Helvetia Group conference call on the half-year results
Tuesday, 1 September 2015

Half-year results 2015
(the spoken word takes precedence)

Paul Norton, CFO of Helvetia Group

(Slide 9) Financial figures
Ladies and gentlemen, I would also like to welcome you to this conference call. I would now like to give you more detailed information on our successful first six months of 2015. Through acquiring Nationale Suisse and Basler Austria, the IFRS result for the period was strongly influenced by temporary special effects. As we have already announced, Helvetia is therefore focusing on "underlying earnings" until the end of the 2017 financial year, which eliminates these temporary special effects and therefore reflects the operating performance of the "new Helvetia Group". I will therefore start by moving from underlying earnings to the IFRS result on slide 10.

(Slide 10) Underlying earnings / IFRS
Underlying earnings were CHF 221 million. This includes already realised synergies of CHF 15 million, as well as additional financing costs of CHF 7 million. I will discuss the synergies in more detail later on.
As required by IFRS we recorded the following special effects as a result of the two acquisitions, which had a negative impact on the IFRS result for the first six months of 2015:

- Integration and restructuring costs of CHF 27 million
- Planned amortisation of intangible assets of CHF 30 million
- and additional planned amortisation due to the revaluation of interest-bearing securities to market values of CHF 21 million.
- Finally, we also booked CHF 19 million predominantly related to taxes on these special effects.

The IFRS result corrected for these effects was therefore CHF 162 million. As there were no major special effects from acquisitions in the previous year, we did not adjust the 2014 result. Before I discuss the results by business areas on slide 11, I would like to point out that the acquisitions of Nationale Suisse and Basler Austria took place in the second half of 2014, meaning that the two acquired companies were not yet included in the comparative figures for the first half of 2014.

(Slide 11) Result by business areas

Helvetia Group had impressive underlying earnings of CHF 221 million, up 12% year-on-year. Nationale Suisse and Basler Austria, which were acquired in the previous year, made a major contribution to this earnings increase. Against this was the effect of the unpegging of the EUR minimum exchange rate by the Swiss National Bank in January 2015 and the associated exchange rate effects, which together with lower interest income, had a negative effect on earnings growth in CHF.

In the non-life business we generated CHF 158 million, up 46% year-on-year. The strong increase is due to an improved technical result and the additional volume from both acquisitions. All non-life units achieved a combined ratio of below 100%.

Earnings in the life business were CHF 85 million, which corresponds to a year-on-year increase of 18%. The increase in profits was driven primarily by lower expenses for interest-related additional reserves in Switzerland.

The earnings contribution made by Other activities was, at -CHF 22 million, below the previous year's figure of CHF 16 million. This was mainly due to the lower result from Group reinsurance which was primarily attributable to severe weather losses and large losses in Germany. Gains/losses on investments (net) were also lower year-on-year. In addition to a higher cost base and financing costs due to the acquisitions, the investment result was also lower compared to the previous year.

I will continue with the results by segment on slide 12.

(Slide 12) Results by segment

We have changed the segmentation since 1 January 2015. The operating segments of Helvetia Group now consist of “Switzerland”, “Europe”, “Specialty Markets” and “Corporate” and reflect the new alignment of Helvetia Group. We have adjusted the previous year's results accordingly.

Currency effects had a negative impact on the results of the segments Europe, Specialty Markets and Corporate. In particular, this applied to the unpegging of the Euro from the Swiss Franc. Currency translation differences therefore decreased results by CHF 16 million when converted into the group currency of Swiss franc.

The segment Switzerland, which includes the Swiss market unit, was the strongest pillar of the Helvetia Group in the first six months of 2015 with an earnings contribution of CHF 169 million and an increase of 46%. Philipp Gmür will give you more detailed information about the segment results, which are once again very good.

