Helvetia Group analysts’ meeting
Full-year results 2018
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(The spoken words take precedence)

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(Slide 5) Financial figures

Ladies and gentlemen, I would also like to welcome you to our analysts' conference today. Within the next 25 minutes, I will give you more detailed information on our financial performance in 2018.

I would like to start with slide 6.

(Slide 6) Solid net income

We achieved a solid IFRS result of CHF 431 million, against underlying earnings of CHF 502 million in 2017. As in the first half of the year, the full-year result was also impacted by the ongoing bond amortisation to par, which is a pure accounting effect from the 2014 acquisitions. The bond amortisations amounted to CHF 16.4 million in 2018 (after tax and policyholder participation). The main reason for the lower results was the exceptional volatility in the equity markets at the end of the year. Our technical results remained very strong.

Let's turn to slide 7 with more details on the business areas.

(Slide 7) Resilient results in non-life and life impacted by weak capital markets
In the **non-life** business, IFRS earnings amounted to CHF 332 million against CHF 363 million underlying earnings in 2017. While the technical results improved significantly compared to the previous year, the decrease was mainly driven by a considerably lower investment result. We will have a closer look on the non-life profit by sources in a few minutes on slide 10.

IFRS earnings of the **life** business stood at CHF 148 million. In addition to a number of other effects (in particular the impact of lower investment returns), the amortisation of bonds I mentioned before had a negative impact of CHF 12.0 million (after tax and policyholder participation). I will provide you with the details on the income streams on slide 12.

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)] slightly increased compared to 2017. The rise can mainly be attributed to consolidation effects from the funds allocated to this segment. We will have a more detailed look on the profit sources on slide 15.

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

(Slide 8) Stable results in Europe – Specialty Markets with pleasing improvement
All segments delivered good results despite the impact of the financial markets.
In the **Switzerland segment,** the IFRS result for 2018 was CHF 321 million. This includes a total of CHF 14 million of bond amortisation (net of tax and policyholder participation).
In the **non-life** business, we achieved a higher technical result compared to the previous year, which once more underpins the good quality of the portfolio. The investment result, however, was impacted by the weak performance of stock markets.

In the **life** business, lower expenses for interest-related reserves strengthening and lower expenses for policyholder participation only partly compensated for a reduced technical result (margin after costs) and significantly lower gains on investments. The ongoing amortisation of bonds to par had an additional negative impact of CHF 11.6 million after tax and policyholder participation.

The **segment result for Europe**, which comprises the market units of Germany, Italy, Spain and Austria, amounted to CHF 117 million against CHF 120 million underlying earnings in

2017. In **non-life,** the improved technical result is offsetting a weaker investment result. In **life,** lower expenses for interest-related additional reserve strengthening as well as lower expenses for policyholder participation only partly compensated for a lower technical result and a considerably lower investment result.

The segment result for **Specialty Markets** increased to CHF 35 million.
The improvement was due to a better technical performance as the last year was affected by NatCat events (e.g. the HIM storms), which more than offset the lower investment result.

The **Corporate** segment includes the corporate functions and Group reinsurance in addition to the financing companies and the holding company. Its slightly improved result of CHF -42 million benefited from positive consolidation effects from the funds allocated to this segment.

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

(Slide 9) Excellent top-line growth driven by non-life and life
In 2018, Helvetia Group achieved a business volume of just over CHF 9 billion. This equates to a currency-adjusted increase of 3.9 percent over the previous year.

In the **non-life business**, we achieved an increase in premium volume of 5.8 percent in original currency. The growth was mainly driven by Active Reinsurance, where premiums increased by 25.6 percent in line with our strategy. In addition, the European entities achieved 6.8 percent higher premiums year on year in OC, showing growth in all countries and all lines of business. In our Swiss home market we were able to increase premiums effectively by 2.4 percent, compared to the 0.5 percent reported growth, which was distorted due to a one-off accounting adjustment in 2018.

In the **life business,** business volume rose by 2.1 percent in original currency. The increase was mainly driven by a very good development of investment-linked products in individual life in Switzerland and Germany. Business volume for traditional life products decreased in line with our strategy.

