

# **Conference Transcription**

## **Questions & Answers**

**Conference title : VIENNA INSURANCE GROUP (VIG)  
Preliminary, unconsolidated  
premiums 2013  
Conference Call**

**Date of conference: January, 29th 2014**

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## CONFERENCE DETAILS

Conference Date: 29 January 2014

Conference Time: 15:00 Central European Time

Conference Duration: Approximately 50 minutes

Speaker: Martin Simhandl, CEO

Chairperson: Nina Higatzberger

Operator: Ladies and gentlemen at this time we will begin the question and answer session. Anyone who wishes to have a question may press star followed by one on the 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 selection. Anyone who has a question may press star and one at this time and your first question is from the line of Farquhar Murray from Autonomous. Please go ahead.

Farquhar Murray: Afternoon gentlemen, its Farquhar from Autonomous here. Just three questions, if I may. Firstly, on the 88 million of charges in the fourth quarter, might you have any detail on how the split between Italy and Romania and can we take, or presume or assume that all of that is a hit on capital or was some of it goodwill? Secondly, is it realistic to expect that Vienna can return to the normalised run-rate in 2014 in effect can we assume that all these issues are now behind us with 4Q. Then, finally, just on the dividend. I mean you have designed to look through the difficulties in 2013 which makes sense and signals some degree of confidence. I am just a little bit surprised by the decision to increase the dividend year-on-year. Should we take that as signalling some kind of intention to gradually increase the pay-out ratio going forward or are you trying to give a signal on the kind of earnings growth that you expect from here, and also actually on a point of detail might you have the solvency ratio in the fourth quarter? Thanks.

Martin Simhandl: Well, first to start with your question, what I have to say and, again, I have to apologise for that we are in the end of January. We must be aware that we have only preliminary

figures, we have unaudited preliminary figures to a certain extent estimations and insofar I hope that you agree with me that I cannot give you a lot of detail. When you talk about the fourth quarter, I cannot give you a clear breakdown for that, but of course when we are talking about the effects that we have seen then it comes again from Italy and Romania, with a clear focus on Romania. We have talked about that already when we talked about Q3 that we are looking very closely to each and every item of the balance sheet of our Romanian entities be it premium receivables, be it recourses, be it claims reserves including IBNR and so on. Insofar, I cannot give you detailed figures and I think that would not be serious at this time. Concerning the question if that also include effects on the goodwill, I would say, 'yes this could'. Again, here I can give you no concrete figure about that. About 2014 we have not published any kind of outlook and this is also not something what we are doing with publishing those figures what we have done today. It's simply, and I have to take that into account that in the end of January we always have communicated our preliminary unaudited premium figures, so the top line development. Given the fact that we have seen last year in Romania and in Italy we thought it would be good to give you also a flavour on what we expect on the result side. But please be aware that we are at the end of January and all these figures are preliminary.

Concerning the dividend, as I said we have a strong solvency position and also as we calculate that according to our partial internal models, in Solvency 2. Insofar, and given the situation, on the operating result development we think this is appropriate. This does not mean to overall change our

dividend policy for the time, but for this year we think this is the continuity and it clearly shows how we look at that.

Farquhar Murray: Okay, thanks very much indeed.

Operator: And the next question is from Vinit Malhotra of Goldman Sachs. Please go ahead.

Vinit Malhotra: Hi Vinit from Goldmans, good afternoon everybody. So my question's been answered on, partly I would say. Just if I can ... this request for a little bit more on ... it seems there was some media comment today on your interviews to media conference that the Romanian difficulties are ongoing. Were you referring to what has already been done in the fourth quarter or were you referring to something that continues even as I speak in the first quarter? I think that is something that probably would help us to understand the situation a bit more about how the coming year could look like. Thank you.