The segment Europe comprises the market units of Germany, Italy, Spain and Austria. The result from the segment Europe increased by 5% to CHF 54 million. In original currency earnings growth was 22%. In non-life, we increased our result year-on-year by 12%, which was largely due to the better technical result and the additional earnings contributions made by Basler Austria and Nationale Suisse. The life result fell by 9% as a result of lower profits from investments and stronger reserves in the Germany and Austria market units due to the low interest rate environment.

The segment Specialty Market includes the specialty lines of "marine", "engineering" and "art" insurance in the unit Switzerland / International, the France market unit, which specialises in marine insurance, as well as the globally operating active reinsurance. The segment result for Specialty Markets was at CHF 20 million – up 46% year-on-year. This positive performance is due to the improved technical results and the additional earnings contribution made by the market unit Switzerland / International. It also includes the former multi-national Specialty-Lines-business of Nationale Suisse.

In addition to the financing companies and the Holding company, the segment Corporate includes the Corporate Centre and Group reinsurance. The earnings contribution made by the segment Corporate was at minus CHF 22 million below the previous year's figure of CHF 16 million. As already mentioned, the decline in earnings was due to a weaker result from Group reinsurance, higher costs due to acquisitions, a lower investment result and the financing costs.

I will continue with our business volume on slide 13.

(Slide 13) Business volume

In the first six months of 2015, the new Helvetia Group generated a business volume of CHF 5.3 billion. Compared to the previous year, this was an increase of 15% in original currency. The two companies acquired in the 2014 financial year, Nationale Suisse and Basler Austria, made a significant contribution to this growth. Growth was driven by our non-life business, which rose by 48% in original currency. In the life business area, investment-linked insurance solutions and deposits increased, while traditional insurance solutions declined. The overall result in the life business was a reduction in volume of 3%.

In terms of segments, Switzerland produced the largest increase with a rise of 15%. Philipp Gmür will tell you about this later. The expected positive effects of the acquisitions could also be seen in the segment Europe with growth of 10% in original currency. In non-life, all market units assigned to this segment rose with satisfying double-digit growth rates in original currency. With an increase of 70% in original currency, Austria achieved the biggest growth rate. However, life business volume fell by 16% in original currency. This decline was largely caused by volume reductions in traditional life business in Italy and Germany, which could not be offset by the good growth in investment-linked products. In contrast, we increased business volume in Austria and Spain in original currency, particularly with investment-linked insurance solutions.

In the segment Specialty Markets we also generated a volume that was 37% higher in original currency year-on-year. Growth was driven by the market unit Switzerland / International, which comprises the Specialty Lines business in Switzerland and the international markets. This growth resulted mainly from the first-time consolidation of the former Nationale Suisse business. Active reinsurance also grew strongly with an increase in premiums of 21%. This growth is the result of targeted diversification by region and business lines, as well as the selective expansion of existing business relationships.

I will continue on slide 14 with the satisfying performance of the net combined ratio.

(Slide 14) Non-Life: Net combined ratio

Compared to the previous year, the net combined ratio improved by 1.6 percentage points to 92.4%. This improvement is the result of a lower claims ratio. Due to a good claims performance and also thanks to efficient reinsurance programmes, the claims ratio was 1.6 percentage points down year-on-year. It was particularly satisfying that all market units were once again able to achieve a combined ratio below 100%. Due to initial synergy effects, the cost ratio remained unchanged at the previous year's level, despite historical higher cost ratios at Nationale Suisse.

I will now move on to the life business and start with the breakdown of profits by source on slide 15.

(Slide 15) Life: Profits by source

I would like to start by noting that the breakdown of profits is based on the IFRS figures, and therefore does not contain any adjustments for acquisition effects.

While the risk results remained at a high level and even improved slightly on the previous year, the interest result fell year-on-year. The lower yields were the main influence here. As a result of the two acquisitions, the interest result was negatively affected by additional amortisations due to the revaluation of interest-bearing securities to market values.

