



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

Preliminary results for the financial year 2017

March 22, 2018 | 15:00 CET

Conference Call Q&A-Session

Transcription

**Disclaimer:**

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Vienna Insurance Group retains all rights to this transcript and provides it solely for your personal, non-commercial use. Vienna Insurance Group, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities.

Operator The first question comes from Daniel Bischof with Baader Helvea. Please, go ahead.

Daniel Bischof Thanks, and good afternoon. I've three questions. The first one is on the investment income side, which I've tried to reconcile. There's always quite a large quarterly volatility of investment income allocated to the segment so, for instance, in P&C in Q1 and Q2, you had about 33 million, but this job to just about 1 million in Q4. So can you explain in a bit more detail how you allocate the investment income? Or were there any specific factors here?

And the second one on the Czech Republic, this end-point deterioration here and the combined ratio, you mentioned industrial claims but could you explain in a bit more detail what happened here? Is there any indication that there is a structural issue here?

And how do you see the competitive environment in the Czech Republic, also in Slovakia and Poland, into 2018? And then, the last one, just quickly on Solvency II ratio, if you could give us an indication where we stood here, at year-end?

Elisabeth Stadler Martin Simhandl will start with the first, then Judit with the Solvency question, and I will take up the question concerning Czech Republic, Slovakia and Poland.

Martin Simhandl I'm very sorry that we have fluctuating results in some parts, but it's easy to explain. There is a specific effect in the fourth quarter coming from the housing societies, which brought down investments results in P&C in the fourth quarter. And in so far this was extraordinary, it looks, maybe, a little bit un-continuous at the first view but it has not affected the net result.

Judit Havasi Regarding the Solvency II ratio, we are in the last moves of the auditing stage but we don't expect any big changes in comparison to the third quarter result.

Elisabeth Stadler I would like to start with Czech Republic. Looking at the combined ratio, indeed we had a number of industrial claims, six to seven big fire claims in this country in 2017. This was absolutely not expected, it was not planned, and we are quite sure that this will not happen in 2018.

Of course, we had higher weather-related claims in 2017. Storm Herwart was already mentioned, the same for Slovakia and Poland, and we talked in the last session already about the MTPL business which is a quite challenging one in the Czech Republic at the moment. We already mentioned that we are quite sure that we will be burdened by higher claims results in this line of business.

On the other hand, if I go to Poland, there we see a very positive effect in the motor business. We really tried to stabilise the premium average and the premium level in this country during the last year, and we are quite sure that we see now results that we mentioned. We were able to increase the average premium in the motor business by 15% to 20%. And that's very optimistic for the future for the future results.

Daniel Bischof

And in Slovakia?

Judit Havasi

In Slovakia, we have two issues. We have a little bit a portfolio topic and we are now improving our average prices in the MTPL portfolio, and we had also some weather-related claims.

Daniel Bischof

Thank you.

Operator

The next question comes from Michael Huttner of J.P. Morgan. Please, go ahead.

Michael Huttner

Thank you very much. I have lots of questions. I wonder if you can summarise the one-offs which affected 2017 pre-tax profit? It sounded like there were many, many, many, but I didn't catch them all. There was the Asiom write-down on the brand, and I think you mentioned some other portfolio write-downs, I think you had a one-off consolidation gain on an AXA merger. I just wondered if we could have an idea what the underlying is? You might say, actually, the underlying is what we reported, but it would really help.

The second is you spoke, at length, on deals which have happened. I remember, Q3, you mentioned overseas growth was so strong that you were keeping a war chest – that is my words – for expansion, and I had the idea that the war chest was as big as a billion. And I just wondered if you could give us an update of how things are progressing there?

I saw from the tape from Bloomberg that you were discussing the disposal of S-Immobilien. It sounds like a housing society. I don't know what it implies, but maybe you can explain a little what is happening?

Then, if I look at the bigger picture, we have this 96.7 combined ratio, lovely target of 95 for 2020, and we have these initiatives in foreign claims and anti-fraud and file reviews. I just wondered if you can break down this improvement in combined ratio from now until 2020, between these products, between maybe a volume effect and any other things, just to give us a little bit more granularity? I'm sorry for so many questions but because you've set such clear-cut targets in 2020, it's become extra interesting.

