S2 2011 Earnings Call

Company Participants

- Beat Mueller, Chief Actuary, Swiss Life
- Paul Norton, CFO
- Philipp Gmuer, CEO, Switzerland
- Ralph Honegger, Group CIO
- Stefan Loacker, CEO

Other Participants

- Fabrizio Croce, Analyst
- Georg Marti, Analyst
- Kent Choi, Analyst
- Michael Klien, Analyst
- Rene Locher, Analyst
- Stefan Schuermann, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, good morning, or good afternoon. Welcome to the Helvetia full-year results 2011 Earnings Call and live webcast. I'm Selena, 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.

(Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Stefan Loacker, CEO Helvetia Group.

Stefan Loacker {BIO 15157193 <GO>}

I would like to say a warm welcome to every one of you here physically, or also in the telephone conference, for the presentation of our 2011 annual results.

Again, we worked hard last year. And we think that we have achieved solid results, in spite of difficult circumstances. As you all know, 2011 was, once again, not an easy year for the insurance industry, especially the solvency of some eurozone countries. And then, also, the slowdown of the economic growth perspectives burdened the financial markets, especially in the second half of the year.

There was also some heavy claims in 2011. Luckily, Helvetia was not noticeably affected by the more dramatic natural catastrophes in Japan, New Zealand. And Australia. But in some of our country markets, especially in Germany, claims were higher than in the previous years.

Against this background, our profit contracted only slightly. And, with CHF289 million, it confirms our revenue strength. During this presentation, we will provide you with facts, background information. And details on forthcoming measures.

With me here today, as you can see also on slide 3, are Paul Norton, our Group CFO, who, as usual, will discuss our results in detail during the first part of this presentation -- then, our Chief Investment Officer, Ralph Honegger, who will explain the consequences of the investment market turbulence and Philipp Gmuer, CEO Switzerland, who will talk about the performance of our particularly successful home market business.

I will conclude the presentation with an update on our strategic development, after which, the speakers and I will be happy to answer your questions.

I now come to a brief overview on the year, which you can find on slide 4. The net profit of CHG289 million was supported by a solid technical performance, as well as strict cost control, amidst the result of our consistent strategy implementation. This robust result allows us, even in challenging market environments, to propose to the shareholders' meeting an unchanged dividend of CHF16 per share, the same as last year.

In 2011, Helvetia posted strong growth of 10.9%. And, as a consequence, for the first time, achieved a premium volume of more than CHF7 billion. In regional currency, both the Life and Non-Life business returned encouraging double-digit growth figures.

The weak euro, however, as you have all seen, had again, a noticeable impact, with the reported growth on our foreign markets being some 10% lower in Swiss francs in the consolidated financial statements.

The technical results were good again in 2011, both in the Non-Life business, where the Group achieved a combined ratio of 95.6%, in spite of higher claims burden in Switzerland and, in particular, in Germany. And also in the Life business, where Helvetia had, again, good risk results. And a stable margin on our investments, even in the current low interest rate climate.

To maintain, nevertheless, the future profitability of our core business, we launched also new strategic programs in 2011 to take account of this particular environment we are in. I'll return to this topic later on.

A disciplined approach is also the key to a good and successful asset management. And we think that our sustainable investment strategy has, again, proven itself in the reporting year. The quality of our fixed income securities and, in particular, the increase in value of our real estate portfolio in Switzerland, have, to a large extent, offset falling equity prices.

The current investment income was robust. And remarkably stable. And it came it with a direct yield of 2.9%. The quality of the portfolio is visible in the increase of the unrealized gains in equity, which contributed substantially to the performance of 3.6%.

Also, equity improved by almost 6% year on year to CHF3.7 billion. This growth is primarily attributed to the good annual profit and, of course, the increase in unrealized gains on bonds. As a result, Helvetia Group Solvency I margin remains strong, despite the growth that we had in the underlying business at 219%. Also, Standard & Poor's confirmed our rating A minus flat, with a stable outlook in the Fourth Quarter of 2011.

Ladies and gentlemen. to have a very first short summary, I would say Helvetia is in good shape. In the challenging year 2011 we posted double-digit growth, record sales, exceeding the CHF7 billion mark for the first time, solid annual results. And an unchanged and strong solvency margin.

Paul Norton will now discuss the core elements of our financials with you. Please, Paul.

Paul Norton {BIO 16145125 <GO>}

Thank you, Stefan. Ladies and gentlemen. as usual, I'd like to give you some further details about the results for the year 2011. We start with the lines of business on slide 6.

The annual profit of CHF289 million was generated exclusively by Life and Non-Life business. At CHF155 million, the Life business outperformed the previous year's result by 43%. This excellent result is based on consistently good risk results. In addition, the more stable interest rate situation resulted in a clearly lower level of reserve strengthening, technical reserves, than last year.

The technical performance for Non-Life business was also convincing. The segment result was again solid, at CHF135 million. In addition to a lower investment result, the reduction in profit was caused by higher claims. In the second half of the year, the claims situation was unusually high, particularly in Germany, which is our second largest Non-Life market. I'll return to this topic later.

In the other activities segment, the exchange rate volatilities of the previous year could be reduced significantly. As I explained to you a year ago, this segment profited, in 2010, from considerable gains on currency hedges, whilst the offsetting losses on the underlying investments were recognized in equity.

To avoid the separation of what is, basically, economically connected items, we introduced hedge accounting at the beginning of 2011. This means that the hedged currency fluctuations are now primarily recognized in equity, without affecting the income statement. Together with additional effects from our investment funds, the result of this segment is CHF57 million below the previous year. More details on the movement in this business area can be found in the appendix to the presentation.

This brings me to the results by region on slide 7. In 2011, the weak euro, once again, had a noticeable impact on the country results. On the one hand, it substantially reduced the growth reported in Swiss francs -- on the other hand, the translation results in foreign currency into the Group resulted in a decline in the country results of another 10%. The downturn on the capital markets in the second half of the year also reduced the investment income of most countries.

With an increase in earnings of 36%, to CHF261 million, our domestic market Switzerland once again achieved an outstanding result. Helvetia is extraordinarily successful in its home market, particularly in the current challenging economic climate in Europe. Philipp Gmuer will provide you provide you with further details later on in this presentation.

At minus CHF19 million, Germany posted an annual loss for the first time. The entire German Non-Life market suffered an unusually high burden of claims in 2011. In addition to storms. And the impact the difficult Motor Vehicle business, Helvetia Germany was hit in the second half of the year by an unusual number of large claims from the industrial and commercial sectors.

This is also reflected in the combined ratio as the net claims ratio rose by as much 8percentage points. Initiative has already been launched in 2011 to improve the technical result again. And bring it back to a satisfactory level.

Although the Italian country market was hit particularly hard by the euro crisis of 2011, the pre-tax result, in original currency, was more or less on a par with the previous year. Together with the impact of the weak euro, an increase in the Italian tax rate led to a segment result that was CHF3 million below the previous year's result.

