Helvetia Group analysts' conference call
Half-year results 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-call. Within the next 25 minutes I will give you more detailed information on our financial performance in the first half of 2017

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

(Slide 7) Underlying earnings increased by 8.4% – non-life business as the driver
Our underlying earnings for the first half-year of 2017 amounted to CHF 258 million and therefore increased 8.4% 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 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 177 million and were 16.9% higher compared to the first half of 2016. In addition to a better technical result the increase was mainly driven by a higher investment result as a consequence of the good development of the capital markets in the first six months. 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 4.2% higher at CHF 92 million. The increase was driven by a normalised strong risk result and a higher savings result. I will provide you with more details on the profit by sources on slide 14.

The result from other activities amounted to minus CHF 10 million against minus 1 million in the first half of 2016. The technical result of our group reinsurance benefitted from a better technical performance of the primary insurance lines and improved accordingly. However, due to the absence of one-off tax effects which were included in the prior-year and slightly higher costs resulting from budgeted investments in strategic initiatives, underlying earnings decreased compared to the first half year of 2016.

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

(Slide 8) All segments with robust results, Switzerland and Europe strongly improving
All segments posted robust results in the first half of 2017. The **Switzerland segment**, once again, showed that it is a stable foundation for the Group by reporting a profit of CHF 194 million. The increase was driven by both business areas, non-life and life. In the **Swiss non-life** business underlying earnings increased compared to the first half of 2016 by 19.7%, thanks to a higher investment result. The technical result was slightly weaker, but still on a good level. Also the **life business** showed 4.2% higher results on a half-year-on half-year comparison. This was due to an increased operating result – essentially a higher risk and a higher savings result – as well as higher gains on investments. Higher expenses for policyholder participation had a compensating effect.

The **segment result for Europe**, which comprises the market units of Germany, Italy, Spain and Austria, increased by 11.8% to CHF 59 million. Both the non-life business and the life business contributed to this profit increase.

Non-life underlying earnings in Europe increased by 14.5%. The improvement is mainly driven by a significant better technical performance and a slightly higher investment result. Underlying earnings of the **European life business** also showed a positive development and increased by 4.6%. The improvement came from higher gains and losses from investments and slightly lower expenses for interest-related reserve strengthening. A lower savings result and higher expenses for policyholder participation as well as higher taxes (we had some one-off tax effects in the European entities last year) had a compensating effect.

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 increased by 2.5%. A better technical performance and lower non-technical costs were mitigated by higher taxes (as I mentioned at the beginning: last year we had some one-off effects resulting in lower taxes) and a lower investment result.

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 9 million decreased against the previous year's figure of minus CHF 1 million, although the segment showed considerably improved results from group reinsurance, in line with the direct insurance units. The main reason for the decline was that the previous-year’s result was affected by positive one-off tax effects. Furthermore we had slightly higher costs due to the budgeted investments in strategic initiatives.

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

(Slide 9) Stable business volume: pleasing non-life growth (+3.0%); strong performance of modern life products (+36.9%)

In the first six months of 2017, Helvetia Group achieved a business volume of CHF 5.5 billion. This equates to a slight increase of 0.3% over the previous year in original currency.

In the **non-life business** we achieved an increase in premium volume of 3.0% in original currency. This growth was driven by the active reinsurance business.

Life business volume was down by 1.9%. However, this is in line with our strategy as we move from less profitable and capital-inefficient products to capital-light and more profitable so-called modern insurance products (investment-linked insurance solutions and deposits). These increased by a very pleasing 36.9% overall, while traditional insurance solutions declined. The business volume in the group life business was down compared to the first half of 2016 because of a positive one-off effect last year.

Looking at the individual **segments,** business volume in Switzerland declined by 3.0%. I will return to that on the next slide.

In the **Europe segment** business volume increased by 4.3% in original currency. Growth was driven by the country markets Austria and Spain – both were able to grow the non-life and the life business. In Germany business volume slightly increased whilst in Italy business volume declined. Germany was able to grow the life business due to the good performance of the modern life products, non-life volume, by contrast, was impacted by final acquisition-related portfolio restructurings. Italy was confronted with a market-wide declining motor insurance in non-life. In the life business the pleasing development of the modern products was not able to offset the decline in volumes of the traditional business.

