Helvetia Group analysts' meeting
Full-year results 2017
Monday, 5 March 2018

Full-year results 2017
(the spoken words take precedence)

Paul Norton, CFO Helvetia Group

(Slide 7) Financial figures
Ladies and gentlemen, I would also like to welcome you to this analysts' meeting. Within the next 25 minutes, I will give you more detailed information on our financial performance in the 2017 financial year.

I would like to turn to slide 8 with the results by business areas.

(Slide 8) Underlying earnings increased by 2.2% – life and non-life business with strong performance
Our underlying earnings for the 2017 financial year amounted to CHF 502 million and therefore increased 2.2% compared to the previous year. This increase was driven by both the non-life and the life business.

One general point that I would like to mention is that all segments had positive one-off tax effects last year, mainly due to the integrations. This year, the tax rates are more or less in line with normal expectations, which means that all segments had a higher tax charge.

In the **non-life** business, underlying earnings amounted to CHF 363 million and were 6.7% higher compared to the 2016 financial year. In addition to a better technical result, the increase was mainly driven by a higher investment result because of the good development of the capital markets in 2017. We will have a closer look on the non-life profit by sources in a few minutes on slide 11.

Underlying earnings of the **life** business were 11.3% higher at CHF 193 million. The increase was driven amongst others by a higher savings result. I will provide you with more details on the profit by sources on slide 14.

The result from **other activities** [which includes the Corporate Centre and the non-insurance activities of Market Unit Switzerland, i.e. MoneyPark and DL (Defferrard & Lanz)] amounted to minus CHF 54 million against minus 22 million in the 2016 financial year. Our Group Reinsurance benefitted from a better technical performance. However, due to higher costs related to the new hybrid bond, issued in spring 2017, a lower investment result, the first-time effect of the acquisition of MoneyPark and DL, the absence of positive one-off tax effects, which were included in the prior-year and higher costs due to budgeted projects, underlying earnings decreased, compared to 2016.

Let's turn to the segment results on slide 9.

(Slide 9) Stronger results from Switzerland and Europe, resilient earnings in SpM despite NatCats

All segments posted robust results in 2017.

The **Switzerland segment** once again showed that it is a stable foundation for the Group by reporting a profit of CHF 410 million. The increase was driven by both business areas, non-life and life. In the **Swiss non-life** business, underlying earnings increased by 13.8% compared to 2016, thanks to a higher investment result. The technical result also improved slightly because of the higher volume.

The **life business** also showed 17.5% higher earnings on a year-on-year comparison. This was due to an increased operating result – essentially a higher savings result, a stable risk result and a higher "other" result – as well as higher gains on investments. These increases were partially compensated by higher expenses for policyholder participation. Expenses for reserve strengthening remained at approximately the previous year's level.

The **segment result for Europe**, which comprises the market units of Germany, Italy, Spain and Austria, increased by 5.4% to CHF 120 million.

Non-life underlying earnings in Europe increased by a very satisfying 13.4%. The improvement was mainly driven by a significantly better technical performance, with very good progress in combined ratios.

Underlying earnings of the **European life business** fell short of the previous year's level. The reason for the decline were a lower savings result and higher expenses for interest-related reserve strengthening. Higher gains and losses on investments were partly offset by higher expenses for policyholder participation.

The segment result for **Specialty Markets** decreased to CHF 17 million.
The main reasons for this decline were a higher NatCat burden in the Active Reinsurance (mainly hurricanes Harvey, Irma and Maria) and reserve increases due to the adjustment of Ogden discount rates in Great Britain. Specialty Lines CH/International also suffered from a higher NatCat load. Despite this large NatCat burden, Specialty Markets still achieved a combined ratio at 100.1%.

The **Corporate** segment includes the corporate functions and Group Reinsurance, in addition to the financing companies and the holding company. Its result of minus CHF 43 million decreased against the previous year's figure of minus CHF 24 million. Despite a significantly improved technical result in Group Reinsurance, the decline was mainly due to costs related to the newly issued hybrid bond, the absence of the one-off positive tax effects contained in the previous year and the planned higher costs for projects.

