# Q2 2016 Earnings Call

## Company Participants

- Paul Norton, Chief Financial Officer
- Philipp Gmür, CEO Group and CEO of Helvetia Switzerland ad Interim
- Ralph-Thomas Honegger, Chief Investment Officer

## Other Participants

- Andreas Frick, Analyst
- Daniel Bischof, Analyst
- Guilhem Horvath, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Ladies and gentlemen, good morning. Welcome to the Half Year Results 2016 Conference Call and Live Webcast. I'm Sarah, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Philipp Gmür, Group CEO. You will now be joined into the conference room. Thank you.

Ladies and gentlemen, please hold the line. The conference will begin shortly. Thank you.

(00:55-02:38)

Ladies and gentlemen, please hold the line. The conference will begin shortly. Thank you.

(02:42-05:49)

### Philipp Gmür

...one of the most significant occurrences (05:50) in the first half of this year.

First of all, I would therefore like to thank Stefan for his highly successful contribution to Helvetia, not only as the CEO over the last nine years, but for his nearly 20 years working for our group. I wish him all the best for his future. Under his leadership, Helvetia Group has experienced the highly positive development and can also look back on a successful first half 2016. I will go into the details in a moment. Stefan has handed over to me a company that is well-equipped to meet the upcoming challenges, therefore, I'm very encouraged to push ahead with the successful course Helvetia Group is pursuing.

I would now like to give you detailed information on the key aspects of our half year financial statements during this presentation.

Let us move to the agenda. Following my introduction, our CFO, Paul Norton, will explain the key financial figures, report briefly on the highlights of the business performance in our Swiss home market and then present our investment results. I will then provide you with a short update of the helvetia 20.20 strategy and our new organizational setup. Following the presentation, Paul and I, as well as our colleague, Ralph Honegger, Chief Investment Officer, will be pleased to answer your questions as always.

Let us now turn to slide three, and let us begin by discussing operating profit, which achieved a pleasing increase of 7.9% to CHF 238 million. The improvement was driven by the Life business and the other activities. In the Life business, the savings result underpins the earnings performance. The business area, other activities, benefited from a better technical results from group re-insurance.

The Non-life result showed much better technical results with the net combined ratio on a group level at an excellent 91.9%, thanks to realized cost synergy. We were therefore able to outperform our newly set strategic combined ratio target of 93% in the first half of 2016.

Underlying earnings in Non-life were below the prior year level due to the weak performance of the equity market which impacted gains and losses from investments. Paul will give more details on that within his presentation later on. Thanks to the very good progress of the integration of Nationale Suisse, underlying earnings already included synergies of CHF 51 million on a half year cost basis.

As you can see, we are well underway to achieve our synergy target. I will provide you with more details on the synergies in a moment. Business volume increased by 3.4% in original currency to more than CHF 5.5 billion. Life business volume grew by 5.3% in original currency.

Let me highlight that the modern, capital-efficient Life product showed very satisfactory growth, resulting in an increase of 8.4% in original currency compared to the first half year 2015. The Non-life business volume was impacted by portfolio optimization measurements as we have already announced at the full year results 2015 in March. This had a negative impact on volume growth which was therefore only 1%. Despite the challenging environment and the very volatile capital markets, our rates are still well-capitalized. Our Swiss Solvency Test quota was within the range of between 150% and 200%.

I will now continue on the current status of the integration project on the next slide. As I have already outlined before, the integration of the two acquired companies, Nationale Suisse and Basler Austria, is well underway. Once again, in the first half year 2016, we made immense progress and reached further important milestones.

In our home market, Switzerland, the operational part of the integration is almost completed. Following the successful migration of Non-life policies, we are now migrating the Life policies into the Helvetia system. Also, in Europe, we are well on track. In Germany, organizational restructuring measurements have been initiated. Furthermore, approval for the legal mergers from the regulator has been obtained so that we can now start the implementation phase without any delay.

In Spain, the new organization is already effectively installed and we have started to optimize the former National Suisse portfolio as previously announced. In Italy, the Non-life entities and subsequently also the agent networks have been successfully merged. We are also operating with an integrated product range under a single brand in all country markets.

To summarize, integrations have largely been implemented. Thus, we are confident to finish the respective tasks by the end of 2017. This brings us to an update on the status of the realization of synergies on the next slide.

As of half year 2016, Helvetia had 590 full-time employee equivalents fewer than it is as of June 30, 2014 when we started synergy tracking. Of these employees, 451 left the company due to the acquisitions and can therefore be counted as net staff synergies.

At the same time, however, investments in our business that were made to support our strategy in particular in IT and to expand functions that Nationale Suisse have outsourced have had a slight counter-effect. The staff reduction corresponds to around CHF 40 million in personnel cost savings on a half-year basis.

We also generated non-personnel cost savings of roughly CHF 12 million on a half-year basis in 2016. In particular, synergies were achieved here through a reduction in redundancies in areas like IT, logistics, marketing and corporate. Overall, we realized synergies of CHF 51 million, meaning that we make great progress in achieving our target.

With that, I would now like to turn over the presentation to our CFO, Paul Norton, who will present to you the most important information about the key financial figures.

## Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. Good morning, ladies and gentlemen. I'd also like to welcome you to this analyst conference. And within the next 20 minutes, I'd like to give you more detailed information on our financial performance in the first half of 2016. I'd like to turn to page seven, the results by business area. Our underlying earnings for the first half of 2016 are above CHF 238 million, an increase of 7.9% compared to previous year. This increase was partly due to the Life business and the significant improvement of results of other activities.

Before I go further, I know from Susanne that one or two of you have asked about the very low tax rate. This is a one-off tax rate. It is not sustainable. It is not expected to continue. There were a series of individual items which make up the reason for this, including many to do with the integration post-merger of Nationale Suisse. But as I said, don't take that as a sustainable tax rate going forward, expect to go back to normal either in the end of this year or in certainly next year.

We increased underlying earnings in the Life business to CHF 88 million, which reflects a growth rate of 4.2% compared to the first half of 2015. The improvement came from a better savings result, which mainly benefited from the decrease of the minimum interest guarantee rate in the group Life business in Switzerland and the one-off tax effect I mentioned, partly offset by additional reserving related to the low interest rate environment.

We'll have a closer look on the Life profit by sources in a few minutes.

