

# Conference Transcription Questions & Answers

## VIENNA INSURANCE GROUP (VIG) Results for the first three quarters 2014 Conference Call

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<b>Speakers:</b>	<b>Martin Simhandl, CFO Peter Höfinger Roland Gröll</b>
<b>Chairperson:</b>	<b>Nina Higatzberger</b>

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OP

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press \* followed by 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press \* followed by 2. If you are using speaker equipment today please lift the handset before making your selections. Anyone who has a question may press \* followed by 1 at this time. One moment for the first question, please. The first question comes from the line of Michael van Wegen of Bank of America Merrill Lynch. Please go ahead.

Michael van Wegen

Yes, hi. Good afternoon. Michael van Wegen, Bank of America Merrill Lynch. A couple of things that I wanted to run by you. First of all in the P&C business, other expenses; last year that was partly influenced by goodwill write-downs or impairments nevertheless, adjusting for that, there is a significant improvement year-to-date. Can you explain a little bit what is driving that and to what extent that is sustainable? That is question number one.

Secondly, staying with the P&C business, your current income from investments shows, if you look at just Q3, around a 10% drop year-over-year adjusting for the shift in housing income. Can you again talk through what is happening? What are new money yields versus the yield on the existing book of investments?

And final question, in the past Vienna paid out roughly a 38% dividend... had a dividend payout, sorry, of 38%, roughly. At that point in time the company was growing relatively fast compared with peers in the sector. The last couple of years or more recently and probably in the near future it will not be able to do that. Would that also automatically lead to a higher dividend payout ratio? Some of your peers are now paying more than 50%. What should we expect for Vienna? Thank you.

Martin Simhandl

Thank you very much for your questions. I think I would like to answer the second and third question and maybe for the first question then I will hand over to Roland. I start with the dividend. We are now in November. Our dividend policy you know very well; it's the payout of a minimum 30% of the group net result and this is still in place and this is what the management is committed to. This does not mean that we are not allowed to do something in

addition. Last year, for example, we had a significant higher payout ratio and out of that we had quite a stable dividend development. But for the time being, and I really would ask you to understand me, I would limit my statement to what I have said.

Second question, current income third quarter P&C. I think we should be aware, in principle, that in the P&C side last year we had a current income out of the housing societies which is now not in and if we look at the development of the current income excluding that again we have some, so to say, minor changes within the quarters but we have to be aware that investment results from quarter-to-quarter are not always completely stable. If we are talking about current income you have, for example, the question when do some funds distribute dividends or not and that could be the one year earlier, the other year later. So, within the seasonality there might be some changes but what I see is that overall, if we take into the account that effect which has changed from last year that the general effect is not really much.

New money yield within this year – and I always talk about the Austrian new money yield because here we are in the euro – the new money yield is roughly, well, between 2.9-3.0%. This is still, I think, a very good result. It's clear that the interest rates also within that year have come down and the spreads have come down so that we could expect that this further declines but for the time being I think this is quite a good result. What concerns your first question maybe Roland will answer. Of course, P&C last year we had the impairments in, as you said, but in addition to that, please Roland.

Roland Gröll

We had, last year, €200 million of other expenses and this year it is €85 million, so with this comes a difference of something like €115 million out of that €75 million as you have mentioned with the impairment of the goodwill in Romania. So, there is €40 million remaining and this €40 million mainly were caused also due to extraordinary measures last year. As we have published one year ago there were some provisions for outstanding premiums, mainly in Romania. And the third reason is that we also have written-off, last year, part of our insurance portfolio which was built because of the purchase price allocation in some countries, for example, Ukraine, and that were

altogether extraordinary effects last year. I would say this year, despite some non-material currency effects, the other expenditures is on a normal level.

Michael van Wegen

Thank you. Maybe one clarification please on the new money yield for Austria, the 2.9-3.0%. Is that a number that you see for current new investment or is it the year-to-date number because interest rates, obviously, during the year have continued to come down?

Martin Simhandl

This is a year-to-date number from the beginning of 2014 until now. As I said already, within the year 2014 we had a further decrease in the yields and in the spreads and insofar we have tendency within the year that it's going down but I have no exact figures for the last things. This is a year-to-date number because we always summarise year-to-date.

Michael van Wegen

Thank you.

OP

The next question comes from the line of Vinit Malhotra of Goldman Sachs. Please go ahead.

