



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

### **Results for the first quarter 2016**

**24<sup>th</sup> of May, 2016 15:00 CEST**

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

**Conference Duration:**                      **Approximately 35 minutes**

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

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

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quarters, and hopefully this will be a good basis for your analysis.

When it comes to your second question, the cost development in Austria I would start like that: You know, this is a group that is always working on its cost basis. And if you are working on your cost basis, from time to time you also have additional costs before that to bring down the costs in further times. And here we look at one quarter and one quarter is always a snapshot and here we have some costs in that we do not expect they will come in the second, third and fourth quarter and insofar, we think that will level out. This is the second question. And for the third question, I hand over to Roland.

Roland Gröll

Regarding your questions on Romania, first of all I think what we see now that we have quite significant growth rates in Romania, mainly driven by high average premiums, especially out of the MTPL business. If we look at the development of combined ratio, we see decline cost ratios of roughly 3.5% which is mainly driven by economy of scale. And a slight increase of claims ratio simply because of higher IBNR's we have built.

So in total, we are in Romania once again above 100, 103. But it's an improvement. I cannot promise you that we will see the full year combined ratio below 100 in Romania. But what's important for me is that we have profitable, you know, business lines, life and non-life. Nevertheless, of course, you are right. It's not a high profit. But better a small profit than a huge loss. And we will work to increase our profitability year by year.

Michael Huttner

Brilliant. Thank you very much.

Roland Gröll

Welcome

Operator

So the next question is from the line of Bernd Maurer of RCB. Please go ahead.

Bernd Maurer

Good afternoon. Bernd Maurer, Raiffeisen Centrobank. Some questions I do have. First, can you please elaborate on the frost damages we faced in some parts in Austria in April? Is there a noticeable coverage from your side or not? That's point one.

Then point two, you mentioned in the quarterly report, your future investments or increased investments in digitalisation. If I remember correctly in the conference call following your full year 15 reporting, you rather stated that those investments should not have a visible impact on your P&L going forward, that you had on average some 100 million plus IT expenses in the P&L

and this is not expected to change in the coming years from digitalisation. If you can please clarify this, if I have it correctly in my mind.

Third thing is the Austrian life business was quite stable in Q1. This was a much better performance than in some CEE countries. I also expected a decline, given the trend in the last quarters. Is there any reason you can share with us why this holds up remarkably well in the first quarter? And yes, that's it. Thank you.

Martin Simhandl

The second question will be answered by Roland Gröll. The third question, I will try. And I fear we will not answer your first question. Maybe I start with the third question, Austrian life business: as I mentioned already, the financial income development in the first quarter – and we have to be aware this is simply a quarter and insofar, you always have some volatility over time in there – the decrease mainly showed up in P&C. Life was quite stable. This combined with the development in the profit participation simply affects the profitability in life apart from the fact that, of course, we have sold over time new business that is profitable, as you know from our embedded value calculation.

Bernd Maurer

My question referred to the premium trend which was stable year on year in Q1 in the Austrian life business. Were there some... any special actions which drove premium. We had the negative trend in the quarters, in the previous quarters. Now it's stable which looks relatively well.

Martin Simhandl

Maybe this is a question that will be answered by Judit.

Judit Havasi

Okay, Thank you. The company pensions insurance is very well going now in Austria. It's really high. And also premium pension, the state supported life insurance, is going very well in Austria in our life companies. So that was the two points in the new business of life insurance.

Bernd Maurer

Okay. Thank you for this.

Martin Simhandl

So we continue with IT and Roland.

Roland Gröll

Good afternoon.

Bernd Maurer

Good afternoon.

Roland Gröll

You have everything correctly in your mind. So it's true that we have the last years' 2014 and all the roughly €100 million, €100 million plus IT investments year by year. And of course these investments also include investments with digitalisation. I do not expect – and you have remembered it quite well – higher investments for the foreseeable future. Nevertheless, the split of our

overall IT investments between digitalisation and the rest – digitalisation will get more and more important.