Results in the other activities improved from minus CHF 22 million in the first half of 2015 to minus CHF 1 million for the period under review. This is mainly attributable to the technical results of our Group Reinsurance which improved significantly compared to the previous year.

In the first half of 2015, the technical result have been impacted in particular by an unfavorable claims development and the fact that the European entities were able to cede many claims to Group Reinsurance, mostly out of the portfolio of the former Nationale Suisse.

Alongside the improvement in the technical result of Group Reinsurance, the previous year have been massively impacted by currency effects and also gains and losses on investments, which attributed primarily to the SNB's decision in January 2015 to move the Swiss franc peg to the euro. In the current reporting year, we have had several one-off positive tax effects here as well.

The Non-life underlying earnings amounted to CHF 151 million and were, therefore, CHF 7 million lower compared to the first half of 2015. Although the technical result improved in comparison with prior year, the decline was attributable to lower gains and losses from investments, mainly as a consequent of the weak performance of the XT (17:10) markets and also decisions we took to realize investments in 2015.

I'll provide you with details in the profit by sources of the Non-life business in slide 11. I would like to quickly point out again that this unusually lower tax rate you see in this half year due to one-off positive effects, these mainly come from various aspects of integration of Nationale Suisse.

Let's turn to the segment result on slide eight. In the first six months of 2016, we achieved robust results in all segments. The Swiss segment again proved its credentials as a stable foundation for the group by posting a profit contribution of CHF 173 million and a growth rate of 2.2% in the first half of 2016. In the Life business as well as in the Non-life business, underlying earnings increased compared to the first half of 2015. In the Life business, the improvement was driven by a better operating result, margin after cost, partly offset by reserve strengthening related to lower interest rates. The Non-life business improved, thanks to better technical developments and realized synergies.

The segment result for Europe, which comprises the market units Germany, Italy, Spain and Austria, was stable and in level with the previous year. Thanks to favorable development of the operating results, underlying earnings of the European Life business increased. Higher expenses for interest-related reserve strengthening had a slight counter-effect. These are primarily the (18:53) in Germany and Austria.

Non-life underlying earnings in Europe by contrast were lower. Apart from a slightly weaker technical performance due to the fact the prior year materially benefited from the reinsurance, the main reason was a lower investment result due to lower net capital gains and losses.

Specialty Markets includes the business lines Marine, Engineering and Art in the Specialty line Switzerland International Market unit. The French market unit specializing in Transport and Marine and the global active reinsurance. The segment result for Specialty Markets was CHF 14 million which is below the previous year. Also here, the decline was due to a lower investment result and currency fluctuations.

The Corporate segment includes the Corporate Center and Group Reinsurance, in addition to the financing companies and the holding company. Its contribution result of minus CHF 1 million significantly improved against the previous year's figure of minus CHF 22 million. This was driven by a strong result from Group Reinsurance and lower currency effects compared to first half of 2015, as well as some one-off tax effects.

I will continue with that growth in business volume on slide nine. In the first half of 2016, Helvetia Group achieved a business volume of CHF 5.5 billion. This equates to an increase of 3.4% over the previous year in original currency.

In the Non-life business area, we achieved an increase in premium volume of 1% original currency despite the fact that we were forming (20:31) portfolio restructurings in order to improve profitability in some country markets. This growth was mainly due to the active reinsurance business in line with its strategy.

Life business increased by currency-adjusted 5.3%. In particular, I would like to emphasize that in Individual Life business the volume of the so-called non-traditional insurance products, investment-linked insurance solutions and deposits increased by 8.4% overall, while traditional insurance solutions declined in line with our strategy. The first country market posted the biggest growth by segment with increase of CHF 164 million or 4.7%. I'll come back to that in the next slide.

In the Europe segment, we generated slightly less premiums compared to the first half of 2015 in original currency. As I've already mentioned, we have performed targeted portfolio optimization measures in the former Nationale Suisse portfolios in Germany, Italy and Spain, in order to improve profitability. Alongside portfolio restructurings in Italy, the motor business suffered from a very price-sensitive competitive environment which resulted in the decline of average premiums in line with the market.

In the Specialty Markets segment, we also achieved a 7.1% increase in volume over the first half of 2015 in original currency. Growth was almost entirely driven by our active reinsurance, resulting from targeted diversification by region or business lines, as well as a selective expansion of existing business relationships in line with the previously agreed strategy for active reinsurance.

I'll now turn to our home market on slide 10. In the first half of 2016, the domestic market once again emerged as a solid foundation of the group. In Non-life, we increased premiums by 1.8% to a stable (22:36) CHF 1 billion. The main growth driver was motor vehicle insurance which benefited from a change of the invoicing period.

The former Nationale Suisse motor portfolio partly had a different invoicing sequence which has now been aligned to the Helvetia portfolio. However, this positive impact on growth, top line growth that is, will be reduced in the second half of 2016. To make it clear, this has no impact on the net earned premium, just a top line growth effect.

Business volume in Life business increased by 5.8% with the biggest growth contribution coming from the group Life second pillar business. Here, demand for full insurance solutions remain consistent. Helvetia continue to pursue its strategy of being very selective about the new business in this low interest rate environment. Nevertheless, single premiums increased by 14.6%. The increase was due to a single transfer of policyholder bonuses into retirement assets booked as premiums and should therefore be regarded as a one-off. Effectively, what happened was that customers bought additional cover using their bonuses. And for accounting purposes, that has been booked as a premium. On the profit and loss account, it has no net impact.

Regular premiums, which are important for assessing business performance, increased by CHF 11 million or 1%. In Individual Life business, premium volume increased by 2.6% to CHF 450 million, whereby the main contribution came from modern capitalized insurance solutions increasing by 29%. The guarantee plan has demonstrated a positive trend in the sale of modern insurance solutions. Also, sales of the tranche product issued in spring, were again very strong. Traditional Life, by contrast, decreased in line with our strategy.

I'd now like to look at the profit by sources in the Non-life business on page 11. In the first half of 2016, we can again look back on a very strong technical performance in the Non-life business, which is reflected in the technical resulting 10% above the prior year. Looking at the profit in the Non-life business by source, we can see that the gross technical result that is before reinsurance increased by 58%, thanks to a much better claims development in the first half of 2016 compared to the previous year.