Vinit Malhotra

Oh, hi. Yes, thank you. My first question was on the housing society, as well, so it's been answered. Thank you very much. Secondly, on Romania you do indicate that cost issues are there and equally even in the second quarter you were a bit more bullish on the stability of the motor market and the competition. Could you shed a bit more light on whether you know..? I remember the ASIROM company had a new manager from the Slovakian company. Can you shed some light on whether you're happy with the restructuring process as such or whether we're going to have higher combined ratios for longer and we have to accept that? Thank you.

Martin Simhandl

I will give a general statement and maybe Peter could add something in addition to that. When it comes to ASIROM, first, when you speak about a Slovakian manager to be involved we are talking here about the supervisory board chief who is from Slovakia. It's a very, very experienced senior manager of our group and we think in such a situation where we have quite a lot to do in a first restructuring process and on the other hand in a still challenging market environment, that is becoming better but is still challenging, I think this was a good decision.

When you said we are bullish on Romania, I would say we are limited bullish to express it. What we wanted to point out is that for the first time we see a change in the tendency. We see motor rates going up. We are not in a situation where we would be really happy. That is not the case; this is the one thing. And the second thing is that also, for the first time since years, we have seen some actions from the supervisory authority which in our opinion are in comparison to what was before very positive. That's from my side and maybe Peter you want to add something.

Peter Höfinger

Well, I think most of the important things have been said. We had to learn in the last years to become very cautious when talking about Romania. Yes, as the whole market has suffered heavily in the last years there are currently signs that a certain recovery is seen. Nevertheless, I think this is a beginning. Still, the market is challenging and volatile. We did a lot of homework in our cost cutting. At the same time we were restructuring our portfolio, losing a lot of premiums. Still, we have the topic of the expense ratio. So, there is still a lot of work to do but there are signs which gives a certain possibility that I think we can have a development in Romania.

Vinit Malhotra

If you don't mind, can I ask my second question on Austria then because a 100+ combined ratio in the discrete quarter. Could you just comment on whether the Austrian unit, standalone Austrian unit, is still stable and to your satisfaction, maybe mid 90s combined ratio level? Is that a fair assumption?

Martin Simhandl

First, in principle, if I understood you right, whenever we are above 100 we don't feel well in whatever country and in whatever situation because this is a very principle for us that the P&C insurance business has to be profitable before investment income and this counts of course for Romania and it also counts for Austria. But you have seen in the meantime we have come very near to the 100 and hopefully we will see the 100 soon from the other side.

Vinit Malhotra

Okay. Fine. Thank you.

OP

The next question comes from Michael Huttner of JPMorgan. Please go ahead.

Michael Huttner

Fantastic. Thank you very much. Well done for turning round Romania. I had two questions. The first one, a bit backward looking: I'm guessing that Italy had a loss for you guys in terms of technical underwriting of about €50 million and I wonder if you could confirm that. The way I read it is you are provisioning or you are reserving to 100% of the very small amount of premiums you've got left there but you've also issued a buildup of significant investment in the new claims management system there. And the reason I ask is to kind of guess at what the underlying would be for Austria. So, if I deduct €50 million the number comes out at about 96% which is more understandable than the 101 you report.

And the second, I was a bit worried that I had my forecast on the life pre-tax profit. That was seen as going to be lower than the forecast and my mistake was on investment income and I think you kind of answered the question in terms of talking about reinvestment yield. But maybe you can give a little bit more of your own thinking of going forward, what the profit profile looks for life insurance which, as I understand it is still mainly, in terms of profit, an Austrian business because I can clearly see there is a recovery in non-life and you've got really magic businesses in Eastern Europe which are very resilient but I worry a bit that the recovery there will be completely offset by a decline in profit in life.

Martin Simhandl

Well, maybe I start with the first question in Italy or Donau Italy and maybe then Roland could comment on the number if he has already had the chance to look at it. I think what we have to say are two items, mainly. The first is that, as we said, we have a portfolio in Italy which, as it is ongoing, we are reserving on a certain level which ultimately can impact our P&L. And what we also said, and this is something I'm sure is something that will not only burden us next year but also surely next year, is that we had to do a lot to bring the organisation in line and that has, of course, caused additional costs and you know very well if you are in a position where you have in the same time a decreasing portfolio and increasing costs this is challenging and this is something that we clearly will have to work in the next time to bring profitability again to where we want to have it. Maybe if Roland wants to comment on the €50 million, if this is something we could verify or not.

