

Analysts' Conference – the Helvetia Group

Monday, 16 March 2015

Full-year results 2014

(The spoken word takes precedence)

Paul Norton, CFO of the Helvetia Group

(Slide 5) Financial figures

Ladies and gentlemen, I would also like to welcome you to our 2014 year end analysts' conference. As usual, I will go through the results in more detail.

(Slide 6) Underlying earnings / IFRS

I would like to start with slide 6, which is a rather different starting point from our usual presentation. As I am sure that some of you are aware, the accounting treatment of acquisitions under IFRS is complex and can lead to disclosed results that do not reflect the underlying earnings pattern of a business. The 2014 financial year was a very successful one, but the IFRS results have been significantly distorted by the accounting impacts of the two acquisitions in the year, in particular the acquisition of Nationale Suisse. For this reason, we have decided to focus until the end of 2017, on the underlying earnings generated by the business, as the main performance metric, instead of pure IFRS earnings. This will allow investors to see much better how the underlying business is performing. We expect that the distorting effects of the acquisitions should have by large disappeared by the end of 2017 and that we will be on a “business as usual” basis by then.

The underlying earnings produced by the Helvetia Group in 2014 were CHF 422 million, a 16 percent increase on the previous year (by the way, we have not adjusted the 2013 IFRS reported earnings, since there was only a very minimal impact of acquisitions in that year). Even on a reported IFRS basis, the IFRS earnings after tax of CHF 393 million represents an 8 percent increase over prior year.

I am going to go through the main differences between the underlying earnings and the IFRS reported earnings here. Later in the presentation, I will give you some guidance as to how we see these items developing over the next three years.

Firstly, we have excluded integration costs from the underlying earnings since these are one-off items. We expect these to be incurred in the first years of the integration projects, with the

synergies that result from these costs coming through in later years. We have incurred some CHF 85 million integration costs in 2014. We have been making faster progress on the Nationale Suisse acquisition than we initially foresaw, which is why we have been able to book a greater proportion of the overall integration costs in 2014 than we originally had expected.

Under IFRS we have to value intangible assets in an acquisition and record them in the balance sheet. They have to be written off through the income statement over a defined lifetime, but they have no impact on cash flows or dividend capability. We have recorded CHF 217 million of intangibles from the two acquisitions in 2014, which will be written off over the period until the end of 2017. We booked CHF 70 million write downs in 2014, of which CHF 41 million related to the two acquisitions in 2014. Included in the CHF 70 million total is the full write off of the goodwill resulting from an earlier acquisition, that of Chiara Vita, in Italy. This is mainly due to deteriorating conditions in the Italian life market, where there has been a considerable adverse change in product mix and profitability due to the effects of much lower interest rates and the recession.

Another effect of acquisition accounting under IFRS is that all investments in an acquired entity have to be revalued at market value at the date of an acquisition and the new market value becomes the new cost base. In the case of bonds, this means that the regular amortisation of the difference between the cost value and the par value of the bonds changes. With the fall in interest rates in recent years, and particularly in 2014, the market value of bonds has risen materially, which means that the amortisation cost increases significantly. Again, as with the amortisation of intangibles, this has no impact on cash flows or dividends, but distorts reported profits.

We owned 13.7 percent of Nationale Suisse prior to the acquisition and this has to be revalued to the offer value, leading to a one-off profit of CHF 109 million, which again does not have any impact on cash flows or dividends and does not represent underlying profit generation.

These pre-tax acquisition impacts have to be adjusted for policyholder participation and deferred tax.

We will already include synergies in underlying earnings, since they represent real, ongoing benefits, and for clarity show them “pro memoria” in this presentation.

We will provide this bridge each reporting period. You can also find on slide 32 in the back up a summary reconciliation between underlying and IFRS earnings by Market Unit and by secondary segment. The rest of my analysis will be based on the underlying earnings and with this I would like to turn to slide 7.