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

(Slide 10) Stable business volume: pleasing growth of non-life (+4%) and investment-linked life products (+14%)
In the 2017 financial year, Helvetia Group achieved a business volume of CHF 8.6 billion. This equates to a currency-adjusted increase of 0.7% over the previous year.

In the **non-life business,** we achieved an increase in premium volume of 4.3% in original currency. The growth was driven by the Active Reinsurance and Specialty Lines CH/International, with the strong growth of Specialty Lines CH/International being mainly attributable to a one-off effect and the growth in Active Reinsurance being in line with our strategy.

In the **life business,** the effects of our strategic initiatives could be seen with an excellent growth of 14.1 percent in capital-light, investment-linked products and a planned reduction in traditional individual life products. This latter impact, together with a positive one-off effect in the Swiss group life business in the previous year led to a decrease in the total life volume of 2.4% in 2017.

Looking at the individual **segments,** business volume in Switzerland declined by 2.5%.

In the **non-life business,** we increased premium volume by 1.4% to just over CHF 1.4 billion.
Business volume in **life business** by contrast went down by 4.1% with the biggest effect coming from the group life business.

- Here single premiums decreased by 7.2% compared to the prior-year period. In 2016, growth was impacted by a positive one-off effect due to a single transfer of policyholder bonuses into retirement assets, booked as premiums.
- Regular premiums, which are important for assessing business performance, increased by 0.8%.

Finally, I would like to highlight that demand for the modern, capital-light products sold through Swisscanto also grew very well. In the new business, Swisscanto recorded a pleasing growth of policies of 15.9% and total policy growth was at 5.8%. Already 41% of existing and 45% of new customers have policies with Swisscanto. Here, Helvetia only acts as the reinsurer for death and disability risks, as the interest rate risks are borne by the Swisscanto foundations themselves.

In individual life business, premium volume decreased by 5.7% in Switzerland. Modern, capital-light, investment-linked insurance solutions increased by 12.7%, following the successful sale of our tranche product "Helvetia Value Trend" and a good development of the "Helvetia Guarantee Plan". In contrast, the business volume of traditional insurance solutions declined as planned.

In the **Europe segment** business volume increased by 2.4% in original currency. All country markets recorded higher volumes compared to the previous year. Spain and Germany posted the highest growth rates.
In **non-life** almost all European entities were back to growth. Italy only was still confronted with a market-wide decline in motor insurance.
The European **life business** also grew by 3.9% with modern, capital-light, investment-linked products increasing by 14.9%. We can look back on successful sales of those products in all country markets.

In the **Specialty Markets segment**, we also achieved a 15.9% increase in volume in original currency. Growth was mainly driven by Active Reinsurance, resulting from targeted diversification by region and business lines as well as the selected expansion of existing business relationships. Specialty Lines CH/International also recorded strong growth, which - as mentioned above - was due to a one-off effect. Adjusted growth was low single digit.

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

(Slide 11) Non-life: strong technical results from sound portfolio quality, tailwind from capital markets

Helvetia again showed a very strong technical performance in the non-life business in the 2017 financial year. Thus, the net technical result was 3% above the prior-year.
Looking at the profit by sources, the gross technical result, meaning before reinsurance, increased by 2%. In addition to the higher volume, this increase was due to the improved technical performance of the European units, which compensated for the decline at Specialty Markets, mainly caused by higher NatCats.

The investment result (net) increased by 34% compared to 2016 and was therefore a major driver for the increase in underlying earnings. The capital markets and, in particular, equity markets performed well, therefore we achieved higher capital gains on investments.

Higher taxes due to the lack of the positive tax effects included in the previous year had a negative effect.

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

(Slide 12) Non-life: good net combined ratio on Group level supported by a strong improvement in Europe

Despite a higher burden from NatCats in the reporting year, the net combined ratio remained almost unchanged at the previous year's level and amounted to a very good 91.8%.
As already mentioned, this is attributable to the positive development in **Europe**. Here, the successful portfolio optimisations in recent years are now showing an effect and resulted in a net claims ratio that was 1.6 percentage points lower than in the previous year. Thanks to the lower claims ratio and a slightly better cost ratio, Europe was able to improve the net combined ratio to 95.4%. All European market units achieved combined ratios below 100%.