Elisabeth Stadler

Indeed, a lot of questions. I hand over to Martin, I think he will answer most of them. He will start, and then we will step in.

First, the one-offs, I think what you were thinking about was the impairments on the one hand, this is the impairment of the brand in Romania, in Asirom, that's between 7 million and 8 million, and then, there are other impairments. I think there is only one that is significant enough to mention which is, I think, 11 million, and is Ukraine. What has happened in Ukraine? We have three companies, one of the companies from the claims side has performed very poorly last year, turning the whole Ukraine result into negative. And then, we decided to fully write-down the goodwill.

That's the one side, and the second, when it comes to portfolio write-downs, which were smaller, so we're talking here about 2 to 4 million or 5 to 6 million, is in Hungary and Bulgaria. That's the one-offs.

The second question you had is the war chest. I don't like, frankly speaking, the word war chest. I don't think that we are at war. That's the first thing. We maybe are competing with our competitors, but definitely we are not at war. That's the one thing, and the second thing is, I think, important, when it comes to what is behind that word, is if you see targets coming if you're able to finance that.

Frankly speaking, what we see in those countries we want to buy, we surely can finance without any problem, be it from the sourcing, from the Solvency position, and in so far we need not calculate something like a war chest. We are just looking at what comes, if it fits. If it fits means if it is something that could further develop the group on the growth side. But, at the end of the day, that's what very concentrated growth means for us: profitable growth. And I think that concludes that question.

When it comes to S-Immo, when we are talking about housing societies, we are talking about special regulated entities. S-Immo is not such a specially-regulated entity, it's simply a listed real estate company which one of our subsidiaries, S-Versicherung, has a part in. This is a bit more than 10% stake that is equity consolidated in S-Versicherung and also in our group.

And the question I was asked today was if we look at that stake strategically or not, and my answer was, originally, that stake was held by S-Versicherung because S-Versicherung nearly had no own real estate investments as an insurer, and therefore that was, so to say, to substitute that.

That has to be reviewed under the condition that S-Versicherung is on the way to be merged with Wiener Städtische. Wiener Städtische having quite a substantial real estate portfolio. That's all, nothing else to

add. It would be simply an equity transaction if it would happen. I think combined ratio 2020, I'll hand over to Elizabeth.

Elisabeth Stadler

Yes, I think a lot of activity is behind 95% in 2020 is, I would say, a challenging goal, but we are on the right track. We have, I would say, three components. First, increase premiums; second, less claims; third, less cost. Increased premiums, what do we do? I think you know this and we talked about this. There is the health initiative, there is the small and medium enterprise initiative, there is the initiative on the bank insurance business.

You know we want to increase our bank insurance business, not only focus on life and accident as we did in the last years; we also want to expand here to non-life and health business, selling this business with the banking clerks to clients.

Looking at less claims, already here I think we have talked about a lot of activities. You know the anti-fraud, you know the closed-file review. I mentioned these foreign motor claims. We introduced this foreign motor claim team and this team has already identified a potential saving of around 10 million per annum.

Then, we have the project of optimising claims management. This was, or is, active in motor and household insurance. We already started in Poland and Lithuanian group companies; other companies and other countries will follow this year. And also, here, we see a potential reduction in the claim expenses in the amount of a middle-single-digit percentage range.

And also, these activities help to afford the effort to reduce these unjustified claims. All these measures should help to reach the combined ratio of 95%, and there is the third point, less costs. Of course, we want to reach synergy effects, we want to bundle the back-office activities. That's what we talked about a lot in the last meetings already, and we announced the mergers of the companies of the savings insurances with the local insurers. And also, here, we expect that we see a lot of cost savings in the next year. Not immediately, in the first year, but in the next year.

On the other hand, we are trying to simplify the products to make clearly-designed products for the bank customers and we are looking at trying to integrate our product into online bank sales channel. I think there are a lot of actives which really should help to reach this goal.

