Financial Media Conference – the Helvetia Group
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Financial figures

(The spoken word takes precedence)

Paul Norton, CFO of the Helvetia Group

(Slide 4) Financial figures

Ladies and Gentlemen, I am pleased to provide you with more detailed information regarding the financial figures, and I will start with the performance of the business areas on slide 5.

(Slide 5) Result by business area

In the first half of 2013, all the business areas turned in a solid performance and confirmed the healthy development of Helvetia in what remains a very challenging economic environment. The two operating business lines life and non-life once again delivered robust results, making nearly equally strong contributions to group earnings of CHF 71 million and CHF 75 million, respectively.

In the life business, we were able to exceed the half-year result of the previous year by 9%. This was the result primarily of the very solid investment performance, in addition to another solid risk result and pleasing improvement in the costs result as well. This good result also allowed us to increase the allocation to the bonus reserves. Due to the continued low interest rate environment, we strengthened reserves beyond this as well.

With an excellent technical performance, we generated another solid result in the non-life business of CHF 75 million. The slight decrease from the previous year resulted from lower premiums as a consequence of portfolio adjustments as well as claims arising from storms and flooding in Central Europe.

The contribution of “Other activities” to the result amounted to CHF 33 million, well above the previous period. This is attributable to higher financial income and the increase in the reinsurance result.

I would like to point out that the figures from the previous year’s balance sheet and income statement have been adjusted due to changes in accounting and valuation principles, particularly in the area of defined benefit obligations as a result of the introduction of the amended IAS 19.
So let’s now take a look at the result by geography on slide 6.

(Slide 6) Result by geography

With a very positive contribution to the result of CHF 111 million, the Swiss home market again proved itself to be a solid pillar of the Helvetia Group. Philipp Gmür will inform you in detail later on the reasons for this country market result, which is very good once again. Our foreign markets also continue to thrive, despite the continuing difficult environment in Europe.

With a profit of CHF 10 million, the German country market result was on prior yearlevel. It is encouraging to see that the large number of measures undertaken to improve results are already having an impact. These improvements fully offset the additional costs resulting from the flood disaster in southern and eastern Germany and stabilise the overall combined ratio at the previous year’s level.

At CHF 12 million, the country result for Italy was up 22 percent over the comparison period, which is also very positive given the difficult economic situation. The improvement is due to a higher technical result in the life business and a lower tax burden. In addition, we also carried out the first portfolio optimisations in Italy, which had a positive impact on the result.

The half-year profit of CHF 10 million in the Spanish country market is also noteworthy. We find it encouraging that profitability improved by 10% over the previous period in spite of the continued tense economic situation.

Thanks to an improved combined ratio, in the “Other insurance units” segment the result was slightly above the already good result of the previous year. Austria recorded a stable segment result compared to the previous period. The French country market result is below the previous year’s level due to above-average late-period claims and cost synergies not yet realised from the acquisition of Gan Eurocourtage’s transport portfolio.

The significant improvement in the results in the “Corporate” segment is due to higher financial income.

I will continue with the development of our business volume on slide 7.

(Slide 7) Business volume in original currency: +4.7%

Despite the fact that the Southern European markets of Italy and Spain remain mired in recession, the business volume of our Group increased significantly with growth of 4.7% in local currency and 5.5% in CHF. The strong growth in the **life business** is particularly gratifying. At the Group level, we increased our currency-adjusted business volume by 5.5%. In addition to the now fully consolidated premiums of the SEV Versicherungen portfolio acquired in the previous year, the main drivers here were group life insurance and unit-linked life insurance.

At 4.9% in local currency, the growth rate of the **non-life business** is also at a very good level. The acquisition of the Gan Eurocourtage transport portfolio in the fourth quarter of the previous year provided a major boost to growth. The purchase of Chiara Assicurazioni, which is taken into account for two months of the interim financial statements, had virtually no impact on the overall result.