Roland Gröll

I think your estimation is quite okay. Martin has mentioned the main influences. I, once again, want to point that we need certain claims handling department and so on in Italy. Nevertheless, the premium volume in the meantime is significantly lower but as we discussed mainly MTPL business and the duration in Italy is even longer than, for example, in Germany and Austria. We need these claims experts simply to payout claims on a, let's call it, realistic level. And that's the reason why we have to pay in Italy, in comparison to last year, for a period of some years a significant higher cost ratio which is simply important that we have the claims situation there under control. And that's also one of the reasons why we have actually Italy, despite as you have mentioned it, that we also have a very cautious reserving for the existing business this year and altogether comes to a result which is on the level of your estimation.

Martin Simhandl

Your second question concerned life insurance and I think your question was more how will it develop, especially in Austria. I want to give you some flavour although it's not so easy to predict things. First, if we stay on an interest rate level, as it is now for a longer time, that clearly brings down current interest rates in the portfolio. This is an automatic effect and that, of course, also influences that part of the profitability that comes from the shareholders part in the interest that's not, so to say, distributed to the customers. This is clearly something that under a low interest rate environment, a longer ongoing interest rate environment, suffers.

What is also completely clear is that we are trying to offset that as good as we can. That means, on the one hand, that we are trying to increase that part of profitability in our life portfolio that is coming not out of the interest rate side, meaning especially out of the biometric gains and that also means that we are, of course, concentrated also on products where we are not so exposed to that interest rate effect. I think it's important to mention that in Austria our group has quite a substantial stake in a product that is tax supported; it's an old age provisioning product. This is a product that requires a combination of an equity stake in investment with a non-equity part that, of course, is by far bigger. You could structure that product in different ways. We have structured it in a way that we think that even in low interest rate environment it helps us a lot because we

have to be aware that this product has no interest rate guarantee in itself.

And maybe one last sentence to add in life. When it comes to Austria you know that we are accounting the liability side of our insurance portfolio according to local GAAP. That means in Austria that whenever you are in a situation that you are growing – and growing means growing in new business – that you are burdened by additional acquisition costs. And we have to be aware that in Austria the duration, meaning the maturity of products, is not constant in a way that from year-to-year always the same amount matures. This comes normally out from the fact that there were some tax incentives given and whenever tax incentives were changed before the change there were quite substantial amounts of life written premiums done. So, for example, this is a year where the maturities in life are overproportional. And then clearly you have impacts and again this is something that you have to take into account when it comes to the profitability in life in Austria.

Michael Huttner

I understand. I don't want to summarise your comments because they are very clear but just to give me a little bit of hope on top of what you're doing in the operating versus accounting which sounds as if it's a little bit... it means that the profit is a bit understated this year and it should normalise. Is that fair?

Martin Simhandl

Well, I would say that hopefully the situation on the acquisition cost side normalises. Again, what I have to add is that that part of the profitability that comes out from the interest side has a tendency to go down. What I also said is that we are working heavily to equalise as good as possible.

Michael Huttner

Lovely. That's really clear. Thank you so much.

OP

The next question comes from the line of Michael Haid of MainFirst Bank. Please go ahead.

Michael Haid

Thank you very much. Good afternoon. I have three questions and the topics are similar to those of those who have asked already before. First, Romania: you mentioned in your presentation that the regulator takes some steps. Can you outline what kind of steps and what your

expectations are? Second question: on the combined ratio of Austria, can you give us a breakdown of what Italian combined ratio is versus Austria and confirm that the Austrian business of Donau Versicherung has no problems at all? And related to that, do you eventually plan to exit Italy? And my third question: we know that you've shifted business to commercial lines in Czech Republic, Slovakia and other CEE countries. We know that industrial insurance in many regions has become more competitive. Do you currently observe that commercial lines in CEE are also becoming more competitive?

Martin Simhandl

Maybe I will answer your first two questions and Peter will answer your third question. First Romania, to give you a flavour, one of the items the supervisor did is to limit the rebate possibilities of insurance. This is something that clearly is a positive effect on the market. On the other hand, as you know, the supervisor has set quite heavy actions against competitors that have done business on a non-sustainable basis. Insofar this, for us, looks very positive and hopefully it's going on like that.