Michael Huttner

Brilliant. That's very clear. Thank you.

Operator

The next question comes from the line of Youdish Chicooree with Autonomous Research. Please, go ahead.

Youdish Chicooree

Good afternoon, everyone. Thank you for taking my questions. I've got three questions, two on the Czech Republic, please. The combined ratio increased 7 points to 98% in 2017. Could you firstly tell us how much is down to weather and large industrial claims, which you have said we should not extrapolate?

And secondly, can you tell us a bit more about which of your competitors are being more aggressive? This has been a market which has been very disciplined over the last decade, so I'm really interested to hear your thoughts on that.

And then, finally, on life, you have reported very strong results for the past three quarters now, so I was wondering, in terms of IFRS earnings, what do you think is the run-rate profit, going forward? Thank you very much.

Elisabeth Stadler

Concerning the first question, the increase of the combined ratio in Czech Republic, the weather-related claims amount to 1.5%. I think the industrial claims, we don't have exact figures now, but this must be 3% to 4%.

We really had six to seven extremely bad and high claims which we would not expect during the next year, so we will see a clear decrease in the next year, but what is quite clear, that is what we already said in the last meeting, we won't see such good combined ratios like '91 or '92 in the Czech Republic for the next years, because our companies there really had excellent combined ratios compared to the average market.

You are asking about competitors. We are facing heavy competition in the Czech Republic at the moment. There are a lot of competitors trying to gain market share and trying to increase their portfolio. I would not like to name some of them. Looking at your last question, we are searching for some figures. Martin Simhandl is coming back and he has got some information for you.

Martin Simhandl

We have provided to you, in our slides, the life development according to the Austrian Insurance Act, and, as I understand, what you want to know is, so to say, how much that differs from the IFRS result. Is that your question?

Youdish Chicooree

No. In 2016, '15, the last profits were running around 50 million, 45 million euros a quarter, and in the last quarter, the average is more like 60, 65. So that was why I was wondering, going forward, what should we be expecting?

Martin Simhandl

Of course, you have some differences in the single quarters, which you also had in the past, I have here figures coming between 40 and 60,

roughly, or in some of the quarters it's even more, and you could expect that it's somehow in that line, that it continues. You cannot clearly predict any quarter in life, that's nearly impossible, given the fact that also the investment result is playing a certain role in that.

And the realisation of investment result is not done, so to say, steadily over the quarters, because that has not a real impact on the product, because the product is measured on a yearly basis. So you should expect it also, for the future, to fluctuated somewhere, around maybe 40 million to 60 million or something like that.

Youdish Chicooree

Okay, understood. Thank you very much.

Elisabeth Stadler

Thank you.

Operator

The next question comes from Michael Haid with Commerzbank. Please, go ahead.

Michael Haid

Thank you very much. Good afternoon. Three questions. First, could you give us the reinvestment yield and the delta of the reinvestment yield to the current portfolio yield? And what are your expectations going forward for the current return on investment for 2018, ie have we already reached a low here?

Second question, on the embedded value, we have a new business margin in Austria of 2.4%, in Central and Eastern Europe of 7.5%. I'm interested in the delta. Is it entirely driven by a different business mix? And if that is the case, I assume in Austria you still sell mostly traditional products with annual guarantees; in Central and Eastern Europe, predominantly unit-linked business. Why are you not pushing more in Austria for unit-linked business and for capital-efficient products without any annual guarantees?

And the last question, on reinsurance, I remember a year ago, aside of health insurance, you wanted to expand also in external reinsurance. Can you give us an update, where you stand on this target and how you see this initiative from today's perspective?

Elisabeth Stadler

Martin Simhandl will start with the first question.

Martin Simhandl

Can you hear us?

Michael Haid

Yes.

Martin Simhandl

We were not so sure if there would be a technical problem. I will try to start on the investment side. As I understand, you asked, on the one hand, the current yield in the portfolio and the new investment yield. I will maybe focus on Austria. Here, we are talking about the eurozone, we have to be aware we have different countries with different currencies, where the development is quite different, but by far the biggest

part of the portfolio is Austrian in so far I'm concentrating here, and that's also that portfolio that has been affected by the low-interest yield investment the most.

