Helvetia Group analysts' conference

Full-year results 2016

Monday, 13 March 2017

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(the spoken words take precedence)

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(Slide 6) Financial figures

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

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

(Slide 7) All business areas delivering: Underlying earnings increased by 12%

Our underlying earnings for the 2016 financial year amounted to CHF 492 million, an increase of 12% compared to the previous year. This increase was due to the solid non-life business and a significant improvement of the result of other activities.

We increased underlying earnings in the non-life business by 2.6% compared to 2015 to CHF 341 million, which was mainly due to a better technical result. We will have a closer look on the non-life profit by sources in a few minutes on slide 11.

The result from other activities improved from minus CHF 69 million in the 2015 financial year to minus CHF 22 million in 2016. This is mainly attributable to the technical result of our Group Reinsurance, which improved significantly compared to the previous year. Just to remind you: in 2015, the technical result was impacted in particular by a number of large losses and claims arising out of the portfolio of the former Nationale Suisse. Alongside the improvement of the technical result of Group Reinsurance, the previous year had been negatively 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 life underlying earnings amounted to CHF 174 million and were therefore – with an improvement of the operating profit – marginally lower compared to the previous year. I will provide you with details on the profit by sources of the life business on slide 14.

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

(Slide 8) All segments showed robust results

All segments posted robust results in 2016. The **Switzerland segment**, once again, showed that it is a stable foundation for the Group by reporting a profit of CHF 366 million. In the **Swiss non-life** business underlying earnings increased compared to the 2015 financial year, thanks to a better technical development and synergies. In the **life business** underlying earnings were slightly below last year's figure. The increased operating result was offset by lower gains and losses on investments as well as reserve strengthening related to lower interest rates.

The **segment result for Europe**, which comprises the market units of Germany, Italy, Spain and Austria, increased by 15% to CHF 113 million. Both the non-life business and the life business contributed to this profit increase.

Non-life underlying earnings in Europe increased. Alongside a slightly better technical performance the net increase is mainly attributable to one-off positive tax effects in Italy and Germany.

Underlying earnings of the **European life business** increased. The largest effect was higher gains and losses from investments, offset to a large extent by higher expenses for interest-related reserve strengthening.

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 36 million, which was below the previous year. The decline was mainly attributable to a lower technical result in France due to a higher run-off result in the previous year.

The **Corporate** segment includes the Corporate Centre and Group Reinsurance, in addition to the financing companies and the holding company. Its result of minus CHF 24 million significantly improved against the previous year's figure of minus CHF 67 million. This was driven by a stronger result from Group Reinsurance and lower currency effects compared to 2015.

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

(Slide 9) Business volume increased by 2.6% driven by the life business – pleasing growth of modern products (+18.3%)

In the 2016 financial year, Helvetia Group achieved a business volume of CHF 8.5 billion. This equates to an increase of 2.6% over the previous year in original currency.

In the **non-life business** we achieved an increase in premium volume of 1.5% in original currency despite the fact that we were carrying out portfolio restructuring in order to improve profitability in some country markets. This growth was driven by the Active Reinsurance business, in line with its strategy.

Life business increased by a currency adjusted 3.4%. In particular, I would like to emphasise that in individual life business, the volume of the so called modern insurance products (investment-linked insurance solutions and deposits) increased by 18.3% overall, while traditional insurance solutions declined in line with our strategy.

Looking at the individual **segments,** the **Swiss** market posted the biggest growth in absolute terms with an increase of CHF 153.2 million or 3.1%. I will return to that on the next slide.

In the **Europe segment** we generated slightly less premiums compared to 2015 in original currency. As I have already mentioned we carried out targeted portfolio optimisation measures in the former Nationale Suisse portfolios in Germany, Italy and Spain in order to improve profitability. In Italy, alongside portfolio restructurings, the motor business suffered from a 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 13.3% increase in volume over the 2015 financial year in original currency. Growth was driven by Active Reinsurance, in line with their strategy, resulting from targeted diversification by region and business lines as well as the selected expansion of existing business relationships.