In 2015, we had several large losses predominantly coming out of a former Nationale Suisse portfolios in Europe. The recoveries from reinsurers in 2016 fell below the previous year's results due to the fact in the first part of 2015, European entities were able to see the large proportion of the claims of group reinsurance, which led to an unusually good seeding result of those units.

Nevertheless, the net technical result grew by 10%. This increase can be attributed to a better cost development, mainly driven by synergies. The investment result – the net investment result was lower compared to the first half of 2015. As a consequence of the higher volatility and the corresponding weak performance in the equity markets in particular, as well as the fact we made large realizations in 2015, we generated lower gains and losses in investments this year. From an accounting perspective, a significant part of our equity portfolio is qualified as trading, so that volatile equity markets can have a direct impact on the P&L.

I would now like to move to the net combined ratio slide on page 12. The net combined ratio improved over the prior year by 0.5 percentage point to 91.9%. The net claims ratio increased by 0.8 percentage points. As already mentioned on slide 11, despite benign claims environment in 2016, net claims ratio increased compared to the previous year because the 2015 first half-year result materially benefited from recoveries from group reinsurance. However, with 28.2%, we achieved an excellent cost ratio, which was 1.4 percentage points down the prior year. This was due to the realization of significant synergies. All the market units achieved a combined ratio of below 100%.

We move to slide 13, on the Life business. The operating result increased by CHF 23 million or 14% against its prior-year level. The improvement came from a better savings result, which benefited from the decrease of the minimum interest guarantee rate in the group Life business in Switzerland in the mandatory, as well as in the non-mandatory area. However, the risk result fell mainly due to weaker claims development, which is actually in line with normal volatility that is expected.

Profit before tax was down CHF 5 million or 5%. High interest rate, related reserve strengthening and lower capital gains and losses in consequence of the weak performance of the capital market negatively impacted profit. These effects were also consequently reflected in a lower allocation to policyholder bonuses which had a counter effect. I'll now continue the embedded value on slide 14. As you can see on slide 14, Helvetia Group's traditional embedded value was CHF 2.9 billion at the end of the first half of 2016. The Life units acquired from Nationale Suisse and Basler Austria in the second half of 2014 were only included to the extent to the adjusted net asset value in the first half of 2015.

Since the second half of 2015, the new portfolios and all the burial insurance products in Spain, the models for the first time are therefore included, all their components in the embedded value of the current reporting year. The main reason for the decrease in embedded value compared to the end of 2015 was negative economic deviations due to the low interest rate environment, as well as dividend payments in the first half of 2016 out of the Life units to the holding company, which reduced the shareholder value of the Life Insurance portfolio.

The embedded value nevertheless produced a positive operating return, and there's also a positive contribution despite the low interest environment from new business. Under difficult economic circumstances in which life insurance fund service, our new business continues to cover its cost of capital. New business volume was down in the first half of 2016. In Switzerland, Helvetia took a conscious decision to reduce the sales of full insurance solutions like occupational pensions, individual life business. Growth of new business volume from modern insurance products was higher than the traditional saving products in line with our strategy. Also, in Europe, new business volume grew. In all country markets, traditional life products are only selectively being distributed or they're being modernized.

The value of the new business written in 2015 increased from CHF 5 million in the previous year to CHF 7 million. In Switzerland, the value of new business declined year-on-year due to the lower volume generated in Group Life business. The first full inclusion of the profitable burial insurance in Spain in embedded value helped increase the value of new business in Europe. As a consequence, the profitability of the Helvetia Group's new business based on development of volume and value of new business under the traditional embedded value methodology improved from 0.3% in 2015 to 0.5% in the reporting year.

As you are aware, we're one of the few groups still using traditional embedded value and whilst there are considerable changes ongoing in financial reporting for insurers, with the new market and solvency measures in the forthcoming IFRS 4 Phase II, we do not believe it would be a good use of resources to introduce MCEV across the group in the immediate future.

We have, nevertheless, calculated an MCEV for our Swiss Life portfolio for the first time as you can see on the lower half of this slide. These figures are as of end of December 2015. We aim to update this figure on an annual basis and publish it in September with our half-year results. As you can see, the MCEV and the new business margin calculated on MCEV basis for the Swiss Life business, which obviously makes up the vast bulk of our business, are higher compared to traditional embedded value results. With the MCEV new business margin of 2.2%, we're actually very much in line with our peers. I can also say that we do listen to analysts request for further information, as you can see.

If we turn to slide 15, dealing with our direct yield and guarantees in the Life business, the direct yield increased in Switzerland in the first half of 2016 while the EU countries, by contrast, direct yield declined as a result of the lower interest rates. The increase of the interest margin in Switzerland was closely linked to the higher generated direct yields in the asset side and lower average technical interest rates on the liability side. The higher direct yields result to a large extent, out of higher yields from equities. The lower average technical interest rate is to be attributed to extra capital through the additions of the reserves and the fact that maturing interest insurance contracts with high guaranteed rates are being replaced by lower guaranteed rates.

Adjustment of the guaranteed interest rate for BVG retirement assets on January 1, 2016 from 1.75% to 1.25% and the corresponding adjustment to non-mandatory rates however have already been reflected in the average guarantee rate calculation in 2015. On the right-hand side of the slide, we've introduced a graph showing the interest rate buckets on guarantees on a group level, whereas in the first half of 2015, only some 25% of group-wide life reserves had guarantees lower than 1.5%. This year, some 60% at average guaranteed reserves below that level. After lowering the BVG minimum interest rate in Switzerland played a significant role here, it also shows how much we have done to structure our portfolio, to improve profitability and capital efficiency.

I'd now like to move to the investment performance on slide 16. The current income in the first half of 2016 was CHF 523 million, which is CHF 20 million higher in the first half of 2016, due to the higher investment volumes. Direct yield was an annualized 2.3% and therefore unchanged compared to the prior-year despite the much more challenging environment. In addition to current income, realized gains and losses amounted to minus CHF 58 million. This figure came mainly from book losses and equities since the significant part of our equity portfolio is held as trading, with market movements being booked in the income statement. The weak and uncertain economic situation and political uncertainties, not least the Brexit vote caused very volatile equity markets.