In Austria, we have a current yield in the portfolio of around 3% and we have a new investment yield, last year, around 2%. For the time being I would not expect that that would change substantially. In this year, we have seen maybe some slight increases on the risk-free rate, but we have seen quite a shrinking of the credit spreads. So for the time being, I do not expect that this will go up. Does that answer your question, or was there anything left?

Michael Haid

No, absolutely. But the 3% and the 2%, that applies to the whole portfolio in Austria including...?

Martin Simhandl

Yes, the whole Austrian... Sorry, the 3% is the current yield of the fixed income portfolio. You cannot calculate that for, maybe, real estate or equity, that has a different way of accounting. The real estate we account at original price and amortisation, so you have always the amortisation in the current result, that makes it a bit different.

I think the main question, and this is also the biggest part, by far, is the fixed income portfolio, and here the current yield is around 3% and the new investment yield, again, in the fixed income, is around 2%.

Michael Haid

Perfect.

Elisabeth Stadler

So, embedded value, Werner Matula will start.

Werner Matula

Regarding the new business profitability, you've already partially answered the questions you asked, so let me just confirm. For Austria, the profitability increase, of course, mainly due to the fact that our guarantees in the guarantee business simply decreased in 2017. So for the time being, we're selling at 0.5% guarantees in the traditional books, which obviously has an effect on the profitability, plus the same as for the portfolio.

The positive impact on interest rates also reflects on the new business value. And in the CE region, not just for the CE region but specifically there, we are also heavily trying to focus on biometric products, risk products, so we are really having a look, strategically, at that part of the business, which we anyway already had in the past, but we are focusing more and more in pushing that kind of business simply because the gains, the potential gains, from biometric risks are the ones which we believe bring the profitability.

So the business mix itself is not significantly changing but improving in terms of biometric risk for sure, in terms of proportion of this kind of business. And I think you had a third question which is strategic, how

we are thinking about the unit-linked business strategically in Austria. And I think Elisabeth will comment on that one.

Elisabeth Stadler

Yes. Thank you for your hints on this topic. You can imagine that that is the case, what we do and what we try for years, but it's not so easy; you can only sell the product if you have, on the other side, the clients accepting the products and buying these products.

We are trying to shift our product portfolio in Austria. I think we managed this, in the meantime, quite well. That is why the embedded value and new business value is increasing in Austria too. And the second point is that these biometric risk, I would say they are hardly to be sold in Austria because, for Austrian clients or for the clients in Western European regions, normally you need to have a savings component in the products because they can afford these more expensive products and they want to have a saving component in it. And this is what is not so profitable at the moment.

We think if the environment would change, hopefully within the next years, we will see here better results in the next years too. For reinsurance, I'll hand over to Peter Höfinger.

Peter Höfinger

Thank you. Thank you for this question. For expanding our reinsurance business specifically to Germany, we had pretty good timing. You know that there is an end to the softening of the reinsurance market. We have not been exposed to the damages last year, to the natural catastrophes, the large one in the US, but we were benefiting that, overall, the reinsurance market was trying, specifically at the beginning of the renewal, to push up premiums.

Our focus is on small insurance companies and mutuals in Western Europe, and they were very open for us for talks, and we were entering already a lot of new contracts. Nevertheless, we are cautious, so, premium-wise, we have a gross of more than 11%, but we could significantly increase the number of contracts and the number of clients.

We have opened a branch office in Frankfurt, also to give a clear sign of our commitment to the German market. So therefore we are very happy how our expansion in reinsurance has started.

Michael Haid

Can you give us a volume figure for that, the 11%?

Peter Höfinger

This is, overall, VIG Re has around 400 million of premiums.

Michael Haid

Thank you very much.

Operator

The next question comes from Frank Kopfinger with Deutsche Bank. Please, go ahead.

Frank Kopfinger Good afternoon, everybody. I have two questions. My first question is on the tax rate. It seemed to be pretty low in Q4, with round about 5%, and with this also on a lower level for the full-year. Can you comment on the drivers here in Q4, and also what we should expect, going forward?