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

(Slide 10) Swiss business remains the solid foundation of the Group
In the 2016 financial year, the domestic market was once again the solid foundation of the Group.

In **non-life business** we slightly increased premium volume to CHF 1.4 billion. The main growth driver was a change of the invoicing period for motor vehicle insurance. As already mentioned in the half-year results, the former Nationale Suisse motor portfolio partly had a different invoicing sequence, which has now been aligned to the Helvetia portfolio. This already had a positive effect on growth in the first half-year and slowed down towards the end of the year. For the other lines of business, volumes remained stable or slightly declined compared to the previous year due to the intentional termination or non-renewal of some major contracts and the reduction of coverage for liability policies.

Business volume in **life business** increased by 4.1% with the biggest growth contribution coming from the group life business.
In group life Helvetia continued to pursue its strategy of being very selective about the new business. Nevertheless, single-premiums increased by 8.2%. 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 9.8 million or 0.8%. I would like to highlight that demand for the modern, capital-efficient products sold through Swisscanto also pleasingly grew. Here, Helvetia only acts as the reinsurer for death and disability risks.

In individual life business, premium volume increased by 2.7% to CHF 977 million, whereby the main contribution came from modern capital-efficient insurance solutions, increasing by 11.8%. Sales of both the guarantee plan and the two tranche products issued in spring and in autumn were again very strong. Traditional life – by contrast, and in line with our strategy – decreased.

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

(Slide 11) Non-life: Underlying earnings benefited from a higher technical result (net +10%)
In 2016 Helvetia again showed a very strong technical performance of the non-life business which is reflected in the net technical result being 10% above the prior-year.

Looking at the profit by source you can see that the gross technical result, meaning before Reinsurance, increased by 41% thanks to portfolio optimisation measures and significantly lower large claims in 2016. However, because the recoveries from reinsurers in 2016 were lower than in the previous year's results, the net technical result improved by 10%. This was due to changes in our reinsurance structures between the units and Group Reinsurance and because of the different nature of many of the claims, which meant that a lower claims expense could be ceded to reinsurers than in 2015.

The investment result (net) decreased compared to the 2015 financial year. The reason were lower gains and losses on investments partly as a result of the performance of equity markets in the first half-year. In 2015 Helvetia actively realised higher gains in order to compensate for currency effects, which were attributed primarily to the SNB's decision in January 2015 to remove the Swiss franc peg to the euro. Finally the previous year's investment result was positively impacted by higher appreciation for real estate.

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

(Slide 12) Non-life: Excellent net combined ratio – claims ratio and cost ratio improved

The net combined ratio improved over the prior-year by 0.5 percentage points to 91.6%.
As a result of a much better claims development following the portfolio optimisations, gross claims ratio decreased significantly in almost all country markets. These developments also benefited Group Reinsurance, as the European entities ceded less to Group Reinsurance. The net claims ratio improved accordingly. The cost ratio also improved thanks to realised synergies, although synergies were partly offset by higher commissions and special effects. I will give you some details on that on the following chart.
Finally I want to mention, that all market units achieved combined ratios below 100%.

(Slide 13) Non-life: Positive impact of additional realised synergies on cost ratio (-1.3% pts) – partly offset by special effects

As I already said, slide 13 provides details on the cost ratio.

Compared to 2015 the cost ratio improved from 29.4% to 29.2%. Additional realised synergies had a positive impact on the cost ratio of 1.3 percentage points but were partly offset by the following factors:

- Firstly, lower business volumes resulting from portfolio optimisations were partly compensated with “better” new business, the positive effect of which can already be seen in the claims ratio. By contrast, new business commissions increased and therefore had a negative impact on the cost ratio.
- Other effects with negative implications on the cost ratio include several single items, with the biggest impact coming from the pension cost accounting under IAS 19.

