VIENNA INSURANCE GROUP (VIG)

Results for the first half-year 2023

Q&A-Session Conference Call

August 30th, 2023

Transcript

Disclaimer:

Operator	We have the first question from Bhavin Rathod with HSBC. Please go ahead.
Bhavin Rathod	Hello, good afternoon. I have three questions from my side. The first one would be on your reported combined ratio of 94.0% at first half of 2023. I would appreciate if you could provide any more granularities, as in how should we look at this combined ratio on a normalised basis, i.e. adjusting for the higher discounting impact at 1H 23, which I presume would have been more meaningful at this semester versus the previous semester? Just trying to make a comparison between 1H 23 versus 1H 22, how should we think of this increase on a normalised basis? The second one would be on Poland. Can you talk about what are your strategies to contain this higher combined ratio that we are seeing, particularly in the MTPL market and how are you looking at this business in particular? Third and the last one would be on the CSM release that is coming at EUR 337 million at the first half. Now looking at the ratio, this comes out to be somewhere around more than 5% and looks stronger than what you had on a run rate basis versus full-year 2022. Can you tell us how should we think of this release ratio going forward? Should we take the 5% normalised release going forward, i.e. 10% on an annualised basis going forward, as the normalised release from the stock of your CSM? Thank you so much.
Liane Hirner	Thank you for your questions. I will start with the first question regarding the combined ratio. As I already explained, the net combined ratio is impacted by the consideration of higher claims volatilities in the liability for incurred claims. For example, in the reporting segment Austria, this is the main reason. In Czech Republic, for example, 50% is related to this consideration of higher claims volatilities, the other 50% are related to commission accruals, which positively affected last year’s result. This is more or less the explanation. I would also like to add that last year our focus was on IFRS 4 numbers, and this is just the comparative period under the new regime. For steering purposes, the focus was on different numbers. Now I would like to hand over to Roland, he will explain in more detail the elevated combined ratio in Poland and the impact.
Roland Goldsteiner	For Poland, we experienced, especially in the first half-year of 2023, a very soft car market there regarding the tariffs, which means that because of our not leading market position there, we were not able to pass on all these effects which we have experienced in the cost increase this year in Poland, especially from the inflationary environment there. This means not only in the cost ratio, but also in the claims ratio due to spare parts and other repair index costs. This is something we've experienced in

	this year, we are working hard to improve the situation there, but we expect such development until the end of this year. Maybe to not such a big extent, but the tendency is, this year, not really good in the car market in Poland.
Liane Hirner	For the third question regarding CSM release, I would like to remind you that we have in our half-year financial report on page 45 also further details on the CSM development, but I would like to hand over to Werner Matula, our Chief Actuary, and he will explain the developments with reference to this information on page 45 of our half-year report.
Werner Matula	If I understood your question right, you were asking whether the CSM release, currently we are showing EUR 337 million, how would this look in the future and what would be a normalised ratio compared to the level of the CSM? In terms of the mechanics, one needs to consider that the CSM is not released linearly, but it is flattening. The data that Liane was referring to, will show you that roughly EUR 40 to 50 million less CSM release in the next four to five years will happen on the portfolio in force. Obviously, the release is then also depending on the new business written in the future years and potential adjustments to the CSM with changes in estimates or changes in the variable fee, depending, for example, on interest rates. But it is important that the CSM release is, from a portfolio perspective, rather slowing down. I hope this explains the mechanics. The table in the financial statement should help you to understand this better.
Bhavin Rathod	Yes, it does. Thank you so much.
Operator	We have the next question from Thomas Unger with Erste Group. Please go ahead.
Thomas Unger	Hi, good afternoon. Thank you very much for taking my questions. You touched on the extreme weather events in your presentation. Is there any level of expected claims that you could give us for the summer events, July and August, especially in Austria? Clearly you outline it also in the outlook, what impact would you assume for profitability in Q3 or the second half in general? Then also, you mentioned that you will be updating your dividend policy. Is there anything you could say about how you expect the dividends to be calibrated in the future? Do you anticipate a growth of the absolute dividend number per share alongside the earnings growth or you'll be looking at a certain pay-out ratio? Maybe two more questions regarding your P&L and how you present it, and how the investment result, obviously there is quite a fluctuation this year versus last. Is there any normalised level that you anticipate going forward? Also, I would like some more explanation on the other income and expenses line, which more

than doubled year-on-year, in the first half of 2023 it was up to a negative EUR 269 million, if you could just explain what's behind those numbers? Thank you.