The Spanish segment was, at CHF24 million, below the previous year. As the operating business actually improved, the decline is mainly the result of the annual interest rate adjustment in the Life business, which is prescribed by the regulator. This adjustment made a positive contribution in the previous year, which is not the case currently.

Given the strained economic climate, we are, nevertheless, very satisfied with the performance. In the Non-Life business, the net combined ratios improved by 1.5percentage points. And the technical result for the Life business was consistently good.

In the other insurance units segment, Austria's segment result improved year on year. In France, both the core portfolio. And the portfolio acquired in 2009, made a solid contribution to the result. The reinsurance result, which is also reported in this segment, was better than the previous year, mainly because of the more effective management of currency risks.

Thanks to a very cautious underwriting policy in Asia, Oceania. And the US, as well as efficient reinsurance cover, our Reinsurance unit was hardly affected by the major natural catastrophes in 2011.

The noticeable decline in the result of the Corporate segment is explained by positive currency effects in the previous year. And from the effects mentioned before.

I'll continue with the very encouraging developments in our business volume, on slide 8.

Thanks to very pleasing growth of almost 11%, we generated, for the first time, a business volume of more than CHF7 billion in 2011. In the Non-Life business, around half of the premium growth, 11.5%, can be attributed to the two acquired Swiss companies, Alba and Phenix. The reported organic growth is also above the market average.

The almost exclusive organic growth experienced in the Life portfolio is broadly based at 11.4%. The home market, Switzerland, acted as the main driver of growth, thanks to strong performance of the group Life and individual Life business.

The picture presented by the different countries is also quite promising. Philipp Gmuer will talk to you later about the strong growth of more than 18%, recorded for Switzerland, where we exceeded the CHF4 billion mark for the first time.

Germany continued the positive growth trend of the past years. And reported encouraging growth of 6.5%, adjusted for currency effects. With a plus of more than 9% for the Life business, mainly thanks to the good growth of around 10% for unit-linked contracts. And growth of more than 5% for the Non-Life business, we've clearly outstripped the general market trend.

In spite of the challenging economic climate, we grew by 3% in Italy. With a plus of 15%, our Non-Life business once again outperformed the Italian market. This growth was supported, to a large extent, by the expansion made to the distribution network in the past few years. In spite of a decline in volumes, we also successfully maintained our position in the life insurance market, which is generally shrinking.

In Spain, we managed to post slight growth, even in a recessionary environment. In the Life business, we recorded 8% growth, thanks to good sales of funeral cost insurance. And unit-linked policies. The Non-Life business, in particular the Motor Vehicle business, trended weaker under the pressure of the bad economy. And strong competition, which led to a decline in premiums.

In Austria, we posted 0.7% growth in spite of a declining insurance market. This proves the sustainability of the success achieved with the reorganization of the sales structures.

Our business developed very dynamically in France, where our growth rate of 10% far outstripped the market average. Assumed reinsurance, which invoices the majority of its premiums in foreign currency, reported a premium decline of 4.7%, almost entirely due to the currency effects.

As illustrated in slide 9, the Non-Life technical performance remains very solid. As mentioned before, Germany's the only market reporting a combined ratio of more than 100%.

Due to the higher burden of claims, the net combined ratio rose by 1.5percentage points to 95.6%, which is still within the target range. The claims ratio is 2.5% higher than the previous year. Of this percentage, 1.8% net and 2.1% gross can be attributed to weather-related claims.

While many claims did not exceed the reinsurance retention levels in the previous year, the accumulation of large claims in the reporting year led to an increase in reinsurance recoveries.

Thanks to improved operating efficiency, almost all markets managed to cut administration costs further. Due to this development, the overall cost ratio could, once again, be reduced by 1percentage point to 28.4%. This reduction was also supported by the increase in volume.

I'd like now to turn to the Life business on slide 10.

Our Life business is continuing to develop well in terms of value. The embedded value improved by 0.6% year on year. This is due to a positive contribution by new business, as well as encouraging operating results.

On the other hand, the embedded value was reduced by outflow of dividends and currency effects. And the low interest rates in some of our most important life markets meant that the 2011 economic variances had a negative impact on the embedded value.

Given the strongly divergent interest rate environment in Europe, separate risk discount rates for calculating embedded value were used for each country market for the first time in 2011. These are high for Italy and Spain. And take account of the higher credit risk. The underlying assumptions are detailed in the appendix to the presentation.

On slide 11, we can see that new business volume improved substantially in Switzerland -- remained more or less unchanged in the other countries. The value of new business was affected positively by higher volumes. And a demand-driven shift in the product mix. It did not increase quite noticeably, however, as it reacts strongly to changes of interest rate environment.

Seen overall, new business profitability, derived from the volume and value of new business, was slightly lower than the previous year. But this is still a very good performance in the current challenging economic environment.

As you can see from slide 12, gross margins for our insured and shareholders remain stable, despite the continued difficult financial environment. This applies both for Switzerland and for the EU countries. Although the direct yield in Switzerland is dropping, due to persistently low interest rates, this effect is compensated by the average decline in guaranteed interest rates. Thus we clearly remain in a position to comfortably meet our guarantees towards our customers.

Slide 13 shows our exposure to PIIGS Government bonds. According to the 20% and 50% default scenarios explained when we presented our interim results, direct exposure to Italian and Spanish Government bonds amounted to CHF783 million. And CHF396 million, respectively. And served almost exclusively as cover for insurance obligations in these countries.

Our insignificant exposure to Greek, Portuguese and Irish Government bonds was further reduced through sales. And amounted to only CHF36.7 million at the end of December. The remaining Greek bonds of CHF1.2 million were written down to fair value.

Our solid balance sheet would easily absorb several default scenarios on the part of PIIGS Government bonds. In the event of an actual default at 20%. And subsequent impairments, our direct investment in PIIGS bonds would only impact our Solvency I ratio by 11percentage points, while a highly improbable scenario of a 50% default would have an impact of a total of 27percentage points.

These model calculations take into account the average participation by insured, as well as tax effects. Overall, our solid balance sheet is well able to absorb the direct risk from its exposure.

In addition to these scenarios, we also estimated the effects of a so-called second round, i.e., potential impairment in investments in banks exposed to PIIGS held in our investment portfolio. According to our internal analysis, however, we do not need to fear that this would jeopardize our solvency margin.

We now come to slide 14. And I'd like to make some short remarks on the Swiss Solvency Test. Helvetia can comfortably meet the quantitative requirements of the SST, from today's perspectives. We are, therefore, in a position to consistently pursue our strategic ambitions.

FINMA's feedback on SST's of Helvetia Group, submitted at the end of last year, April last year, is in line with our expectations. Their review of Helvetia's internal models is on track. And in keeping with their normal practice, they have given us temporary approval for most of the internal models. The review process for the remaining models is going according to plan.

In addition, we started a group-wide Solvency II project to support our European business.