However**, assumed reinsurance,** which pursues an income-oriented policy with no volume goals, recorded a decline in volume of 17.5%, due mainly to the non-renewal of major businesses relationships.

This brings me to the end of performance of the country markets. Philipp Gmür will provide you with information on Switzerland later.

As planned, the premium volume in the **German non-life business** declined due to our earnings-related restructuring measures and disciplined underwriting policy. The **German life business**, however, recorded double-digit growth, well above the market.

In **Italy**, the decline in volume in the **life business** is mainly due to the slightly modified distribution agreement with Banco di Desio, which was renewed in January 2013. Our longer-term strategy here is aimed at increasing profitability with a more balanced product mix and at even more active management of exposure to Italian government bonds. The decline in premium performance in the **non-life business** is attributable to both our deliberate exit from unprofitable business and to the difficult economic situation in Italy.

In the **Spanish non-life business** we were also unable to avoid the impact of the recession. For this reason, as in previous years, the subscribed premium volumes in non-life once again declined slightly market-wide. However, in the **life business,** we recorded good premium growth, which was well above the market level.

We are very pleased with the volume development in **Austria**, where our **life business** is significantly above the market trend and our **non-life business** is also outperforming the market.

As explained earlier, the growth in our French business unit is influenced by acquisition.

(Slide 8) Combined ratio non-life

Moving to slide 8 now: with a combined ratio of 94.9%, the technical performance and the profitability of our non-life business remain very encouraging. Despite the impact of bad weather and floods in Germany, Austria and Switzerland, the net claims ratio is actually slightly below the previous period. Without natural disasters, there would even be a 2.3 percentage point improvement in the claims ratio.

Gross claims are even further below the previous year. This is due to the fact that we ceded less to reinsurers, despite receiving more claims from natural events in the first half of 2013.
The cost ratio increased compared to the previous year by 1.4 percentage points to 29.2 percent. I will explain the reasons for this on the next slide.

As for our country markets, at 85.4% the net combined ratio in Switzerland remains at an outstanding level. We are also pleased with the technical performance in Germany, Italy and Spain. As mentioned previously, Austria was hit hard by flooding. The reasons for the combined ratio of 103.7 percent in France are above-average late-period claims as well as not yet realised cost synergies. We had already pointed out in the past that we expected a higher combined ratio than previously in France due to changes in the portfolio composition. Nevertheless, in the medium-term, we expect that this will be at least within our target range of 94-96%. An overview of the combined ratios of the individual countries is included in the notes on slide 36.

This brings me to Slide 9

(Slide 9) Cost ratio development

Slide 9 shows the development of our cost ratio since the first half of 2012.

I would like to briefly point out that we have restated the cost ratio for the first half of 2012 at 27.4% instead of the reported 27.3%. This reflects the correction of the profit and loss account in the previous year due to the application of the amended IAS 19. In addition, as a result of a review of our cost structure in Switzerland and Italy at the end of last year and the beginning of this year, we made an adjustment to the cost allocation, which led to an increase in the cost ratio in non-life. To facilitate comparison of the two periods, the cost ratio of the previous year was also adjusted to this change.

The comparable cost ratio for the first half of 2012 is thus 27.8%.

The increase in the cost ratio in 2013 is primarily due to the impact of acquisitions and portfolio optimisation.
Ladies and Gentlemen, I would like to emphasise at this point that the administrative costs - in absolute terms - only increased by around CHF 2 million or approximately 0.1% administration cost ratio if the impact of the two acquisitions is not taken into account.

We have undertaken significant measures to improve the profitability of our non-life business in Germany and Italy, knowing full well that the resulting reduction in premium would have a negative impact on the cost ratio. However, in return, we are confident that in the medium term the lower claim ratio resulting from the portfolio optimisations will more than compensate for the increase in the cost ratio. However, this is not possible in the short-term, especially given the fact that storms and floods in

Central Europe also had to be absorbed. Our goal is to improve the overall combined ratio, even if this comes at the expense of an increase in the cost ratio.