(Slide 7) Result by business area

The Helvetia Group generated a strong CHF 422 million underlying earnings in the 2014 financial year, which was 16 percent above the previous year. The pro-rata contribution from the Nationale Suisse and Basler Austria acquisitions was CHF 22 million.

Thanks to an excellent technical performance and better investment results, we also generated a 33 percent year-on-year increase in earnings in the non-life business to CHF 25 million. In a very difficult investment environment, the result for the life business remained generally stable at CHF 151 million. I will come back to the details on the development of results in the life and non-life business on slides 10 and 13.

At CHF 15 million, the result for “Other activities” was below that of the previous year. This decline was primarily due to lower investment returns from internal group funds, partially compensated by improved reinsurance results.

I will continue with the result by geography on slide 8.

(Slide 8) Result by geography

With an increase of 17 percent the Swiss home market contributed CHF 294 million to the 2014 results and continued to prove itself the strongest pillar of the Helvetia Group. Philipp Gmür will inform you in detail later on about this country market result, which is once again excellent. In addition, nearly all our foreign markets increased their contribution to earnings over the previous year, in some cases significantly.

Only the earnings in Germany were lower than the previous year at CHF 15 million. This is partly due to lower investment returns in the life business. In the non-life business, fewer claims were ceded to the reinsurers compared to the previous year and there were additional large claims in the industrial business.

In Italy, underlying earnings rose by 58 percent compared to the previous year, to CHF 32 million. This is due to the improved technical results in the non-life business and better investment returns.

The underlying earnings of our Spanish unit were also higher than the previous year at CHF 28 million. Higher investment returns and tax effects compensated for the poorer technical results in the non-life business.

“Other insurance units” consists of the country markets of Austria and France as well as reinsurance. The segment also includes the new Nationale Suisse locations: the country market of Belgium (whose sale we have recently communicated), the representative offices in Liechtenstein, Istanbul and Miami along with branches in Singapore and Kuala Lumpur. Underlying earnings in this segment increased to CHF 64 million. The improvement was the result of significantly higher income in Austria and France as well as the improved Group reinsurance results, which had suffered from above average claims from natural catastrophes in the previous year. The income contribution from the new Nationale Suisse locations was minimal in 2014.

The lower underlying earnings in the “Corporate” segment stem primarily from lower investment returns from internal Group funds.

I will continue with the development of our business volumes on slide 9.

(Slide 9) Business volume in original currency

The **business volume** of the “new Helvetia” Group was CHF 7.8 billion and grew by 4.4 percent in original currency compared to the previous year. This was primarily due to acquisitions. Both of the acquired companies were consolidated pro-rata in the consolidated financial statements for 2014, and will show the full impact of their contribution in 2015. Organic growth was 0.3 percent. With an increase of CHF 238 million or 10.3 percent, the profitable **non-life business** was the clear growth driver. The acquisition of Nationale Suisse and Basler Austria made a significant contribution of CHF 225 million. Helvetia was able to grow organically by over 1.4 percent. The business volume in the **life business** expanded by CHF 36 million, or 1.1 percent, thanks to the acquisitions. I will provide further details on the life and non-life business on slides 10 and 13.

Active reinsurance increased its premium income by CHF 16 million, or 7.8 percent, in the 2014 financial year. The growth resulted primarily from newly written policies as well as increased participation in existing business. Active reinsurance was able to further improve its diversification both geographically and by sector and we were able to maintain our cautious underwriting policy while doing so.

I would now like to take a look at the life business on slide 10.

(Slide 10) Life: Key points

The volume in the life business increased by 1.1 percent, including the acquisitions. Organic volume fell slightly. Looking at our country markets, our Spanish business grew by a pleasing 10 percent due to demand for profitable investment-based products. Austria also generated more premiums thanks to the acquisition. The growth in Italy of 9 percent came from traditional single premium products. Germany also recorded a slight increase of 1 percent. The Swiss home market declined partially as expected. Philipp Gmür will explain this in detail later on.