In total, the investment results in income statement was CHF 466 million, CHF 56 million down on the first half of 2015. By contrast, investment performance increased to 3.3% against zero in the prior year. Unrealized gains and losses recognized in equity significantly increased, pushed by declining interest rates, which had a positive effect on the bond's performance. Finally, we earned CHF 4 million less on assets backing investment-linked solutions for our customers, which can also be attributed to the weak performance of the capital markets.

On slide 17, you can see investment result broken down by asset class. Just under two-thirds of the current income of CHF 523 million come from bonds and mortgages has contributed CHF 288 million and expect to be CHF 43 million in absolute terms. Dividends accounted for CHF 54 million and investment property, CHF 180 million. Gains and losses on investments were minus CHF 58 million, mainly caused by equities which suffered from the volatile capital market. The development in non-realized gains and equity came from the previously mentioned low interest rates. The unrealized gains on the bond portfolio increased significantly by CHF 1.1 billion.



The lower half of the slide shows return on new and recurring investments. Around CHF 3 billion in total were reinvested or newly invested in the first half of 2016, 78% of which were allocated to bonds, primarily U.S. dollar bonds in the corporate sector, as well as long-term U.S. treasuries. We had to contend with high-hedging costs to cover our foreign currency exposure. But on a net basis, we earned a yield pickup which allowed us to mitigate the negative and very low bond yields in Swiss francs to some extent. Investing in mortgages and investment property and, to a small extent, also in equities also contributed strongly to mitigate the impact of the low yield environment. Direct yields on new and investments totaled an appealing 1.7%.

I'll continue with page 18. Slide 18 brings us back to acquisition-related temporary effects. Our outlook up to 2017, which we announced following the acquisition is basically unchanged. However due to the very pleasing progress in integration, we increased our synergy target above CHF 130 million when we presented the full-year results in 2015. As

Philipp Gmür already mentioned at the beginning of the presentation, we achieved synergies of CHF 51 million on a half year basis mainly from Switzerland and the Corporate Center. But also our European entities made a contribution to achieve synergies. Integration cost were CHF 25 million in a half year basis. As we already emphasized, we are well on track to achieve our synergies and even to slightly exceed them.

Financing costs booked in the first half year came to CHF 7 million and the amortization of intangible assets of CHF 30 million were at the level we previously announced as was the planned depreciation on the revaluation of interest-bearing securities. I will finish my presentation on – with capital. Even after two acquisitions, Helvetia still enjoys a solid capital position, business pay ratio was within the target range of 150% to 200%. At a CHF 5.5 billion, the group's equity capital was up 3.5% due to an increasing gains and losses recognized in equity for the AFS finance and investments driven by the decreasing interest rates. The higher value of pension liabilities were also as a reduction of the low interest rates through reduction of the discount rate.

On that note, I would like to hand bank to Philipp Gmür.

## Philipp Gmür

Thank you, Paul for the details of our financial performance in the first half of 2016. I would now like to come to the last part of our presentation, and to give you an update on our strategy and on our new organizational setup on group level.

We will start on slide 21. Helvetia 20.20 makes us fit for the future. In March 2016, we announced the new helvetia 20.20 strategy. The strategy will also remain unchanged under me as the new CEO. We want to push ahead with the successful course Helvetia Group is pursuing. I want to emphasize again that the new helvetia 20.20 strategy will make us fit for the future. That means that our product offers and sales channels will become more digital and modern. Fit also means that we will become more agile and efficient as an organization.

To achieve this, we will combine our traditional strength with new opportunities that arise. The new strategy will also enable us to achieve our well-known ambitious targets that will also remain valid shown on the right part of this chart. One thing is very important to me in this context is by this evolution, Helvetia will remain personal and reliable.

With that, I would like to move to slide 22. The implementation of the strategy is based on the three key concepts of integrate, innovate, and increase. By pushing ahead with integration and innovation, we will be creating growth. In order to implement the new strategy in a targeted and efficient manner, we will establish a new corporate structure as an initial fundamental setup and step. The new structure will be effective as of January 1, 2017. Following the successful integrations of Nationale Suisse and Basler Austria, which have been already implemented to a large extent, we will now intensify collaboration within the Helvetia Group whilst focusing on our customers and market development.

Let us move to slide 23. With effect of January 1, 2017, Helvetia will have a new integrated executive management with well-focused tasks. This will result from the merger of the Swiss market executive board with the existing group executive board to create the new Helvetia executive management. Under the new structure, in addition to the existing market areas, Europe and Specialty Markets, the executive management will be completed and complemented by adding the market area of Non-life Switzerland, Individual Life Switzerland, Group Life Switzerland, as well as Sales Switzerland. As such, the new corporate structure will ensure that all the relevant market areas contributing most to growth and profit will be represented in the executive management team.

Furthermore, a new actuary department will be established on a group level. In view of the increasing importance of IT in terms of digitization, a fully integrated IT department responsible for all IT across the group is also going to be implemented. In addition, a newly created organizational unit called Corporate Development will support the executive management to further develop Helvetia in a targeted manner.

The new corporate structure has an impact on the body of the actual Swiss market management team. Herman Sutter and Angela Winkelmann are going to retire next year whereas Andreas Bolzem and Uwe Bartsch remain in the company by assuming new roles in Helvetia. To summarize, the new corporate structure will focus on the following three key areas. First, give innovation a higher priority in order to ensure the digital transformation of our core business following the changing customer behavior and expectations as well as taking advantage of the opportunities of targeted business model innovation. Second, maintaining the focus on the growth markets, Europe and Specialty Markets for diversification purposes apart from the home market, Switzerland.

And third, strengthening our already well-established asset-liability matching concept by optimizing collaboration between the asset and liability side mainly the Investments Department, the Actuary Department as well as the Finance Department. I will now move to slide 24. The new corporate structure clearly boosts the implementation of our strategy helvetia 20.20 as our key strategic points, agility, digitization and innovation, as well as customer centricity are now also anchored in our organization. An integrated corporate structure with well-focused tasks helps to streamline the organization and to reduce management level.

By bringing together or merging support functions such as Human Resources, Corporate Development, Finance or IT which currently are represented on group level as well as in the Swiss market area, we are eliminating unnecessary duplication. Executive management can therefore operate in a more focused manner and is, at the same time, closer aligned with markets development. This makes Helvetia more agile.

