Helvetia Group analysts' conference

Full-year results

Monday, 14 March 2016

Financial statements 2015

(the spoken word takes precedence)

Paul Norton, CFO of Helvetia Group

(Slide 7) 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 successful year 2015. The temporary special effects resulting from the acquisition of Nationale Suisse Group and Basler Austria had a major influence on our IFRS profit for the period. As we mentioned before, Helvetia will therefore refer predominantly to the "underlying earnings" until the end of the 2017 financial year, which neutralise the temporary special effects and thus provide a better picture of the new Helvetia Group's operating performance.

The acquisitions of Nationale Suisse and Basler Austria were completed on 20 October and 28 August 2014 respectively and have been included in the Group financial statements since those dates. The comparative figures for the 2014 financial year therefore include Nationale Suisse and Basler Austria from those dates.

Let's now move on to slide 8 with the results by business area.

(Slide 8) Result by business area

Helvetia Group is reporting convincing underlying earnings of CHF 439 million, an increase of 4% on the previous year. This increase was due to a large extent to the acquisitions of Nationale Suisse and Basler Austria in 2014. Against this were lower interest income and the exchange rate effects of the Swiss National Bank's decision to lift the minimum exchange rate against the euro in January 2015, which affected growth when measured in Swiss francs.

We increased our result in non-life business to CHF 332 million, which was 22% up on 2014. This major improvement came from the volume contributions of the two acquisitions plus an improved technical result. All the non-life units achieved a combined ratio of below 100%.

The life business result came to CHF 176 million, 16% higher than the previous year. This growth in profits was driven by a good risk result and lower expenses in Switzerland and Spain for interest-related additional reserving compared to the previous year.

The contribution from Other activities (minus CHF 69 million) was considerably lower than the minus CHF 2 million in 2014. I'll come back to that later.

Let's now move on to the segment results on slide 9.

(Slide 9) Result by segment

As announced when we published our half-year results, we changed our segment reporting structure on 1 January 2015. The Helvetia Group operating segments now consist of: "Switzerland", "Europe", "Specialty Markets" and "Corporate". This structure reflects the Group's new positioning and we have amended the previous year's figures accordingly.

Currency effects triggered by the collapse of the euro against the Swiss franc affected the contributions of Europe, Specialty Markets and Corporate to the Group result.

The Switzerland segment comprising the Swiss country market, again proved its credentials as a stable foundation for the Group by posting a profit contribution of CHF 365 million and a growth rate of 28% in 2015.

Europe comprises the market units of Germany, Italy, Spain and Austria. The segment result for Europe was down 3% at CHF 98 million, which was solely due to exchange-rate effects as the result actually increased by 10% when measured in original currency. The result in original currency also rose in non-life business, due to the earnings contribution from Basler Austria and the reinsurance structure. The life result was 14% higher than in 2014, mainly because of improved risk results.

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 43 million, which was 11% higher than the previous year. All the units in the segment contributed to this improved performance.

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 67 million fell short of the previous year's figure of minus CHF 3 million. This resulted from a weaker result from Group reinsurance, currency losses related to the scrapping of the euro peg in January 2015 and planned financing costs for debt instruments in connection with the acquisition of Nationale Suisse. I will give you more on that later.

I will continue with our growth in business volume on slide 10.

(Slide 10) Business volume

In the 2015 financial year, the Helvetia Group achieved a business volume of CHF 8.2 billion. This equates to an increase of 11% over the previous year in original currency. This mainly resulted from the acquisition of Nationale Suisse and Basler Austria in the 2014 financial year. Our non-life business was the growth driver with an increase of 35% in original currency. In the Life business area, the volume of investment-linked insurance solutions and deposits increased by 5% overall, while traditional insurance solutions declined. This resulted in an overall decrease of 4% in life business.

The Swiss country market posted the biggest growth rate by segment with an increase of CHF 584 million (13%). I will return to that on the next slide. The anticipated positive acquisition-related effects were also apparent in the Europe segment, which posted 5% growth in original currency. In non-life business, we achieved a 19% increase in premiums by original currency in Europe – all the market units in this segment posted pleasing double-digit growth rates in original currency. Life business, on the other hand, decreased by 12% measured in original currency. This was mainly due to lower traditional life business volumes in Italy and Germany, which the improvement in unit-linked products and deposits could not offset. All other market units were able to increase, or at least maintain, their business volume compared to the previous year.

In the Specialty Markets segment, we also achieved a 29% increase in volume over 2014 in original currency. The Specialty Lines Switzerland/International market unit was the principal growth driver due to the first full-year consolidation of the former Nationale Suisse businesses. Active reinsurance also posted an impressive performance with 16% premium growth resulting from targeted diversification by region and business lines as well as the selected expansion of existing business relationships.

With that I will come to our home market on slide 11.

(Slide 11) Highlights: Swiss business

With the acquisition of Nationale Suisse, Helvetia has strengthened its strong top-3 position in Switzerland as a leading Swiss all-lines insurance company.