As a result of these measures, the cost ratio increased by 0.6 percentage points.

In addition, two acquisitions that were fully consolidated for the first time in the first half of 2013 - the transport business of Gan Eurocourtage and Chiara Assicurazioni - both bring higher cost ratios than the traditional Helvetia units. In the medium term we aim to reduce the administration cost ratios as part of the integration exercises, but certain acquisition cost structures are an accepted part of the business model of these new units. The effect of these two acquisitions on the Group cost ratio is an increase of 0.4 percentage points year on year.

Finally, changes to our pension plans in Switzerland and investments in business development added 0.4 percentage points to the cost ratio.

I would like to summarize by saying that the higher cost ratios, which result from portfolio optimisation and the acquisition of businesses with higher cost ratios - which are perfectly in line with our strategy of overall profitable growth - will remain for the immediate future. Our goal is to improve the overall combined ratio. Nevertheless, we will continue to work on measures to improve the cost ratio in the medium term.

Let us now take a look at the life business and the traditional embedded value on slide 10.

(Slide 10) Traditional embedded value – new business

New business volume grew compared to the first half of 2012, especially in Switzerland, which once again recorded growth in single premium business in occupational pension plans, while the new business volume in foreign markets remained subdued because of the difficult economic environment. The value of new business written in 2013 increased significantly compared to the first half of 2012 from CHF 17.5 million to CHF 31.3 million, with a particularly large increase recorded in Switzerland. This is due to the continued year-on-year growth in the volume of new business in group insurance as well as to the significant increase in interest rates on new investments and operational measures such as a reduction in guarantee interest rate and the adjustment to profit participation features. As a result, the new business profitability of the Helvetia Group, which is derived from the development in new business volumes and value, rose by an attractive 1.4%, putting it back in our target range. The development of the life business of the Helvetia Group thus remains positive.

Now let's look at direct yields and guarantees in the life business on slide 11.

(Slide 11) Direct yield and guarantees in life business

Despite the continued difficult financial situation, the gross margins for the benefit of the insured and shareholders in Switzerland and in the EU countries remained solid. The average guaranteed interest that Helvetia must generate in order to meet its obligations remained unchanged in the euro area and fell very slightly in Switzerland as a result of reserve increases. The direct yield continued to fall in the EU countries, while it actually rose somewhat again in Switzerland due to higher investment income. This led to an encouraging increase in margins in the Group. We therefore remain clearly in a position to comfortably service the guarantees to our customers.

I will continue by looking at the changes in equity on slide 12.

(Slide 12) Changes in equity

As of 30 June 2013, the Group's equity was CHF 3.9 billion, a 4.7% decrease from the end of 2012. The main reason for this is the usual payment of dividends. In addition, the unrealised profits and losses recognised in equity decreased as a result of rising interest rates in the markets and due to parameter adjustments to our defined benefit obligations.

(Slide 13) Swiss Solvency Test

As you can see on slide 13, as of 1 January 2013, SST coverage was within a range of 150 to 200 percent, with Helvetia Group waiving temporary relief from FINMA. As expected, the coverage improved in the second half of 2012 due to easing in the economic environment, although the relevant calculations are not yet complete.

The risk of running into a deficit in the Swiss Solvency Test as a result of adverse market developments thus remains relatively minor, as you can see from the sensitivities in respect of the key risk factors.

The approval process of the internal models under the Swiss Solvency Test is still proceeding according to plan. FINMA has now given conditional approval to six of seven internal models.

Under Solvency I, the capitalisation of Helvetia Group fell slightly in the first half of 2013, as shown earlier in the development of equity. The decrease is mainly the result of the reduced market value of fixed-interest investments because of higher interest rates, but it remains at the very strong level of over 200% overall.

My colleague, Ralph Honegger, CIO of the Helvetia Group, will now provide you with more information about the investment result. >>>