There is no doubt that digitization is a key catalyst for the further development of our business model. By representing IT in the executive management as a separate division, we strengthened our IT capacity and take into account the increasing importance of digitization. In order to continue providing our customers with first-class customer interaction and experience, one of the key pillars of our strategy is the digital transformation of our core business.

At the same time, the Corporate Development Department supports us to take advantage of targeted business innovation. This organizational set-up secures an intensified dialogue across all areas and the comprehensive view on important strategic subjects. Exchange of experience and knowhow transfer from the support functions into the market areas has also been intensified. The new structure, therefore, ensures that Helvetia as a group will become more digital and innovative.

Furthermore, the new corporate structure secures that all the relevant market areas contributing to growth and profit are represented in group management. This helps us to be closer at our customers and therefore, become more market- and customer-oriented. Also, by representing the actuarial function in the executive management, we continue to optimize coordination between the product development side in Life or Non-life, the investment department that provides the underlying assets, actuary that controls the liability side, and finally finance that is responsible for the balance sheet and risk management

This helps us, for example, in the Life business, to intensify our efforts to focus on capital efficient modern life product across all business units. The new corporate structure, therefore, ensures that we implement helvetia 20.20 in an efficient manner. Ladies and gentlemen, as you can see, a lot has happened in the past six months. We are driving forward the implementation of our strategy and I must say that I'm proud that we are well on the way. Helvetia is well-positioned for the future. We will give you the next update within our full year results in March 2017.

This brings us to the end of the presentation. And now, my colleagues and I would be pleased to answer your questions. Thank you for your attention.

# Q&A

## Operator

## A - Philipp Gmür

I suggest that we are starting with the questions in the room.

## Q - Andreas Frick {BIO 1883910 <GO>}

Thank you very much. Andreas Frick form Bank am Bellevue. I actually have three hopefully short questions. The one is on page 13, the profit by sources in the last business. Actually, I mean, it's great to see that savings result is so robust and so resilient for sure. But on the other hand, I would – we should see happen which goes more away from the savings result, more into the risk and fee result. So, please can you again, elaborate on the reduction of the risk results? I know that Paul said something, but I think I missed that on page 13.

Then, on page 19, which is the asset fee ratio, first of all, you do not specify more on the asset fee ratio, right? In this regard, I know that you won't say something on the dividend policy, but for me it looks like the visibility regarding earnings and other cash flow has improved a lot now. And therefore a – nevertheless, I ask you whether you can elaborate a little bit on the dividend policy going forward? And then last question, on page 23, the Corporate Development, the new unit which should help the executive management board. Is it only about new products and digitizations or maybe new lines of business? Or is there also something to say on M&A or external growth? Is isthe new Corporate unit also responsible for developing strategy regarding M&A?

## A - Philipp Gmür

Okay. Thanks for those three questions. I suggest that Paul is starting with answering questions number one and two. And I'm then finally answering to question number three.

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## A - Paul Norton {BIO 16145125 <GO>}

Okay. So, we go back to page 13. And you're right, the savings result is robust. It has been clearly helped – significantly helped by the sensible decision to reduce the minimum interest rate guarantee, and also as we said by our ability to change the non-mandatory part and also on Individual Life products. The risk result has previously been – and we expect it to continue to be very strong. It has suffered a little bit this half year from a slightly higher claims pattern but actually (51:26) very certain that its within the sort of, boundaries of our normal volatility on the risk results, mainly Invalidity business. So, that will fluctuate. It's been very strong in the past. We've managed to get away without any major claims from that, but again, it remain reasonably strong.

The fee result for us was only introduced as a separate category. I think it was last year and so its relatively new for us in terms of splitting out the various products that have a fee analysis on it. So, I would ask for little bit of, sort of, patience until we develop the actual bookkeeping to make sure we get the right numbers out of it. It won't be massive but there will be some changes there.

On the SST, yes, you're right. We don't specify more. We certainly have not done at the half year. Even at the full year it's going to be difficult to specify more information, because as many of you are probably aware FINMA has now decided to change the whole modeling process for the BVG second pillar and are basically saying they're probably not going to publish any numbers, any more detail until that's been stabilized. So we're once again in a state of flux regarding the BVG – I'm sorry, the BVG modeling and the overall SST modeling. There will be the new bridge -finance market, which is equivalent to the SSTR report under Solvency II. That is due for publication next year. Given these uncertainties, we're not quite sure what's going to happen. There's no clear disclosure concept from FINMA. And until that is clear, we won't give any more details.

In terms of the dividend policy, there has absolutely at the moment no impact on dividends. I've mentioned several times before and we published it for the full year results detail, the biggest factor on the dividend capability is there are statutory equity position, which is the statutory equity and the statutory profits are somewhat lower, considerably lower, actually, than the IFRS ones because they're not blown up by unrealized gains because they deal differently with technical reserves and so on. And SST at the moment is not a restricting factor in our ability to pay dividends. Our dividend policy will remain the same and we set out the targets under the strategy of paying at least CHF 1 billion every five years and there's nothing at the moment which would indicate that we need to change that.

## A - Philipp Gmür

Okay. Let's turn to the question number three concerning the corporate development department. Of course, there are two different streams we would like to follow. The first one is to realize organic growth in order – by establishing new ideas. We want to transform our existing business from our traditional set-up, if you will, in a new digital world. Apart from that, we would like to establish a couple of speedboats, but they will not have the same impact, of course, as if you can move the big ship, the tanker. And the third point of course is our M&A strategy. We will not probably achieve our CHF 10 billion company target by the end of 2020 without any acquisitions. And thus, we are looking for acquisitions outside of Switzerland, be it in Germany, be it in Spain especially. But as you well know, acquisitions are difficult to be planned. So, either they come or they don't, but we want to play an active role.

Other questions? Stefan Schürmann from Vontobel.

## Q - Stefan Schürmann

Yes. Good morning. I have two questions. The first one on the Life part, just to give you – can you give a bit more color on the reserving, also in Switzerland, you said the (56:00) in Germany has an impact. Maybe can you elaborate how much that was and how much you added to reserves in Switzerland? The second one on Non-life, Italy was quite a nice combined ratio. I mean, is there any lagging impact on the national portfolio included or is that in the group reinsurance part? And the second one in Germany, the combined ratio is up. Is there any extraordinary one-offs in there or is that underlying development?

