



## **VIENNA INSURANCE GROUP (VIG)**

### **Results for the first three quarters 2016 22<sup>nd</sup> of November, 2016 15:00 CEST**

#### **Conference Call Q&A-Session Transcription**

**Conference Duration:**                      **Approximately 45 minutes**

**Speakers:**                                      **Martin Simhandl, CFO  
Roland Gröll  
Judit Havasi  
Peter Höfinger**

**Chairperson:**                                   **Nina Higatzberger**

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**Operator** The first question comes from the line of Dhruv Gahlaut of HSBC. Please go ahead.

Dhruv Gahlaut Good afternoon. Thanks for taking my questions. Just three of them. Firstly, in terms of this surrender fees issue, could you quantify how much was the surrender fees which you were getting from Poland, especially from the unit-linked, index-linked policies? Secondly, on the solvency ratio, I know you haven't given this ratio, could you help us understand what's happened during the quarter, where the solvency ratio is? Also, I think at half-year, there was a question regarding the sensitivity to corporate bond spread. Could you quantify as well, if you have that number with you now? Thirdly, in terms of Poland, you mentioned about MTPL rates increases: could you quantify in terms of how much rates you have pushed in the last year? Thanks.

Martin Simhandl Maybe, I start with the last question on the surrender fees. I also will try to give you a rough information, as far as that is possible. And on the solvency ratio maybe Judit will give you an information on that development. Have I understood you right – the third question was on the interest rates in CEE?

Roland Gröll Poland, MTPL rates.

Dhruv Gahlaut MTPL rates.

Martin Simhandl MTPL rates improvement is somewhere on a level of 20%, 30% in the meantime. This, we have to say, does not fully come through. I have not elaborated on it in all details, because we have also some increases in the average claims in Poland, which come from some regulatory changes, but overall this gives quite a solid positive impact on the expected development of the net combined ratio in MTPL.

We have to be aware that the MTPL combined ratio in the Polish market as a whole was negative all over the last ten years. We as a group had by far, more favourable combined ratios in Poland, again, all over these years, and that means that we had, let's say, a counter-cyclical way of dealing with that. That means in situations when combined ratios went up, we were not prepared to take each and every business, meaning we have lost premium in times when premium rates are going up, we are growing, again, this counts for now. We think this is the better way of doing it. It means that in some times you are shrinking, but it means overall that you can hold profitability even in a challenging market. This is what concerns your question on Poland.

The surrender fee, I cannot give you an exact number of how much it meant, but you have to be aware that out of that development, last year, for example, we wrote down in Poland, the value of portfolios significantly; I think that was an impact of 12 - 13 million on the P&L. And if I have understood it right, the direct impact was somewhere around 6 million on the surrender fee.

Dhruv Gahlaut

Right.

Judit Havasi

Now, on the Solvency II ratio, actually, in the third quarter we have on the listed VIG level, the S2 ratio, slightly above 180%, which is, I would say, nothing really changed in comparison to the last quarter.

Dhruv Gahlaut

And do you have a sensitivity for corporate bond movements, the spread movements?

Martin Simhandl

In the meantime, we have calculated – I'm not sure if we have it with us, but maybe we can...

Judit Havasi

We will present to you next time the concrete sensitivity. We are preparing now also for projection. I'd like to discuss it with my colleagues.

Dhruv Gahlaut

Right. And can I just follow up on the first question on Poland motor TPL? You mentioned rates have gone up by 20%, 30% - could you quantify how much the claim inflation has been compared to that number? How much has the claim inflation been?

Martin Simhandl

I cannot give you exact numbers, but, roughly, out from my belly, I would say the positive impact net should be ten percent points or maybe even more.

Dhruv Gahlaut

Perfect. Thank you.

**Operator**

Your next question comes from the line of Michael Huttner of JP Morgan. Please go ahead.

