Analysts' Conference – the Helvetia Group

Monday, 16 March 2015

Full-year results 2014

(The spoken word takes precedence)

Stefan Loacker, CEO of the Helvetia Group

(Slide 0) Full-year results 2014

Ladies and Gentlemen, I have the pleasure of welcoming you to the presentation of our 2014 full-year results. We can once again look back at a highly successful and eventful financial year 2014. We would now like to use this presentation to provide you with the facts and background information in more detail.

(Slide 2) Programme

After my introduction, Paul Norton will explain our key figures, Ralph Honegger will discuss the investment result, and Philipp Gmür will describe the development of the business in our home market of Switzerland. Finally, I will conclude the presentation with an update on the integration of Nationale Suisse. After this, we will be available to answer any questions you may have.

(Slide 3) Highlights of the 2014 financial year (1/2)

On the strategic side we made a move forward by acquiring Nationale Suisse and Basler Austria: The “new Helvetia” will strengthen its rating among the top 3 in Switzerland, improve its positioning in Europe and emphasize its presence on the attractive international “Specialty Markets”. At the same time our Group also made operational progress in the reporting year: premium development was solid, the technical situation is very healthy, and the capital yields are excellent. As a result, profits also increased.

Please note that Helvetia Group’s IFRS earnings for the period are influenced by extraordinary accounting effects that will effectively disappear from 2018 onwards, at the latest. Up to the end of the 2017 financial year we will therefore be focusing on the so-called “underlying earnings”, which will better reflect the operational development of the “new Helvetia” Group.

In the 2014 reporting year, Helvetia increased its underlying earnings by a sizeable 16 percent to CHF 422 million (previous year: CHF 364 million). The acquired companies made a pro-rata contribution to the results of CHF 22 million.

The improvement came from the **non-life business**, which grew by 33 percent to CHF 256 million compared to the previous year. The underlying earnings from the **life business** generally remained stable at CHF 151 million despite the difficult conditions on the capital markets.
Thanks to these positive business developments, we have been able to maintain our attractive dividend policy, and will propose to the Shareholders' Meeting that we increase the dividend by 2.9 percent to CHF 18.00 per share.

Business volume increased by 4.4 percent in original currency thanks to the acquisitions; on an organic basis it remained stable. The non-life business provided strong impulses and increased by 10 percent in original currency to almost CHF 2.8 billion. Austria saw an increase in non-life premiums in original currency of almost 24 percent; this was supported by the acquisition of Basler. Also Switzerland recorded a strong growth of almost 15 percent. The new companies were consolidated in the 2014 annual report on a pro-rata basis and are to be fully implemented in the 2015 financial year.

(Slide 4) Highlights of the 2014 financial year (2/2)

We are also making good progress with integrating the new companies. Since acquiring Nationale Suisse on 20 October 2014, integration has been running at full speed: the management, the target organisation and a common product range of the "new Helvetia" have been defined for all country markets. As part of the Nationale Suisse integration, joint sales will start with the expanded agency office network on 1 May 2015 under the Helvetia brand in Switzerland; the country markets of Germany, Spain and Italy will follow gradually from mid-2015 onwards. In Belgium, the process of the strategic examination was concluded with the sale of Nationale Suisse Belgium. Basler Austria now appears under the Helvetia brand. I will provide a more detailed report on the integration process later on.

It was very important to us that Helvetia continues to have a strong capital position following the acquisitions. Thanks to the successful refinancing, we have met this target, as demonstrated by the practically unchanged Solvency I rate of 216 percent (previous year: 218 percent). The planned SST ratio remains also within our target corridor of 150 to 200 percent.

Overall, the Helvetia Group can look back at a strategically and operationally successful year.

I will now hand over to our CFO Paul Norton, who will present to you further important information about our key figures >>>>.

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(Slide 28) Conclusion

Ladies and gentlemen, to conclude the presentation, I will now focus on where we are up to with integrating Nationale Suisse.

(Slide 29) Good start of the “new Helvetia”

This merger offers us an opportunity to build on the foundation of two successful companies, and use the best of both to build a better future. It will also bring a great deal of change for both Nationale Suisse and Helvetia Group. Internally, we are referring to the combined company as the “new Helvetia” and I will use this term in this presentation. As part of the integration project, we place great importance on dealing with the three main issues that are essential to our company’s future success:

1. Strategy and finance
2. Structures and processes
3. Corporate culture and employees

We are off to a strong start in all three areas, and have made enormous progress since the acquisition at the end of October.

We clearly outlined the **strategy** for the “new Helvetia” when announcing the acquisition: The company resulting from the merger will generate premium volumes of CHF 9 billion and will have a profit potential of CHF 500 million.

The most important market in the future will continue to be our **home market Switzerland**, where we have secured our position as a leading all-line insurer with a premium income of approximately CHF 5 billion. The focus of the integration is on the non-life business, which will practically double. The “new Helvetia” in Switzerland can benefit from extensive scale and synergy effects, for example in our product range, customer access and customer service, but also in terms of technical expertise, and in general with regard to payroll and overhead costs.