Switzerland showed a net combined ratio of 83.1%, which is remaining at an excellent level.

In the **Specialty Markets** segment, the net combined ratio amounted to 100.1%. One major effect was the higher NatCat loading in Active Reinsurance, with the biggest impact coming from the hurricanes Harvey, Irma and Maria, which resulted in net losses of CHF 9 million.

Finally, I would like to mention that we now disclose the impact of the run-off result on the net claims ratio in the graph at the bottom right of this slide. In 2017, the run-off result had a 2.9% positive impact, compared with 3.7% in 2016, which is in the usual range of our expectations. I would like to point out that this ratio has fluctuated and will do so in the future. Even more important is the good underlying claims ratio although we had a higher impact from NatCats compared to the prior-years. This shows that our portfolio quality is at a high level.

I will give you some details on the cost ratio on the following slide.

(Slide 13) Non-life: positive impact of volume and synergies on cost ratio (-0.8% pts) offset by different effects

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

Compared to 2016 the cost ratio gross went up from 28.7% to 29.1%.

The positive impact of the higher business volume was offset by higher costs, primarily related to growth initiatives and smaller one-off effects.
Synergies from the integrations led to a 0.3%-point improvement in the cost ratio, which we have predominantly used to finance budgeted projects.

Slide 14 contains the details of our life business.

(Slide 14) Life: improved operating profit driven by a strong savings result

The operating result of the life business increased by CHF 35 million or 8% against its prior-year level. The better savings result, which benefited from the decrease of the minimum interest guarantee in the group life business in Switzerland contributed to this increase.
The risk result remained stable in a prior-year comparison. The Other result improved due to regular fluctuations in the valuation of customers' options for index-linked insurance products as well as positive one-off effects. Gains and losses from investments also increased, but in return resulted in higher expenses for policyholder participation. Expenses for interest-related reserve strengthening were slightly higher than in the previous year.
Finally, the one-off low tax rate of the past year was not repeated in 2017.

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

(Slide 15) Life: NBM improved to 1.8% thanks to de-risking and focused sale of capital-light products

On this slide, first of all I want to highlight that the new business margin using the TEV methodology improved by 0.6%-points to 1.8%. This very pleasing development shows the impact of our measures to improve profitability in the life business.

The value of the new business written increased from CHF 33 million in the 2016 financial year to CHF 49 million in 2017, driven mainly by the successful revision of traditional products and the focused sale of modern products.

The new business volume increased by 4% to CHF 2,638 million.
In Switzerland the main driver for the improvement was the Swiss group life business, with Swisscanto showing the highest growth rates in new business. In individual life, modern products also grew pleasingly. New business volume with traditional products by contrast was declining – in line with our strategy. The European entities also showed strong new business volumes with modern products. In all country markets, traditional savings products are now only offered selectively or in a modernised form i.e. with noticeably reduced guarantees or guarantees upon maturity.

Helvetia Group's embedded value was CHF 3.8 billion at the end of 2017. This equates an increase of 16% compared to the same reporting period last year. The main drivers were model changes, a positive economic and operating profit and the new business value, offsetting the impact of dividend payments.

I will continue on slide 16.

(Slide 16) Individual Life: New business mix continues to improve

Slide 16 clearly shows that our new business mix is continuously improving. The share of the so-called capital-light business, which includes investment-linked products, revised traditional products (we call them modern-traditional products) as well as protection products, was at 73% for single premiums and 78% for regular premiums at the end of the year 2017.
This shows that our measures to revise our traditional life insurance products have been successful and, additionally, our investment-linked products are very well received by our customers.

I would now like to move to the direct yield and guarantees in life business on slide 17.