Martin Simhandl: I think when we are talking about Romania, again I am just repeating what has been said this morning in the press conference. On the one hand is what we have done and on the other hand is how we see the market. What we have done, and I repeat myself, we have looked very close to each and every item on the balance sheet as well as on the non-life entities as on the life entity. What we wanted to do and what we want to do is to make a situation where we give our management a good basis for the coming year. I think our management is fully committed for the next year and insofar from that perspective we see it more positive. We have to take into consideration that the market environment till now in

non-life has not changed. There are still competitors on the market offering premium rates in motor that are non-sufficient. This means and has meant also in the past – and this is an ongoing process – the only way to cope with that is that you more or less reduce your motor stake in your total non-life business to that level that you minimally have to have to have an overall successful approach to your customers and so to leave, so to say, the unprofitable part to those offering the low premium rates and to concentrate on the other business lines.

Vinit Malhotra:

Alright, thanks for clarification just one question if I can add also. You know one key note was interesting is that mentioned strong growth in non-motor generally in the Group and you have shown very helpfully slide seven. Could you comment a bit about the competition in non-motor because we have been hearing from all the CEE exposed businesses that in the last year or so, or even two years, that they would like to grow in non-motor to offset motor pressures. So could you just through in a comment on how the competition or profitability of the non-motor is developing. Thank you.

Martin Simhandl:

I think this is a question that will be answered by Peter, Peter please be so kind.

Peter Höfinger:

Frankly speaking, one would need to go through market by market as there are different market dynamics and in the different markets in CEE. Maybe generally speaking if we are saying non-motor premiums then we are mainly talking about corporate business and SME business as retail non-life, like household insurance or accident insurance, is volume-wise not yet a big driver. In our case, our growth is generated on

one hand side by corporate business. One background is that we have a network covering whole CEE and in the last year we have been quite successful in generating clients which do have international production sites all over the place and where we offer on one hand side that they get in the head office a programme policy, but on the other hand side in each and every country we are issuing then a local policy with local premium collection and with local claims handling. So we are able to offer our clients both worlds; a centralised risk management and on the other hand side decentralised service for their subsidiaries in these countries which is a clear competitive advantage which others do not have and therefore in this area the price sensitivities may be for us not as significant as it is for some of our competitors.

With regard to the SME business, there we have been successful with an initiative, which we launched quite recently, leveraging our sales, our distribution channels which we have also for motor with very simple self-explanatory products for the SME business and giving our agents the opportunity to also diversify their earnings by commission in diversifying by clients, not motor and Casco but also to do go the SME business. What we see here from the growth rates I think this is the result of these initiatives, which we have been doing in Central Eastern Europe.

Vinit Malhotra: Okay, thank you very much.

Peter Höfinger: Pleasure.

Operator: And the next question is from the line of Michael Haid from MainFirst Bank.

Michael Haid: Thank you very much, good afternoon. One question, but it includes several parts. I would like to assess the situation a little more in Austria and, as you mentioned, the Italian business is included in the gross premiums written of Austria. Can you tell us the premiums excluding Donau Versicherungen for the Austrian business and can you give us a split, how much of this comes from motor and how much non-motor and last can you give us some information about the competition in Austrian motor insurance business.

Martin Simhandl: Maybe I first start and maybe this is the easier answer to do that or the easier overview. I first start with the Italian premium volume, so what is not Italian is Austrian. There is one very small part, Slovenia, also in Austrian but overall this is Austrian business excluding the Italian one. Italian premium volume in the end of 2013, the Italian premium volume of Donau reaches roughly 170 million, which is significantly below 2012. Concerning the premium development in Austria, non-life maybe, Peter has given you some information.

Peter Höfing: What I have now in front of me is, I can give you some growth rate of Wiener Städtische, which is the largest subsidiary. So there we had, for example, in Casco we had a growth of around 6 per cent; in motor TPL we had a growth of around 1.2 per cent and in non-motor/non-life it is close to 3 per cent. So, Wiener Städtische is growing in the non-life area in the Austrian market.