And then, secondly, on the life result, also in Q4, I thought that the benefit ratios of the claims and expenses in Q4 in the life business were also lower than what we saw in the previous years and quarters, so it seemed to be that the policyholder share decreased. Could you comment on this development there, please?

Martin Simhandl Maybe I try to answer your first question, the tax rate. Yes, this is a very favourable tax rate we have in 2017. There were some items re-estimated from the past, and that had a positive effect. Let's say a steady tax rate for our group you could estimate around 20%, but of course we like the development as it was. Concerning your questions on life insurance, I think we are not completely clear what you wanted to ask.

Frank Kopfinger When I look at the drivers specifically in Q4, and I know about the pros and cons of looking at only quarterly numbers but, in Q4, it seems, on a relative basis, the claims or the benefits that you books towards the policyholder were pretty low, lower than what we saw in other quarters. So the question is whether you decreased the policyholder share or whether there were other drivers which brought down this benefits number.

Martin Simhandl Frankly speaking, I cannot clearly answer that, but it could be different reasons. It could come out from different volumes of single-premium business, it could be also from the effect that we have, for example, in Lichtenstein on the FX. Here, we have the situation that the currency of the company is the Swiss franc and the products, some of them are in euros, and then you have effects where you see, on the one hand, in the technical side effects, and the contrary effects you see in the other income or other expenses. Frankly spoken, you should not estimate that this was a specific issue or effect out of the profit participation.

Frank Kopfinger Okay, thanks.

Operator The next question is a follow-up from Michael Huttner at J.P. Morgan. Please, go ahead.

Michael Huttner Thank you very much. Thanks for this. Yes, I just wondered if you have a figure for what is, in Romania, the AXA Life consolidation gain? And then, the 2020 target of profit and of premiums and combined ratio, does that include any assumption for deals or is this all organic? Thank you.

Elisabeth Stadler We'll start with the second question, the guidance for 2020, the combined ratio. Our guidance includes only those acquisitions that we have announced and that we have listed in the presentation.

Martin Simhandl With concerns to Romania, we had some positive effects out of that, but we had some counter-effects against it, and it summed up, plus and minus, not significant.

Michael Huttner And should I consider the Asirom as the other side of the AXA Life?

Martin Simhandl Sorry?

Michael Huttner The Asirom impairment on the brand name of 7 to 8 million, is that the other side of the AXA Life... when you say this is net zero?

Martin Simhandl No, that's not the counter side, but it's also in Romania.

Michael Huttner Okay, thank you.

Operator The next question comes from Bernd Maurer with RCB. Please, go ahead.

Bernd Maurer Good afternoon. One question left for me. I want to come back to the investment income in the fourth quarter and the effect from the housing societies. Mr Simhandl, you stated that there was a seasonal effect in the fourth quarter, lowering the investment income from housing societies, or there was a negative effect. Is this is a typical seasonal one for final-quarter effect, or was it a one-time effect for Q4 '17?

Martin Simhandl You have to be aware that, in the housing societies, you have seasonal effects, and that is not clear that it must be in the fourth quarter, that some of the results are bound to the question when newly-erected buildings are finished and are handed over. And this is something from an ex ante perspective you cannot really calculate.

Bernd Maurer So it's not a seasonal effect, a calendar effect?

Martin Simhandl Let's say it like that. It's a fluctuation effect in the result that you cannot calculate in the way that you can say it's any quarter the same.

Bernd Maurer Yes, I got it. Perhaps one more question on this. Investment income was substantially low in Q4 versus Q1, Q2 and Q3. You stated that the result in the last quarters were supported by gains from, especially, the disposal of equities. Can you quantify this in the Q1 to Q3 period? Or did you do it and I didn't take a note in the last conference call?

Martin Simhandl Frankly speaking, I think we have not done that, and I'm not aware now about how the effects could have been.

Bernd Maurer Okay, then that's it from my side. Thank you.

Operator The next question comes from Thomas Unger with Erste Group. Please, go ahead.