Second, combined ratio, Italy-Austria. I think this is something we have elaborated on several times. As I said, one of the problems we have in the meantime clearly is that we have additional costs and in such situations in the first time you're not concentrated on the costs because you're simply concentrated to bring things in order. What is that cost ratio? Is that an Italian one? Is that an Austrian one? How do you differentiate? What part of the cost is there? What part of the cost is there? This is simply something that we are not doing. If we are not doing, how should I give you a clear picture? Important for us are two items. The one thing is to further reduce the Italian business and at the same time to have it reserved on a level that we can feel comfortable. The second is when it's in order and this is also something that already now we are concentrated on and we will have to concentrate not only this year but next year and hopefully it's done. In a short period it's clearly that this means that we will have to do additional effects on the cost side again to bring that in line. And apart of that, of course, you always can reshape your portfolio in a better way and whatever to increase profitability because if you are in a situation where profitability is lacking what you are doing is to work on

each and every side. The third question concerning the development of the commercial business, maybe Peter will answer.

Peter Höfinger

Commercial lines in Central and Eastern Europe you have a little bit to differentiate it when you compare it maybe with the global markets or global accounts. So, commercial business from the scale of our client it's much smaller. Also, our markets are not yet as a commodity maybe as it is on the global accounts for commercial business which means, in the end, that specific knowhow and services in our market has a value for our clients and value where they are also willing to pay for this value and which is not able to provide these kind of services immediately by some, let's call it, risk carrier outside our region and this, I think, is a big advantage in our region. Nevertheless, there is a growing competition but claims ratios are still on a very favourable amount and we are quite happy with our performance in commercial lines.

Michael Haid

Maybe a clarification, if I may, regarding my second question. The Austrian back-book of Donau. Is the Austrian back-book of Donau Versicherung, is that fine in terms of loss ratio? Is it comparable to the Wiener Städtische loss ratio of the Austrian business or is it similar to the loss ratio of the Italian motor TPL business?

Martin Simhandl

What I can clearly say is that it is not comparable to the Italian motor business. Of course you have not identical portfolios also in Austria because you have regional differentiations; you have, so to say, more business parts in different segments. This is completely clear if you have a multi-brand strategy and, of course, that means to a certain extent that one is better, the other is a bit lagging behind; things like that you never can exclude. But, well, Italian business is Italian business.

Michael Haid

But, in general, you would say it's a healthy portfolio?

Martin Simhandl

Why should it not be a healthy portfolio?

Michael Haid

The Italian portfolio I would not consider very healthy at the moment.

Martin Simhandl

As I said, it's not an Italian portfolio.

Michael Haid

Okay. Great. Thank you very much. Very helpful.

OP

Ladies and gentlemen, if you'd like to ask a question, please press the \* followed by the 1 on your telephone. The next question comes from Dhruv Gahlaut of HSBC. Please go ahead.

Dhruv Gahlaut

Good afternoon, guys. Just two questions. Firstly, on the health segment, could you comment in terms of how sustainable the operational profitability is given you've had a good year in 2014. And, secondly, on the weather losses it seems the gross loss came down by almost 30% but the net loss is still at a similar level. Could you just update in terms of what your retention levels are or are you thinking of changing the reinsurance programme, etc? Thanks.

Martin Simhandl

Concerning health insurance, I would say it like that an investment result of €7 million is not the normal good one. Maybe the €27-28s are not in every year but €7 million is clearly a negative deviation from an investment result that we expected in health. And concerning weather related claims, maybe Peter will elaborate.

Peter Höfinger

If you compare last year to this year the main difference is, in the end, the structure of the weather related claims. We have not changed anything in our retention, this stays the same, but we had this year a quite exceptional situation that we had a number of weather related claims, shall it be hail in Bulgaria or the furtn in the Balkan states, having also some claims in Czech and in Austria. So, we had a number, a much higher frequency of these claims which this year was, I would say, a specific situation which we have not seen in this amount in the last years. Whenever we are going to the renewal of our Nat Cat programme we are always considering structures which are maybe more appropriate for changing situations as it looks like, I think it's too early now to totally restructure our Nat Cat programme and I think also in the past it has shown that it gives us a good protection for the real big Nat Cat events which is the main purpose of our Nat Cat programme.

Dhruv Gahlaut

Right. And just one follow-up. In terms of this weather, then, what would you say is a normalised level for a full year at the nine month stage for the company, in terms of the net impact?