Michael Huttner

Thank you very much. Thanks for taking my questions. And I have just two. The first one: The Heta bond, I think, will give you a positive recovery in Q4, in October I think the agreement was made, and I had kind of thoughts that the impact would be 35 million. My question is: is this something that you will adjust your guidance for pre-tax profits for, so instead of saying up to 400 million, saying up to 435 million or something? My other question is on Austria. So the combined ratio there is above 99%, which I suppose the first sub-question would be: is there something in there which explains why the ratio is so close to 100, so, you know,

not particularly good? And then, with what speed do you think in Poland you can actually get to this kind of midterm target of 95%? The impression I have is that Poland... Austria, not Poland – Austria might be the more difficult market because it is the more ingrained market where things are difficult to change, but I'd love to hear different. Thank you.

Martin Simhandl Sorry, your last question, acoustically I couldn't hear

Michael Huttner I'm really sorry. Yes, I wanted to know why the combined ratio in Austria, not Poland, is so close to 100%, 99%...

Martin Simhandl That was your second question, and the third?

Michael Huttner No, the third one is: when will it get better? That's all.

Martin Simhandl Okay.

Martin Simhandl Heta – you're completely right. Heta will have a positive effect on the fourth quarter. How much, for the time being, I cannot say, because the decision on the profit participation in the Austrian companies are normally done in the beginning of December, that's not been the case till now. This is the one thing.

When it comes to how you look at results development, maybe I give you slightly a different view on that. Last year we said we will double and we will try to go up to 400. That means roughly 350 to 400. At that time, we calculated that we would have a full positive impact on the housing societies, which at that time was roughly 50 million. So in the end of this year we will end up somewhere around 30 million. So you see already for that we have to equalize some 20 million; we have done that, and we have published that in the second quarter. We had some positive effects of some releases of provisions that we could do. This is the one thing.

On the other hand, and you are true, the Heta is something what could not have been expected. On the other hand, as I elaborated what is done now in Romania and especially what is done in Poland was also not to be expected, and we have to deal with that, and, frankly spoken, let's have a look on that when the year is over.

Michael Huttner Okay. And Austria non-life?

Martin Simhandl Combined ratio – we have elaborated several times on that; it's simply the fact, you know, that in Donau we had that Italian business. The Italian business, from a pure claims perspective, in the meantime is, let's say, done, but you have to be aware that it's again now

burdening, still burdening from the cost side. There is a lot of costs related to that because, simply, the organisation has to be hold, and that's we have elaborated several times this is something what we have to do over time, and they are heavily working on that. And there is some improvement, but it's a thing that's going on steadily.

Michael Huttner

So, is there a timeline where we could think, to use your words, this is done?

Martin Simhandl

Well, let's do it the other way around. If we want to be midterm on 95, there are several items that could contribute to that. Poland is one of that, yes. Austria is one of that. And others are... and that simply means we have to do a lot of efforts to bring it there, otherwise we could not see from a solid standpoint that we want to reach it midterm.

Michael Huttner

I understand. Brilliant! Thank you very much.

**Operator**

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

Bernd Maurer

Good afternoon. I want to come back to the previous question or your answer to the previous questions referring to potential negative effects for Romania and Poland, given the latest law changes. Am I right to assume that you especially refer to potential impairment of goodwill in both countries, especially in Romania? That's point one.

And second question refers to the consolidation of housing societies: 3Q only showed the effect for one month, you had the positive contribution to profit-before-tax of about 8 million, and also minorities of about 8 million. Is this, let's say, this development a proxy for the quarters to come? Let's say that the additional positive effects on profit-before-tax from the full consolidation are wiped out by minority interests? That's from my side.

Martin Simhandl

If I understood you right, the net effect, after minorities, after housing societies, is around 2 million...

Bernd Maurer

literally, moved to zero, yes.

Martin Simhandl

We have elaborated on that. For the whole year, we have published a figure; we expect some 30%. Please be aware this is not a proxy for full-year calculations. There are seasonalities in.

