that you said Solvency II is not impacted by this at all, and I was just wondering if there is something very obvious that I'm missing, and how you reconcile that. Thank you very much.

Martin Simhandl	Sorry, Ralph. That was too fast. You start at page…?
Ralph Hebgen	Slide 25. Starting with IFRS equity, given as 5,058. And then, I refer to slide 17, where that number of 5,058 is given as the level of equity in full-year 2015, reported, as original reported but not as adjusted after the impact of the revaluation of the housing societies.
Roland Gröll	The answer is very simple. We started to calculate our Solvency II calculation based on the financial statement 2015, some minutes after the last booking because it takes, also, some time to calculate all these models, especially if we used a partially internal model according to Solvency II. That means that, at that time, we do not used the restated financial figures, we used the equity we have published in our financial report 2015, full-year. And that's exactly the same number. What we restated now happened some days ago, in the half-year financial statements this year. The effect on our Solvency II result is zero. Why? Because according Solvency II calculations, and you see it on page 25 in difference in valuations I suppose. We never used this equity we have shown in the past according our consolidation of the housing societies. We never used this equity for our Solvency II calculation. So you are right, there are different figures, different equity figures. One is the official, in the financial statement 2015. The figure you compared is the restated one, but it has no impact at all if we look at our Solvency II results.
Ralph Hebgen	So in other words, on slide 25, the number shown is different to the valuation of 1,177, that actually includes the restatement of 5,068 negative?
Roland Gröll	Yes.
Ralph Hebgen	Okay, thank you very much. That's very clear. Thank you.
Martin Simhandl	It includes it in so far as under Solvency II, it's a discounted dividend, and this is in.
Ralph Hebgen	Perfect.
Operator	The next question is from the line of Michael Haid of Commerzbank. Please, go ahead.
Michael Haid	Thank you very much. Good afternoon. Two questions. First, coming back on Romania, on +37.3% growth in gross written premiums, can you break it down into how much, roughly, is price impact and how much is volume impact, and how fast any price increases would come through to an improved combined ratio here? And the

	second question is you mentioned regarding strategy, you mentioned you want to strengthen the corporate business. My understanding is that the corporate business is rather competitive around the globe, and where do you see opportunities and what makes you so confident that you can grow this line of business profitably?
Elisabeth Stadler	Okay, thank you for your questions. Romania, Roland, please?
Roland Gröll	If you look at Romania, it's something like 50-50. A little bit less than 50% is simply because of higher rates, and a little bit more than 50% is simply new business. Not only, but mainly, driven because two major players in the Romanian market disappears. If you look at the profitability, it's too early to say if it will fully be effected on the profitability. You know our combined ratios in Romania, the last five years, we were not very happy with these combined ratios. We are even, in the first half-year, slightly above 100%. We have a very deep look also with the help of our specialists and actuaries in Vienna. On the one hand, it's very positive the development of the rates; on the other hand, we have a close look at claims inflation, and frequency and development of average claims, so I'm rather sure that the direction is the right one, but it's too early to say, now, if the Romanian business, non-life, for sure is highly profitable. It's simply too early to say that.
Michael Haid	But from your current perspective, would you say that you're reserving position in Romania is fine, so that you don't have to put up additional reserves there for foreseeable… I mean, of course, if you had seen anything you would have done it, probably, now, but reserving is fine in Romania?
Roland Gröll	From today's perspective, yes.
Michael Haid	Okay.
Elisabeth Stadler	And corporate business, Peter?
Peter Höfinger	I think you have to differentiate between the global corporate business, where you also see, nowadays, the very strong and quick link with the development of reinsurance rates for the big global accounts, and to our regional corporate business. So we are very much focused on corporate business in our regions. In our regions, business is still relationship-driven, much more than maybe on the global basis. We see one effect, also, over the last two or three years, where we are benefiting that, in former times, freedom of service policies for the European countries, all in Central -

Eastern Europe, were very much in fashion. This is reduced again for various reasons.

One reason is much stronger tax authorities in the countries taking care of how much management fee is accounted for a daughter company within a group of our clients, and therefore they are preferring to have also local insurance contracts, and we are the company which has the largest infrastructure in Central-Eastern Europe, being in more than 25 countries, who can offer this. On the other hand, we are also in the region the leading company in risk management. Risk management is sometimes to be seen differently, depending on the development of a country. You have a different way of doing risk management, maybe, in Serbia than you would do it in Germany. Also here, we do have the very specific know-how which maybe some of our global competitors do not have in this way as we have it. We are growing in Central - Eastern Europe, excluding Austria, we are growing in the first half in corporate business by around 7%, and I think this is quite an attractive growth rate.

Michael Haid: On what basis, the +7%? On what kind of premium volume do you grow that +7%, roughly?