In non-life business we increased premium volume by 73% to CHF 1.4 billion. As I've already mentioned, this is mainly due to the acquisition of Nationale Suisse. The main growth drivers were motor vehicle and property insurance and the newly added accident/health portfolio. All sales channels contributed to this growth. The most important sales channel in Switzerland in 2015 was once again Helvetia's own sales force. However, Helvetia was also able to generate satisfying growth in the online sales channel through smile.direct. Smile.direct once again earned top marks in customer satisfaction surveys in the 2015 financial year. Helvetia is therefore already very well positioned in the strategically significant online segment.

Business volume in life business remained around the prior year level in a consistently challenging low interest rate environment. In individual life business, premium volume increased by 7% to CHF 951 million, whereby the main contribution came from the full-year consolidation of the former Nationale Suisse portfolio. The guarantee plan is demonstrating a positive trend in the sale of modern insurance solutions. However, overall Helvetia was not able to build on the growth from prior periods. Extraordinarily low interest rates made it practically impossible to present customers with products of similar appeal to those of previous years. Although sales of the second tranche product issued in autumn were again very strong, they were not able to compensate for the shortfall in the first half of the year.

Demand for full insurance solutions remained consistent in group life business. As a result, we achieved growth of about 3% in regular premiums, which are important for sustainable growth. However, the regular premium growth did not compensate for decreasing single-premium business in 2015, so group life business fell by 3% overall. We accepted the lower single-premium volume as part of our strategy of being very selective about our new business in this low interest rate environment.

Now let's take a look at the net combined ratio on slide 12.

(Slide 12) Non-life: Net combined ratio

The net combined ratio improved over the prior year by 1.4 percentage points to 92.1%. The net claims ratio fell by 0.2 percentage points due to an improved net claims experience, which was also underpinned by the reinsurance structure. At 29.4% the cost ratio was

1.2 percentage points down on the prior year. This was partly due to the realisation of notable synergies. All the market units achieved a combined ratio of below 100%.
Slide 13 contains the details of our life business.

(Slide 13) Life: Profit by sources

The operating result fell by CHF 37 million from its prior year level. It is mainly driven by the two principal earnings sources - the savings result and risk result. The risk result improved, however the savings result fell mainly due to the revaluation of bonds to market value as a result of the acquisitions.
Profit before tax, on the other hand, was up CHF 39 million or 25%. There were two influences here: reserve strengthening was lower overall during the reporting year and the prior year was impacted by the one-off amortisation of goodwill in Italy.

(Slide 14) Life: EV and NBM development

As you can see on slide 14, the Helvetia Group's embedded value was CHF 3.2 billion at the end of 2015, which corresponds to CHF 217 million (7%) growth over December 2014.

The life units acquired in the second half of the prior year were only included at the end of 2014 to the extent of their adjusted net asset value. In the reporting year, the new portfolios and all the burial insurance in Spain were modelled for the first time and included with all components in the 2015 embedded value. All of these adjustments increased the embedded value by CHF 209 million as of 1 January 2015.

Embedded value was CHF 8 million higher on 31 December 2015 compared to 1 January 2015 as operating profit was higher on the back of more favourable cost assumptions and a positive contribution of new business. There was a headwind on the economic front, as the decision by the Swiss National Bank to scrap the euro floor resulted in a sharp decline in investment yields in Switzerland and negative exchange rate differences with the EU units. Dividend payments in the first half of the year also reduced the shareholder value of the life insurance portfolio.

New business volume was down in 2015. In Switzerland, Helvetia took a conscious decision to reduce its sales of full insurance solutions for occupational pensions, and in the foreign markets new business volumes fell the most in capital-intensive, traditional savings products.

The value of the new business written in 2015 declined from CHF 26 million in the previous year to CHF 23 million because of the smaller volume of new business and, in Switzerland due to the considerably lower interest rates on new investments relative to 2014. In the foreign markets, however, the value of new business rose year-on-year despite the lower volume of new business. The first full consideration of the profitable burial insurance in Spain also contributed to this development. 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 slightly from 0.8% in the previous year to 0.9% in the reporting year. Thus the impact of lower investment returns in Switzerland was compensated by the foreign units.

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

(Slide 15) Direct yields and guarantees in life business

Direct yields fell in Switzerland and in the EU countries as a result of the lower interest rates. Nevertheless the interest rate margin increased in Switzerland. This was closely linked to 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 extra-mandatory rates, which have already been reflected in the average guarantee rate calculation.

We expect that yields will continue to fall as in recent years meaning that expected future returns will therefore also fall further, with the margin stabilising at approximately the same level as in 2014. However, it must be borne in mind that the average interest rate which Helvetia will have to meet in future to cover its liabilities will also fall. That is because maturing contracts with high guaranteed rates are being replaced by lower guaranteed rates and we have extra capital through the additions to the reserves.

On slide 16 I will provide you with the details on the result of Other activities.