Slide 14 contains the details of our life business.

(Slide 14) Life: Improved operating profit thanks to strong savings result – revision of traditional products already showing positive effect

The operating result increased by CHF 32 million or 8% against its prior-year level. The improvement came from a better savings result, which benefited from the decrease of the minimum interest guarantee in the Group-life business in Switzerland in the mandatory and in the non-mandatory area. The changes made to traditional life insurance products in recent years also had a positive effect on the savings result. However the risk result fell mainly due to a weaker claims development, which is, however, in line with normal volatility.

Higher interest rate related reserve strengthening especially in Switzerland and Germany was partly compensated by higher capital gains and losses, with the policyholder participation mechanism also partially offsetting the reserve strengthening. The tax charge was lower due to one-off effects. Profit after tax therefore was up by CHF 1 million.

I will now continue with new business margin and embedded value on slide 15.

(Slide 15) Life: New business margin improved by 0.4%-pts thanks to successful revision of traditional and focused sales of modern products

On this slide, first of all I want to highlight that the new business margin using the TEV methodology improved by 0.4 percentage points to 1.3%. This very pleasing development shows the impact of our measures to improve profitability in the life business.

In line with our strategy in 2016 we focused on marketing modern capital-efficient life insurance products and reduced sales of traditional products. New business volume therefore was down in 2016 compared with 2015 but portfolio quality improved. The increase in new business volume from investment linked products considerably exceeded the decline in new business volume in traditional savings products. In Switzerland, Helvetia took a conscious decision to reduce its sales of full insurance solutions for occupational pensions. By contrast, new business generated by Swisscanto increased significantly. Here, Helvetia only acts as a reinsurer for the risks of death and disability. In Europe new business volume for capital-intensive traditional products also declined. The decrease was almost fully compensated by higher volumes of investment linked products.

The value of the new business written in 2016 increased from CHF 23 million in the previous year to CHF 33 million. In Switzerland traditional savings products were revised, which helped to offset declining yields. In Group-life business, value of new business also increased. The improvement was due to the higher share of new business coming from Swisscanto on the one hand. On the other hand, more favourable assumptions led to improved interest margins for the occupational pension business. In Europe, however, the value of new business declined year-on-year mainly due to lower volumes and lower new investment yields.

Helvetia Group's embedded value was CHF 3.3 billion at the end of 2016. This means an increase of 2.1% compared to December 2015. The main drivers were a positive operating profit and a positive contribution from new business, despite the low interest rate environment. Negative economic deviations due to lower interest rates had a counter effect, although not to the same extent as in the previous year. Helvetia financed the dividend distributed to the shareholders also out of the life business – as in the past years. This additionally reduced the embedded value.

Slide 16 deals with our direct yield and guarantees in life business.

(Slide 16) Life: Interest margin increased in Switzerland and Europe despite lower capital yields – successful measures to improve profitability

Direct yield in Switzerland and the EU countries declined as a result of lower interest rates. However, the interest margin improved significantly in Switzerland and in the European countries.

The increase of the interest margin in Switzerland and in Europe was closely linked to lower average technical interest rates on the liability side. In Switzerland, the biggest impact resulted from the adjustment of the guaranteed interest rate for BVG retirement assets as of

1 January 2017 from 1.25% to 1.0% for the mandatory part and a corresponding adjustment of non-mandatory rates.

The lower average technical interest rate in both Switzerland and Europe is also because we have been successfully restructuring our portfolio of traditional products. Maturing insurance contracts with high guaranteed rates are being replaced by lower guaranteed rates. Additional reserve strengthening also had a positive influence on the interest margin.

On the right hand side of the slide we have a graph showing the interest rate buckets on guarantees on Group level. Whereas in 2015 only some 25% of Group-wide life reserves had guarantees less or equal 1.0%, this year more than 40% of reserves had average interest rates 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 now like to move to the investment performance on slide 17.