## A - Philipp Gmür

Okay. Thank you. I suggest that Paul is answering those two questions.

## A - Paul Norton {BIO 16145125 <GO>}

The Life reserving we disclosed at the year-end in detail because the Life business needs to develop every year. You can't just do it every half year. So, it's almost like a provisional figure. So I'd rather not go into how much we've reserved, particularly in Switzerland, it will vary. In Germany and Austria, the Life (56:51) is a mathematical formula, which you can't escape from. I don't have it in the top of my head, how much fees we're talking about low-digit millions that we have to reserve. Since Spain don't have a (57:04) reserve, they have a mathematical formula which is very volatile because (57:11) the supervisor every half year.

On the Non-life side, the combined ratio has been really pleasing. They are under pressure from the motor business. But they have basically put behind them the problems of the Nationale Suisse (57:30) and that's why you're seeing it come through now as a kind of market conforming combined ratio, the non-motor business – also for the motor business.

In Germany, the gross combined ratio actually is extremely good. The current year ratio is very good. The net looks bad because it's really, they have had couple of large weather-related claims at the end of the half year. But you have to look at it as a relationship with the reinsurance. And last year, they basically got a very, very good deal out of group reinsurance. That's why you saw the losses in our group reinsurance segment. And this year, effects with the gap between gross and net is quite large because you're seeing a reversal of that effect. But on a gross basis, they're doing very well. They've cleaned up a lot of the portfolio both from Nationale Suisse and from our own industrial portfolio. And once the reinsurance stabilizes, we expect that to improve within that basis too.

## A - Philipp Gmür

Okay. There is a next question, with René Locher, I think.

## Q - René Locher

Yes. It's René Locher with MainFirst. So, first question on slide 18. You mentioned that the integration of Nationale Suisse and Basler Austria is almost completed. It's interesting to see that you have fully expensed the integration cost. So, more or less, I think on synergies, there is still quite a gap from 51 to about one-third. So, I'm wondering if almost completed and still there is a lot of synergies coming. So, that's my first question.

And then (59:20) simple question, how serious you are about this CHF 10 billion growth target because – yeah, this might be a little bit too naïve, but when I'm looking at slide 8 and slide 9, for example, we see that specialty line, top line plus 9%, our profitability is down by 30%. So I think there is a good reason for this. I'm wondering a little bit – what I would like to hear is you keep your focus on profitability and not on these CHF 10 million top-line growth. And yeah, again, perhaps a little bit of stupid question. That's what I got out of the press. Simple question, do you believe that an investment in (01:00:11) would make strategic sense for Helvetia? Thank you.

## A - Philipp Gmür

Okay. Thanks for those questions. Paul will answer question number one regarding the synergies tracking, and I'm going to answer the other two questions. Paul, please?

## A - Paul Norton {BIO 16145125 <GO>}

Okay. Simple answer, René. The CHF 51 million is in a half year basis, so for this half year. So, you can basically double it at least to get there. Okay. Simple one. So, we are definitely well on course, no question.

## Q - René Locher

Okay. Regarding the CHF 2 billion volume target, I would like to mention that's a...

## A - Paul Norton {BIO 16145125 <GO>}

CHF 10 billion.

## Q - René Locher

Sorry?

## A - Paul Norton {BIO 16145125 <GO>}

CHF 10 billion, not million.

## Q - René Locher

CHF 10 million. What did I say?

## A - Paul Norton {BIO 16145125 <GO>}

CHF 2 billion.

## Q - René Locher

CHF 2 billion. Oh. We're not talking about profits, but the volume. The CHF 10 billion volume target is set as a strategic ambition. And I think there are more than four years to go until the end of 2020. So, we really want to set forth a high ambition. Now, of course, we are not wanting to realize growth which is not a profitable growth.

If we have to question between profitability and growth, then we will go for profitability. That's why for instance, we do not have any growth targets for Specialty Market lines – for different Specialty Market line for the moment because we see the margins to decline. So, we are there pursuing a rather opportunistic way of growth in the Specialty Markets department. Then the third question, Leonteq. I mean, if they can Leonteq be on tech, it's out of discussion for Helvetia.

## A - Philipp Gmür

": Can I just add... "

Question?

## Q - René Locher

one point to the growth thing and Specialty Markets fee. Decline in profitability in Specialty Markets is purely to do with investment results. It's not to do with the combined ratio. The combined ratio is good.

## Q - Daniel Bischof {BIO 17407166 <GO>}

Daniel Bischof from Baader-Helvea. A couple of points. The first one for Mr. Honegger. I mean on the investment side, the share of BBB and lower rate bond increased now to 17% compared to 10% a couple of years ago. Also the sensitivity to credit spreads increased to

28% versus 20% a couple of years ago. Also a little bit about the fixed income stage you have? And also whether you have the appetite to rerisk further, where you have more appetite to rerisk?

And the other question is for Mr. (01:03:40). First, I mean, you're long time with the group. The strategies laid out, but still I mean what do you think can Helvetia still look back from here? I mean where is the biggest upside in Europe? And then also, I mean we have to comment in the press about a closer cooperation between (01:03:39) and Helvetia. What are your thoughts about that? And then the last one just a small one, I mean when you made the acquisition, you talked about CHF 500 million profit target. Does that target still stand or would you rather fully focus on the ROE?

## A - Philipp Gmür

Okay. Thanks for those questions. I first ask Ralph to answer the investment question.

## A - Ralph-Thomas Honegger {BIO 4932832 <GO>}

Okay. Yes. I mean, we opened the BBB segment for investment about 18 months ago, and basically we talked to terms in 2015 and also in half year or two sort of build on, on this BBB investment, where we really put an emphasis on corporate bonds, which gave us also the terms to diversify more between the different sectors to move a little bit out of the financial sector to end the corporate sector which we make on a perspective of diversification. Obviously, the BBB segment has become a necessity for us, since you now it seems like the whole scale shifted down. That's what we know (01:05:05) market.

Looking at today's interest rate environment, obviously it's still the corporate equity segment which (01:05:15) in our view that the best terms or this might go up slightly. They have to emphasis though (01:05:29) sector was only due to our Italian business and the Italian government bonds downgraded some years ago. So there we have an important move, obviously. The same holds for Spain about the position, that is much smaller since we don't have such a big life obviously.