I'd now like to look at the analysis of our investment result from an accounting point of view before I pass over to Ralph Honegger.

In the reporting year, investment result recognized in profit and loss was affected by two important asset classes. Equities. And real estate. As we repeatedly said, Helvetia has a large book of equities investments classified as held for trading, where the fluctuations in value are recognized directly in the income statement.

Price losses on the equity markets, in the second half of the year, meant that these holdings generated a direct loss in the P&L of CHF181 million, which is approximately 8% of our held for trading portfolio. These losses were offset by book gains on our investment property of around CHF136 million, which also, according to IFRS, must be recognized in the income statement.

The available for sale investments have only a small net impact on the income statement of CHF4 million. That's after impairments of CHF39 million. As for available for sale securities, equities in particular, the individual losses are initially recognized in equity. And are only transferred to the income statement when the applicable threshold of 20%, or nine months below carrying value, is exceeded.

On the other hand, interest rate trends and strong demand for bonds with high credit ratings pushed up the fair value of the fixed income securities, which led to a strong increase in unrealized gains in equity of CHF293 million. Overall, these developments resulted in a distinctly positive balance for gains and losses of CHF232 million.

I'd also like to mention we hold a large portfolio of investments classified as held to maturity. And loans and receivables. Market value movements of these classes are neither reported in equity or in the income statement. And a measurement of fair value would have had an additional positive effect on our financial statements of CHF370 million in the reporting year.

I'd now like to conclude my presentation review of our proposed dividend on slide 16.

Our positive operating performance and good capitalization enable us to propose the same dividend as last year. Given the effects on the annual result of the financial crisis, the payout ratio of 49% is at the upper end of the target range. The dividend yield is an attractive 5.4%.

As in the previous year, half the dividend will be paid from the capital contribution reserve. This part of the payment is exempt from tax for private individuals domiciled in Switzerland. This leaves a capital contribution reserve on our books of around CHF122 million, for future dividend payments.

I'd like to turn now to my colleague, Ralph Honegger, CIO of Helvetia Group, to go into more detail on the investment results.

Ralph Honegger

Ladies and gentlemen. I would like to start with a few comments on the investment environment in the 2011 financial year. The debt crisis dominated the events on the financial market in the past financial year.

The threatened bankruptcy of some peripheral eurozone countries, the ever-present danger of contagion for other, more important national economies. And the fear that the eurozone might break up, resulted in much market volatility, particularly in the second half of the year. Burdened by high levels of uncertainty, equity markets collapsed in the Third Quarter. And lost up to 30% of their value for a while.

Bonds performed unevenly. The extremely offensive monetary policy adopted by the central banks, to combat the crisis, pushed interest rates to new lows. Investor flight into quality bonds pushed up prices of first class government bonds, while spreads for the problem countries rose sharply. The latter suffered substantial price losses.

In an effort to reduce investment risk, tangible assets, such as real estate and gold, were in demand. As a result, these asset classes enjoyed attractive price increases. And the Swiss real estate market improved by more than 10%.

The Swiss franc strengthened, in tandem with the building crisis. And took off on a dramatic, record-breaking run, that could only be braked through by the intervention of the Swiss National Bank. In this environment, Helvetia's investment policy of focusing on sustainably stable results. And to preservation of capital, once again proved itself.

With our balanced investment structure. And proven hedging concept, we succeeded in more than compensating the losses on the equity portfolio, with gains and increases in value on the bonds and investment property. This underlined the good quality of our portfolio. I will return to this topic with more detail later.

As you can see on slide 18, the investment portfolio increased by CHF1.2 billion, in the reporting year. New funds from the Insurance business, were primarily invested in fixed income securities. And, to a lesser extent, in investment property and mortgage loans. The average rate for new investments and reinvestments, in 2011, was at 2.8%.

The current, broadly diversified asset allocation could, essentially, be maintained for new investments. The alternative investments, investment funds, derivatives exposures. And investments for unit-linked insurance policies, contracted by 1% each, while the weighting for bonds and investment property increased correspondingly.

The breakdown of the portfolio into IFRS valuation classes, on the right-hand side of the slide, remained practically the same. Only investment property increased by 1%, to the debit of held for trading instruments. In this way, we reached our objective, of keeping investment induced fluctuation, in balance sheet and income statement, constant.

As shown on slide 19, the quality of the bond portfolio remains high. At December 31, 96% of the bonds in the portfolio carried at least an A rating, which was only 1percentage point less than in the previous year.

The percentage of bonds rated AAA rose by 1percentage point, while the A rated bonds increased by 4percentage points, to the debit of the AA segment.

I will go into this in more detail with the next two slides, starting with a look at the portfolio sector allocation, on slide 20.

Helvetia's bond portfolio totals CHF20.3 billion. Almost half of the bonds are financials, of which 50% are domiciled in Switzerland and Germany. The appendix provides a breakdown of the financial by country. This is slide 56 in the appendix.

Although the risk profile of the financial segment, by rating classes, has deteriorated slightly, around 96% of the portfolio still had at least an A rating, on December 31.

The share of AAA rated bonds was constantly high at 57%. More than 70% of the portfolio is also supported by additional security, either in the form of Government guarantees, 31%, or additional collateral, usually mortgage bonds, 40%. The unsecured straight bonds account for only 28% of the portfolio. At 1%, the exposure to subordinated bonds remains marginal.

Our portfolio is monitored very closely. And analyzed for any changes to the risk profiles of the individual exposures. Here, I would like to mention that we use the average rating of the three large rating agencies to assess the rating quality. From the current state of our knowledge, further downgrade exercises will only have limited effects on our financial portfolios.

Now let us look at our country exposure on slide 21.

Of our direct country exposure of CHF8.7 billion, around 60% concerns government bonds. At more than CHF2 billion, or a share of 42%, the Swiss confederation remains the largest individual borrower.

As usual, the portfolio rating was high at the end of the year. Almost the entire portfolio has an A rating. And 70% actually has a AAA rating.

At CHF35 million, our remaining exposure to Irish, Portuguese. And Greek Government, is not material. You'll find the details on slide 55 in the appendix.

The high rating level, however, could deteriorate if another rating agency should downgrade Italy, Spain, France, or Austria. As mentioned repeatedly, we primary hold the Italian and Spanish exposures, which would have the biggest impact on our portfolio, if downgraded, to cover our insurance liabilities in these countries.

Relatively speaking, however, our portfolio would remain of high quality, even if some of the AAA or AA instruments were to be downgraded further.

I would like to conclude with some details on our investment result and performance on slide 22 and 23.

Direct income amounted to CHF939 million, which is slightly higher year-on year. But the direct yield is down by 0.1percentage point, to 2.9%. This decline reflects the downward trend in interest rate in an environment of already persistently low interest rates.

Profit impacting investment losses totaled CHF17 million, comprised of losses on equities. And investment funds, of CHF163 million, gains on fixed income securities. And the upward revaluation of the real estate portfolio by around CHF130 million. Currency however, had only a marginal impact in 2011.