(Slide 17) Investments: Good performance (2.5%) in ongoing difficult environment

The current income in the 2016 financial year was CHF one billion, which was CHF 11 million higher than in 2015, due to the higher investment volumes.

Direct yield was at 2.2% and therefore unchanged compared to the prior-year – despite an unchanged challenging low interest rate environment.

In addition to current income, realised as well as book gains and losses amounted to CHF 145 million. This figure came mainly from gains on and sales of fixed income instruments, predominately 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 recognised in the income statement was CHF 1.14 billion, CHF 39 million up on 2015.

Investment performance increased to 2.5% against 1.6% in the prior-year period. Unrealised gains and losses recognised in equity marginally increased. Finally we earned CHF 66 million more on assets backing investment-linked insurance solutions for our customers.

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

(Slide 18) Stable new and re-investment yield

Two thirds of the current income of CHF 1 billion came from bonds and mortgages, which contributed CHF 574 respectively CHF 87 million in absolute terms. Dividends accounted for CHF 65 million, and investment property for CHF 236 million. Gains and losses on investments were CHF 145 million, mainly driven by bonds. You should note that the "Other" category relates almost entirely to our own hedging instruments, which generally move in the opposite direction to the underlyings. Most of these cover interest rate and currency risks on bonds as well as price movements on equities. As a result of the hedges, the net equity gains were not material – which shows the impact of our conservative approach to hedging.

The development of non-realised gains in equity was driven by lower gains and losses on bonds due to the slight increase in interest rates as well as the recovery in share prices. The unrealised gains on the bond portfolio decreased by CHF 32 million.

The lower half of the slide shows the return on new and recurring investments. Around CHF 5.4 billion in total were reinvested or newly invested in the 2016 financial year, 77% 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 to mitigate the negative and very low bond yields in Swiss francs to some extent. Investing in mortgages and equities and to a small extent also in investment property, also contributed strongly to mitigating the impact of the low yield environment. Direct yields on new and reinvestments totalled an appealing 1.6%.

I will now continue with slide 19.

(Slide 19) Unchanged strong capital position: SST ratio within target range, RoE increased to 9.7%

I would like to remind you that we are, as usual, only in a position to report the previous half-year's SST ratio. Based on the end of June 2016 SST ratio, Helvetia still enjoys a solid capital position: the SST ratio then was within the new target range of 140 – 180%. I understand that certain of you would like more information regarding exact SST figures, but given the great state of flux that the SST is in at the moment with the development of standard models and other initiatives by FINMA, it would make little sense to give you further details. Once the situation has stabilised and the formal "BüFL" reporting has been introduced, you will obviously be able to have much more information around this topic.

Thanks to the increase in underlying earnings RoE improved from 8.9% to 9.7%.

Equity also increased driven by the strong earnings and despite paying an attractive dividend. By comparison with last year, the lower volatility in interest rates and FX caused only very limited movements in unrealised gains and losses within equity.

I will finish my presentation with details on the dividend increase on slide 20.

(Slide 20) Dividend per share increased by 10% to CHF 21.00 – attractive dividend yield of 3.8%

The excellent full-year result, the good progress on synergy realisation and the sustained balance sheet strength have enabled us to increase the proposed dividend to the Shareholders' Meeting to CHF 21.00 per share. This corresponds to a dividend pay-out ratio of 44% on an underlying earnings basis, which lies within the target range. The dividend pay-out ratio is 58% based on the IFRS result. The dividend yield is, what we consider to be an attractive 3.8%. I would like to emphasise that an increase of 10% per share in the dividend will not necessarily be repeated regularly in the following years. We made certain estimates of what we believed the dividend potential from the Nationale Suisse acquisition to be and we stated that we expected a steady, conservative increase in the dividend until the synergies had been fully earned, when we expected a larger step up. At the moment we are confident that we could slightly accelerate the timing of the step up and hence a lightly earlier increase in the dividend than we had originally anticipated.

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