In the **Specialty Markets segment**, we also achieved a 13.8% increase in volume over the first half-year of 2016 in original currency. Growth was driven by active reinsurance, 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) Switzerland: growth in non-life business and modern life products, group life impacted by a positive one-off effect last year

Looking at the Swiss market in more details, non-life business increased while the life business was down mainly due to a positive one-off effect in the first half of 2016.

In **non-life business** we increased premium volume by 1.5% to just over CHF 1.0 billion. Growth was driven by property insurance and accident & health. In the latter branch we had carried out portfolio restructurings last year.

Business volume in **life business** went down by 4.7% with the biggest effect coming from the group life business.

– Here single premiums decreased compared to the first half-year 2016. 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. Without this one-off effect single premiums would have risen.
– Regular premiums, which are important for assessing business performance, increased by CHF 6 million or 0.5%.

Finally I would like to highlight that demand for the modern, capital-efficient products sold through Swisscanto also grew very well. Already more than 40% of existing and 45% of new customers have policies with Swisscanto. Here, Helvetia only acts as the reinsurer for death and disability risks.

In individual life business, premium volume decreased by 5.4% to CHF 425 million. Following the successful sale of our tranche product “Helvetia Value Trend” and a good development of the “Helvetia Guarantee Plan” and “Helvetia Payment Plan” products sales of modern capital-efficient insurance solutions increased by 8.3%. However, the increase in modern products could not make up for the planned decline in traditional insurance solutions.

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

(Slide 11) Non-life: strong investment income as main driver of profit improvement in addition to good technical results

Helvetia again showed a very strong technical performance in the non-life business in the half-year 2017 which is reflected in the net technical result being 12% above the prior-year. Looking at the profit by sources you can see that the gross technical result, meaning before reinsurance, increased by 15% thanks to the successful portfolio restructuring in Switzerland, Italy, Germany and Spain and a generally benign claims environment in the first six months of this year. However, because the recoveries from reinsurers (mainly of course from our own internal group reinsurance) this year were lower than in the previous year's results, the net technical result improved by 12%. 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 a year ago.

The investment result (net) increased by 50% compared to the first half of 2016 and was therefore the main driver for the increase in underlying earnings. The capital markets showed a good performance in the first six months of the year, as a consequence we achieved higher capital gains on investments.

Finally, other non-technical expenses and income as well as taxes were impacted by positive one-off effects in the prior-year.

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

The net combined ratio improved over the first half of 2016 by 0.6%-points to 91.3%. The improvement was strongly supported by the Europe Segment, which reduced net combined ratio significantly by 2.8 percentage points.

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 lower claims expenses to group reinsurance. The net claims ratio improved accordingly. The cost ratio by contrast increased by 1.1%-points. Realised synergies were offset by higher commissions, budgeted investments in strategic initiatives and the above-mentioned changes in reinsurance structure. I will give you some details on that on the following slide.

In Switzerland the net combined ratio increased to 84.5% but is still on a very good level. The claims ratio went up among other things due to higher large losses in line with normal fluctuations. The cost ratio also rose. I will provide you with details on the cost ratio increase on the following slide.

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 (-0.4%-points) – offset by different effects

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

Compared to the half-year of 2016 the cost ratio gross went up from 28.1% to 28.9%, although this is entirely due to increases in the acquisition cost ratio.

A large part of the increase is mainly due to the positive impact of higher volumes being offset by higher booked commissions, mainly in Switzerland. These resulted from growth, but also from a temporary one-off effect due to an improvement of the calculation of deferred acquisition costs.

Synergies from the integrations led to a 0.4%-point improvement in the cost ratio. However, budgeted investments in strategic initiatives accounted for an increase of 0.4 %-points, which offset the positive impact of the synergies.

Slide 14 contains the details of our life business.

