Helvetia Group analysts' conference

Half-year results 2016

Monday, 5 September 2016

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(the spoken words takes precedence)

Paul Norton, CFO of Helvetia Group

(Slide 6) Financial figures

Ladies and gentlemen, I would also like to welcome you to this analysts' conference. Within the next 20 minutes I would like to give you more detailed information on our financial performance in the first half-year 2016.

I'd like to turn to slide 7 with the results by business area.

(Slide 7) Underlying earnings increased by 8%

Our underlying earnings for the first half of 2016 are a robust CHF 238 million, an increase of 7.9% compared to the previous year. This increase was partly due to the life business and a significant improvement of the result of other activities.

We increased underlying earnings in the life business to CHF 88 million which reflects a growth rate of 4.2% compared to the first half of 2015. The improvement came from a better savings result, which mainly benefitted from the decrease of the minimum interest guarantee rate in the group life business in Switzerland and one-off tax effects, partly offset by additional reserving related to the low interest rate environment. We will have a closer look on the life profit by sources in a few minutes.

The result from other activities improved from minus CHF 22 million in the first half-year 2015 to minus CHF 1 million the period under review. This is mainly attributable to the technical result of our Group reinsurance, which improved significantly compared to the previous year. In the first half of 2015 the technical result had been impacted in particular by an unfavourable claims development and the fact that the European entities were able to cede many claims to the Group reinsurance, mostly out of the portfolio of the former Nationale Suisse. Alongside the improvement in the technical result of Group reinsurance, the previous year had been massively impacted by currency effects, which were attributed primarily to the

SNB's decision in January 2015 to remove the Swiss franc peg to the euro. In the current reporting year we have had several one-off positive tax effects.

The non-life underlying earnings amounted to CHF 151 million and were therefore CHF 7 million lower compared to the first half-year 2015. Although the technical result improved in comparison with the prior year, the decline was attributable to lower gains and losses from investments mainly as a consequence of the weak performance of the equity markets. I will provide you with details on the profit by sources of the non-life business on slide 11.

I would like to quickly point out that the unusually low effective tax rate that you see in this half-year is due to one-off positive effects, which result mainly from various aspects of the integration of Nationale Suisse. We expect that the tax rate for the full year 2016 and for 2017 will move towards a more normal level.

Let's turn to the segment results on slide 8.

(Slide 8) Robust result in all segments

In the first six months of 2016 we achieved robust results in all segments. The Switzerland segment, again proved its credentials as a stable foundation for the Group by posting a profit contribution of CHF 173 million and a growth rate of 2.2% in the first semester 2016. In the life business as well as in the non-life business underlying earnings increased compared to the first half of 2015. In the life business the improvement was driven by a better operating result (margin after costs), partially offset by reserve strengthening related to lower interest rates. The non-life business improved thanks to a better technical development and realised synergies.

The segment result for Europe, which comprises the market units of Germany, Italy, Spain and Austria, was stable on the level of the previous year.

Thanks to a favourable development of the operating result, underlying earnings of the European life business increased. Higher expenses for interest related reserve strengthening had a slight counter effect.

Non-life underlying earnings in Europe by contrast were lower. Apart from a slightly weaker technical performance due to the fact that the prior year materially benefitted from reinsurance, the main reason was a lower investment result due to lower net capital gains and losses.

Specialty Markets includes the business lines "Marine", "Engineering" and "Art" in the Specialty Lines Switzerland/International market unit, the French market unit specialising in marine insurance and the global active reinsurance. The segment result for Specialty Markets was CHF 14 million, which was below the previous year. Also here the decline was due to a lower investment result and currency fluctuations.

The Corporate segment includes the Corporate Centre and Group reinsurance, in addition to the financing companies and the holding company. Its contribution to the result of minus CHF 1 million significantly improved against the previous year's figure of minus CHF 22 million. This was driven by a stronger result from Group reinsurance and lower currency effects compared to the first half of 2015, as well as some one-off tax effects.

I will continue with our growth in business volume on slide 9.

(Slide 9) Business volume increased by 3.4%

In the first half of 2016, Helvetia Group achieved a business volume of CHF 5.5 billion. This equates to an increase of 3.4% over the previous year in original currency.