In the **market area "Europe"**, which encompasses Germany, Austria, Italy and Spain, Helvetia will generate approximately CHF 3 billion in premiums (before adjustments for currency effects since 15 January 2015). The growth of more than 10 percent in original currency is generated primarily in the non-life business. The integration of Nationale Suisse subsidiaries will create cost synergies as well as further potential for cross-selling and upselling, e.g. in the affluent customer segment and specialty lines business. The Nationale Suisse position in Belgium was under review since roughly one year, and it has now been sold.

The new **"Specialty Markets"** area includes the guidance and development of Engineering, Transport and Art insurance in Switzerland and in the markets outside of Europe, supplemented by the existing market units France and Active Reinsurance, which will continue to further develop their focused business models.

Our strategic direction thus remains unchanged since July 2014, but has been refined in more detail.

We have also made great progress in **the finance area**. We rapidly concluded the funding of the acquisition and were therefore able to maintain a strong balance sheet despite the increased size. We have analysed in more detail our future profit potential including the synergies resulting from the merger, and have been able to confirm the main targets as defined earlier: by 2017, we will have generated at least CHF 100 million from sustainable pre-tax synergies, have created a profit potential exceeding CHF 500 million, and should be in a position to incrementally increase our dividends. In general, the synergy case and the stronger bias into the non-life business are of great benefit in light of the difficult low interest rate environment.

The **structures and processes** for the new organization have already been defined. Leadership issues, organizational charts, locations, the future IT systems, product and sales landscapes, and all other factors important to the "new Helvetia" were worked out before the end of last year. Conceptionally, the new company has already been fully designed; the complex process of putting this into practice, with all its dependencies and priorities, has been scheduled and is now being implemented step by step.

One issue in this area is determining the future structure of the national and international legal units of the new Group. The squeeze out process launched in December for Nationale Suisse is proceeding as planned; we project a 100 percent share as well as the associated delisting of Nationale Suisse within the next few weeks. Following that, the operational legal entities of Nationale Suisse and Helvetia will be merged. This phase will bring us very close to the goal of an integrated “new Helvetia” in Switzerland.

The success of any new company depends most of all on the **employees and on a healthy, sustainable corporate culture**. We have already accomplished important achievements in this respect. The joint management teams were appointed very quickly at Group level and in all country markets. In doing this, we were able to utilise the talent in both companies as much as possible. In Switzerland for example, more than one third of the first and second management level below Executive Management was staffed by colleagues from Nationale Suisse. The “new Helvetia” is thus receiving a large injection of talent.

Meetings have been held with employees since the start of the year to discuss their career options. Over the course of the next few weeks, more and more employees will have their perspectives clarified. We have placed great importance on stabilising the workforce with a series of supportive measures so that our customers can continue to receive our traditional high level of service. The natural fluctuation rate has become more accentuated, as would be expected in this context. In Switzerland we will be able to achieve a considerably high level of staff synergies through staff resignations, early and normal retirements as well as through the termination of temporary employment contracts. This shows that the labour market for the insurance industry here in Switzerland is very receptive, and confirms our projection of being able to achieve a considerable part of staff synergies through natural fluctuation. Where it becomes necessary to lay off employees due to structural redundancies, such layoffs shall be carried out fairly and in a socially acceptable manner.

To conclude, we can say that a great deal has been achieved in the four months since the acquisition: strategy and finance topics have been specified, structures and processes defined, and management and staff issues have quickly progressed.

(Slide 30) Integration on track

What happens now, what are the next steps? In **Switzerland**, the integration of the two sales organisations as well as the new back office organisation will take place on the 1 May 2015. A joint range of products and services will be offered under the Helvetia brand and under a unified leadership from this point onwards. The legal merger of the non-life and life insurance carriers in Switzerland is also planned for early May. In less than two months the “old Helvetia” and Nationale Suisse will be history, and “new Helvetia” will take its place.

We are also working to launch a joint product range in the **European companies**, and on the merger of the operational and legal structures. Due to the different formal requirements in the individual country markets, we will need a few more weeks, but are still well on our way. We expect to launch the unified product range on staggered basis from mid 2015.

The **Specialty Markets** area will be integrated in the multi-channel organisation as part of the launch in Switzerland, and will also start operations as an integral unit in early May.

At the same time (early May), **Group functions** such as Finance, Investments, IT / Operations, Strategy & Communications, Group HR and Audit and Compliance will be placed under joint management. This will provide the operational market areas with the best possible support, while also being an efficient way of maintaining the management functions in the new Group structure.

To conclude, I am pleased to state that the integration is on track in all respects, and that I am looking forward to reporting on the successful further implementation of our plans at the half-year conference end of August. Thank you for your attention. We will now be happy to answer any of your questions.

We will start with people who are present here, and afterwards we will answer the questions of those participating by telephone. Please introduce yourself shortly before asking your question.