Peter Höfinger Well, look we have now the nine month, so there is another quarter to come so maybe at the end of the year we could talk about this.

Dhruv Gahlaut All right. Thanks.

OP The next question comes from the line of Simon David of Credit Suisse. Please go ahead.

SD Hi. Good afternoon. Just a quick question on Hypo Alpe. Any update on the impairment so far and the policyholder sharing? And the second question would be any comment on the latest floods in Italy?

Martin Simhandl Sorry. I'm not so sure if I have understood you clearly but I think that your first question was if there were any changes in the impairment on the Hypo Alpe Adria papers. Is that the question?

Simon David Yes, exactly.

Martin Simhandl There were no changes between the second and the third quarter.

Simon David Would you expect further?

Martin Simhandl Well, I don't know. In the meantime the companies our group have approached the Court of Constitution of Austria and we will see how fast there will be decisions. I don't think it will be this year but there were experts saying it could be in the first half of the next year that we have to expect a decision. And maybe on the second question, Peter.

Peter Höfinger The floods in Italy from today's perspective, and I'm saying from today's perspective, there should be no significant exposures or claims coming from this flood situation but it's already a very short period of time after these floods so this is only what I say from today's perspective.

Simon David Okay. Thank you very much.

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

Thomas Unger Yes. Hello gentlemen. I would like you to talk a bit about the competitive situation in Poland, on the motor market in Poland. The market leader now recently described the competitors as irrational and having gone crazy, actually. So, what have you seen there and what is your approach? And then maybe the second is on the tax rate. You said it is 21% for the first three quarters in 2014. What do you expect for the fourth quarter and for 2015?

Peter Höfinger Maybe when I come to Poland, yes, also we are saying pressure in motor is ongoing. So, there is a very fierce competition. We keep our discipline in underwriting. I think we can also show it in an improvement of our combined ratio, our loss ratio and also what we did years ago to start to have a different portfolio mixture and focus more on the non-motor, non-life where we have been successful to better balance the situation in Poland.

Thomas Unger But is the situation getting worse?

Peter Höfinger It is on a very competitive level. There is a high pressure on the pricing. I cannot say if it's now worse. It is not a very good condition in the motor market which needs, and as I said, we're disciplined. We're also losing premiums in the motor business and we're willing to.

Thomas Unger Okay. Thank you.

Martin Simhandl Tax rate, corporate tax rate in the group, the level we have now is somehow as I would say a normalised one. When we look at the last year we have to take into account we have quite substantial impairments. Impairments reduce the result but they don't reduce the tax burden insofar clearly we had a higher corporate tax ratio. Somewhere around where we are is something I would expect.

Thomas Unger Right. Thank you.

OP We have a follow-up question from the line of Michael Haid of MainFirst Bank. Please go ahead.

Michael Haid Thank you very much. Just a follow-up question on Hypo Alpe Adria. The €24 million write-down which you have done in the first half of this year. To my understanding that went fully through the P&L and hit the shareholders part and there was no policyholder participation at this stage

yet. My understanding is that the shareholder/policyholder sharing takes place in the fourth quarter, so can we expect a positive effect in the fourth quarter from the write-down that you have already done in the first half so that the policyholder participation on that write-down occurs?

Martin Simhandl

You are insofar completely right that the decision about the policyholder participation in Austrian life companies is done after the end of the financial year going back for the ended financial year insofar as it's documented in the fourth quarter. The question how and in how far fractions are done not only depend from the actual investment income but also from the way how you want to position yourself on the market and insofar it's far too early to say what will be the outcome.

Michael Haid

But it could be that, say, €8 million or whatever – I just mention a figure – but it could be that if you decide to give back some or to burden the policyholder then we could see a positive impact; it could theoretically be.

Martin Simhandl

It could also be that the result in the fourth quarter develops in a way that we have not foreseen now. I am never talking about future because the only thing I know about the future is that I don't know anything about it.

Michael Haid

Okay. Thank you very much.

OP

Excuse me, there are no further questions at this time. Please continue with any other points you wish to raise.

Nina Higatzberger

Thank you, Claire. Ladies and gentlemen, thank you for your interest and for listening in. We hope to have you with us again for the results releases next year. Goodbye.

Martin Simhandl

Bye-bye.

Peter Höfinger

Thank you. Bye.

Roland Gröll

Bye.