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Y 2010 Earnings Call

Company Participants

- Corporate Participant
- Paul Norton, Chief Financial Officer
- Philipp Gmür, Chief Executive Officer of Helvetia Switzerland
- Ralph-Thomas Honegger, Chief Investment Officer
- Stefan Loacker, Chief Executive Officer

Other Participants

- Analyst
- Chris Hitchings
- Michael Klien
- Peter Eliot

Presentation

Operator

Good morning. I am Dino, the Chorus Call operator for this conference. Welcome to the Helvetia Full Year Results 2010 Conference Call and Live Webcast. Please note that for the duration of the presentation, all participants will be in listen-only mode. And the conference is being recorded. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]. This call must not be recorded for publication or broadcast.

At this time, I would like to turn the conference over to Mr. Stefan Loacker, CEO. He'll now be joined into the conference room. Thank you.

Stefan Loacker {BIO 15157193 <GO>}

Ladies and gentlemen, I am pleased to welcome all of you this morning to the presentation of our annual results 2010. Especially those who are basically in the room and also those who are participating via the telephone. Please be warned that this time is really a public session because we have a live broadcast. So, if you ask questions in the end you will be on the public sector. The 2010 financial year for Helvetia was characterised by the good development of profits and business volumes. Growth continued to be pleasing and the profit for the period increased in comparison to the previous year.

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This was facilitated by our solid technical results and also a successful investment policy especially the effective hedging almost fully offset the significant losses in the underlying values which were suffered on foreign currency position is one of the predominant issues this year. You will hear more about this later. But these are the first outlined program being introduced the other speakers. As usual Paul Norton, our Group CFO will give you more details on the results in the first part of the program. Our Chief Investment Officer Ralph Honegger, will then present the investment result. You will hear more about the highlights of our very successful Swiss business from the CEO of Switzerland Philipp Gmür. And I will end the presentation with an update on our strategy after which as usual the speakers will be happy to answer your questions.

With this I am turning to slide four, to the highlights or the overview of the 2010 financial year. As I mentioned, at the beginning, the profit for the period of CHF 341 million exceeds the previous year's adjusted result by 4.5%. The profit achieved was underpinned by solid results both from life and non-life business. Consistent cost management and the specially the cautious investment policy contributed to this pleasing result. The return on equity of 10.7% is in the target range. The important aspect of the last year was the acquisition of the insurance companies Alba and Phenix. This has significantly expanded our position in the Swiss home market and will boost the business volumes in the non-life by more than 25% approximately from the current year onwards.

The integration of both companies is proceeding according to plan. Philipp Gmür will give you more information in this regard later. We continue to be satisfied with the growth momentum in our country markets with a total increase of 5.3% in original currency. The premiums and performance of the newly acquired companies in Switzerland not only consolidated for two months which shows that we are capable of good growth even without the impact of those acquisitions. Both business areas of life and non-life contributed more or less equally in the area of 5% to this growth. And it was also they all be supportive in terms of geographical markets. The technical result is pleasingly robust. In total, Helvetia achieved a good combined ratio net of 94%.

The gross combined ratio even is again below 90, which indicates that we continue to be highly profitable in the non-life business. Also the margins achieved in the life business were stable despite the market-wide decline in bond yields. Direct investment return was 3% at the end of last year, only 0.2 percent points lower than in the previous year. Our cautious investment policy and especially the effective hedging of the foreign currency positions allowed us to offset the losses on our underlying currency exposures, against the profit of those hedging positions. Performance overall was 2.9%. Ralph Honegger will report on this later. The solvency margin remains strong at 220% and the equity base was increased by almost 8%, following the issue of a subordinated bond in the fourth quarter.

Standard and Poor's once again confirmed the A minus rating with a stable outlook. In future we will also report on the Swiss Solvency Test SST here on a regular basis. As you all well know, the calculations for the SST 2011 will be processed and check by FINMA after they have been submitted at the end of April. But I can already assure you today that Helvetia is well positioned to comfortably meet the new solvency requirements. Our current capital positions continues to be very solid even under the terms of the Swiss Solvency Test. So to summarize on 2010 Helvetia Group was able to further increase its

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profits and sales in a challenging environment. Once again we could gain additional market share, cut our costs and maintain the strength of our balance sheet at the high level.

This once more should demonstrate that our group is a reliable insurance partner for our customers as well as a good investment for our shareholders. Paul Norton will now discuss the core elements of our financial statements review.