The stable earnings performance in a difficult investment environment is the product of an excellent risk result. Due to increases in minimum interest rate guarantees set by the Swiss government for the mandatory part of group life business, the interest result was lower. This effect was almost completely compensated by lower policyholder participation compared to the previous year. Due to the sustained low-interest rate environment, reserves were increased in the Swiss, German and Spanish country markets.

The new business volume shrank compared to the previous year because Swiss - investment-linked tranche products could not be sold in the volume desired due to conditions on the capital markets. Group life business in Switzerland was also not able to attain the record single premiums of the previous year. The volume of new business in the foreign markets - by contrast - rose again.

The new business value in 2014 fell sharply, which was primarily due to the low new investment yields in all country markets. As a consequence, Helvetia Group's new business profitability, which is the product of new business volume and value, also sank to 0.8 percent.

(Slide 11) Life: Profit by sources

As we have promised, we have disclosed an analysis of profit, which shows the breakdown of operating profits from the life business by source. I would like to point out that this year it does not include the impact of the two acquisitions, which were minimal in any case.

The operating profits declined by 5 percent compared with the prior year, almost entirely due to the savings result. This was, as I mentioned earlier, due to the higher minimum interest rate guarantees in on retirement assets within the mandatory group life business, in the face of declining market yields. This effect was offset by a lower policyholder participation. The

risk result, which is the largest component of the operating profit, remained constant at a very good level.

(Slide 12) Direct yield and guarantees in life business

As slide 12 illustrates, the direct yield in Switzerland and in the EU countries sank as result of the low interest rates. However, it should be noted that the average interest rate Helvetia has to generate in order to meet its obligations is also continuing to fall. This is because expiring policies with high fixed interest are being replaced by those with lower guaranteed interest, while the strengthening of the reserves effectively increases the invested assets available to fund the guarantees. From today's perspective, the interest margin will remain positive, with our projections, even if the low-interest environment continues for the foreseeable future. On this basis, we are therefore in a position to honour reliably our guarantees to customers in the long term.

(Slide 13) Non-life: Key points

Slide 13 shows that all of the major key figures in the non-life business are very positive. Broken down by country market, the high premium growth of 10.3 percent, including acquisitions, was greatest in Switzerland and Austria – although we also experienced organic growth in both country markets. Spain also recorded pleasing growth of 9 percent. The beginning of the economic recovery had a positive impact on the Spanish non-life business. Thanks to Nationale Suisse, premiums increased by 6 percent in Italy. Development in Germany was also once again positive. This was the result of portfolio restructuring in the previous year as well as Nationale Suisse contributing to growth. France was the only country where premiums were lower than in the previous year due to portfolio cleansing.

The strong increase in results from non-life was due to organically improved technical results, a higher investment income and was also supported by both acquisitions.

The net combined ratio improved by 0.5 percentage points to 93.1 percent. I would like to look at the details of the combined ratio on slide 14.

(Slide 14) Net combined ratio non-life

The improvement of the net combined ratio is mainly due to a lower claims ratio of 62.4 percent as a consequence of fewer natural catastrophes. In addition, it is particularly satisfying that all country markets had combined ratios of below 100 percent.

The increase of the cost ratio is due to the higher cost ratios in the acquired units. Organically, we were able to slightly lower the cost ratio.

This brings me to changes in equity on slide 15

(Slide 15) Changes in equity

Group equity had increased at the end of 2014 by 37 percent to CHF 5.7 billion. The main causes were the higher earnings, the CHF 535 million share capital increase and the CHF 400 million perpetual hybrid bond issued in 2014 as part of the financing for the Nationale Suisse takeover. Unrealised gains on investments recognised in equity increased significantly due to the decline in interest rates to make up a sizeable proportion of equity at 16 percent.

