Helvetia Group analysts' conference call
Half-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 this conference call. Within the next 25 minutes, I will give you more detailed information on our financial performance in the first half of the 2018 financial year.

I would like to start with slide 6

(Slide 6) Solid net income
Before we look at the figures in detail, I would like to briefly explain that, following the successful completion of the integrations, we will no longer report underlying earnings. I would like to point out that we are comparing the 2018 IFRS reported results with the 2017 half year underlying results. This is because the 2018 half year reported IFRS financial statements are comparable with the previous half year's underlying financial statements, except for one item. The amortisation of bonds, which we eliminated from the underlying results, will continue for several years as the bonds come to maturity, but the amounts will gradually reduce over the years. This accounting adjustment reduces the current half-year reported IFRS results by CHF 8 million.

We achieved a solid IFRS result of CHF 224 million, against underlying earnings of CHF 258 million in the first half of 2017. As I mentioned above, the IFRS result in the first half of 2018 was reduced by CHF 8 million due to the ongoing bond amortisation, which is purely an accounting effect from the acquisitions.

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 147 million against CHF 177 million underlying earnings in the first half of 2017. The decrease was mainly driven by a significantly lower investment result because of the weak and volatile development of the equity markets. 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 78 million. Almost half of the reduction compared to the previous year's figure is due to the amortisation of bonds I mentioned above, included in the reporting period, which is purely an accounting effect. In addition to a number of other effects, the weak stock markets also had an impact here. I will provide you with more details on the profit by sources 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)] however increased compared with the first half of 2017. The rise can be attributed to consolidation effects from the funds allocated to this segment. The result also benefited from good and stable technical results in Group-internal reinsurance.

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

(Slide 8) Solid results in Switzerland and Europe – Specialty Markets with pleasing improvement
All segments delivered good results despite the impact of the poor equity markets.
In the **Switzerland segment,** the IFRS result for the first half of the year was CHF 151 million. This includes a total of CHF 7.2 million of bond amortisation (net of tax and policyholder effect), which impacted the life result in particular. The non-life and the life results were lower than the previous year, mainly due to poorer investment results in both areas following the weak performance of stock markets. In the **non-life** business, the result was additionally burdened by a higher number of weather-related events.
In the **life** business the operating result was lower due to declining yields and a lower death result, which could not be fully compensated by the improved disability result. The lower gains and losses from investments – mentioned above – were partly offset by lower expenses for policyholder participation and lower expenses for interest-related reserve strengthening.

The **segment result for Europe**, which comprises the market units of Germany, Italy, Spain and Austria, amounted to CHF 55 million against CHF 59 million underlying earnings in the first half of 2017. The **non-life result** improved compared to the previous year. The increase is attributable to a positive tax effect, whereas technical results were weaker mainly due to higher weather-related claims predominately in Germany. The **life result** decreased compared to 2017 because of lower gains and losses on investments and higher expenses for interest-related reserve strengthening – the regulatory mandated ZZR – in Germany.

The segment result for **Specialty Markets** increased to CHF 16 million.
The improvement was due to better technical results in France and, following higher volumes, better technical results in the Active Reinsurance. Specialty Lines CH/International reported stable technical results.

The **Corporate** segment includes the corporate functions and Group reinsurance, in addition to the financing companies and the holding company. Its result of CHF 2 million rose against the previous year's figure of minus CHF 9 million. This was due to positive consolidation effects from the funds allocated to this segment. In addition the result benefited from stable technical result of the Group's internal reinsurance.

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

(Slide 9) Satisfying top-line growth driven by all lines of business in non-life
In the first half of the 2018 financial year, Helvetia Group achieved a business volume of CHF 5.8 billion. This equates to a currency-adjusted increase of 2.9 percent over the previous year.

In the **non-life business**, we achieved an increase in premium volume of 5.5 percent in original currency. The growth was driven by the European entities, which are back on growth track following the portfolio restructurings in the past as well as Active Reinsurance being in line with our strategy.

In the **life business,** business volume rose by 0.8 percent in original currency. The increase was mainly driven by a very good development of investment-linked products in Switzerland and Germany. Helvetia also recorded growth again in the Group life business.

Looking at the individual **segments**, business volume in Switzerland rose by 0.9 percent.
In the **non-life business**, we recorded premiums of CHF 1'057 million in the first half of 2018 compared to CHF 1'053 million in the corresponding period in 2017. Underlying growth was 1.9 percent, compared to the 0.4 percent reported growth, which was distorted due to a one-off accounting adjustment in 2018.
Business volume in **life business** increased by 1.1 percent with the biggest effect coming from the pleasing growth of investment linked products of +19.7 percent in Individual life. Volumes of modern capital efficient products "Helvetia Garantieplan" and "Helvetia Auszahlungsplan" increased. Furthermore, Helvetia successfully launched another tranche of the “Helvetia Value Trend" in the first half of 2018. In contrast, the business volume of traditional insurance solutions declined as planned. In the Group life business Helvetia increased premiums to CHF 2'113 million. Regular premiums rose by 3.9 percent. Growth drivers were positive changes within the portfolio of full-insurance solutions – i.e. lower transfers to other providers – and a successful new business development with capital-efficient solutions provided by Swisscanto.

In the **Europe segment,** business volume increased by 4.6 percent in original currency. Except Austria, all country markets recorded higher volumes compared to the previous year. Spain and Germany posted the highest rates.
In **non-life,** all European entities were back to growth. After several years of declining volumes, predominately resulting from motor insurance in line with market conditions, the Italian non-life business also recorded growth again.
The European **life business** however slightly decreased by 0.8 percent in original currency. Volumes with investment-linked products decreased compared to last year, mainly because of lower volumes from large contracts with single premiums in Austria, according to plan. Traditional products – by contrast – increased. Following the financial turbulence, the Italian market unit saw an increasing demand for traditional savings products. However, our Italian subsidiary focuses on the sale of products with low guarantees or on so-called hybrid products.