In the non-life business area we achieved an increase in premium volume of 1.0% in original currency despite the fact that we were performing portfolio restructurings in order to improve profitability in some country markets. This growth was mainly due to the active reinsurance business, in line with its strategy.

Life business increased by a currency adjusted 5.3%. In particular, I would like to emphasise that in individual life business, the volume of the so called non-traditional insurance products (investment-linked insurance solutions and deposits) increased by 8.4% overall, while traditional insurance solutions declined in line with our strategy.

The Swiss country market posted the biggest growth by segment with an increase of CHF 164 million or 4.7%. I will return to that on the next slide. In the Europe segment we generated slightly less premiums compared to the first half of 2015 in original currency. As I have already mentioned we performed targeted portfolio optimisation measures in the former Nationale Suisse portfolios in Germany, Italy and Spain in order to improve profitability.

Alongside portfolio restructurings, in Italy the motor business suffered from a very price sensitive competitive environment, which resulted in a decline of average premiums – in line with the market.
In the Specialty Markets segment, we also achieved a 7.1% increase in volume over the first half of 2015 in original currency. Growth was driven by active reinsurance resulting from targeted diversification by region and business lines as well as the selected expansion of existing business relationships – in line with their strategy.

With that I will now come to our home market on slide 10.

(Slide 10) Swiss business as a solid foundation of the Group
In the first half of 2016, the domestic market once again emerged as the solid foundation of the Group.

In non-life business we increased premium volume by 1.8% to just over CHF 1 billion. The main growth driver was motor vehicle insurance which benefitted from a change of the invoicing period. The former Nationale Suisse motor portfolio partly had a different invoicing sequence, which has now been aligned to the Helvetia portfolio. However, this positive effect will be reduced in the second half of 2016.

Business volume in life business increased by 5.8% with the biggest growth contribution coming from the group life business. Here, demand for full insurance solutions remained consistent. Helvetia continued to pursue its strategy of being very selective about the new business in this low interest rate environment. Nevertheless, single-premiums increased by 14.6%. The increase was due to a single transfer of policyholder bonuses into retirement assets, booked as premiums, and should therefore be regarded as a one-off effect. Regular premiums, which are important for assessing business performance, increased by CHF 11 million or 1%.

In individual life business, premium volume increased by 2.6% to CHF 450 million, whereby the main contribution came from modern capital-light insurance solutions, increasing by 29%. The guarantee plan has demonstrated a positive trend in the sale of modern insurance solutions. Also sales of the tranche product issued in spring were again very strong. Traditional life – by contrast – decreased in line with our strategy.

Now I'd like to look at the profit by sources in the non-life business on slide 11.

(Slide 11) Technical result NL 10% above prior-year

In the first half of 2016 Helvetia again can look back on a very strong technical performance of the non-life business which is reflected in the technical result being 10% above the prior year.

Looking at the profit of the non-life business by source we can see that the gross technical result, meaning before reinsurance, increased by 58% thanks to a much better claims development in the first half of 2016 compared to the previous year. In 2015 we had several large losses, predominately coming out of the former Nationale Suisse portfolios in Europe. However, the recoveries from reinsurers in 2016 fell below the previous year's results due to the fact that in the first half of 2015 the European entities were able to cede a large proportion of the claims to the Group reinsurance, which led to an unusually good ceded result for those units.

Nevertheless, the net technical result grew by 10%. This increase can be attributed to a better cost development – mainly driven by synergies. The investment result (net) was lower compared to the first half of 2015. As a consequence of the high volatility and the corresponding weak performance of the equity markets in particular we generated lower gains and losses on investments. From an accounting perspective a significant part of our equity portfolio is qualified as trading, volatile equity markets consequently **can have** a direct impact on the P&L.

I would now like to move to the net combined ratio on slide 12.

(Slide 12) Excellent net combined ratio

The net combined ratio improved over the prior year by 0.5 percentage points to 91.9%. The net claims ratio increased by 0.8 percentage points. As already mentioned on slide 11 despite a benign claims environment in 2016 net claims ratio increased compared to the previous year, because the 2015 first half-year result materially benefitted from Group reinsurance. However, with 28.2% we achieved an excellent cost ratio which was 1.4 percentage points down on the prior year. This was due to the realisation of significant synergies. All the market units achieved a combined ratio of below 100%.