Bernd Maurer

In the half-year report, you published a figure saying you expected 30 million before-tax contribution in 2016, meaning the consolidation from September to

December. How much of the 30 million will be visible after minorities? Is it more or less fully wiped out by minorities, or are there some profits contribution you can keep?

Martin Simhandl

The first, what you said is exactly right.

Bernd Maurer

Yes, okay, thank you for this.

Martin Simhandl

Have we not touched anything?

Bernd Maurer

Yes, Romania and Poland. As you said, you closely have to watch and don't increase guidance...

Martin Simhandl

I didn't want to express that we see some impairments there; this is not what I was referring to. When we look at Poland, it's simply a question of how much impact we will have immediately on our results. And frankly spoken, for the time being nobody knows what out of that discussions and negotiations will come out, but that would not exclude quite an impact in the year-end. Of course, we try to avoid that.

On Romania, this is a law that is valid from, I think, 18<sup>th</sup> of November on, so already for the time being we get the new business in. Again, I wanted to point out nobody knows exactly, or let's say it's very doubtful that this is in line with European regulations. There have been letters sent to the European Commission; as far as I understand, there is also the reaction of the Commission, saying this is not allowed. But, frankly spoken, nobody knows if Romania will act accordingly, So for the time being, we cannot exclude that there are effects, that there are effects for this year, that there are effects for next year.

I simply wanted to stress that, because we are showing you a very positive development in Romania. And for the first time since five years, we were very optimistic on Romania, and in such a situation, of course this is harming us and we do not like it, but being very frank, we think we have to communicate it to you.

Bernd Maurer

Thank you very much.

Operator

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

Sami Taipalus

Hi, good afternoon, everyone. Just a couple of questions on the combined ratio, actually. The first one is just sort of top-down: if you look at the plans you had when you set the medium-term combined ratio target, are you behind them or ahead of them right now? Just

thinking of all the different moving parts that are going into it.

And then the second question is just drilling down a bit deeper on Romania. I think you alluded there in your initial comments, or it sounded a little bit like you suggested that there might be a difference between the new law affects trucking and personal auto. So I was wondering if, when you look at the sort of impact of this new law, could you just help us kind of gain a little bit of insight into how this will affect either your top - line or combined ratio? I guess you'll have to choose between either writing more business or keeping the combined ratio at a good level. Thank you.

Martin Simhandl

Romania will be answered by Roland Gröll.

Roland Gröll

First of all, to start with positive information about Romania. I think if you look at the first three quarters and especially the average premium and MTPL business, it's in the meantime more than 1,000 lei per car, so that's more than doubled within the last four years, and it's the first time, as Martin mentioned, that we think on underwriting your basic even MTPL is a profitable business in Romania.

Perhaps, as you know, there are elections in Romania at the beginning of December, so I do not expect any changes according to this new and from my personal view, stupid law before the elections. That's not really realistic. I personally hope that the pressure of European Union and the pressure of some other associations will help within the next month. Let's see. Nobody knows it exactly.

Coming back to the question, what's the impact overall, MTPL overall: the new tariffs are, roughly, 20% lower than our tariffs we sold on the levels this year.

So with no action, all other equal, this simply means a 20% minus with an MTPL premium volume in Romania full-year, something like 1 billion, 20% would be an impact of 200 million RON. So it's not the full-year; it's limited in the first step for six months, so we can reduce this amount. We did a lot of actions, for example, reduce the commission rates for especially trucks and buses down to 2% or even 1%. In addition, we have projects running, closed file reviews, optimisation of claims handling, optimisation of claims abroad which should bring also positive impacts.

In total, I would assume that it will be next year especially, we will see on VIG level, a negative impact, but not as huge as the simple calculation: 1 billion, 20% is 200 million. That's by far too much.

Sami Taipalus Okay, great.

Martin Simhandl Your question concerning the combined ratio: for this year, we would have like to be a little bit better, frankly spoken. And the main impact that we had not foreseen in that way were coming especially from Poland, where the motor rates were more under pressure and the combined ratio downturn was more heavy than we would have expected.