Helvetia also recorded growth in the Group life business, which can mainly be attributed to Swiss group life business rising by 2.4 percent. Periodic premium increase of 4 percent in the occupational pension business was satisfactory. Single premiums rose by 0.9 percent, which shows that we are still pursuing a conservative underwriting in the occupational pension business in view of the low interest environment. Particularly noteworthy, however, is the development of new business. In this area, capital-efficient products (e.g. Swisscanto and BVG Invest) showed significant growth over the previous year.

Now I would like to look at the profit by sources of the non-life business on slide 10.

(Slide 10) Non-life: improved technical result but lower investment income due to weak capital markets

In 2018, the technical result improved significantly over the previous year due to a better claims environment in the second half of the year and higher volumes.

The investment result (net), however, decreased by 47 percent compared to 2017 and was therefore the major driver for the total decrease in net income. While 2017 was an exceptionally good year for the stock markets, in 2018 equities declined significantly.

I would now like to move to the net combined ratio on slide 11.

(Slide 11) Non-life: strong net combined ratio on a very good level

Group net combined ratio was 91.0 percent in 2018, which is an exceptionally good level and once again underpins the good quality of our portfolio. It also once more meets our financial strategy target of a net combined ratio below 93 percent.

The **claims ratio improved by 1.0%** point to 61.1 percent. The main reason was a better NatCat ratio (if you remember, last year, we had quite a significant impact from the hurricanes HIM) as well as a better attritional claims development.

Looking at the **cost ratio**, we were able to **reduce the administration cost ratio by 0.4%** points. The **acquisition cost ratio** was higher year-on-year. The increase resulted from opening up new distribution channels and new cooperation agreements.

On a segment level, **Switzerland** showed an improved net combined ratio of 82.7 percent, thanks to a better attritional claims development and better run-off.

With 95.1 percent, **Europe** also recorded a better net combined ratio compared to 2017. The improvement was also attributable to good attritional loss trends.
All European market units achieved combined ratios below 100 percent.

In the **Specialty Markets** segment, the net combined ratio improved to 96.2 percent driven by a lower claims ratio as the last year was affected by higher NatCat events.

On slide 12, we will have a closer look at the life business.

(Slide 12) Life: net income affected by various effects
In 2018, net income for the life business was CHF 25 million below the prior year's figure. Looking at the profit by sources the **margin after costs** decreased. First, it should be positively emphasised that the **fee result** increased compared to 2017, albeit at a low level. All other profit sources, however, declined. The decrease in the **savings result** was driven predominately by Swiss group life business, as the mandatory interest rate for retirement assets remained unchanged while market yields declined.

The lower **risk result** also mainly resulted from Swiss group life business as a consequence of a poor mortality result in the first half of the year. In addition, we had a positive one-off effect in individual life in Switzerland in the previous year arising from the Nationale Suisse integration.

The **other result** was impacted by fluctuations in the valuation of options for investment-linked products. Over the life-time of the products these fluctuations will even themselves out.

Gains and losses on investments decreased due to poor stock market performance.

The **extraordinary result** was affected by the following effects: As a result of the persistent low interest rate environment, additional interest-related reserve strengthening was necessary in Switzerland and in Europe, although on a lower level compared to the prior year. In Switzerland, the necessary reserve strengthening could be financed by the ending of the industry-wide "Teuerungsfonds", which resulted in a one-off release. The excess reserve release not utilised to finance the reserve strengthening had to be allocated to the policyholder participation fund.

Expenses for policyholder participation were lower in both Switzerland and Europe mainly due to the reduced investment result.
The two aforementioned factors had a compensating effect on the net income.

I would now like to switch to new business, which has developed very positively, as you can see from slide 13.

(Slide 13) Life: product updates and assumption adjustments compensate required increase of risk discount rate

New business is developing well: the **new business margin** remained broadly stable compared to 2017 at **1.7 percent (2017: 1.8 percent)**, despite having had to adjust the risk discount rate due to higher capital market expectations, which resulted in a reduction of the new business margin.
However, product measures and improved assumptions on the future development of new business largely offset the impact of discount rate adjustments.

