

Analysts' Conference – the Helvetia Group

Monday, 10 March 2014

Financial figures

(The spoken word takes precedence)

Paul Norton, CFO of the Helvetia Group

(Slide 4) Financial figures

Ladies and Gentlemen, I am very pleased to provide you with the background to our successful 2013 financial year and, as usual, I will start by taking a look at the business segments on slide 5.

(Slide 5) Result by business area

In 2013, both the life and non-life business areas recorded impressive growth in earnings, despite the severe weather events in some country markets and the still somewhat challenging environment in the southern European markets of Italy and Spain.

At CHF 153 million, the **life business** reported an increase of 11% compared to the previous year.

With an excellent technical performance, we also generated an 11% increase in earnings in the **non-life business** to CHF 192 million.

I will come back to the details on the development of results in the life and non-life business on slides 8 and 10.

At CHF 19 million, the result for “**Other activities**” was below the previous period. The reason for this is the weaker performance in Group internal reinsurance, which was mainly due to the severe weather events in Germany.

I would also like to point out that the figures from the previous year's balance sheet and income statement have been adjusted, mainly due to changes in the accounting standard IAS 19 regarding defined benefit obligations.

I would now like to take a look at the results by geography on slide 6.

(Slide 6) Result by geography

With a contribution to the result of CHF 251 million in 2013, or a 10% increase over the previous year, the **Swiss** home market again proved itself to be a solid pillar of the Helvetia Group. Philipp Gmür will inform you in detail later on about this country market result, which is once again very good. In addition, nearly all our foreign markets increased their contribution to earnings over the previous year, in some cases significantly.

In the **German** country market of, the 2013 financial year was shaped by severe weather events. It is encouraging to see that the measures undertaken last year to improve results are having an impact. As a result, the restructuring measures and tailored reinsurance cover allowed us to fully offset the additional costs resulting from weather events and even to slightly improve the combined ratio overall. However, the profit of CHF 24 million is down compared to the previous year. This is the result of a one-time positive tax effect in the previous year.

At CHF 21 million, the country result for **Italy** was up 19 percent, which is also very positive given the continued difficult economic situation there. The measures to improve portfolio quality in non-life are having an effect. The acquisition of Chiara Assicurazioni on 1 May also contributed to the good country result.

The result of CHF 27 million in the **Spanish** country market is likewise positive. Despite the still difficult economic situation, we were able to surpass the previous year's earnings by 33%. The increase in profit is due mainly to an improved investment result and to lower reserve increases in the life business.

The result for the country segment "**Other insurance units**", which includes Austria, France and reinsurance, declined from CHF 42 million to CHF 30 million. This was caused by the weaker Group reinsurance result compared to the previous year, arising from disproportionately high claims from natural disasters.

The significant improvement in the earnings in the "**Corporate**" segment is due to higher financial income.

I will continue with the development of our business volumes on slide 7.

(Slide 7) Business volume in original currency: +6.3%

In the past financial year, we significantly increased business volume at the **Group level** with growth of 6.3% in original currency and 7.1% in Swiss francs. In the **life business**, we were able to increase our volume by CHF 380 million and achieve a pleasing currency-adjusted increase of 8.2%. I will discuss this further on slide 8.

In the **non-life business**, our premiums increased by CHF 138 million compared with the previous year. At 4.3% in original currency, the growth rate is also very good, with the increase driven mainly by acquisitions. I will provide details on the non-life business on slide 10.

Assumed reinsurance, on the other hand, which pursues an income-oriented policy with no volume goals, recorded a decline in volume of CHF 20 million, due mainly to the non-renewal of major business relationships.

This brings me to the performance of our **country markets**: Philipp Gmür will provide you with information about Switzerland later on.

In **Germany** we achieved premium growth of 2%. While the non-life business declined as planned due to our earnings-related restructuring measures and disciplined underwriting policy, we recorded encouraging growth in volume in the life business. This is largely due to the successful marketing of unit-linked life insurance.

In **Italy**, the volume in the **life business** also declined as expected. The amended distribution agreement with Banco di Desio is intended to contribute to a better product mix and active management of exposure in Italian government bonds, even if this is at the expense of volume in the short term. The decline in premium performance in the **non-life business** is attributable both to our deliberate exit from unprofitable business and to the difficult economic situation in Italy. The acquisition of Chiara Assicurazioni, which is included in the premiums on a pro rata basis, somewhat mitigated the expected decline.

In the **Spanish non-life business** we were unable to avoid the impact of the recession. For this reason, as in previous years, the written premium volumes in non-life once again declined slightly market-wide. Encouragingly, however, our premium growth in the **life business** is well above the market level. This performance was supported in particular by the continued demand for our burial insurance and unit-linked insurance solutions.

We are very pleased with the volume development in **Austria**, where our **life business** saw double-digit growth, significantly outperforming the market. The performance of the capital-efficient modern insurance solutions is particularly encouraging and is in line with strategy. Our **non-life business** also outperformed the market, in spite of our profit-oriented underwriting policy.

As explained earlier, the growth in our **French business** unit is influenced by acquisitions.

I would now like to look at the life business.