(Slide 16) Financing of Nationale Suisse

With slide 16 I would like to briefly look at the financing of the takeover of Nationale Suisse. We already held shares of 13.7 percent prior to the takeover offer and as at the formal completion date of the public tender offer on 20 October 2014 we held 96.3 percent of Nationale Suisse, representing an acquisition price of CHF 1.73 billion. After that date we purchased shares representing 2.2 percent of Nationale Suisse in the market, so that we held 98.5 percent as at the year end. The 96.3 percent holding is used as the basis for the acquisition accounting and the goodwill calculations. Purchases after this date are simply transactions with minority interest shareholders and do not affect goodwill.

As well as the CHF 535 million new share capital, we managed to raise CHF 1bn of debt within a few weeks, despite considerable market turbulence. This was much faster than we had expected. We raised CHF 625 million in solvency and rating eligible hybrid debt, of which the CHF 400m perpetual debt is classed as “equity” under IFRS and CHF 225 million as “liabilities” and CHF 375 million of senior debt. This was one of the biggest financing transactions in the insurance sector in many years, certainly in the Swiss market, and was achieved at terms and conditions that exceeded our expectations.

Prior to the debt issuance we had a very conservative leverage ratio. With a current 23 percent debt to debt plus equity it remains conservative, but we have now made better use of our balance sheet.

I will continue with slide 17

(Slide 17) Synergies, integration costs and acquisition effects

I would like to come back to the acquisition related special effects and give you an indication of how these are likely to impact the IFRS earnings over the next three years. You should be aware that this is only broad guidance and that most of these items can change.

Firstly, we expect to achieve between CHF 105-130 million in annual pre-tax synergies from the two 2014 acquisitions, predominantly from Nationale Suisse and to a lower extent from the takeover of Basler Austria. These will develop over the next three years and we expect that synergies will be fully phased in by the end of 2017. These are real cost savings and will have an impact on underlying earnings and will be reported within that result. We will report on the progress on a regular basis.

Since we have just started with the integration work only later in 2014, we were unable to report any remarkable synergies in 2014.

We expect to be able to achieve some 10-20 percent of the total synergies in 2015, mainly as a result of natural fluctuations in staff in Switzerland. This assumption was based on staff resignations, early and normal retirements and ending of temporary contracts at the end of 2014 and in the first months of 2015.

Additionally, we have already identified potential for cost reduction especially in the areas of IT, logistics and facility management, marketing and branding as well as other fees, which will be gradually implemented. As a result, we are quite confident that we will be able to achieve another 30-60 percent of our planned synergies by the end of 2016 so that by the end of 2017 all synergies should be fully phased in.

As a result of the good progress in the integration process, with CHF 85 million, we were able to book a significantly higher proportion of the integration costs in 2014 than we had originally expected. We have already agreed and announced a social plan for staff to be made redundant in Switzerland. We expect to incur a further large part of the costs in 2015 with an additional 10-20 percent in 2016, and the remaining approximately 10 percent in 2017.

The write off of the intangibles will basically follow a three year straight line pattern. The additional amortisation of the bonds to par will occur over the time to maturity, meaning that this will continue past 2017, but in reducing amounts.

The finance costs represent the additional coupons from the debt we raised to acquire Nationale Suisse.

The amounts we are showing here for integration costs, amortisation of intangible assets and the amortisation of bonds to par are based on our best estimates and can change.

Finally I want to emphasize that the above mentioned extraordinary accounting effects will predominantly disappear from 2018 onwards. After 2017 the synergies will be fully realised.

I shall conclude my presentation by taking a look at the proposed dividends for last year on slide 18.

(Slide 18) Dividend – continuous increase

The very good annual result and the sustained balance sheet strength have enabled us to increase the dividend proposal to the Annual General Meeting by around 3 percent compared to the previous year to CHF 18.00 per share. Based on the underlying earnings this equals a dividend payout ratio of 44 percent, which is in our target range. Based on the IFRS earnings, the payout ratio is 47 percent. The dividend yield is an attractive 3.8 percent.

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