## A - Philipp Gmür

Yes, okay. Now talking about the upside, potentially, you were asking. I think we've had a strong track record during the last few years, I mean, with regard to growth and profitability where we wanted to be, more or less, first class. I think we achieved what we promised. So, that's why we're confident that we have further upside potential. First in our home market, we have a strong position as we're number three in this country which gives us new opportunities. And apart from that, we have promising positions abroad, be it in our markets, Austria, after now the integration of Basler (01:06:52) Austria, we are a stable goods (01:06:57) provider for insurance solutions in Austria where we were struggling for years now. We are really on a robust fundament.

Then we have promising positions, we are sure, in Italy. We are among the biggest 10 Non-life insurance companies in Italy which gives us a good position for further growth. In Spain, we have been writing excellent technical results for years which gives us a good position. And in France, of course, with our number two position in Marine, we are a well-established insurance company.

We are confident that we can even better leverage our know-how across the company and across all business units, be it know-how which exists in the – outside Switzerland in the different business units abroad, be it the know-how we have in Switzerland. And this makes us confident that we are still in a position to have further potential looking ahead.

With regard to our cooperation with Raiffeisen, we have a new contract or we prolonged the contract in January 2 of 2015 for another five years. This cooperation is well-established. We are pretty happy about the development in the Life segment. And we are still confident that there is potential to enlarge this cooperation with regard to Non-life products in the value chain of Raiffeisen and its clients' advice journey.

Question number three, the CHF 500 million profit target. What we published was a target with regards to our dividend we are providing for the market. And apart from that, I would like to give to Paul if he wants to add some other points.

## A - Paul Norton {BIO 16145125 <GO>}

There was a broad estimation, yes, CHF 500 million based on the then situation of the two companies and the synergies. As you can see with CHF 238 million on an underlying basis, we can't say whether we're going to double them up. We don't give that guidance (01:09:46). We're obviously getting towards that. The problem is that since then, the last two years, the investment environment has declined significantly. And whilst on a specific-basis, we said the synergies is – a large part of that synergies we will reach. I think it's pretty certain. And the overall broad CHF 500 million is very difficult to say, given the current investment plan with lower interest rates.

## A - Philipp Gmür

Okay. I would now like to give the opportunity for questions for all those who are following us on the phone. Is there any question?

## Operator

The first questions from the phone is from Guilhem Horvath, Exane BNP Paribas. Please go ahead.

## Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Thanks for taking my questions. I've got four, actually. So, the first one is on Life and going back to something you answered earlier. I'd like to understand how much is sustainable on this savings result because you mentioned lower interest rates, higher reserves and then, I think you mentioned that's one-off as well? So, can you tell us a little bit what you expect to be sustainable? And on this, what do you expect the normalized profitability in Life to be in the future? So this is number one.

Second is on P&C, I think you provide for the first time the prior-year developments, so year-on-year, and I'd like to understand and to know what the absolute level of this prior-year developments. I think you mentioned the minus 10 bps effect. Maybe you can give the absolute amount.

The third one is on synergies, and maybe – I think I didn't (01:11:24) understood that with your answer to René earlier, so the CHF 51 million here is a cumulative number, right? So, the year-to-date synergy is CHF 6 million additional, is it right? And then on that, I think that last year you had CHF 15 million, so is it like a deceleration and what would be the reason?

And the last one is on the Switzerland sales new entity, and I'd like to understand how this will be articulated with the other entities, so the Non-life, the Individual Life and the group Life. Thank you very much.

## A - Philipp Gmür

Okay. I would directly like to hand over to Paul for the first three questions. Paul?

## A - Paul Norton {BIO 16145125 <GO>}

As you are aware, we don't give guidance on numbers going forward. When you look at the – the announced (01:12:20) profit of the Life business on page 13, you can nevertheless see certain trends combined with a knowledge of these as a market and how they're developing. The savings result, it's particularly dependent on the decisions of the Swiss Federal Council on the BVG second pillar minimum interest rate.

If that is sensible, which it wasn't in the prior year, but is this year – if that is sensible, then that is pretty sustainable. And as we pointed out with our other slides, in particular, one which shows the reserves and the buckets which is in (01:13:21) slide 15, we've made a great deal after (01:13:01) ourselves to improve the profitability (01:13:06).

And the risk result, as I've said there's a blip this year, but we don't expect that to continue for longer term. So, based on those indications, I think you can probably work out yourself where the sustainability is going. We have said that on our investment portfolio, we roughly see a 10 basis point to 20-basis-point deterioration on the yield every year. So, a longer-term sustainability in a business which is heavily dependent on interest rates, you can see gradually how it changes.

On the P&C, you're right. Again, we listen to our – what the analysts ask us for. We have introduced a slide showing the developments, it's on page 31, so it's in the appendix of the combined ratio. I think you can work that out yourself, the 0.1-basis point. What it does show is that it's not a material amount. I mean, people have often said to us, you're releasing lots and lots of reserves and our point is no, we're not. We're generally conservative with reserving. And then you'll see a small development which will vary plus or minus, but will not be any significant from year-to-year. (01:14:19) to the overall combined ratio. But it does show that it's not a – on a net basis, a decisive element in the combined ratio.

## Q - Guilhem Horvath {BIO 18460437 <GO>}

Just coming back on this, if I may. On this 0.1% (01:14:39), we see that the evolution is not a material amount, but I think we don't have a view on what's the absolute number, right?

## A - Paul Norton {BIO 16145125 <GO>}

No. But you can work that out. I mean, 0.1-basis point on a combined ratio when you know what our value is. And at the moment, we don't want to get down to lots of details about the absolute amounts of reserving and where it comes from and so on (01:14:59) complicated.

## Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay.

## A - Paul Norton {BIO 16145125 <GO>}

On the synergies, if we go back to slide 18, I don't think (01:15:11) to be heard. I think you said maybe a deterioration, did you say in the synergies...?

## Q - Guilhem Horvath {BIO 18460437 <GO>}

No. Deceleration. I'm sorry.