We also made further progress in shifting from traditional savings products with interest rate guarantees to modern capital-light products.

At 1.7 percent, the new business margin is also above our target set within the *helvetia 20.20* strategy.

I would now like to continue with the development of the interest margin on slide 14.

(Slide 14) Life: resilient interest margin in an ongoing low interest environment

Direct yield in Switzerland and the EU countries declined compared to last year because of low interest rates.

In **Switzerland** the interest margin went down when comparing 2018 with 2017. This was attributable to the following reasons:
Direct yield decreased on the one hand because USD bonds with higher coupons, but also higher hedging costs, were replaced with euro bonds with lower coupons, but also lower hedging costs. As hedging costs are not included in current income and are therefore not considered when calculating the direct yield, this shift had a negative effect on the numbers shown, although not economically.
The **average technical rate**, i.e. the rate that we need to earn, also declined. The main drivers here were:

- the successful revision of our traditional product portfolio and the focused sales of modern, capital-light products,

- maturing insurance contracts with high guaranteed rates, which were replaced by modern, capital-light products,
- and finally, additional reserve strengthening.

However, as the direct yield declined at a faster rate than the average technical rate, the interest margin went down.

In **Europe**, the interest margin shows an increase from 0.49 percent in 2017 to 0.59 percent in the reporting period. Here, we see a sharp drop in the average interest rate Helvetia has to generate in order to meet its obligations due to additional reserve strengthening and new contracts with lower guarantees replacing old ones with higher guarantees. As the average technical rate was dropping faster than the direct yield, the interest margin improved.
On Group level, the interest margin remained more or less stable.

On the following slide, I want to provide you with details on the profit for other activities.

(Slide 15) Other activities: net income up due to positive consolidation effect on own funds

Looking at the profit by sources,

- the **net technical result** in group reinsurance decreased, resulting from a few large loss events in Europe, ceded to group reinsurance.
- The **investment/FX** result was higher year-on-year due to a positive consolidation effect from our own investment funds.
- The **costs/other** result, however, declined slightly. This can be attributed to planned investments in the new brand image and advertising campaign and business transformation activities, in line with our strategy.
- Slightly higher **financing costs** resulted from higher interest expenses for our euro bond. As the bond was issued in March 2017 interest expenses were only included for 9 months in 2017 vs. 12 months in 2018.

The next slide shows the development of our investment result.

(Slide 16) Investments: volatile capital markets impact investment result

- **Current income** of CHF 987 million remained at prior year's level despite the persistently low interest rates.
- **Realised and book losses** amounted to CHF 193 million mainly reflecting weak equity markets. The Group investment result recognised in the income statement therefore stood at CHF 794 million.
- **Unrealised gains and losses recorded in equity** decreased by CHF 639 million due to a weak performance of equity markets, higher interest rates in the US and higher credit spreads.
- **Total investment performance** therefore was 0.3 percent.

As a result of the development of the capital markets, **investments with market risk for the policyholder** decreased by CHF 216 million.

On slide 17, you can see the investment result broken down by asset class.

(Slide 17) Investments: stable new and re-investment yield

The first table shows the performance of the total investment portfolio.

About two thirds of the **current income** of CHF 987 million came from bonds and mortgages, which contributed CHF 537 and CHF 86 million, respectively, in absolute terms. Dividends accounted for CHF 75 million and investment property for CHF 243 million. **Realised and booked losse**s on investments amounted to CHF 193 million reflecting weak equity markets.

As already mentioned **unrealised gains and losses** decreased by CHF 639 million.

The lower half of the slide shows the **return on new and re-investments**. In 2018, the total new or reinvestments amounted to CHF 4.8 billion. Almost 85 percent of the funds were allocated in euro and Swiss franc fixed-income securities, the remainder in mortgages, equities and real estate. Due to increased hedging costs for investments in U.S. dollar as a result of higher interest rates, the portfolio was partially reallocated to reduce the weight of the American currency. The average return on new investments totalled 1.5 percent.