Paul Norton {BIO 16145125 <GO>}

Thank you, Stefan. Ladies and gentlemen, pleasure for me to present more details you have the figures. We'll start with the slide six, with the performance of the individual business areas. The performance of the life and non-life business was once again satisfactory. In the life business we achieved a solid result of 108 million, whereas the the previous year by 6.4%, thanks to robust investment results, as part of low interest rate environment and strength for Swiss franc and a sustained excellent technical result. We also achieved results, a very solid results of 177 million in the non-life business, declined to the prior year is largely a result of changes in plan structure, with fewer large plans we could see it to reinsurance as a result of nature disasters, nature catastrophes. So report from massively the half year.

The net combined ratio of 94% and the gross combined ratio, which remains below 90% for the Group reflect the ongoing excellent company performance. With the fair of acquisition cost which we reported for non-life in the half year has any a slight impact on result of the end of the year as the prior year figures have been adjusted for the new accounting policy. With increase of CHF 47 million the result of other activities was significantly above the figure in the previous year, primarily because of currency effects and higher investment income. These currency effects however were partly offset in those segments primary as a result of lower income from year end due to the weak euro. I'd like to add a few more comments because I think from seeing the earliest analyst comment that it's certainly a question of topic here.

We have a clear hedging policy, which you will see from these figures and Ralph Honegger will tell you has been extremists such several years. And our hedging policies to hedge positions in investments in foreign currencies, which is predominantly euro based investments in our Swiss balance sheet. What we do not hedge of the results, all the net positions in our foreign subsidiaries. And we do not hedge the individual cash streams or profit streams from our foreign subsidiaries. So and that is a ultimate case in most companies, it's not worth during that, which means that our results are somewhat lower this year, because when you take the European subsidiaries translate into Swiss francs because of the weakness and average weakness of 10% of we obviously have less operating income. There is also an accounting mismatch here, which we have reported on in prior years. The other segment shows in the hedges that we have. So the positive benefit we got from the hedges is reported in the other segment, which is why you see the other segment increases so much. Because we don't have what is called hedge accounting, the underlying losses or declines which were compensated by these hedges, actually total equity which you will see in the other compounded income.

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So economically even this is so high the mismatch is shown in the other, which has a positively net income and negative in equity. The second comparison is that also offsetting that the positive rather are currency losses from lower investment income from the euro in our life and non-life segments. So dividends we earn, investment income in euros simply due to the translation of those into Swiss francs, they are lower. So to some extent that positive you see in the other is offset by lower results in the life and non-life segments. Now we are happy to go into that into more details a bit later. If we move across then to slide seven, which is also by geography, which is all insurance units positive result an important year, and contribute to good group results. As we said, the weak euro had a comp results in important year, and it also significantly need to grow reported in Swiss francs.

And it reduce to comp results with foreign units by about 10%, and these are converted into Swiss francs. The whole market in Switzerland as the biggest contribution resulted 191 million and its slightly below the excellent figures for the previous year. And the second result remains at outstanding level over the net combined ratio of under 83% for non-life business, strong technical results for the life business; further efficiency gains, solid investment income. One important factor, affecting results of the low interest rate environment which results in a strengthening of our life technical provisions. we'll go through the results for Switzerland in more detail later. The 26 million, the second result for Germany is below the level of previous year, not least but has exchanged the differences have additional cost reductions had a positive impact. The counter of the net claims ratio increased by 5 percentage points year-on-year. The increase was due to several which was only covered to a small extent by the insurance.

The growth translation was a good 61%. So it's slightly higher than the prior period. At CHF 8 million, Italy's contribution to the profit was down on the previous year. In particular, this is again due to an unfavorable exchange rates, reduced investment income in the life business and a net burden of claims in the non-life business that was 1.4% higher. By contrast, the development of the gross claims ratio was very positive in Italy. In spite the ongoing difficult market environments, the segment result for Spain was only slightly lower year-on-year, and in original currency it was even slightly higher. The non-life business affected the gain by long periods of bad weather, while the life business was unable to achieve the gains on investments seen in previous years due to the under performance of the Spanish stock market.

Positive factors for the segment included additional efficiency improvements and the market-wide annual adjustment to interest rates for reserves prescribed by the local regulator in non-life business. The other insurance units segment, the results for Austria and France were at approximately the same level as in previous year on a currency adjusted basis. In contrast the contribution to profit by reinsurance in lower due to reduced investment income and exchange rate effects. Despite an extraordinary claims year for the industry the reinsurance business was able to achieve a combined ratio of well below 100% again to the stable poorly diversified portfolio and effective . The significant improvement in the corporate segment, I will explain is due to the currency impacts taking the hedges and improved investment income.