Earnings before taxes in the life business finally increased by CHF 6 million or 7%. The main reason for this increase was a lower cost for reserve strengthening. Realised gains fell year-on-year. The result is also reflected accordingly in the policyholder participation result.

I will now discuss the performance of the Embedded Value and the new business margin on slide 16.

(Slide 16) Life: EV and NBM development

The Embedded Value of Helvetia Group was CHF 2.9 billion as of 30 June 2015. This represents an increase of CHF 91 million or 3% compared to the first half of 2014. Compared to the beginning of the year, however, the Embedded Value of Helvetia Group decreased by CHF 78 million or 3%, of which CHF 38 million comprised dividend payments from our life units to the parent company in the first half of the year. The remaining difference is mainly due to negative economic variances. The decision of the Swiss National Bank to no longer support the Swiss franc against the Euro resulted in sharp falls in investment yields and negative currency variances. However, this was partially offset by the positive contribution of new business.

The new business volume fell compared to the first six months of 2014. In Switzerland, we were unable to place index-linked tranche products in individual life business to the desired extent as a result of the weak investment and capital market environment. In the occupational pensions business, volume for full insurance solutions was also lower due to the interest rate environment. In foreign markets, new business volume for capital-intensive, traditional savings products declined in particular.

The value of the new business written in 2015 was lower than in the first six months of 2014. This is mainly due to the lower reinvestment rates year-on-year in all countries, as well as the lower new business volume. As a result, new business profitability, which is calculated from the performance of new business volume and value, also declined from 1.0% to 0.3%.

(Slide 17) Direct yield and guarantees in the life business

As you can see from slide 17, direct yields in Switzerland and in EU countries fell further due to the lower level of interest rates. However, it needs to be borne in mind that the average interest rate that Helvetia must generate to meet its obligations also continues to fall. So far we have been able to keep the interest margin at an acceptable level, particularly in Switzerland, our largest market unit. This is because expiring contracts with high guaranteed interest rates are being replaced by others with lower guaranteed interest rates, and the increases made in reserves also reduce the average interest rate required. We are continually adjusting our products to the low interest environment. From today’s perspective, the interest margin in our projections should also remain positive for the foreseeable future, even in a continued low interest rate environment.

(Slide 18) Synergies, integration costs and acquisition effects

On slide 18, I would like to come back to the temporary special effects due to the acquisition. We are on track to reach the approximate estimations of synergies and integration costs for the 2015 financial year which we gave you at our financial results analysts' conference in

March. For that reason, we have kept the forecast basically unchanged through to 2017. I would nevertheless once again like to point out that this is an approximate indication, as the individual items may change.

In the first six months of 2015, we achieved synergies of CHF 15 million, mainly from Switzerland, the Corporate Centre and Austria. We have therefore already almost reached our expected average synergy target of around CHF 18 million for the whole year 2015.

Integration costs were CHF 27 million in the first six months, and therefore also within the expected target range on a half-year basis.

The financing costs of CHF 7 million in the first six months of 2015 and the amortisation of intangible assets under IFRS of CHF 30 million were also at the expected level and should not change. We adjusted the forecast slightly in respect of the additional planned amortisation due to the revaluation of the interest-bearing securities to market values. We budgeted a value of CHF 21 million for this for the first six months of 2015.

I will now end my presentation by looking at changes in equity on slide 19.

(Slide 19) Changes in equity

Helvetia has a strong capital position even after the two acquisitions: The solvency I-ratio was 200% as of 30 June 2015, and the SST ratio was in the target range of 150%–200% as of the end of 2014.

As of 30 June 2015, the Group's equity was 10% lower compared to year-end 2014 at CHF 5.1 billion. The reasons for this were the reduction in the net gains/losses on our AFS financial assets recognised in equity, currency losses when translating 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. Furthermore we paid dividends to our shareholders of CHF 196 million. A positive influence on equity was the Group earnings for the period of CHF 162 million.

My colleague Ralph-Thomas Honegger will now provide you with more information on the investment result. >>>>>