I simply want to add that if you look at digitalisation, new front-end platforms, web portals for all the clients and so on, these projects have a huge advantage. First of all, a lot of good and skilled people are able to programme this and that means it's not so costly. For example, we implement around these days a new, very modern platform in Romania and you can sell all the relevant insurance products via this new platform and the costs are far below €2 million. So that's the main reason why, nevertheless, we have this clear focus on digitalisation. I personally do not expect higher IT investments out of that development.

Bernd Maurer	Thank you very much.
Martin Simhandl	So open is your first question concerning the frost damages in Austria and I hand over to Peter.
Peter Höfing	Maybe just a short answer to the event, though it's an April event, we are not really making crops insurance in Austria so if there is any effect, it will be not really visible.
Bernd Maurer	Excellent. Thanks a lot.
Operator	As a reminder, if you would like to ask a question, please press star followed by one. And we are waiting for further questions. If you'd like to ask a question, please press star followed by one.
Nina Higatzberger	Okay, it seems there are no further questions.
Operator	We have a question from Michael Haid of Commerzbank.
Nina Higatzberger	Okay.
Michael Haid	Thank you very much. Good afternoon. Michael Haid, Commerzbank. Just one question. Obviously recurring investment income has come under pressure and obviously it is a function of portfolio yield, reinvestment and reinvestment yield. Eventually, that is clear, the portfolio yield will approach the reinvestment yield. So I assume in some countries you are closer there, in some countries there is still some way to go and I also assume that in P&C insurance the duration of the investments is much smaller than the duration in life and health. Can you say in what countries, in what regions, and only the bigger ones, you have still some way to go? Where is the gap the biggest? And how much in total is your reinvestment yield at the moment?

Martin Simhandl

In principle, you're fully right. There is of course a differentiation between P&C and life and between the different countries. We have to differentiate. In those companies where we have life insurance, especially with guarantees in, clearly we follow a portfolio approach. That means we have to look very carefully towards ALM matching and that means if you have all the investments there, you leave them more or less normally until they expire. And insofar, you have the positive spread to the new investment yield to give you a feeling on that. And the main item here is Austria. And in Austria, the new investment yield of this year is roughly 2%. A little bit more than 2% now.

When it comes to P&C, and we have to differentiate here – those companies where we have purely P&C and those companies that are composite insurance companies. In our composite insurance companies, also in P&C, we more follow a portfolio approach. In pure P&C companies, you have no guarantees out clearly, on the one hand, your duration is shorter and on the other hand, your flexibility in following the market development is closer. And here clearly the portfolio yield and the reinvestment yield is very tight together, for example, to give you a flavour Poland non-life, for example. But especially in Austria, in Czech, in Slovakia, in the big life stocks, the current rates of the income out of the fixed income portfolios, are significantly above the new investment yields and there is a way of years to go.

Michael Haid

So, is it fair to say that in P&C insurance basically the reinvestment yield is already close to the portfolio yield and in countries where you are in composite insurance, life insurance, there is still some way to go but that is mostly because of the life back book which has a higher duration, and presumably in these countries the guaranteed rate comes down parallel to the portfolio yield?

Martin Simhandl

I would not fully subscribe that. In those countries where we have composite insurance, as I said, we have more a portfolio approach also towards non-life. So we have in general you would have, so to say, a form of duration in non-life that is maybe longer than your liability duration because you have a lot of flexibility within your portfolios to change from the one side to the other.

In what I said, it's where you have pure non-life companies. This is not the case and here you are surely closer to reinvestment yield. That simply comes from the fact that here you have a liability duration that is normally by far lower and insofar that reflects more the current interest rate environment.

Michael Haid

Perfect. Thank you very much.

Nina Higatzberger

Okay. It seems that there are no further questions. So thank you, ladies and gentlemen, for your interest and for attending the call. We hope to have you with us again on 23<sup>rd</sup> August when we will present the half year results 2016. Thank you and goodbye.