Liane Hirner

Thank you, Thomas, for your questions. First question was regarding extreme weather events, events which are taking place currently. As we all know, in the last days we had ongoing extreme weather events and currently we are not in the position to give you any numbers, so we have to wait for that. Sorry for not being able to provide you with concrete numbers on that, it's just too early.

Then regarding the dividend policy. The dividend policy is under review currently and, as I explained already during my presentation, we saw volatility which has derived from the changes in the interest rate environment, especially in the last one-and-a-half years. We are reviewing all the mechanics and we will come back on that as soon as possible. But let me emphasise again that the participation of our shareholders in our success is really a high priority for us. I would also like to remind you that since 1994 we paid dividends in each and every year, so this is, for the moment, all I can say.

Regarding the P&L investment result. That is quite a different presentation to what we have seen in previous years, also the net investment result is highly impacted by the interest rate changes and capital market volatilities. It is really not possible currently to evaluate and normalise the result in this respect. We really hope that the interest rate environment will remain stable in the upcoming period, so we will have more experience on that. Maybe Roland wants to add something, also to the other income, I hand over to Roland.

Roland Goldsteiner

Thank you. Regarding the normalised financial result contribution to total profit before taxes, it is more difficult according to IFRS 9 compared to IAS 39, due to the fact that we have much more investments classified as fair value through P&L compared to the other previous regime. This is an effect which is normally counter balanced by the technical result here, which is mostly true for the VFA modelling, but not so much for the GMM modelling. We have, due to the changes in the interest rate environment, more volatility, especially in the financial result, and what contributed at the end of the day to the profit before taxes.

Regarding your question the development of the other income and expenses line of the P&L. Here you can see mostly two effects. One is a very common effect, we have here some foreign exchange changes, like under the previous regime, it was also shown here. The bigger effect here is that we have much bigger consolidation differences from all the group insurance contracts

	and so on. Here is the net position out of this. But just to give you an indication what does that mean for the total PBT: Actually, nothing, because all the changes I'm talking about are counterbalanced by the changes in other lines of the P&L. This is not an effect which we can say is isolated.
Liane Hirner	I hope this answered your questions.
Thomas Unger	Yes, thank you, absolutely. Appreciate the answers.
Operator	The next question is from the line of Rok Stibric with Raiffeisen Bank International. Please go ahead.
Rok Stibric	Hi, good afternoon and thank you for taking my question. Much has been already said, therefore I have only one. It is related to the investment portfolio performance. Is there any chance that you could share with us your current running yield and the reinvestment yield? Thank you.
Liane Hirner	Thank you for your question. I can share that, of course, with you. The new investment yield until June 2023, average new investment yield was 5.5%. This compares to 4.2% at the year-end 2022 for the whole group. Does this answer your question?
Rok Stibric	Yes, thank you very much.
Liane Hirner	You're welcome.
Operator	We have a follow-up question from Bhavin Rathod with HSBC. Please go ahead.
Bhavin Rathod	Hey, sorry, can I just have one quick follow-up on your combined ratio again? Under your previous accounting IFRS 4, the normalised expected combined ratio for the group was somewhere around below 95% or 94%. Now when I look at your first half 2022 reported combined ratio under IFRS 17, that is reported at close to 90.6% vis-à-vis 94% that was reported under IFRS 4. The question really is, under the new accounting, should we think a ratio close to 90% at the normalised level of combined ratio that the group would be aiming at going forward? That would be the only question that I have.
Liane Hirner	We do not give a target on the combined ratio. Below 95% was the target of the IFRS 4 steering. This is now finished and we currently do not have new targets for the combined ratio already for the new accounting regime, so this is under review.
Roland Goldsteiner	Let me add, the effects we are talking about, for example in Czech Republic, the one-off effect which derives from the transition, this is the one-off effect which we had experienced in IFRS 17, but not in the old regime. The difference of the 4 percentage points you are talking about cannot be fully translated to a new guidance here.

Bhavin Rathod	All right, thank you so much.
Operator	Ladies and gentlemen, as a final reminder, if you would like to ask a question, please press star and one at this time. There are no more questions at this time and I hand back to Nina for closing comments.
Nina Higatzberger-Schwarz	Thank you, ladies and gentlemen, thanks for your participation and your interest in Vienna Insurance Group. The next update on the business development, just an update, not a full results presentation as we did today, is scheduled for 30th November. In case you have questions, please do not hesitate to contact the Investor Relations department. I'm wishing you a good afternoon and goodbye.
Roland Goldsteiner	Goodbye.
Werner Matula	Goodbye.
Liane Hirner	Goodbye.