In the **Specialty Markets segment**, we also achieved a 12.1 percent increase in volume in original currency. Growth was mainly driven by Active Reinsurance, resulting from targeted diversification by region and business lines, selected expansion of existing business relationships as well as rate increases due to Ogden. Specialty Lines CH/International also recorded strong growth, about half of which is due to a one-off accounting effect.

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

(Slide 10) Non-life: net income affected by weaker capital markets

In the first half of 2018, the technical result was down 7.2 percent on the previous year mainly due to a higher number of weather-related events in Germany and Switzerland.
The investment result (net) decreased by 39.8 percent compared to the first half year of 2017 and was therefore the major driver for the decrease in net income. The capital markets and, in particular, equity markets showed a volatile and weak performance, which led to much lower capital gains on investments.

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

(Slide 11) Non-life: continuing strong net combined ratio despite higher NatCats

Despite higher weather-related losses in the reporting year, the net combined ratio is on a good level at 92.7 percent.
The increase compared to the first half of 2017 year is mainly due to a higher claims ratio following the winter storms Burglind and Friederike as well as a higher number of thunderstorms with heavy rain and hail, mainly in Germany and Switzerland. Due to the warm spring, thunderstorms season already started at the end of May – earlier than in previous years.
Claims ratio excl. NatCats also slightly rose in a year-on-year comparison because of a lower run-off result. However, the 3-year-trend in the loss ratio still reflects the successful restructurings over the last years.

Looking at the cost ratio, we were able to improve the cost ratio due to economies of scale resulting from growth. All segments reduced cost ratios, with the biggest impact coming from Europe and Specialty Markets.

Looking at the segments, **Switzerland** showed a net combined ratio of 86.3 percent, still on a good level. The increase compared to last year was due to the above-mentioned bad weather events.

With 95.7 percent **Europe** also recorded a higher net combined ratio compared to the first half year 2017 mainly as a consequence of the higher claims burden from weather-related events.
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 the lower cost ratio.

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

(Slide 12) Life: net income affected by various effects

In the life business, net income in the first half of 2018 was CHF 5 million below the previous year's figure due to different effects.

Looking at the profit by sources the **operating result** was down mainly due to a lower savings result and a decreasing risk result. The **savings result** was driven predominately by Swiss Group life business, as the mandatory interest rate for retirement assets remained unchanged – if you remember the federal government left the minimum interest rate at 1.0 percent – while market yields declined.

The lower **risk result** also mainly resulted from Swiss Group life business, as the lower death result was not fully compensated by a better disability result. In addition, we had a positive one-off effect in Individual life in Switzerland in the previous year arising from the Nationale Suisse integration.

Gains and losses on investments decreased. Given our strong reserve position, we did not have to reserve as much this year and expenses for reserve strengthening were consequently lower than in the previous year. All these effects, both positive and negative, were offset to a large extent by the policyholder participation mechanism, which resulted in a net decrease of only CHF 5 million.

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

(Slide 13) Life: higher NBM due to focused sale of capital-light products and revision of traditional products

New business is developing well: the new business margin rose compared to the first half of 2017 and was 1.4 percent (first half of 2017: 1.2 percent). One driver was the higher new business volume in capital-light, investment-linked insurance solutions. On the other hand, the product adjustments made to traditional savings products and the consistent improvement of the new business mix in Individual and in Group life business had a major impact as well.

I would now like to move to the direct yield and guarantees in life business on slide 14.

(Slide 14) Life: interest margin stable – direct yield impacted by aperiodic dividend effect in Switzerland

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

In **Switzerland** the interest margin went down when comparing the first half year 2018 to the first half of 2017. This was attributable to the following reasons:

Direct yield decreased on the one hand due to special effects such as aperiodic dividend payments, and on the other hand, in the first half of 2018, USD bonds with higher coupons, but also higher hedging costs, were switched into 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 direct yield, the shift had a negative effect.

The **average technical rate** 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 being 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 0.35 percent in the first half of 2017 to 0.47 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 contracts with higher guarantees.

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

(Slide 15) Investments: volatile capital markets and low interest rates impact investment result

Current investment income of CHF 506 million did not quite reach the previous year's level of CHF 521 million, partly because of the ongoing low-interest environment and partly because of aperiodic dividend effects, which will be offset in the second half of the year. As expected, the **direct yield** fell slightly to an annualised 2.1 percent. **Realised gains and losses** balanced each other out, resulting in an overall zero result.

Unrealised gains and losses in equity decreased by CHF 549 million mainly due to slightly higher interest rates. As of June 30, however, unrealised gains and losses were still a respectable CHF 1.5 billion. Overall **performance** was slightly negative at -0.1 percent. Mainly due to the weak performance of the equity markets, the result from investments with market risk to the policyholder was at minus CHF 42 million.

On slide 16 you can see the investment result broken down by asset class.

(Slide 16) Investments: stable new and re-investment yield

About two thirds of the current income of CHF 506 million came from bonds and mortgages, which contributed CHF 273 respectively CHF 43 million in absolute terms. Dividends accounted for CHF 50 million and investment property for CHF 121 million. Gains and losses on investments balanced each other out, resulting in a zero result.

As already mentioned unrealised gains and losses decreased by CHF 549 million.

The lower half of the slide shows the return on new and re-investments. CHF 3.0 billion in total were reinvested or newly invested in the first half of 2018. Just over 85 percent of the funds were invested in Euro and Swiss franc fixed-income securities, the remainder in mortgages, equities and real estate. Due to increased hedging costs for the 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 1.3 percent.

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