When it comes to the competitive landscape in motor business in Austria, you see that we are growing in motor

business, so we are able to generate business in Austria in motor on a profitable basis. I would say it is a strong competition, but we are able to handle it through our specific distribution networks where we, for example, sometimes working together directly with dealers and with white label policies. So where we cover at the point of sale the client with an insurance immediately. And with this kind of packaging we are not always in the area of the high price sensitivity. What is maybe also interesting to know about Austria: In Austria in the motor business there is no successful insurance company with direct sales or internet sales. I hope this can give you a little bit of a feeling or impression about Austria.

Michael Haid: Yes, thank you very much. Can you give us also the Italian premiums for 2012?

Martin Simhandl: 2012 Italian premiums are roughly 240, 250 million written premium.

Michael Haid: Perfect. Thank you very much.

Operator: And the next question is from the line of Dhruv Gahlaut of HSBC. Please go ahead.

Dhruv Gahlaut: Good afternoon, just two questions. Firstly, going back to Romania have you seen any changes in terms of the behaviour from the regulator since the start of this year and in terms of rates not being sufficient in the market? Secondly, looking at your other remaining market, are there any markets among the segments where you are looking at more acquisitions going forward? Thanks.

Martin Simhandl: First, concerning the regulator, I will give you an overall answer and maybe Peter can add something. In principle we see no big changes. We have approached the regulator in Romania. We have had a situation last year where temporarily one of the three, the smallest of the three companies that are offering that low premium rates, lost the licence but I think only for a period of one or two months and then again they were able to start to sell business, maybe a bit more flavour from Peter.

Peter Höfinger: If you say M&A activities in remaining markets. We just recently bought AXA in Hungary and, very openly speaking, in Hungary I think it is the right time to be the buyer so you can get an attractive target. If you look on the other markets, there has been one development in Croatia with the privatisation of "CROATIA" where we did not participate for specific reason. In the other markets we see interesting dynamics and if there are opportunities we will actively look for it and look if we can find targeted and attractive price in the end, but I would not see in remaining markets today a very major one.

Martin Simhandl: Maybe to add something to that, there are so to say two main reasons to look at that. The one is the position we have in the markets, like in Poland where we clearly did that to round our portfolio and to increase our market strengths in life. In Hungary, as I said, we have added roughly 3 per cent market share by that acquisition and, of course, what's also important is the premium dynamic of markets and other CEE markets have attractive premium growth and there are several, what I was talking about in our Group for the time being; as we have seen, the most dynamic growing by the

way is the Baltics. This is something maybe what others out of 2008/2009 not many people would have expected.

Dhruv Gahlaut: Alright, thank you.

Operator: The next question of the line of Ralph Hebgen of KBW.

Ralph Hebgen: Yes, hello good afternoon Ralph Hebgen of KBW. May I just go back to the remedial action which you have taken in the fourth quarter, which is quite sizeable at around 90 million, which is about one-third more than you have done in the nine months. Could I just explore with you what drove the severity of this charge in the fourth quarter? Was it that the problem in Romania moved onto life, so was it basically did you find fresh issues or did exert conservatism in reserving known issues in Italy and Romania? The second part of this question is, could you also perhaps comment on what internal processes you put into place in order to examine how much in remedial action you would have to do. Is there an internal review going on? Are there external reviews and, if so, at what stage are these reviews? Have they been finalised or are they ongoing? Thank you very much.

Martin Simhandl: I think on both questions two rather short answers. For the first, what you see and what you when you calculate for the fourth quarter, in general, as I said, we are on preliminary figures, but of course the main item is Romania and from our view now it effects both the life and the non-life and, again, I have to repeat already after having presented the results for the first three quarters. We told you that we are looking very closely to each and every balance sheet. Again, I have to repeat that we have changed the CFOs in all three of our Romanian companies. I think we are on a good way. We

have banded, again here I repeat, not only with internal forces but also with external auditors and this is a process that has lasted all that time and simply will end when the audit will have ended and insofar it is ongoing.