(Slide 18) SST: new solvency models neutral regarding resilience of capitalisation, target range revised

On slide 18, I would like to provide you with some details on the SST ratio. As you can see on that slide, we have revised our **target range** from formerly 140 – 180 percent to a new **180 – 240 percent**. We will publish the definitive SST ratio as of 1st January 2019 with the disclosure of the financial condition report, the so called "BüFl" (Bericht über die Finanzlage) end of April, but I can state already today that the ratio as of 1st January 2019 was above 200 percent.

The new SST models that have been introduced in 2019 will have no negative impact on the SST ratio overall. They differ in some important structural elements from our old internal models; therefore, we assume them to be more volatile, in particular with respect to increases in credit spreads. The higher volatility, however, is reflected in the adjusted SST target range.

The resilience of our capitalisation will remain unchanged. We expect capital coverage to increase and our SST ratio to remain comfortably within the (revised) SST target range.

(Slide 19) Dividend per share increased to CHF 24.00 – attractive dividend yield of 4.2%

With regard to the dividend, our strategy is to increase dividend year on year. Thus, the Board of Directors will propose to the Shareholders' Meeting to raise the dividend to CHF 24.00 per share. This corresponds to a dividend pay-out ratio of 58 percent based on the IFRS result, which is above our target range of 40 – 50 percent. The dividend yield is what we believe an attractive 4.2%. On the next slide you will see that the dividend is fully covered by our strong cash production – which means it is financed out of the operating business.

In addition, a share split will be proposed to the Annual General Meeting. As a result of the good share price development over the past few years, our share is reasonably expensive for small shareholders at around CHF 600. The purpose of the split is to make the share available to a broader investment audience again.

I will now turn to slide 20.

(Slide 20) Strong operating cash production ensuring dividend payment

Helvetia passes virtually all operating cash production its subsidiaries generate right through to its shareholders. We have the advantage that many of our foreign operations are branches of Helvetia Insurance Company, St.Gallen, which makes capital very fungible. All operating companies are subsidiaries of Helvetia Insurance Company. It receives cash remitted by the entities and passes the part designated as dividends for our external shareholders on to Helvetia Holding, which pays dividends out.

You can see that on an IFRS basis, the individual market units remit a substantial proportion of their IFRS earnings to the Group.

I will finish my presentation with our new disclosure on the net economic dividend capacity on slide 21.

(Slide 21) Net economic dividend capacity supporting sustainable dividends

On this slide, we show you for the first time what we call the **net economic dividend capacity** (**NEDC**). This number reflects free available capital at the balance sheet date that can be used for dividends or growth purposes.

The NEDC is the free capital available to be dividended out to shareholders. It is primarily defined by local statutory accounting distributable equity on a legal entity by legal entity basis. I would like to emphasise that the Group IFRS equity and Group SST surplus (and, to some extent, individual Market Unit solvency surpluses) are virtually irrelevant in the calculation of what can or cannot be paid as dividends by the Group. This is because these metrics include non-distributable valuation gains and other similar items and the defining factor for dividend capacity is usually local statutory distributable equity at each legal entity. The NEDC is determined by:

- The available free local equity (net of dividends and other capital effects such as capital in-/decreases)
- Our available free tied assets over insurance technical liabilities [including a small security buffer], in legal entities where such tied asset requirements still formally exist or are required by the prudent person principle,
- Surpluses defined by local solvency requirements (i.e. SST, Solvency II) at each individual legal entity level. Group considerations such as Group SST and S&P only play a minor role, and finally

- Our own capital buffers on top of SST and Solvency II requirements in order to balance volatility of own funds or required capital, e.g. from investments, as well as additional buffers, e.g. to fund growth or to reflect restrictions in transferability of funds.

Please note that on this slide we disclose NEDC for the **2017** financial year. The starting basis for calculating this figure is – as you can see – SST risk-bearing capital. 2018 numbers will therefore only be available when the BüFl is published. We will give you an update on this figure with our BüFl presentation that will be available on our website at the end of April. However, we can broadly say that we have approximately CHF 500m of additional dividend capacity above the dividend we are going to pay out this year and we are continuously looking to optimise this capacity.

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