With a total result of CHF1.17 billion. And a performance of 3.6%, the overall Group investment result is around CHF250 million better than in the previous year. This is mainly due to the fixed income securities which, at CHF293 million, contributed almost an entire performance point in the form of unrealized gains in equity.

If we should take the improvement in value of the held to maturity. And loans and the receivables securities into account, the performance would actually be 4.7%.

Slide 23 provides a detailed analysis of the changes compared to the previous year. The analysis of the investment income shows that equity and investment funds, in particular, lost value, compared to the previous year, while our investment property increased in value, due to the favorable development of the Swiss real estate market.

The losses on equities mainly derived from our trading portfolio, as already explained by Paul Norton. And the performance of around minus 7% reflects actual equity markets. The reason why equity losses were not hedged more strongly by derivatives in 2011 is that the impact losses were too little at less than 10% on average, which means the derivatives that were used were mostly not in the money except for the peaks in August and September.

In view of the difficult circumstances, the investments we have achieved by Helvetia can be described as good. As the debt problem has not been solved yet, markets can be expected to remain volatile. We will continue to apply our proven investment and hedging policy in this environment.

With this, I would like to pass over to Philipp Gmuer.

Philipp Gmuer {BIO 5605415 <GO>}

Ladies and gentlemen. as you could see from the previous slides, the Swiss business once again posted an excellent result in 2011. For many years, our home market has been characterized by high profitability and stability.

Thanks to the acquisition of the insurance companies Alba and Phenix in 2010, we also generated impressive growth last year in a saturated and strongly consolidated market, strengthened our sales power and market presence, expanded our customer base. And substantially improved our market position.

I would like to start with a short summary of the most important key figures for the Swiss business on slide 25.

In the 2011 financial year, Helvetia Switzerland posted an after tax profit of CHF261 million. This is substantially better than the previous year, thanks to excellent technical results.

Premium volumes improved by 18.4% to more than CHF4 billion. Both the Life and Non-Life business contributed double-digit percentages to this volume increase. While the Life business mostly benefited from organic growth, the Property and Casualty business was boosted substantially by the acquisition of Alba and Phenix.

The excellent net combined ratio of 86% confirms that this growth was not achieved at the cost of our good portfolio quality.

When we look at the development of the Life business in detail on slide 26, it is clear that we posted a strong improvement in both the individual and group Life business lines.

Growth premiums written for the individual Life business were up around 12% year on year. The acquired premium volume of the former Phenix primarily boosted business financed by regular premiums, which grew by 4% in an overall shrinking market environment.

The growth in annual premiums was supported by the launch of Helvetia Invest 100, an attractive tranche product. And sales of unit-linked products are currently affected by the uncertainties on the financial markets and the lack of guarantees.

With Helvetia Guarantee Plan, we launched a unit-linked product with a guaranteed lump sum payment on maturity. And on death, that now covers this gap.

Business financed by single premiums improved by as much as 21% year on year. This is mainly due to our speedy launch of suitable tranche products to exploit favorable market conditions.

Just the sale of Helvetia Value Trend, a tranche product with guaranteed benefits and additional opportunities for profit, contributed more than CHF100 million. The cooperation program with Raiffeisen also continued to bear fruit. And this sales channel already contributes about 20% of new business.

The dynamic growth enjoyed in the group Life business in the previous years continued in 2011 at around 19%. The improvement of 8.6% in business financed with irregular premiums, in particular, confirms the successful and sustainable development of our business. Demand for our full solid insurance model, which, at all times, guarantees 100% coverage of the liabilities, remains robust.

With these convincing growth figures, we can assume that we gained additional market shares.

The technical results for the Death and Disability segments in both individual and group Life business were very encouraging once again. And confirmed the health of our well balanced portfolio. The persistently low interest rates, however, remain an enormous challenge for the Life business.

It is becoming ever more difficult to actually earn the guaranteed benefits. However, as Paul Norton explained before, our interest margins remain stable.

I would like to use slide 27 to show you that, in group Life, we passed on 92.4% of the gross earnings for business, subject to the legal quota, directly to our clients in the form of benefits, thereby clearly exceeding the minimal legal quota of 90%.

As usual, we will inform you separately of the statutory result for the Swiss BBG business.

Now let us have a look at the Non-Life business which enjoyed great momentum last year. Total volumes improved by 25%, with the Motor Vehicle business acting as the strongest driver of growth with an increase of 50%.

The lion's share of the growth recorded for the Non-Life business is due to the acquisition of the two insurance companies, Alba and Phenix, at the end of 2010, whose premiums were now included in our books, in full, for the first time. We also posted encouraging organic growth.

We have since successfully sold the Accident and Health Insurance business acquired with Alba and Phenix. This transaction was finalized at the end of December 2011 -- those portfolios were sold in line with our strategy of consistently focusing on our core business.

The net combined ratio of 86% reflects an excellent technical result, in spite of a slightly higher claims burden than in the previous year. And underlines the good quality of our insurance portfolio. The year-on-year increase in the loss ratio of more than 4percentage points is due to hail and storm damage in the summer months.

We successfully managed, however, to reduce the cost ratio further to 26.4%, in spite of the integration costs incurred with the purchase of Alba and Phenix. This can be attributed to strong premium growth and consistent cost discipline.

I would like to conclude with some information on the integration process, as shown on slide 29.

As mentioned before, the 2011 financial year was characterized by the acquisition of the two insurance companies, Alba and Phenix. Thanks to careful planning. And the great commitment of everybody involved, we have reached all the milestones we had set for ourselves, following the acquisition in November 2010.

With the improvement in premium volumes in the Property and Casualty business. And the enhancement of our sales power with the acquisition of the former sales forces of Alba and Phenix, we have reached a core objective.

The legal merger was finalized in November 2011. And most of the Non-Life portfolios have already been migrated to Helvetia's system. The remaining portfolios will be transferred to Helvetia's systems this year.

Finally, I would like to mention that our operational business continued smoothly, in spite of these integration efforts. And that we, at all times, maintained our high level of service to our former and new customers without any interruptions.

And with this, I would like to give back to Stefan Loacker.

Stefan Loacker {BIO 15157193 <GO>}

Well, until now we have talked a lot about financial figures. And I think we owe you also some updates on our strategy implementation record along the headlines of our strategy, Helvetia 2015+, which you can find on slide 31.

Our multiyear strategy is reviewed critically and updated every year. We did exactly this exercise last Autumn, in the middle of the turmoil of the European crisis. And we could confirm that our basic strategy. And also our long term ambitions, remain valid, in spite of this current turbulence that we see in Europe.

Our greatest challenges currently lie in improving, again, our earning power in Germany. And also in Italy. And in coping with the low interest rate environment in Switzerland, more in the medium term challenge.

Suitable measures were implemented, or already existed, in the last few months. Seen overall, we will maintain our Helvetia 2015+ strategy, which we launched in 2010.