Ralph Hebgen: Okay, just one follow-up. Combined ratio. In the past you have guided to expect combined ratios would you be able to share with us what the combined ratio might be for the year 2013?

Martin Simhandl: Ralph, I am very sorry I cannot do that.

Ralph Hebgen: Okay.

Martin Simhandl: And, again, and maybe this is something what we have to take into account. This end of January release of data is something that was a premium development release at that time, and what we are giving and sharing with you in principle are the unconsolidated, the unaudited premium figures.

Ralph Hebgen: Okay, thank you very much indeed.

Operator: And the next question is from the line of Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz: Hi it is Maciej from Morgan Stanley. I have got two questions. One, I think, has been asked already but I will ask in a different way and see whether or not the answer is slightly is different. I think the point on Romania, I mean I get that have ongoing difficulties in the market; that makes sense, but you do have review processes in place. I had thought that the review process at least for non-life was completed in 3Q; perhaps that is not the case. Just wondering if there is any

timeframe for when you expect the complete balance sheet review to finish such that future impairments or losses will not relate to the balance sheet as such, but would just simply relate to any further developments in the market. The second question is just on the earnings excluding the impact of Italy and Romania. Maybe I am wrong with my maths here, but if you take the 460 million normalised from nine months and the 580 normalised from the full-year and you subtract one from the other. The 120 in between is not a particularly great result compared to what you have been able to achieve in many quarters in the past, so aside from Italy and Romania is there anything else in the quarter that was especially negative? Maybe FX, maybe something else or maybe it is too early to say but just seems like a little bit of a weak quarter, can you comment?

Martin Simhandl:

I start with what you have said in the end. In principle it is too early to say. I want to add two things. When we were talking about the third quarter and when we were talking about the review going on in Romania, we were clearly stating that this is an ongoing review; so that it was not finished. This is, I think, we have stated quietly clearly and concerning the fourth quarter I cannot give you any details but you should not expect or, as far as we see, there are no specific negative items outside Italy and Romania.

Maciej Wasilewicz:

Okay, so and it is an ongoing review and you cannot give us any kind of indication of when you think the review will be potentially finished that is unclear to you.

Martin Simhandl: I think I have said I already, I will repeat it. This is something that goes on, in the end of the day I am sure it will be finished when we will have the audit and this is something that will be expected in due time but it is not in the end of January. And, again, the principal way of how our results are presented in an Austrian group. The one is that you have audited figures, you present that to you supervisory board and then you disclose it to the public. Now, we are in a situation in the end of January where we have no consolidated, no audited figures and I, again, I have to ask you to take that into account.

Maciej Wasilewicz: I think just one last thing. In previous years, I think your – correct me if I am wrong, maybe my memory is bad here. I think the PBT that you give us is relatively accurate compared to what ends up being the case. I mean is there a higher degree of uncertainty this year, would you say that is true or is that PBT that you on a similar basis to last year, which ended up being relatively accurate?

Martin Simhandl: In principle that counts for the past and also for that year's figures that are given to you, they are given to you on a basis where we feel that this is the right thing. Of course you always have a certain uncertainty when it is the end of January but that counts for each and every year.

Maciej Wasilewicz: Thank you.

Operator: If you would like to ask a question, please press star followed by one. The next question is from the line of Avinash Singh. Please go ahead.

Avinash Singh: Hi, good afternoon. My first question would be, can you please give us some idea about P/C pricing development in your core markets Austria, Czech and Slovakia; and second question. Again, that could be a repeat of what I will ask of you that you 230 million of one-offs does it include any further goodwill impairment than what has already been announced in Q2? Thanks

Martin Simhandl: Concerning your two questions, the first question will be answered by Peter, the second I will answer very shortly. We do expect that there are additional write-downs of goodwill for which size we do not know for the time being.