Peter Höfinger: It's more than 300 million.

Michael Haid: Okay, thank you.

Peter Höfinger: Thank you. But this is half-year, yes?

Operator: Next question is from the line of Michael van Wegen of Bank of America Merrill Lynch. Please, go ahead.

Michael van Wegen: Yes, hi there, good afternoon. Thank you. A couple of things. First of all, looking at slide 27, the sensitivities for your Solvency II ratio, the one that's missing there is the credit sensitivities which, for most companies, is the most important one. Can you disclose what the impact is of a 50-basis-point change in credit spreads? That's question number one.

Question number two, interest-rate sensitivity, looking at your disclosure, it suggests 50 basis points moves the Solvency II ratio by about 13, 14 solvency points. That's one of the highest in the sector. How do you look at that yourself? Do you feel comfortable with that sensitivity? Do you feel the need to reduce your interest-rate sensitivity? And how should we think about a target Solvency II ratio for yourself, given that you now seem to be about 175, 180 at the year-to-date stage? And then, last question, can you talk about what hurdle rates you're using for writing new business, and how that looks at the group level versus Austria and Eastern Europe? And to what degree is that linked to that cost of equity of 7.1% that you came up with? Thank you.

Judit Havasi

The spread sensitivity has not been calculated because we are rather exposed as a buy-and-hold investor. We have not a really big impact of it, I would say. Our measurement in a lot of portfolios we've already done, for example, in Slovakia and in Czech Republic, we have a lot of actions regarding to the life insurances, regarding to the guaranteed interest, which is a very positive one. For sure, we are working daily on this topic, and the third question….

Elisabeth Stadler

The hurdle rate.

Martin Simhandl

Well, I think what you can see, simply, and this we disclose year by year, is the new business value in life. And when it comes to a hurdle rate, it makes no real sense to have a closed hurdle rate because you always have portfolios and you have also to find how you develop your portfolio, especially in such an interest environment that you see, and this also counts, for example, for the last year disclosure, that we have very attractive new business rates, especially in CEE, and this is something that we want to maintain.

And what we have excluded, here, and this you can see over the last years, especially when we brought down the short-term single premium business in CEE, which had a very much new business value that helped us in a declining interest-rate situation, in a challenging interest-rate situation, even to increase the new business value in CEE. And in Austria, of course it helped to bring it there where it is.

Michael van Wegen

Okay. If I may follow up on two things, please? On the spread sensitivities, correct me if I'm wrong but, as far as I understand Solvency II, regardless of whether you're a buy-and-hold investor, your balance sheet needs to be at market value, and there is a volatility adjuster that offsets some of the impact in your liabilities, but never the less, if spreads move, your assets and your liabilities will move, and therefore your Solvency II ratio will move. So I'm a bit puzzled by your comment that you haven't calculated the spread sensitivity and, in your view, it doesn't really matter. Maybe you can explain a little bit better why, for your company, this wouldn't make a difference?

Martin Simhandl

Maybe it was not fully understandable. I think we have to differentiate two things. One is when we look at that materially, and materially is the question of how you steer a group. When we look at it materially, then the spread risk as a whole, the spread risk concept is not really the right one for us. Of course, we are obliged to calculate it like that, but we have, then, in our internal analysis, we always said the real risk for our portfolio is not the spread risk but the counter-party default risk, and this is significantly different and, as you know, this is by far more stable than the spread risk.

And this is the one thing: materially, for us, we think it's not the right thing. Of course, it is true that the Solvency position, as such, changes with spreads, but the problem here is, I have no clue of how companies who do not use a fully internal model are replicating that, because you can say that the spreads, overall, are increasing by 50 basis points, but we know very well this does not happen so, because the spreads, maybe, are increasing on stocks but not on corporates, on seniors, on corporates but not on financials, and and and and… There are very many differentiations.

In the end, it elaborates very differently, for doing it properly, you would have to reflect, so to say, bond by bond, your portfolio. And as we have a partial internal model, only for real estate, and for non-life, we do not calculate that in the internal model, in so far as we don't think it's very fruitful if we give that sensitivity, because the most probable effect would be that it would not work out. And I fear who even those who calculate it on a single basis will have some experience of that the reality elaborates a little bit differently to what was calculated.

Michael van Wegen — Okay, thank you. And the final thing from my end, on the target Solvency II ratio?

Martin Simhandl — I think what we can say is that we want to have a sound Solvency II ratio within our peers, and I think this is where we are.

Michael van Wegen — Yes, so the current Solvency ratio is sort of where you want to be? You don't deem to have material excess capital at this stage?

Martin Simhandl — Well, what I said, always, over time, we will get more feeling over time of what is appropriate for a good, solid capital life group. We think that we are, and I think this elaborates and it supports our position, but over the next one, two, three years, we will see how the markets react on that, and how they look at it.