## A - Paul Norton {BIO 16145125 <GO>}

Deceleration. Well, yes, there will be a deceleration because obviously as you've harvested most of the synergies, as you come towards the end of synergy period, it doesn't accelerate. But then, we started in 2015 with CHF 15 million, and we're now at CHF 51 million from its (01:15:32) equivalent half year. So, all in all, we're on target for that, well over CHF 100 million. And that's obviously by the end of 2016. And then, we still got 2017 to go. But yes, it will decelerate. I mean, I wouldn't expect to see that increase in, say, 2017. It will be just the last little jump to get to the CHF 130 million.

## A - Philipp Gmür

Okay. So, I would like to turn to question number four. What's the reason and the collaboration within Non-life Switzerland, Individual Life Switzerland, and Group Life Switzerland to have that represented in the group executive management? First I would like to emphasize that we wanted to have all those business units and lines of business which represent the key drivers, be it for profitability or growth within the executive management.

The second point is, having those key drivers represented in the executive management helps the executive management to be closer to the market and to have a closer look on what's going on out in the field.

And the third point is, we do not want to establish a matrix organization, but what we would like to establish is to have a better know-how transfer, be it from all those country markets outside Switzerland into the home market and vice versa. This helps us to establish a know-how transfer across the group and to different business units.

With that, I would like to hand over to the next question.

## Q - Guilhem Horvath {BIO 18460437 <GO>}

On – just, if I may, on the Switzerland sales strategy, specifically?

## A - Philipp Gmür

Okay. I mean, the sales department in Switzerland has not only the highest number of employees within our group, but also much know-how with regards to all different kinds of sales channel, be it agents, networks, be it all those broker networks, be it the cooperation we have with the two bank networks, Raiffeisen and Cantonal Banks. Then, we have an online channel in Switzerland. We have a direct insurance company, smile.direct in Switzerland. There is a huge know-how in this channel, and we would like to leverage this know-how for the other country markets.

## Q - Guilhem Horvath {BIO 18460437 <GO>}

That's great. Thanks so much.

## A - Philipp Gmür

Next question.

## Operator

The next question is from In-Yong Hwang, Goldman Sachs. Please go ahead.

## Q - In-Yong Hwang {BIO 18784369 <GO>}

Good morning. Thank you for taking my question. I've got two. Firstly, on the Life new business margin is 0.5%, is still below (01:18:25) the target you set out at your 20.20 strategy of over 1%. Is that 1% target still realistic in the current interest rate environment? And I mean, what would need – what change would you need to see either on the macro side or in your business point of view (01:18:47) achievable?

Secondly, on the reinvestment rate. The real estate yield – the new (01:18:57) yield of 5.5% seems very high. So, I was just wondering how that is being achieved? And I understand the 1.7% is average over the first half year. Could you give us an idea of what kind of rates you're investing – you're re-investing, sorry, at the moment? Thank you.

## A - Philipp Gmür

Okay. I would ask Paul to answer the first question and Ralph the second one.

## A - Paul Norton {BIO 16145125 <GO>}

Okay. The 0.5%, as you say, is below the 1% new business margin that we indicated in the strategy. We're clearly in a very, very low interest rate environment. We have deliberately not reset the strategy at this early stage. We have five years to go and things may change. At the moment, because it's above zero, so 0.5%, it's half way there. It is obviously meeting our cost of capital. And if you look at the Swiss market unit, which makes up 80% of the Life business on a marketing system (01:20:04) basis, it's obviously very comparable with our peers. So, at the moment, I don't think it's really sensible to reset the strategic aims.

In terms of what drives it, it's clearly interest rates. And from a macro perspective, interest rates need to go up. As we've shown on the other slides, we've had considerable success in reducing the liability side or the exposure on the liability side by reducing our guaranteed rates. So, that will obviously help quite a bit. But it's a catch-up. As soon as we start reducing guaranteed rates in the liability side, we certainly find that interest rates go even low on the asset side. But long and short of it, yes, it's interest-rate-driven. Two, we're not going to change the strategy at the moment. And three, we're certainly keeping our head above water.

## A - Philipp Gmür

Okay. Ralph, what's going on with our investment yield?

## A - Ralph-Thomas Honegger {BIO 4932832 <GO>}

Okay. First, maybe to the old investment or new investment yield of investment property, I mean, this is because we don't usually acquire a tough (01:21:17) real estate which is finished, which is standing there normally, and that's the way the majority of our investments we acquire a project.

So, at the size of 0.5%, you see here, is basically projects that we acquired three years, four years, five years from today, so – which came to the market, which we finished this year and which we marketed this year. So, the good thing of the story is that we really could keep up the (01:21:53) investment return with this new project that we saw three years, four years or five years ago. So, the market is still pretty good in Switzerland.

To the reinvestment yield overall, it's kind of hard to say. So, you all know that interest rates came down, again, spreads narrowed. So, it probably won't be low for the second half year. We know exactly (01:22:24) it will stand at the end of the year (01:22:27).

## Q - In-Yong Hwang {BIO 18784369 <GO>}

Okay. Thank you.

## A - Philipp Gmür

Other questions?

## Operator

The last question from the phone is from Jonny Urwin from UBS. Please go ahead.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks for taking my question. Just two from me, please. Firstly, just to go back to the prior-year development points from earlier, it is helpful that you're showing us the development now. But really for it to be of any use, we need to know the starting point. So, I don't want to get into too much detail, but if you could just give us a rough range on the percentage point? Are you raising 12 points (01:23:00) on your combined ratio (01:23:07) for example?

And secondly, the disclosure around the guarantee breakdowns was super helpful on page 15. Could you just give us the average for the level above 1.5%? That would be very helpful. Thanks.

## A - Philipp Gmür

Okay. Thanks for the questions. I turn to Paul.

## A - Paul Norton {BIO 16145125 <GO>}

On the prior-year developments, I'm sorry, Jonny, at the moment, we have no plans to increase the disclosure on that one. And on the buckets, I'll have a look and come back to you what that is.

## Q - Jonny Urwin {BIO 17445508 <GO>}

All right. Thanks.

## A - Philipp Gmür

More questions?

## Operator

There are no further questions from the phone.

## A - Philipp Gmür

One last final question in the room?

If there's none, I thank you for your attention. I thank you for your interest in our company, and it goes without any saying that we are happy and ready to answer all the questions you might have between now and March 2017 when we'll see one another again here...

## A - Paul Norton {BIO 16145125 <GO>}

(01:24:15).

## A - Philipp Gmür

Enjoy your day. The conference is closed.

## Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Good-bye.