(Slide 17) Life: Stable interest margin in Switzerland despite lower yields
The interest margins in our Swiss life business remained very stable, with only a marginal decline, despite continuing low interest rates.
Direct yield in Switzerland and the EU countries declined compared to last year as a result of lower interest rates.

The development of the interest margin in Switzerland was closely linked to lower average technical interest rates on the liability side, which decreased from 1.24% to 1.17%. 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 reduction of non-mandatory rates to 0.25%.

The successful revision of our traditional product portfolio and the focused sales of modern, capital-light products also influenced the average technical interest rate. Maturing insurance contracts with high guaranteed rates are being replaced by modern, capital-light products. Finally, additional reserve strengthening also had a positive influence on the interest margin.

In Europe, the interest margin shows a slight decline from 0.53% in 2016 to 0.49% in the 2017 financial year. As a result of decreasing interest rates and some older, large volume investments maturing, we see a stronger drop in direct yield, compared to the average interest rate Helvetia has to generate in order to meet its obligations.

On the following slides I want to provide you with details on our investments.

(Slide 18) Investments: Good performance (2.8%) driven by strong returns from equities
The current income in the 2017 financial year was CHF 1,001 million and thus more or less on the same level as last year. While rental income from real estate increased in particular, income from financial assets declined slightly due to the persistent low interest rate level. Direct yield was at 2.1% a slight decline against the prior-year.

In addition to current income, realised as well as book gains and losses amounted to

CHF 347 million. This figure was driven by the good performance of equities, which generated an attractive overall return. In total, the investment result recognised in the income statement was CHF 1,349 million, CHF 205 million up on the 2016 financial year.

Investment performance increased to 2.8% against 2.5% in the prior-year period. Unrealised gains and losses recognised in equity changed only marginally. Finally, we earned CHF160 million on assets backing investment-linked insurance solutions for our customers.

On slide 19 you can see the investment result broken down by asset class.

(Slide 19) Investments: resilient new and re-investment yield

Two thirds of the current income of CHF 1,001 million came from bonds and mortgages, which contributed CHF 569 respectively CHF 88 million in absolute terms. Dividends accounted for CHF 68 million and investment property for CHF 242 million. Gains and losses on investments were CHF 347 million, mainly driven by gains on equities.

As already mentioned, unrealised gains and losses only changed marginally.

The lower half of the slide shows the return on new and recurring investments. CHF 4.2 billion in total were reinvested or newly invested in the 2017 financial year, 71.8% of which were allocated to bonds, primarily in Euro-bonds and 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. We also expanded the mortgage portfolio in line with our targets. Finally, 2.1% were allocated to investment property and 6.8% in equities. Direct yields on new and reinvestments totalled 1.5%, only marginally down compared to last year's 1.6%.

I will now move to slide 20.

(Slide 20) Dividend per share increased by 10% to CHF 23.00 – attractive dividend yield of 4.2%

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 23.00 per share. This corresponds to a dividend pay-out ratio of 47% on an underlying earnings basis, which lies within the target range. The dividend pay-out ratio is 59% based on the IFRS result. The dividend yield is, what we believe is an attractive 4.2%.

I will finish my presentation with more details on our payout ratios and cash remittances on slide 21

(Slide 21) Strong cash remittances – all segments contributing to dividend
Helvetia passes virtually all dividends it receives from its subsidiaries right through to its shareholders. Helvetia Holding does not retain any dividend for itself. We have the advantage that many of our foreign operations are branches of Helvetia Insurance Company, St.Gallen, which makes capital fungibility very easy. All operating companies are subsidiaries of Helvetia Insurance Company and dividends are passed up to it, mixed with the profit contribution from the branches and paid out to Helvetia Holding.

You can see that on an IFRS basis, the individual market units, which may be made up of different companies and branches pay a substantial proportion of their profits to Helvetia Holding.

We have not given details of the SST in this presentation since for the first time Swiss companies will publish an equivalent to the EU SFCR in April this year. With this we intend to publish a small information pack, giving you highlights of the report. What I can say is that we expect our SST for 1.1.2018 to be well within our usual range of 140% to 180%.

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