Michael van Wegen — Perfect, thank you.

Elisabeth Stadler — Michael, let me come back to the new business margin in life insurance. We see, especially in the first half-

	year, even an increase compared to year-end 2015, which mainly results from developments in Czech Slovakia and Romania coming out of a change in the product mix, to unit-linked insurance and term - life products. So we are quite satisfied, and we see that diversification, over our 25 countries, is a very good one.
Michael van Wegen	Thank you.
Operator	Next question is from the line of Bernd Maurer of RCB. Please, go ahead.
Bernd Maurer	Good afternoon. Two questions are remaining from my side, one referring to the housing societies, one referring to weather effects over the summer. Perhaps, first, to the housing societies. Mr Simhandl, did I understand you correctly, before – you mentioned, out of the 49 million profit contribution pre-tax in 2015, the total direct dividend payments were very small, and you mentioned a 2 million figure? So is the negative effect… or is the restatement of 45 million euros for 2015 a good proxy going forward for the increase of your minority interests, on an annual basis in the P&L? That's my first question. And the second question, in Austria, we saw a lot of smaller thunderstorms over the summer months, in July and August, so far. Is this, damage-wise, something you would see as your normal business risk? And, damage-wise also, around, let's say, the average claims of previous years? Was it something above average which will show its negative impact in the combined ratio for the third quarter? Thank you.
Peter Höfinger	Maybe to give you a quick answer for your second question, it's too early to give you a reliable answer. We are still on the way in collecting all this. It's too early for the hail storms and thunderstorms of August to comment on it now. Please, understand.
Martin Simhandl	And the short answer to your first question, the 2 million are right.
Bernd Maurer	And the conclusion for the proxy of the increase of minority interest as well?
Martin Simhandl	Well, the rest is minorities.
Bernd Maurer	Okay, yes, then I've got it. Thank you very much.
Operator	And we have a follow-up question from Michael Huttner of JP Morgan.

Michael Huttner	Fantastic, thank you for the opportunity. Just on the tangible equity, I just wondered if you could give the figure you based the 12% figure on? On the housing societies and the total investment in real estate, I just wonder if you can give us the total balance sheet amount, that is unexplained if it includes minorities or not, I'm getting a bit confused here, now. And then, finally, in terms of Solvency II, I just wondered… so, your peers have been all asked and answered the rate of capital creation from retained earnings, and I just wondered what that's running at, at the moment? Thank you.
Elisabeth Stadler	Thank you for your question. We did not want to confuse you, but…
Martin Simhandl	But, frankly speaking, the first question, I do not know if the other have got it, across the galley the first, I have not got, sorry.
Michael Huttner	I just wondered what the figure was for tangible equity on which you calculated your return on tangible equity?
Martin Simhandl	The return on tangible equity, the equities, on the one hand, the IFRS equity, excluding goodwill, as we wrote, and what we also deducted from both equity positions, are the revaluation reserves and you see that the revaluation reserve is something that is a buffer. As it is, it's normally not led by a P&L.
Michael Huttner	So what is the figure, please? I understand the principles, but without…I can't calculate it.
Martin Simhandl	We will give it to you. I have not calculated it now, by heart.
Michael Huttner	Thank you.
Martin Simhandl	The second was…?
Michael Huttner	What's the total investment in real estate?
Martin Simhandl	The real estate investments of the housing societies are roughly 3.5 billion euro. There is an equity position of a bit more than 1 billion, which by far the biggest part in the future is shown as minority – roughly 1 billion is shown as minority – and the rest is debt positions. And to explain that, as I said, the housing societies, they are building houses and they have, normally, a preferred access to ground where they build, yes? This is one thing, and the second is that they normally have a sort of support of the public for the financing, and there are either parts of the financing – and the

biggest part of the financing is always a debt financing – is a state-supported debt or sometimes there are also lost amounts simply transferred to the company they have not to pay back to support the erection of the houses. This is the way how such houses are financed, and what you see here, if you have a total asset volume of roughly 3.5 billion and an equity of a bit more than a billion, then this means you have a leverage of roughly two thirds.

Michael Huttner — And that's a leverage which you support and where you get contribution from the state?

Martin Simhandl — This is a leverage where part you have either a contribution from the state or a part is direct loans from the state. This is one thing, the second thing is that the rent of such flats, normally the rent is in the general payment out of the loan, and this leads, normally, to a rent that is, let's say, one third below market rent. So in so far the rent payment is very secure, because everyone wants to live in such a flat, and that means if you finance such flats, the probability of a default is extremely low, and in so far as it fits very much to insurance investment.

Michael Huttner — And am I right in thinking, then, that most of this 2.5 billion, the leverage would be in one of your investment asset positions?