I would, therefore, now like to take a brief look at some important results and developments, starting on slide 32 with aspects around our growth programs.

Philipp Gmuer has already talked about our most important growth milestone last year, which was the integration, the successful combination of Alba and Phenix with the existing Helvetia businesses. That was a major achievement. But not the only one. I would like to highlight some selected other elements.

The first one is considering life insurance, where we have now, for the first time in our Group, launched a multimarket product, which is a framework and a platform which is designed to serve the specific needs of more than one country market.

We are, here, dealing with a new generation of capital efficient products, which have an individual investment and guarantee concept. It should bring, also in the lower interest rate environments, the best combination between guarantees. And also exposures and potentials.

We have sold more than 1,000 contracts since the launch in the second half year in Switzerland. And Spain, which started really late in 2011, has had a premium volume generated on these product lines of more than EUR12 million, which is a success for the relatively small entity we have in Spain.

We are now considering to introduce these products in additional country markets in the course of 2012.

Another example I would like to point out is being achieved in Italy, where you probably know that we have, since a couple of years, a so called worksite marketing collaboration with the industrial group ENI -- it's a very big company, some 40,000 employees.

We always thought that we can multiply this concept with other big groups. And we have now successfully have reached an agreement with AugustaWestland, which is a helicopter manufacturer. And Terna, which is also a company in the energy sector. Both together will give us direct access to another 7,000 employees and their families in a very convenient and service-driven model.

I know that these are only two examples and by far from being complete. But it's just to provide that, behind that double-digit growth momentum, there is a lot of movement from products and strategy areas.

Taking everything together, we are really satisfied with the double-digit growth rate. And also, some new market shares that we could post in 2011.

With this, I would like to turn to slide 33, where we are looking on profitability.

Now for us, it's clear that the capital market is uncertain and volatile -- also in 2012 we don't expect much of a difference here. So it's even more important that we are managing, very consistently, those elements that are under our direct influence. And that is, in particular, the cost side of our business.

We are really proud that we could drive down the cost ratio on Non-Life now to 28.4%, which is another year in a series of years now, where we have, year after year, gained considerable efficiency advantages.

Maybe you have followed this track record, especially on the administration cost ratio, which was almost 12% in 2007, some 9% a year ago. And now is 8% of our net premium ratio in the reporting year.

There are, of course, different measures contributing to this. One of them is the synergy potential in the Alba and Phenix integration, probably also developed in other countries. And especially in the fields of IT and recentralization of certain corporate functions in the field.

So cost helped a lot. But maybe the potential is getting lower in the future, which leads us to focus on costs, obviously in the coming years. But also, put even more emphasis than we did already on actual methods, especially in the fields of pricing and claims management where we do also see some opportunities across our Group.

But I would say even more important are the programs that we are targeting on country market level. And here, obviously, you see numbers in Germany which are not up to our expectation.

Given the phenomenon that it's more or less a market-wide issue, not a Helvetia specific situation, nevertheless, targets our own commercial answers to this.

So we have already designed a package of measures which is focusing on our industrial and commercial business, which was one of the problems last year. And also, we have already decided upon premium increases and rate differentiation in the Motor Vehicle business in Germany, which again, we are not the only one in the market to react.

So we will consistently work to reduce the combined ratio to well below 100% again as fast as possible in Germany, which is, as you have already seen, our second biggest Non-Life exposure that we do have. And therefore, also likely for the overall Group.

The other market where the bottom line results are not yet where we are looking to see them is Italy, where we have, again, a year of strong growth, which is very remarkable and stable. It is again more than double -- 15% double-digit in Non-Life. And the results are also stable -- they have even improved from 2010 to 2011. The combined ratio has been better again. So we are on track. But not yet we have reached our final goal. So those two markets, Germany and Italy, given their relative size, are our priorities for this year.

In the Life insurance business, it's still our aim to further exploit synergies on a cross-country product level. And also, to trigger more sales of capital efficient products in the current low interest rate environment. And again, very, very important, this has to be accompanied by a disciplined investment management process, which is always focusing on our liabilities. And, therefore, can and will support our margins.

With this, I turn to slide 34, which is expressing that our entire organization is geared, not only on finance and regulation. But primarily, of course, to provide service to our customers. In all our country markets, customers, especially in these days, expect from us long-term security, tailor-made products. And reliability in the handling of claims and benefits' payments.

This is exactly what we stand for. And therefore, we are really extremely pleased that Helvetia again reached some very important top rankings in various qualitative surveys in 2011. And this is not only true for Switzerland, where we are regularly among the best and where you are expecting us to be on the podium. But this is also true abroad, which might not be as visible here.

So we have won, in Italy, a customer satisfaction survey with regard to Motor Vehicle business. And we have even gained the first place, before all the big competitors that we have, for life insurance in Germany, for our service to brokers, which again, is a very confirming element to us.

The brand profile as a whole is also developing. In the past few months, we have set up a new Group-wide market campaign, which is now in the rollout phase. You might not have seen it yet in Switzerland. But in Austria, Germany. And Spain we have done this to January 1. And the other markets, also Switzerland, will follow in the course of this year.

We have also had a better internationalization of our ski sponsorships in this winter season, where we have appeared, for the first time, as one of the new lead sponsors of the FIS Cross Country World Cup, which gave us a platform in more than 70 races across Europe.

With this, I would like to summarize our business year 2011 on slide 35.

We can say that we achieved a large part, not all. But a large part, of our financial objectives in the 2011 financial year. Business segment, Life and Non-Life, delivered solid operating performance, a really strong growth momentum. And substantially improved cost ratios.

Non-Life combined is still in our target range of 94% to 96%. The Life new business margin is slightly below our target range, which should be 1.2% -- it was 1.0% this year, given the interest rates, of course, slightly below this target.

Solvency targets are exceeded, by far. Also the rating is confirmed as stable outlook.

The dividend is stable. The payout ratio is at the higher range of our targets, with almost 50% this year. And only the return on equity, with 8.7%, came in slightly below this target this year.

In the medium term, we will, nevertheless, continue to pursue all our financial objectives without change, even in the given economic climate. With the planned measures, derived from our existing strategy and the introduction of additional steps, particularly also in Germany, we will continue to consistently work towards improving our earning power. We are confident that Helvetia will develop profitably in the present challenging situation.

With this, I would like to end our presentation. I would like to thank you for your concentrated attention so far. And now, the speakers and I will be happy to answer your questions.

I suggest that we start with the people physically here in this room. And afterwards, then, come to participants on the telephone line.

Questions And Answers

Operator

(Operator Instructions)

Q - Michael Klien {BIO 4262408 <GO>}

Firstly, in term of result and reserve movements, you're highlighting that you have some favorable claims experience in Switzerland. What exactly was that. And can you quantify it?

Also, can you make some comments in terms of whiplash reserves, in particular I guess in Switzerland. Some of your competitors have reduced reserves. Have you done the same? If not, why not? Also, where do we currently stand in terms of the reserve loadings?