(Slide 16) Other activities: Result by sources

As I mentioned earlier, I would like to tell you more about the Other activities result. Its contribution to the result fell from minus CHF 2 million in 2014 to minus CHF 69 million in the year under review. This is mainly attributable to the technical result for Group reinsurance, which fell by CHF 41 million. It was impacted in particular by an unfavourable claims history in the foreign portfolios of the former Nationale Suisse, which ceded many claims to the Group reinsurance due to the reinsurance structure. As a result of the current restructuring of these unprofitable portfolios and the completed and/or planned adjustments to the reinsurance structure, it can be expected that Group reinsurance will not be impacted to the same extent in future. Alongside the decline in the technical result of Group reinsurance, gains and losses on investments decreased by CHF 14 million compared to the previous year, which can be attributed primarily to the SNB's decision in January 2015. Moreover, there was no Nationale Suisse dividend in the reporting year due to the full takeover. Finally, the financing costs for bonds issued in connection with the Nationale Suisse acquisition, which are booked under liabilities, were included for a full year for the first time. Corporate costs stayed at the prior year level through achieved synergies, although the Nationale Suisse costs had only been proportionally included during the prior year.

I will now continue with investments on slide 17.

(Slide 17) Investments – overall performance

Current income in 2015 came to CHF 988 million, which was CHF 5 million lower than in 2014. There are two reasons for this: the depreciation of the euro meant that current investment income earned in euro was significantly less in Swiss francs than in the previous year. In addition, persistently low interest rates weighed on investment income.

Direct yield came to 2.2% against 2.5% in 2014. This was mainly a result of low returns on new and reinvestments.

In addition to current income, realised and book gains amounted to CHF 117 million. This came from gains on equities and through bond sales, mainly due to the deliberate switch of the bond portfolios from low euro yields to the currently more attractive USD bonds. In total the investment result recognized in the income statement was CHF 1.1 billion, CHF 170 million down on the excellent 2014 performance.

In the wake of the extraordinary, interest-driven increase in the previous year, unrealised gains in equity declined by CHF 370 million. The decrease was mainly due to slightly higher interest spreads and, once again, the weaker euro. Performance was in line with the market at 1.6%. A final point worth mentioning is that we earned CHF 79 million on investment-linked insurance solutions for our customers.

On slide 18 you can see the investment result broken down by asset class.

(Slide 18) Direct yield and performance 2015

Just under two thirds of the current income of CHF 988 million comes from bonds and mortgages, which contributed CHF 557 respectively CHF 89 million in absolute terms. Dividends accounted for CHF 60 million, and investment property CHF 237 million. Gains and losses on investments were CHF 117 million, whereby earnings on equities, bonds and property were affected by currency losses.

The development of non-realised losses in equity came from the previously mentioned interest rate and spread trend. The valuation margins on the bond portfolio fell by CHF 312 million.

The lower half of the slide shows the return on new and recurring investments. Over CHF 5 billion in total was reinvested or newly invested in 2015, just under 80% of which was allocated to bonds, primarily the new BBB corporate segment, USD bonds and convertibles. We were thus able to get around the negative rates in Switzerland to some extent. Nevertheless, we also had to contend with higher hedging costs to cover our foreign currency exposure. Otherwise the funds were mainly invested in equities and mortgages. In mortgages, Swiss life insurers were able to offer attractive conditions due to their long-term liabilities. Direct yields on new and reinvestments totalled 1.8%.

(Slide 19) Synergies, integration costs and acquisition effects

Slide 19 brings us back to acquisition-related temporary special effects. Our outlook up to 2017, which we announced at the media conference one year ago, is basically unchanged. I would nevertheless like to emphasise that it is an approximate indication, as the individual positions can still change.

We exceeded our 2015 forecasts due to the very pleasing progress of the integration. We achieved synergies of CHF 45 million during the reporting year, mainly from Switzerland, the Corporate Centre and Austria. As a result, the integration costs in the 2015 financial year were CHF 75 million placing them above the expected range as well – in line with synergies.
We are well on track to achieve our synergy targets and even slightly exceed them.

Financing costs booked in the reporting year came to CHF 13 million and the amortisation of intangible assets under IFRS of CHF 60 million were at the previously announced level, as was the additional planned depreciation due to the revaluation of interest-bearing securities to market value of CHF 43 million for 2015.

Slide 20 tells us about changes in equity.

(Slide 20) Changes in equity

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

With CHF 5.4 billion the Group’s equity capital was 5.4% down as of 31 December 2015 compared to year-end 2014. This was due to a reduction in gains and losses recognised in equity for our AFS financial investments, currency effects from the conversion of the equity of the European market units and higher values of pension liabilities in Switzerland as a result of a reduction of the discount rate to reflect lower interest rates.

I will bring my presentation to an end with the next slide, which has details of the proposed dividend for last year.

(Slide 21) Dividend – continuous increase

The excellent full-year result and sustained balance sheet strength have enabled us to increase the proposed dividend at the Shareholders' Meeting to CHF 19.00 per share, an increase of almost 6% over 2014. Based on underlying earnings, this corresponds to a dividend pay-out ratio of 45%, which lies within the target range. The dividend pay-out ratio is 66% based on the IFRS result. The dividend yield is an attractive 3.4%.

On that note I will now hand over to Stefan Loacker >>>