Martin Simhandl — The leverage is within the housing societies, and from the very moment on again, fully consolidated, we will get that leverage into our group again. For the time being, it's not because it's equity accounted, so we do not show the debt.

Michael Huttner — Aah, I understand. It's a bit complicated. Okay, but just to understand, because this sounds as if the return is higher than the 2 million for you… but maybe I'm misunderstanding. When you fully consolidate, etc, will the return on the investment, which I guess is the 3.5 billion consolidated figure – well, I don't know, I'm asking – would that be a significant figure? I mean, would it be quite a bit higher than the 2% you mentioned?

Martin Simhandl — Well, the results of the housing societies also, here, we have a disclosure within the half-year report, where we say we would have it in the full consolidation for the first half-year, it would have been a result around 40 million, so it's significantly more. And, of course, it significantly increases the minorities, but what I wanted to focus your attention on is that the one thing is that we get out these dividends, but the second thing – and this is important for us – we want to simply use synergies out of these housing societies, and we want to create additional value out of that, and I think this is also very important.

Michael Huttner

Yes, I understand. Okay, thank you very much. And maybe just a little bit on this capital creation?

Martin Simhandl

Well, when it comes to capital creation, there are two views on it. You see the split of the capital change in IFRS, but if I understand you focus on Solvency II, apart from that, you have two major deviations. One is the change in valuation of the best estimate. This is something that, in our group, you simply find in the embedded value disclosure, more or less nearly one to one. So over the last years, you can see what, on value, has been created there.

And the second thing is the change on the hidden reserves on the asset side, and this is mainly, over the last years, the change in the hidden reserves of the real estate which, in the meantime, is, I think, around 900 million, or even a bit above that. And last but not least, you have the HTM portfolio and the change of the hidden reserves in the HTM portfolio is normally a function of the development of the interest rates on the one hand, and on the other hand, on the duration, remaining duration, of the assets.

Michael Huttner

Brilliant. That's very clear. Thank you very much.

Operator

If you would like to ask a question, please press star followed by one. And we have a follow-up question from Ralph Hebgen of KBW.

Ralph Hebgen

Yes, hi, guys, thanks for taking my question again. Just one… it's almost like a confirmation, because the interplay between the move to full consolidation on the housing societies and the revaluation, which effectively means you recognise less profits, is difficult to get right. So I think, and this is my question, the net effect of this in the future will be that your earnings after tax are going to be lower by approximately an order of magnitude of 40 million, four zero. And I get to that by just looking at 2015, where you recognise, I think, 49 million; now, you're recognising about 4 million, and so that's going to be the differential going forward. Is that a fair interpretation of the financial dynamics?

Martin Simhandl

The interpretation of how you have come to that is not exactly right, because in 2015 there are also minorities in, which you first have to deduct, but the effect that you calculated, you are perfectly right.

Ralph Hebgen	That is very kind of you to confirm. Thank you very much.
Operator	And we have a question from Carlo Frattini of Deutsche Bank.
Carlo Frattini	Thanks for taking my question. Regarding the targeted reduction of life single-premium business, it would be great if you could comment a little bit more on it. Thanks a lot.
Elisabeth Stadler	Concerning the reduction of life single-premium business, we see this effect especially in Austria, in the Czech Republic, in Poland and in some other countries, in not such a big effect as in these six countries. Especially, coming to Austria, over the whole insurance market, we had a single premium amount ten years ago for 2 billion euros; this has halved since the last ten years, and it's clear that, as we have a market share of 25%, we have this development in our different Austrian companies too. One the other hand, we see that it's not easy at the moment to reach the interest rates which we guarantee to our clients on the market, so I would say the whole insurance market is not too bad about this reduction, especially in the classical life insurance. We try to move to unit-linked or index-linked insurances, which are special products which we can offer to our clients, but only for special periods where we can make arrangements with some partners who give the guarantees for these products. So I think the development is as it is, yes, and it is the same for all the different insurance companies. And as we have a big bank insurance partner, especially the bank insurances our facing this development.
Carlo Frattini	Okay, thanks a lot. And how much of that amount can you actually convert into regular life insurance policies, as a percentage, approximately?
Elisabeth Stadler	You can't convert single premium into regular premium, but we have shown that the regular premium is increasing in life insurance, in all our different countries, so we have quite a good development in regular premium which is increasing and which we are very happy with, but we have a decrease in the single premium development.
Carlo Frattini	Okay, thanks a lot.
Operator	We have no further questions at this time. Please continue with any other points you wish to raise.

Nina Higatzberger

So, then, we say thank you to everyone for attending this call, and for the questions. We hope to have you with us again on 22nd November, when we will present the first to third-quarter results 2016. Goodbye.