Thomas Unger Good afternoon, thank you for taking my questions. I have a couple still left. First of all, on the combined ratio in Q4 in Austria, I understand that there was an impact of Storm Herwart but still here the combined ratio was very low in Q4, I calculate around 91%. Could you explain how that was achieved?

Secondly, on the M&A pipeline, what is the size of the potential targets that you're looking at? And then, thirdly, and lastly, on the other income, it was very high in Q4 2017, rising to 91 million. You said that some of the effect was explained by FX movement, but was there anything else that caused the other income line to more than triple, year on year? Thank you.

Martin Simhandl Maybe I'll start with the third question. As far as I see it, the main effect is FX. Your second question was concerning the M&A targets. It's quite clear that I'm not elaborating on M&A targets in a specific way.

When you look at the sizes of those, to give you a flavour, we had in the last year, the biggest one that we had was BTA, with a premium volume of 160 million, and we had Bosnia which was around, I think, 11 million or 12 million. And it's completely clear that this also turns out in the figures that you are paying for that, so it's a broad range, but overall it's a size that's not extraordinarily high.

Thomas Unger So nothing that would change your market share in any of the markets materially?

Martin Simhandl In Bosnia, it has substantially changed our market share, although it was a small company. It's simply a question of where you acquire what kind of company. And at the end of the day, how do we look at that?

We ask, does it fit to our portfolio? That also means does it fit in the mix of that country, does it support the synergies in that country and, at the end of the day, does it support the growth potential in that country? And if that is the case, is this a growth in business lines that are profitable? That's how we are looking at that.

And that can mean that we have substantial improvements in market shares, as in Bosnia. If you would have the same, for example, in Poland, then it would be clearly not, because it's a far bigger market.

Elisabeth Stadler And I would you like to give an answer to the good combined ratio in Q4 in Austria. We think there was a real positive development in the car insurance industry and in the claims handling in motor insurance in Austria, and we have, in the meantime, very, very low business in our

Italian subsidiary, and we think this is the reason, on the other side, too.

Thomas Unger Okay, thank you very much.

Elisabeth Stadler Thank you.

Operator The next question comes from Thomas Neuhold with Kepler Cheuvreux. Please, go ahead.

Thomas Neuhold Thank you very much for taking my questions. I have two. Firstly, on the health business, we have seen very strong growth in many CEE countries in the last year. I was wondering if you can provide us with an update on key market trends in key countries and your strategy in the health business going forward?

And the second question is on the Solvency II ratio. Maybe I overlooked it, but I could not find any indication of Solvency II ratios at the end of 2017. Maybe you can give us an indication of where that figure was or where it could come in. Thank you.

Judit Havasi I will start with the second question, Solvency II ratio. We are in the last final moves regarding calculation, but I can assure you there will be no big changes in comparison to the third quarter result.

Peter Höfinger Maybe if I come to the health business topic, as we also have it in our agenda 2020, we are supporting this business. We have elaborated with the countries, and specifically with our target countries, action plans that we do. And to understand better where this growth is coming, in our business model we are not only giving pure risk coverages, we are combining it with assistance options.

So for example, in Bulgaria, we are mainly focusing on the group health business. We have become number one in Bulgaria in the health business, growing 25%, and this is reported that if you have a health insurance with us, you get an app where you can get advice from a doctor, where you can also agree on an appointment with a doctor, where you can save all your documents related to your health.

And these kind of functions, we are implementing country by country where, besides having a risk coverage we are also taking care of the service, which is essential in Central Eastern Europe, as this is also one of the needs which we see from our clients. And there, we think we're quite a step ahead of the competition.

Thomas Neuhold Thank you very much.

Elisabeth Stadler Thank you.

Operator	There are no further questions registered at this time. I'll hand back to Nina for closing comments.
Nina Higatzberger	Thank you, everybody, for your questions and your interest. Thanks for listening in. The next scheduled results call will take place on 29 <sup>th</sup> of May, when Vienna Insurance Group is presenting the first quarter results for 2018. Thank you and goodbye.
Elisabeth Stadler	Thank you very much. Bye-bye.