Secondly, in terms of the cost ratio on the Non-Life side, you're highlighting the improvement. How much of this is due to the acquisition of Phenix and Alba, i.e., in terms of the changed business mix? Or could you, maybe, quantify the cost ratios for Phenix and Alba?

A - Stefan Loacker {BIO 15157193 <GO>}

I would like to start with the second question on the cost ratios. And then we'll hand over to Philipp and Paul for the reserve situation, especially in Switzerland.

We do not have a, I would say, more particular drilldown of the drivers behind the cost ratio improvement in detail. But we have a clear opinion that these are sustainable. So it's not one-offs, it is both a factor of the business mix, as you have mentioned, because we have a slightly higher proportion of car insurance business now on our books.

And also, the volume, the scale effect, that we have generated, which are both here to stay. So it's not something that is driven by some one-offs or particularities in the restructuring phase. But it is here to stay.

The fact that we don't have a detailed drilldown is given by the explanation that, since November 1, there is no Alba and Phenix out there any more. We have legally merged those entities with our given Helvetia entities. So we are not able to separate these effects through the whole course of the year, 12 months, not possible.

Also, from now on, we will never be possible again to say which was the impact of Alba and Phenix, because it's absolutely absorbed. So hopefully, we will see the track record in the overall picture in this respect.

Then we come to the claims and reserves situation, with a particular focus on Switzerland. Philipp, please?

A - Philipp Gmuer {BIO 5605415 <GO>}

Thank you, Stefan. We had, as I told you before, some summer storms last summer in 2011. And those storms brought us a claims burden of, for our own book, almost CHF25 million, which equals some 3.4percentage points in our claims ratio.

With regard to the release of reserves you were talking about, they have not been released any reserves to the jurisdiction, you probably meant, regarding the HWS injuries. The jurisdiction is very young. It was a jurisdiction concerning an HWS injury in 2010. And there is no track record, up to now, which would have spring to the conclusion that we have too many reserves with regard to HWS.

A - Stefan Loacker {BIO 15157193 <GO>}

So it's more a monitoring position that we see that this kind of court decision was in the social welfare area. The impact that it has really on dealing with the open claims, or maybe, I would say, the view of the lawyers, which are on the client side, to come to conclusions here is not yet robust enough, in our feeling.

Which leads us to the loading situation, which again, is part of the setup now in Germany, where we have had higher underlying claims and built up even more on those loadings is another example that might be not the absolutely perfect solution, also, for the future. So we are assessing the situation and this is within Paul's area, predominantly.

A - Paul Norton {BIO 16145125 <GO>}

It is our intention that this year that we would replace the loss loadings with properly calculated IBNRs on large claims. That would mean that, for two reasons, there would be no release to profit and loss.

First, is that our initial calculations would suggest that they would probably come out roughly the same. And secondly, according to our auditors, this would be a change in accounting policy, which means that everything would have to be restated, as if in prior years. So you won't see any releases coming through.

Q - Fabrizio Croce {BIO 15005585 <GO>}

The first question is about IAS 19, how the process is there. And if it's already included in the figure, or if you expect some loading, going forward. And by when?

The second question is about actually the German operation. I know that you are already taking measures there. But the combined ratio is structurally around 99% or 100%. This year you had bad luck here. Still, is there some thought internally to enhance considerably the reinsurance coverage on this operation, or even to take some disposals of portfolios in the -- are you thinking about some disposal of portfolios?

The third question is about the return on investment. Actually, I saw that the biggest return on investment or investment rate you have on real estate at 4%. Still, it's a surprise that you didn't expand that more as an asset category, given that you get such a high yield. And the question is, is that still dependent on the uncertainties related to FINMA, or are there other thoughts around that?

And then in terms of single premium, I saw that in Switzerland you are growing considerably with single premium. One-third was driven by the value trend. Are the remainder two-thirds actually third party guaranteed? So are these cooperations with large banks. And you don't carry the guarantee for this, or are you carrying the guarantee for the remainder two-thirds of the single premium individual growth?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, very much for these interesting elements. We started in this order exactly as you ask the questions. I would like to give the word to Paul for the IAS 19 issue.

A - Paul Norton {BIO 16145125 <GO>}

Clearly, the figures are not in our account yet, because it's not applicable yet. Our initial calculation shows that the elimination of the so-called corridor method will lead to reduction in our IAS equity of around about CHF100 million. The impact on the profit and loss account, going forward, is difficult to quantify. But it shouldn't be very big.

A - Stefan Loacker {BIO 15157193 <GO>}

With regard to our German operation, we would see the natural flying altitude a big more optimistic than you have mentioned with a 99% combined ratio. But nevertheless, obviously 107% last year is clearly out of our expectation corridor.

If you have followed the results presentation of the competitors so far in Germany, you probably have seen that the numbers are in a range from 103% to 109% so far. So we are. So to say, in good company. But that's not obviously our ambition.

So we do analyze all the reasons, or we did this in the last couple of weeks and months. And now the reaction program is very strong on various lines.

Our particular situation is still helped by good growth momentum. So we had some 6% growth last year in the Non-Life business in Germany. So we're not too concerned about taking measures which are digesting volume, which are costing us volume. We do not need 6% growth. But we need more profits in Germany.

So in fact, what we have already decided is, yes, some disposals of some businesses that we got from brokers, we have some relations that were negative now for a series of years. We are going to stop these businesses. We have some underwriting elements where we took risks, which we think that, given in the light of last year, might not be appropriate for the future. And there is also a certain potential to restructure our reinsurance elements.

This is all in the so-called commercial and industrial business segment. And there is still the car insurance business where, I would say, some rate increases are necessary. And this is now being also seen by the more leading market players and, therefore, we do have room to maneuver here.

We are quite satisfied also this is not so much visible, given this unfavorable claim strength, is our cost ration development in Germany, which is, again, getting better, better than last year. We will not stop there.

So it's a combination of more, I would say, profit-driven underwriting, some disposals, ongoing cost operations, which is a centralization of some tasks which we did de-centrally in former times. And, hopefully, better reinsurance coverage as we go along, because we did not suffer the big loss like (inaudible) where everyone is immediately aware of. But it was series of medium-term, medium-sized elements that more or less go to the net impact.

Since we have other questions here, I will stop talking on Germany and come to the return on investment where is why not more property, given the fact it it's yielding 4%? It's not really a FINMA-driven element. So this is not the bottleneck so far. But it is mainly the problem that we are growing so strongly in our core business.

And we have more than CHF1 billion net assets to reallocate. And alone to keep the proportion means that you have to find a lot of good investment opportunities in the real estate sector. The closest here is Ralph Honegger for this topic.

A - Ralph Honegger

I guess that's exactly the problem. We like real estate property, obviously. We have a high portion, as compared to our competitors. But the way to achieve such good performance is if you have to go into project developments. If you buy a piece of property that already stands there, you can't, for the moment at least, achieve this kind of value. So therefore, you have to get the right projects.