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Moving to slide eight on volume growth. Volume growth of 5.3% on a currency adjusted basis is very pleasing and once again confirms our strategic growth of growing sustainably. The life and non-life business both generates strong dynamic growth of 5.6% each, and thus we have a broad-based growth in our life business. The reinsurance business which is also the majority of its premium in the foreign currencies reported a decline in volume, due to these currency effects. The results for currency level are generally also very pleasing that we'll be able to discuss the very strong growth of 4.2% in Switzerland. In Germany we achieved satisfactory premium growth of over 7% on a currency adjusted basis. And more than 22% the life business did mostly better than general market average and emerging from the financial crisis the German market is showing strong growth and maintaining the unit linked business growth of more than 20% from Helvetia service area.

And the non-life business well a growth of 1.1% outside the market. Plans to expansion in our sales network, we were able to achieve especially strong growth of more than 9% in Italy. About 19% of this is derived from the non-life business, although the life business also reported positive growth of 3.7%. In this area the growth was underpinned particularly about those figure, in the corporation bank of - which grew about 5%. 2010 Spain continues to impacted by the difficult economic situation there. Despite some favorable environment, responsible for our business unit to maintain the business volumes at a stable level. The life business posted a growth of more than 5% and here the strategic distribution agreement with Bancaja at the end of 2009 and other strategic initiatives had a positive impact on the growth rate. The non-life business was unable to escape the general market trend and a positive modest decline.

In Austria growth of 4.6% there was strategic positive growth trend in the last three years. The actual growth achieve is well above the market forecast. In France 34% which explain other volumes of Helvetia Schweizerischeof of the previous company which we acquired in the previous year. This now position us to number one transport sectors in France. As you can see in slide nine, the technical performance in non-life business is once again satisfactory. The net combined ratio of 94% is in our strategic target range, is also a very good comparison. The net claims ratio 64.4% is generally good, that was 3.6 percent points higher an exceptional ratio in the prior year. I would like to point out however that the gross claims ratio of 61% is only 1 percentage point higher than the ratio in the previous year. This is a result of few losses, it could be seen into reinsurance as we explained at the half year.

The growth combined ratio remain below 90% inline with the exceptional level to previous year. I'll come back with some more detail in the next slide. We were able to reduce the cost ratio further by 0.8 percentage points below the levels of previous year to 29.7, which is now on the 37 level that we set for our strategy. Move to slide 10, we can see that we were able to seed 60 million or less in claims to re-insurers in the previous year. As I explained this is the reason for this to struck the major claims mainly the which resulted in more claims being retained by Helvetia Group. Although, in fact the actual premiums received to re-insurers were slightly lower than of the prior year. The ratios of the country's markets clearly reflects this effect and the gross combined ratio in some cases are significantly below that of net combined results.

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If you move to slide 11, embedded value, our life business is doing very well in spite of this rather difficult economic environment. The embedded value in the Phenix life rose by 1.5% during the year. This increase is due to positive contribution by new business on satisfactory operating results. The low interest rate environment apparent to the economic balances and efficiency increased to solvency cost in the life introduction to Swiss Solvency Test and the conversions to Group currency again the translation impact have a negative effect on embedded value. Turning to slide 12, value of new business. The positive trend in new business volume growth continued, volumes remain stable in comparison to the previous year, despite the economic environment. The value of new business and business profitability declined slightly compared with the previous year, primarily due to two one-off parameter adjustments.

The most relevant is to increase the solvency cost assumptions against the background of the developments in the solvency capital regime, SST and also Solvency 2. And we already reported on the adjustment of the risk discount rate in Switzerland which was carried out in the first half. Both assumption changes affect the value of new business by around 9 million and also new business margin by 0.3 percentage points. If we exclude this specific, we'll see as one-off adjustments, these figures remain stable compared to the previous year as shown on slide 12. If you move to slide 13, if you see the gross margins that benefit the customers and shareholders have remained stable in Switzerland and the EU countries despite the economic situation in lower interest rates.

The decline in the direct yield on investments due to low interest rates is compensated by lower average guaranteed interest rates. Overall, we are therefore clearly still in a position to comfortably meet the guarantees to our customers.

On slide 14, we can look at the group solvency. Again a strong capital base was confirmed again in 2010, measured by Solvency 1 of group solvency is 220%, in line with the level of the previous year.

The subordinated bond we issued earlier in the 2010 meets all solvency requirements and the amounts 300 million is included in available equity. The sensitivities analysis shows that under Solvency 1 we can easily handle stress scenarios such as an increase in the risk-free interest rate, increase in spreads or a sharp drop in equity markets.

Now turning to slide 15, I'd like to look at the Swiss Solvency Test. Obviously we are all aware the Swiss Solvency Test is still under development. However, Helvetia is very well prepared for the SST and FINMA has provisionally approved the applicable internal models for our SST 2011.

As you know, the calculations for SST 2011 will be processed and checked by FINMA after they are submitted at the end of April.

Nevertheless, we are able to give the following indications today. Helvetia is currently comfortably in a position to meet the quantitative requirements of the SST. Our current capital position continues to be extremely solid, even under the terms of this new regime.