But, again, here I think what is important and we are talking here about long-tail business, MTPL. The one thing is what you see on your P&L, the other is what you see in your portfolio; and the important is the portfolio premium is going up again, and hopefully this will for longer this time in Poland.

Sami Taipalus There was quite – just to follow up on that – the loss ratio in Poland was quite weak in Q3 specifically. I think it jumped up quite a bit, actually, versus H1. So I was just wondering if there was anything specific new there, or if it was just like review of the outcome.

Martin Simhandl Well, in such a situation you have impacts, on the one hand, from the claims paid out, but in such a situation, simply out of the mathematical models for IBNR and you have sometimes some impact. I think more important is what you have to expect, yes. As I said, it's not the frequency in Poland; the average claim has gone up; this is the one thing. And so it's very important that the average premium is going up, and this is something what we see over the last month. But this will not help us with this year.

Sami Taipalus Okay, so it was more a correction perhaps of older underwriting years that we saw in Q3?

Martin Simhandl You see here always some movements, frankly spoken, on a quarterly basis that has a certain volatility in it, also.

Sami Taipalus Okay, great, thank you.

**Operator** The next question comes from the line of Thomas Unger of Erste Group. Please go ahead.

Thomas Unger Hello, good afternoon, gentlemen. Thank you for taking my questions; the first will be, if you're ready to give us an outlook for 2017. Second one: if you could provide us with the net and gross figures for bad-weather claims in the third quarter. And coming back to the combined ratio, maybe if you could specify the cost and claims ratios in the Czech Republic and what you expect, going forward. I mean, the gross written premiums have developed nicely, so should we anticipate a higher level



of combined ratio than we've been used to in previous years?

Martin Simhandl

Maybe I start with Czech: I fear this is the case. Czech is still very favourable, but, as the competition on the motor side, that was quite heavy in, I think, 2011, 2012 and turned around in, I think, in 2014 or in 2013. It seems that it has started again. We are on a good track, but, also, in Czech, maybe levels, what we see now or maybe levels what we have seen before will not immediately come back.

The first question, 2017: sorry, I have to say, we cannot give you. It simply... these things have been discussed; they have to be discussed with the Supervisory Board, which is not the case till now, and we cannot go out at that time, frankly spoken. We will think about when is the right time to go out. We understand that market is expecting something.

The second question - Peter will answer that.

Peter Höfing

Weather claims, if you compare it with last year, so we had the net figure is 112 million net losses in the year 2015, and 101 million net losses in the year 2016.

Thomas Unger

For the first three quarters, that is?

Peter Höfing

Yes.

Thomas Unger

Okay, thank you.

**Operator**

We have a follow-up question from Mr. Michael Huttner of JP Morgan. Please go ahead, sir.

Michael Huttner

Thank you. Just two: one on investment income: so stripping out the housing associations, I guess the current income was about 825, 848 minus 25, 825 - which is somewhere around 3% or maybe 4% down on a year ago. And I just wondered is this, roughly, now a stable run-rate, or, you know, is it running... is the yield on the back book still higher than the reinvestment yield? These would be all my questions.

Martin Simhandl

If you say this is a stable development, would you mean this is a stable downturn that you have to further expect, or would you mean it's a stable development on absolute terms? I have to say you should think more about the first. At least the interest rate on the book is still substantially higher than the new money yield, although we reach quite a favourable new money yield this year in Austria. I'm always talking about Austria because it's a Eurozone country and it's by far the biggest block on the assets, and it was, I think, roughly, 1.9%, nearly 2%. So that's not bad, but it hurts.

Michael Huttner                      Because the back book yield then is about...?

Martin Simhandl                      In Austria it's around 3.

Michael Huttner                      Oh, okay. And you've got about a 5 year duration?

Martin Simhandl                      No, we've got about... on the fixed income, we have got about 8, something like that.

Michael Huttner                      Oh, okay. Oh, that's small, slow decline. Thank you very much.