Just to give you an idea, for having an investment at the end of the year of CHF200 million, we certainly analyzed probably CHF3.5 billion to CHF4 billion projects. And we don't get everything that we really want because, obviously, there's a lot of competition in this market.

A - Stefan Loacker {BIO 15157193 <GO>}

Okay. And then we come to the question of kind of product mix in the Swiss single premium business where you will not find the detailed drilldown of those product features. But you have the information on the new business margin which was 1% all in all. And maybe Philipp can give some additional qualifications to this.

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay, as you mentioned, Mr. Croce, there is roughly one-third off balance and the other two-thirds are guaranteed by ourselves. However, there are some CHF20 million acquired last year, which are unit-linked products where we do not bear the guarantee ourselves. So it's roughly the two-thirds. We gave the guarantee of 1.75%. And we are lowering those guarantees by July 1, 2012, due to regulatory environment.

Q - Stefan Schuermann {BIO 3235442 <GO>}

Just have two questions. The first one is on duration management. Is there any change, or could you maybe remind us on the duration gap you have on the Life and the Non-Life side?

And the second question is just on M&A opportunities. There's clearly opportunities in your core markets. Should we expect that probability is increasing that you might have an operation in your core market for the next 12 months?

A - Stefan Loacker {BIO 15157193 <GO>}

I will directly pass onto Paul Norton for the duration management.

A - Paul Norton {BIO 16145125 <GO>}

The duration gap is still roughly the same as one thing, it's roughly at the Group level seven, roughly, on the asset side. And eight on the liabilities.

A - Stefan Loacker {BIO 15157193 <GO>}

With regard to M&A, we clearly stick to our strategy, which is a growth ambition is incorporated. But a very controlled one. So we have no ambition to grow beyond our given geographic territories, as you have also indicated in your questions. So whatever is interesting for us, must be given market presences for a stronger position, relatively speaking, in those markets.

There is always a certain movement around. And we are always engaged in having an in-depth valuation in whatever seems to be appropriate. But it would be impossible to do any prediction on this topic for 2012.

Q - Georg Marti {BIO 1541984 <GO>}

I have a question with regard to your other expense in the Life segment, which is around CHF54 million lower than last year. And in the footnote, you explained it's due to reclassification. Can you say what's behind. And if it's a one-off effect or not? What can we expect for the future?

A - Stefan Loacker {BIO 15157193 <GO>}

I'm sure Paul Norton will be best equipped to go into these numbers. Paul, please.

Q - Georg Marti {BIO 1541984 <GO>}

Yes, 100% in Life or CHF55 million lower than last year, which explains almost the increase of the profit of the Life segment.

A - Paul Norton {BIO 16145125 <GO>}

Yes, what you have there is one of those unfortunate IFRS classification issues. The deposits that we have in Italy, the income goes almost entirely to the policyholders. And the contra line is the other expenses, or other income line, in the Life business. So when you get investment income going up, then other expenses fluctuate in turn. So that's really, basically, the policyholder bonus swap profit line.

Q - Georg Marti {BIO 1541984 <GO>}

So is it now a one off or --- ?

A - Paul Norton {BIO 16145125 <GO>}

No, you'll see that constantly fluctuating, depending on the investment income levels in Italy.

Q - Georg Marti {BIO 1541984 <GO>}

Okay, thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

So you have other profits and other costs which should be normally offsetting each other. It was the same last year, with different absolute figures. But the bottom line effect is not material. And is not explaining at all the profit increase of the Life area of some CHF50 million that you mentioned, which is besides some good risk result, especially driven by the fact that we had to considerably increase our reserves back in 2010 in anticipating the lower interest rate environment.

And that was a reserve strengthening in the three-digit million area which we did not have to repeat in the same amount now in 2011. And that was mainly the reason behind the variance in the results in this point.

Q - Rene Locher {BIO 1921075 <GO>}

Yes, if I may just on slide 39. I know I ask that question every year. But I don't get it that much -- there's always a lot of volatility in these other activities. So that's my first question.

Then the second question, from slide 12, on the margin. Interesting, we are in a low-bond-yield environment and, despite that, margin is going up. So that shows a bit that the liability side is moving quicker than the asset side. And I'm just wondering if we would have it the other way round -- if interest rates would go up, sooner or later, can we expect that the liability, or the better interest rates on the liability side of the balance sheet is increasing stronger than the return you get on the asset side?

Might be a little bit complicated. But what I want to say is I think the main reason why the liability side is moving quicker is the group Life business. So that means this 1.5% applies to the entire back book. And now my question is, if we would go the other way round, let's say 100 bps, 150 bps yields up. So that means politicians could be inclined to say well, we're going to increase the guarantees by another 100 bps.

And then my question is, what would happen to the asset side, because there you have certain duration. So that means you can invest, what Paul just mentioned, I guess semi-year on the assets. So that means you can, roughly 50% of the portfolio, reinvest at higher yields. So just question I have here.

And then just a follow-up on that one. We have seen that a lot of your competitors are reducing the risk loadings in group Life business. So I'm just wondering what kind of strategy do you have, because you have very healthy margins there.

And on slide 19, might also be a little bit strange question. But I'm wondering if Mr. Honegger would move the asset allocation a little bit more from the AAA to AA. What would be the pickup in the yield? Can you give an indication, because we have discussed that before. But I don't see a reason why you have to be invested that much in AAA. I can say AA would be good enough. And I was just wondering if you can give a rough figure what the pickup would be in the yield?

A - Stefan Loacker {BIO 15157193 <GO>}

The first one was on the slide 39, a particular additional explanation on what is happening in the segment of others. And the dynamics behind it. Paul Norton please.

A - Paul Norton {BIO 16145125 <GO>}

Yes, you're right, there has been a lot of volatility in that segment over the last few years. A lot of that volatility has been caused by foreign exchange, partly because of the hedge accounting. And partly because, as we reported last year, we did have some bad matching, particularly in reinsurance. And also in internal loans and so on.

We've cleaned almost all of that out now. Internally, we're better matched, reinsurance is better matched. And we have now the hedge accounting. So that fluctuation has disappeared.

The other funds effect is due to the fact that most of the centrally-held investment funds are included in that other activities. And the big CHF41 million, that you see there, is simply volatility from movements in funds. It's basically, I can tell you, prior year we had gains of round about CHF17 million or CHF18 million, which we don't have this year.

And this year we had losses of CHF17 million or CHF18 million which, together, combines about CHF35 million. So that's the bulk of it. So when you think of the volume of funds that we have, CHF17 million or CHF18 million fluctuation either way is not really great. But that's the kind of volatility we expect to see. And at least it should be, going forward, concentrated mainly in the investment income.

Q - Rene Locher {BIO 1921075 <GO>}

That's because it's trading, it goes to the P&L.

A - Paul Norton {BIO 16145125 <GO>}

Yes.

Q - Rene Locher {BIO 1921075 <GO>}

Okay.