(Slide 8) Life business

As you can see from slide 8, all the key figures in the life business developed very positively. The **group life business** in Switzerland again made a significant contribution to the increase in business volume in the financial year 2013. In **individual life**, unit-linked products were the main growth drivers. We are very pleased that their share of total premium volume in individual life has increased to 28%. In accordance with our strategy, we particularly want to grow with these capital-efficient modern products. The **strong increase in earnings** in the **life business** is mainly due to higher investment income. At the same time, reserves were increased, mainly in Switzerland and Germany, due to low interest rates, although to a lesser extent than in the previous year. I would like to turn to the embedded value figures.

New business volume grew, especially in Switzerland, which once again recorded growth in single premium business in occupational pension plans, while the new business volume in foreign markets remained subdued due to the difficult economic environment. The **value of new business written in 2013** rose significantly, with a particularly large increase recorded in Switzerland. This is mainly due to the increased new business volume compared with the previous year, but also to increased interest income on new investments and to operational measures. As a consequence, Helvetia Group's **new business profitability**, which is derived from the ratio of new business value and new business volume, rose to an attractive 1.6%, putting it slightly above our target range. The life business of Helvetia Group has consequently developed very positively overall.

I would like to turn to the direct yields and guarantees in the life business on slide 9.

(Slide 9) Direct yield and guarantees in life business

As a result of the sustained low interest rates, **direct yields** in Switzerland and in the EU countries once again fell slightly. At the same time, however, the average guaranteed interest rate that Helvetia must generate in order to meet its obligations also declined. This is due in part to the fact that expiring contracts with high guaranteed interest rates are being replaced by contracts with lower guaranteed interest rates as well as to the further strengthening of reserves. As a result, **Gross margins for the benefit of the insured** and shareholders remain solid. We therefore clearly remain in a position to comfortably service the guarantees to our customers.

I will now take a look at the non-life business.

(Slide 10) Non-life business

Slide 10 shows that all of the major metrics in the non-life business are also very positive.

The satisfying currency-adjusted growth of 4.3% in business volume came from the **transport business**, which increased by nearly 80% due to the acquisition of the portfolio of Gan Eurocourtage. We also grew slightly in the **property and liability** business lines.

A better technical performance, an improved reinsurance structure and higher investment income contributed to the **increase in earnings in non-life**.

The **net combined ratio** improved again to 93.6% from its already good level. I would now like to take a look at the details of the combined ratio on slide 11.

(Slide 11) Combined ratio non-life

The improvement in the **net combined ratio** is mainly due to the **lower claims ratio**, which, at 63.4%, is 1.4 percentage points below the level of the previous year, despite severe weather events in some country markets. Severe weather events had a negative impact on the claims ratio of 2.5 percentage points. The portfolio optimisation measures have shown an impact and have contributed, together with a better reinsurance structure, to an improvement in the claims ratio. In addition, it is particularly satisfying that all country markets had combined ratios of below 100%.

The cost ratio increased by 1.3 percentage points compared to the previous year to just over 30%. I will discuss the reasons for this on slide 12.

(Slide 12) Cost ratio development

I would now like to take a look at the development of the cost ratio. To start, I would like to briefly point out that the cost ratio for 2012 was restated to 28.9% due to the application of the revised IAS 19. The increase in the cost ratio by 1.3 percentage points in 2013 is primarily due to the impact of **portfolio optimisation** and **acquisitions**.

We have undertaken significant measures to improve the profitability of our non-life business in Germany and Italy, knowing full well that the resulting reduction in volume would have a negative impact on the cost ratio. The negative effect resulting from these measures was 0.8 percentage points.

In addition, the two acquisitions Chiara Assicurazioni as well as Groupama are operating with higher cost ratios than the existing units of Helvetia. However, the insurance solutions marketed through Chiara Assicurazioni have significantly lower claims ratios. In the medium term we aim to reduce the cost ratios as part of the integration exercises, but certain acquisition cost structures are an accepted part of the business model of these new units. The effect of these two acquisitions on the Group cost ratio was an increase of 0.4 percentage points compared to the previous year.

At this point, I would like to emphasize once again that our goal is to improve the combined ratio overall. We are prepared to accept a temporary increase in the cost ratio in order to achieve this objective. Obviously, however, we will continue to work on optimisation measures to reduce the cost ratio in the future.

This brings me to changes in equity on slide 13.

(Slide 13) Changes in equity

As at the end of 2013, the Group's equity had increased by 2% to over CHF 4.1 billion, due to a very good annual result. The unrealised gains in our AFS financial assets decreased due to the rise in interest rates in the markets in 2013, but at 9% they still make up a significant proportion of equity. This, naturally, had an effect on our return on equity.

I will finish my presentation by taking a look at the proposed dividends for last year on slide 14.

(Slide 14) Dividend policy

The very good annual result and the sustained balance sheet strength have enabled us to increase the dividend proposal to the Shareholders' Meeting compared to the previous year by around 3% to CHF 17.50 per share. This corresponds to a payout ratio of 43% which is within our target range. The dividend yield is an attractive 3.9%.

My colleague, Ralph-Thomas Honegger will now provide you with more information about the investment result. >>>