(Slide 14) Life: improved operating profit thanks to normalised risk result and strong savings result

The operating result increased by CHF 19 million or 10% against its prior-year level. The improvement came from the risk result, which increased thanks to a normalised claims pattern, compared with the prior-year and a better savings result, which benefited from the decrease of the minimum interest guarantee in the group life business in Switzerland.

Higher expenses for policyholder participation and taxes were partly compensated by higher gains and losses on investments while interest related reserve strengthening remained on the same level as last year.

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

(Slide 15) Life: new business margin improved by 0.7%-points thanks to higher yield, 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 0.7%-points to 1.2%. 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 7 million in the first half of the previous year to CHF 20 million in the first half of 2017.

Alongside higher new business volumes and more favourable interest rate assumptions the successful restructuring of our portfolio of traditional products and the focused sale of modern products had the biggest impact.

The new business volume increased by 9% to CHF 1’643 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 – mainly driven by large contracts in Austria. 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 3.6 billion at the end of the first half-year 2017. This means an increase of 24% compared to the same reporting period last year. The main drivers were model changes, a positive economic and operating profit and a positive contribution from new business.

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

(Slide 16) Life: interest margin increased in Switzerland due to higher yields, group-wide successful shift to low guarantee business

Direct yield in Switzerland and the EU countries declined compared to the first half of 2016 as a result of lower interest rates.

However, the interest margin improved in Switzerland from 0.95% in the first half of 2016 to 1.11% in the current reporting period.

The increase of the interest margin in Switzerland was closely linked to lower average technical interest rates on the liability side. 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 25 basis point adjustment of non-mandatory rates.

The average technical interest rate in Switzerland is also lower 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.

In Europe the interest margin shows a slight decline from 0.56% in the first half of 2016 to 0.53% in the first half of this 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 right hand side of the slide we have a graph showing the interest rate buckets on guarantees on Group level. Whereas in the first half of 2016 only some 20% 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: stable direct yield (2.2%) in ongoing low interest environment
The current income in the first half of the 2017 financial year was CHF 521 million and thus on the same level as last year.

Direct yield was at an annualised 2.2% and therefore more or less unchanged compared to the prior-year.

In addition to current income, realised as well as book gains and losses amounted to CHF 78 million. This figure was driven by the good performance of equities in the first six months of this year. In total the investment result recognised in the income statement was CHF 599 million, CHF 133 million up on the first half-year of 2016.

Investment performance decreased to 1.0% against 3.3% in the prior-year period. Unrealised gains and losses recognised in equity only slightly decreased due to fact, that interest rates remained relatively stable. In the first half of 2016 by contrast, unrealised gains and losses had increased significantly, favoured by declining interest rates. As we hold most of our bonds until maturity such fluctuations in unrealised gains and losses can be neglected. Finally we earned CHF 69 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 521 million came from bonds and mortgages, which contributed CHF 280 respectively CHF 44 million in absolute terms. Dividends accounted for CHF 55 million, and investment property for CHF 124 million. Gains and losses on investments were CHF 78 million, mainly driven by gains on equities. The CHF minus 162 on bonds are resulting from FX effects which are mostly compensated by derivatives. Derivatives cover currency risks on bonds as well as price movements on equities.

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 206 million.

The lower half of the slide shows the return on new and recurring investments. Around CHF 3 billion in total were reinvested or newly invested in the first half of the 2017 financial year, 78.9% of which were allocated to bonds, primarily USD bonds in the corporate sector, long-term US treasuries and Euro-bonds. 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 5.3% were allocated in equities. In investment property the main focus in the first half-year was on renovations and maintenance. Direct yields on new and reinvestments totalled 1.5%.

I will finish my presentation with details on the capital position on slide 19.

(Slide 19) Unchanged strong capital position: SST ratio within target range, RoE increased to 10.2%

I would like to remind you that we are, as usual, only in a position to report the full-year 2016 SST ratio. Based on that, 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.

Finally annualised RoE based on underlying earnings improved from 9.4% to 10.2%.

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