Peter Höfing: When it comes to pricing issues, I think I gave an indication for Austria also here then in the property area we have seen a more or less stable renewal on the commercial side, so pricing is more or less stable in Austria. If we come to Czech Republic then we saw also last year a very fierce competition in pricing in motor business, a very fierce pricing competition in property, but the very recent developments and on one hand side this is also driven by the NatCat claims, which was experienced by the Czech market. We do see a very fair chance that prices are increasing in Czech Republic and that we will be able to benefit of this trend. When we come to Slovakia, also here motor pricing stays as it has been already for the last two year/three years on a high competition level, so pricing is fierce. In the commercial lines it is, in my assessment, and you know that it is also always a quite subjective assessment, we see it stable with certain opportunities to increase pricing, or due to what I also mentioned some questions before, in offering specific programmes with specific features. So a little bit have the

opportunity to be not so comparable with in our pricing then maybe it is in the specific market. So this is a bit of an overview about the pricing.

Avinash Singh: Okay, thanks.

Peter Höfinger: Pleasure.

Operator: The next question is from the line of Sami Taipalus of Berenberg Bank. Please go ahead.

Sami Taipalus: Hello. Hi, thanks for taking my question. Just first of all a bit of a data question, could you, would it be possible for you to give us some insight into what proportion of your Romanian non-life business is attributable to motor and second of all what proportion of the Romanian life business that is attributable to the employee benefit product for 2013? Then second of all, I think, that will probably annoy you a little bit, but you mentioned about the review of the balance sheet in Romania being done by the time of the audit. Does that mean that we can expect no further reviews after the kind of final full-year results have been reported? Thank you.

Martin Simhandl: Well I try to answer your questions first. Of course, when we are doing these reviews and we are doing it within the period until the audit is finished then, of course, out of definition, what's the findings you include into the year 2013 that is the one thing. Concerning the motor part - MTPL, this is the main question - in Romania, in our Romanian subsidiaries, as far as I know it is till now down to roughly one-third of the premium, which is significantly lower than it has been. This differs in the two non-life companies we have. In Omniasig it

is significantly lower; in Asirom it is a bit higher. This is the MTPL share, as far as I know it. I hope I am correct insofar. And concerning the employee benefit you see the negative premium development in the life insurance sector. This comes from the exclusion of the employee benefit, so it is a significant, a substantial part and we have to be aware that till now the business in the life company was, so to say, consisting out of two parts. Life business that was sold by BCR Bank, which is a business that has been done successfully and will be done and there is a quite significant commitment from the bank side to positively further develop that. On the other hand, that employment benefit items, which have been done by own specific sales forces and this we have shut down in 2013.

Sami Taipalus:

Okay, but if I can just follow-on briefly from that. If I understand correctly, you actually shut down during 2013 so I guess, what I am wondering here is, what proportion of 2013 premium was still attributable to that business? So what should we expect coming out then in the next year?

Martin Simhandl:

I cannot give you the detailed figure, but there was a certain premium in the first half-year but the biggest part in comparison to last year simply has not come because we have shut it down.

Sami Taipalus:

Okay. Thank you.

Operator:

If you would like to ask a question, please press star followed by one. We are waiting for further questions. And we have a

follow-up question from Vinit Malhotra of Goldman Sachs.  
Please go ahead.

Vinit Malhotra: Hi there, thank you for taking this follow-up. Was there any, could you comment a bit on the Austrian ZZR or is that part of some of these losses, can I ask? Thank you.

Martin Simhandl: As far as we see that regulation in Austria from the view from now this is something that simply only is done on local GAAP basis and not on IFRS basis.

Vinit Malhotra: Sure, okay thank you.

Operator: If there are no further questions at this time, please continue with any other points you wish to raise.

Nina Higatzberger: If there are no further questions, we would like to end the conference here. Thank you ladies and gentlemen for listening in. We hope to have you with us again on the 10<sup>th</sup> April 2014 for the release of the final results and the embedded value 2013. Good-bye.

Martin Simhandl: Thank you, bye.

Peter Höfinger: Bye.