A - Stefan Loacker {BIO 15157193 <GO>}

Let me come to slide 12, the dynamics between the change in the margins. I'll ask Paul to start off with this point.

A - Paul Norton {BIO 16145125 <GO>}

One thing I should say in advance is, we have, maybe slightly unfairly, we've done it every year, we've anticipated a reduction and have based our gearing on the minimum interest rate, in the calculations you see here already. Which is why you've got the slight increase in the margin. But basically, you have got that matching. And whether it's 0.7% or 0.6%, it does go down. As your guarantees go down you keep your margin a stable map.

I think your point was also about the other way round. If interest rates increase, what happens to the margin. I think your point is if I really understand it, whether the assets would catch up. So to speak. Is that right?

Q - Rene Locher {BIO 1921075 <GO>}

Yes. Because the yields pick up or high interest rate is kind of a one off, because you have 75% is Swiss or most of it is group Life business. So that means politicians say, well, boom, up by 100 bps. And then you have a seven year duration on your asset side of your balance sheet. So that means that will move up a little bit slower, the investment income. So that means that margins could.

A - Paul Norton {BIO 16145125 <GO>}

It shouldn't -- as you see here no massive decrease one side going down. It shouldn't be a massive decrease going up. But I guess Beat would be the best person to answer the details.

A - Stefan Loacker {BIO 15157193 <GO>}

Beat Mueller, for those who are in the telephone line, he is our Chief Actuary for the Swiss Life business. And he is, obviously, also very fit on the liability side. And can assess those dynamics. Beat, please, your assessment on it.

A - Beat Mueller {BIO 20113973 <GO>}

Surely that can be. You see it on slide 43, there you have the split of the reserves. And you see we have a mandatory maybe CHF4 billion reserves. And there other % makes maybe CHF20 million, or 0.1% of the total percentage points in the total guarantee. Therefore, if there will be a quick increase of 1%, 2%, this surely will be quicker than the increase on the asset side.

A - Stefan Loacker {BIO 15157193 <GO>}

But this will depend, in the question, how are the mandatory rates are being calculated. And as you probably all know, there's a strong wish of the insurance industry to have this done by a calculation method, or formula which is taking a seven year average on a seven year Swiss bond, which would then, obviously, mitigate those shifts from one year to another. And would allow us to be, more or less, on par on the assets and liability development.

And if this is not fully respected by the political authorities, then you might have one year or two years transition period before you are again on a par level. But it will much depend on the way this decision is based on.

Then we come to the second topic here in the question of the risk premiums of the second pillar business as a competitive element. Philipp Gmuer, please.

A - Philipp Gmuer {BIO 5605415 <GO>}

For the time being, we do not see any reason to generally lower our risk premium. However, we are regularly assessing the premium level. And if there is a lowering, or even an increase, of the risk-premium level, we usually do that for specific different client segments. But, for the time being, we are assessing it. But there have been no decisions taken yet.

A - Stefan Loacker {BIO 15157193 <GO>}

Then we come to the yield pickup opportunities by having a less optimal rating. So AA instead of AAA -- a lot of whispering, Ralph.

A - Ralph Honegger

Well, I'm afraid I can't give you an answer to this question at the moment, because markets seem to be concerned about looking at rating deterioration. Look, for example, at the situation in Germany and France -- 'til December when France got a downgrade by S&P to AA, there was quite a substantial spread between the two countries.

You have situations where BBB corporates pay much lower spreads than A or even AA countries. So for the time being, things seem to be very deteriorated. So it's just impossible at the moment for me to give you a general answer to that question. Obviously, we are looking for opportunities also in that field.

Q - Rene Locher {BIO 1921075 <GO>}

Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

So more qualitative assessment from our Chief Investment Officer.

Q - Unidentified Participant

Actually two from me -- one follow-up which is still about real estate. I'm sorry for this one, it was just an initiative which passed through on Sunday about second home. Having a look at your portfolio, do you expect this will have rather a positive, negative, or neutral impact?

Then the second one is about cost of capital of Helvetia. I will not ask if your return on equity will still be in the range of 11%, 12% or 13%. Still at the 8.7%, the question about cost of capital starts to become more actual. So with what figure are you calculating currently, internally?

A - Stefan Loacker {BIO 15157193 <GO>}

Okay. So the first, especially for the colleagues outside Switzerland, is about the poll that we had yesterday on the limitation on second homes, especially in the very touristic mountain areas, where now there has to be a respected limit of not more than 20% of the properties designated to be second houses. It's not our business field in any circumstance, Ralph?

A - Ralph Honegger

No, I would say that the effect would be quite neutral, even in the real estate property segment, as well as in the mortgage loan sector, because that's not also the objective that we would finance anyway. So we are not in this market, neither on the real estate property side, nor on the mortgage loan.

A - Stefan Loacker {BIO 15157193 <GO>}

Cost of capital, Paul?

A - Paul Norton {BIO 16145125 <GO>}

We don't disclose the cost of capital calculations, or what we use. What I can say is, we use a CAPM model. So it's based on whatever the risk free rate is in the Swiss market, plus our beta against the market. And obviously, with a very low interest rate environment, it's much lower.

A - Stefan Loacker {BIO 15157193 <GO>}

I would suggest that we give our colleagues in the telephone queue also an opportunity to ask their questions before we come back here to you physically. Do we have questions in the conference call?

Operator

Kent Choi, Goldman Sachs.

Q - Kent Choi {BIO 16941884 <GO>}

Three questions, if I may? You say that five of your seven models are conditionally approved by FINMA, can you confirm that your ALM model has already been approved, or not approved? That's my first question.

The second question is, could you give us a sense of the duration for your assets, assuming that you apply the duration for equities and for property?

And my third question is, could you please confirm whether you've added to your statutory reserves in Switzerland BBG for 2011? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Okay, directly Paul, for the respective answers.

A - Paul Norton {BIO 16145125 <GO>}

I can tell you the two models are still being checked by FINMA. And they are the Group consolidated model. And we've also applied to move to a market consistency embedded value in Switzerland. So everything else is conditionally approved, as is their practice. The duration of the assets, we said of the Group, was just over seven. And the liabilities around about eight, which gives you the one year duration gap.

And on the statutory reserves for BBG, every year you add to the statutory reserve. It depends on market conditions. The point I think you made very early on was that a big driver in the Life business was that, last year, we had to add substantially to those reserves because of the interest rate movements. And this year the amount credited to our reserves is considerably less. And we're talking about a triple-digit million difference.

Q - Kent Choi {BIO 16941884 <GO>}

Right, thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Do we have more questions in the telephone conference line?

Operator

There are no more questions from the phone.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, then I give another opportunity here in the room. Are we having more questions here around the table?

This is not the case, then I would like to say thank you very much for your attention. And obviously, my colleagues and I are also available for one on one if you want us to. Thank you, very much. And have a nice day.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing the Chorus Call facility. And thank you for participating in a conference. You may now disconnect your lines. Goodbye.