Slide 13 contains the details of our life business.

(Slide 13) Strong savings results improves operating profit

The operating result increased by CHF 23 million or 14% against its prior-year level. The improvement came from a better savings result, which benefitted from the decrease of the minimum interest guarantee in the group life business in Switzerland in the mandatory as well as in the non-mandatory area. However the risk result fell mainly due to a weaker claims development, in line with normal volatility.

Profit before tax was down CHF 5 million or 5%. Higher interest rate related reserve strengthening and lower capital gains and losses in consequence of the weak performance of the capital markets negatively impacted profit. These effects were also reflected in a lower allocation to policyholder bonuses, which had a counter-effect.

I will now continue with the embedded value on slide 14.

(Slide 14) Life: Swiss market consistent NBM on peers' level

As you can see on slide 14, Helvetia Group's embedded value was CHF 2.9 billion at the end of the first half of 2016.

The life units acquired from Nationale Suisse and Basler AT in the second half 2014 were only included to the extent of their adjusted net asset value in the first half of 2015. Since the second half of 2015 the new portfolios and all the burial insurance in Spain were modelled for the first time and are therefore included with all components in the embedded value of the current reporting year.

The main reason for the decrease in embedded value compared to the end of 2015 was negative economic deviations due to lower interest rates and dividend payments in the first half of 2016 which reduced the shareholder value of the life insurance portfolio. The embedded value nevertheless produced a positive operating return and there was also a positive contribution, despite the low interest rate environment, from new business. Under the difficult economic circumstances in which life insurers find themselves our new business continues to cover its cost of capital.

New business volume was down in the first half of 2016. In Switzerland, Helvetia took a conscious decision to reduce its sales of full insurance solutions for occupational pensions. In the individual life business growth of new business volume for modern insurance products was higher than for traditional savings products – in line with our strategy. Also in Europe new business volume grew. In all country markets traditional life products are only selectively being distributed or modernised.

The value of the new business written in 2015 increased from CHF 5 million in the previous year to CHF 7 million. In Switzerland the value of new business declined year-on-year due to the lower volume generated in group life business. The first full inclusion of the profitable burial insurance in Spain in embedded value helped to increase the value of new business in Europe. As a consequence, the profitability of the Helvetia Group's new business based on the development of the volume and value of new business, improved from 0.3% in the previous year to 0.5% in the reporting year.

As you are aware, we are one of the few Groups still using Traditional Embedded Value and whilst there are still considerable changes ongoing in financial reporting for insurers, with new market consistent solvency measures and the forthcoming IFRS 4 Phase 2, we do not believe it would be a good use of resources to introduce Market Consistent Embedded Value across the Group in the immediate future. We have nevertheless calculated an MCEV for our Swiss life portfolio for the first time, as you can see on the lower half of this slide. These figures are as of end of December 2015. We aim to update this figure on an annual basis and publish it in September within our half-year results. As you can see, the MCEV and the new business margin calculated on an MCEV basis for the Swiss life business are higher compared to the traditional embedded value results. With an MCEV new business margin of 2.2% we are actually very much in line with our peers.

Slide 15 deals with our direct yield and guarantees in life business.

(Slide 15) Interest margin remains solid in CH

Direct yield increased in Switzerland in the first half of 2016 while in the EU countries by contrast direct yield declined as a result of the lower interest rates.

The increase of the interest margin in Switzerland was closely linked to higher generated direct yields on the asset side and lower average technical interest rates on the liability side. The higher direct yield results to a large extent out of higher yields from equities. The lower average technical interest rate is to be attributed to extra capital through the additions to the reserves and the fact that maturing insurance contracts with high guaranteed rates are being replaced by lower guaranteed rates.

The adjustment of the guaranteed interest rate for BVG retirement assets on 1 January 2016 from 1.75% to 1.25% and a corresponding adjustment to non-mandatory rates however have already been reflected in the average guarantee rate calculation in 2015.

On the right hand side of the slide we have a graph showing the interest rate buckets on guarantees on Group level. Whereas in the first half of 2015 only some 25% of group-wide life reserves had guarantees lower than 1.5%, this year some 60% had average guaranteed reserves below that level. Whilst the lowering of the BVG minimum interest rate in Switzerland played a significant role here, it also shows how much we have done to restructure our portfolio to improve profitability and capital efficiency.

I would like to move now to the investment performance on slide 16.

(Slide 16) Good performance in difficult environment

The current income in the first half of 2016 was CHF 523 million, which was CHF 20 million higher than in the first half of 2016, due to the higher investment volumes.

Direct yield was at an annualised 2.3% and therefore unchanged compared to the prior year – despite a much more challenging environment.

In addition to current income, realised and book gains and losses amounted to minus CHF 58 million. This figure came mainly from book losses on equities, since a significant part of our equity portfolio is held as "Trading" with market movements being booked in the income statement. The weak and uncertain economic situation and political uncertainties, not least the Brexit vote caused very volatile equity markets. In total the investment result recognised in the income statement was CHF 466 million, CHF 56 million down on the first half-year 2015.

By contrast investment performance increased to 3.3% against 0% in the prior-year period. Unrealised gains and losses recognised in equity significantly increased, favoured by declining interest rates which had a positive effect on the bond’s performance. Finally we earned CHF 4 million less on assets backing investment-linked insurance solutions for our customers, which can also be attributed to the weak performance of the capital markets.

On slide 17 you can see the investment result broken down by asset class.

(Slide 17) Stable new and re-investment yield

Just under two thirds of the current income of CHF 523 million come from bonds and mortgages, which contributed CHF 288 respectively CHF 43 million in absolute terms. Dividends accounted for CHF 54 million, and investment property CHF 118 million. Gains and losses on investments were minus CHF 58 million, mainly caused by equities which suffered from the volatile capital markets.

The development of non-realised gains in equity came from the previously mentioned low interest rates. The unrealised gains on the bond portfolio increased significantly by CHF 1.1 billion.

The lower half of the slide shows the return on new and recurring investments. Around CHF 3 billion in total were reinvested or newly invested in the first half of 2016, 78% of which were allocated to bonds, primarily USD bonds in the corporate sector as well as long-term US treasuries. We had to contend with higher hedging costs to cover our foreign currency exposure but on a net basis we earned a yield pick-up, which allowed us mitigate the negative and very low bond yields in Swiss francs to some extent. Investing in mortgages and investment property and to a small extend also in equities, also contributed strongly to mitigating the impact of the low yield environment. Direct yields on new and reinvestments totalled an appealing 1.7%.

I will now continue with slide 18.

(Slide 18) On track to reach synergy target

Slide 18 brings us back to acquisition-related temporary special effects. Our outlook up to 2017, which we announced following the acquisition, is basically unchanged. However, due to the very pleasing progress of the integration we increased our synergy target to above CHF 130 million pre-tax at the full-year results 2015 presentation.

As Philipp Gmür already mentioned at the beginning of the presentation we achieved synergies of CHF 51 million on a half-year basis, mainly from Switzerland and the Corporate Centre. But also our European entities made a contribution to achieved synergies. Integration costs were at CHF 25 million on a half-year basis. As we have already emphasised we are well on track to achieve our synergy targets and even slightly exceed them.

Financing costs booked in the first half of 2016 came to CHF 7 million and the amortisation of intangible assets under IFRS of CHF 30 million were at the announced level, as was the additional planned depreciation due to the revaluation of interest-bearing securities to market value of CHF 19 million for 2015.

I will finish my presentation with some information on our capital position on slide 19.

(Slide 19) Unchanged strong capital position

Even after the two acquisitions, Helvetia still enjoys a solid capital position: The SST ratio by the end of December 2015 was within the target range of 150 – 200%.

With CHF 5.5 billion the Group's equity capital was 3.5% up as of 30 June 2016 compared to year-end 2015. This was due to an increase in gains and losses recognised in equity for our AFS financial investments due to the decreasing interest rates. Higher values of pension liabilities in Switzerland as a result of a reduction of the discount rate to reflect lower interest rates had a counter-effect.

On that note I will now hand over to Philipp Gmür again. >>>