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Based on current information, we believe that Helvetia will be able to continue its successful growth strategy and attractive dividend policy also under the new solvency regime of SST.

I would like to mention here that the SST results per se can be volatile and can fluctuate significantly due to the way the model is designed as well as fluctuations in market prices.

Furthermore, the finalisation of the issues that have only been provisionally approved by FINMA could still have a significant effects on the results. We will submit the individual SST calculations to FINMA as required by the end of April 2011.

We expect the results that have been reviewed and we'll have feedback by the time of the 2011 interim report at the start of September. And on that occasion, we will provide further information.

We are also preparing the group for our European subsidiaries for Solvency II. This new measure, which will be applicable throughout Europe, is expected to enter into force by 2013.

we take these issues very seriously by Helvetia Group and spend a lot of time and effort and resources into the new solvency regimes. We are well positioned for future requirements, thanks to our traditionally conservative balance sheet and well established risk management, see business structures.

I'd like to end my presentation by looking at the proposed dividend on slide 16.

The good annual result and sustained strength of the balance sheet, we can request the Annual General Meeting to approve a dividend increase of 10% compared with the prior year to CHF 16 per share, it's a payout of 41% within our target range and the dividend yield comes out at 4.5% based on year end prices.

Naturally we'll use the opportunity for the benefit of our Swiss based private shareholders to pay part of the dividend from the capital contribution reserves without the deduction of withholding and income tax, in line with the new tax rules announced recently.

We have tax-free distributable capital contribution reserves of approximately CHF 260 million available. And we plan to distribute these reserves over the next 3 to 4 years as part of the payments of regular dividends. This year, the amount of CHF 8 per share will apply, i.e., half of the total dividend we're paying out.

I'd now like to turn to my colleague, Ralph Honegger, Chief Investment Officer, will give you more information on our investment result.

Ralph-Thomas Honegger {BIO 4932832 <GO>}

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Thank you, Paul. Ladies and gentlemen, 2010 was a very challenging year again from the perspective of asset management.

Although the global economy emerged from the recession faster than anticipated, underpinned by the strong recovery in the emerging countries and some industrial nations, the after-effects of the financial and credit crisis meant the markets remained on tenterhooks.

In particular, the debt crisis in Europe and the high level of unemployment in the USA weighed heavily on the market activity.

To support the economic recovery, the central banks maintained their expansive monetary policies and underpinned markets, especially in the government bond segment, through open market transactions.

In the third quarter, interest rates fell to historically low levels, with the yield on 10 year Swiss government bonds as low as 1% for a while. At the same time, the government bonds spreads in the EU widened sharply.

In this environment, the Swiss franc once again played the role of the safe haven and it experienced an accelerated appreciation as a result.

The equity markets performed positively, but with significant fluctuations during the year. They were therefore, able to benefit selectively from the economic recovery. Despite falling interest rates, the strong Swiss franc and modest investment income compared to the previous year, our investments generated an effective return of significantly more than CHF 1 billion, making a solid contribution to the overall result of Helvetia.

As you can see in slide 18, the investment structure is unchanged in comparison to the previous year. Fixed interest securities make up 57% of the portfolio and are the most important asset class followed by real estate at 13% and mortgages at 10%. The structure of the portfolio according to IFRS categories is also stable, with a slight increase of the bonds classified as held-to-maturity.

Helvetia's investment portfolio increased by CHF 0.5 billion over the course of the year. This increase was partly the result of the pleasing growth in business, which resulted in an influx of more than CHF 1 billion of new money.

It was also due to the addition of the new companies, Alba and Phenix, which increased the investment volume by a total of CHF 600 million. However, the strong appreciation of the Swiss franc meant that the value of the assets of the euro business units was reduced by about CHF 1 billion when reflected on the Group balance sheet in Swiss francs.

Against this background, the hedging policy developed and implemented over the last few years for equity and foreign currency exposures was continued. The policy was particularly effective for currency hedging in 2011, as illustrated on slide 19.

Helvetia holds investments in foreign currencies to cover the corresponding liabilities and for diversification of the investment base. This is particular relevant for the Swiss portfolios, which have a net foreign currency exposure of about CHF 2 billion.

This exposure is highly hedged on a permanent basis. The hedging level is in general significantly higher than 80%, as illustrated in the detailed slide in the appendix. Currency risks are generally reduced using futures and sometimes also options.

In the past financial year, the currency losses on capital investments amounted to some CHF 350 million. This was offset by the profit on currency derivatives of 304 million.

Excluding the exchange rate effects of provisions in foreign currency amounting to CHF 32 million, the loss including the costs of hedging transactions was only CHF 15 million. This is the equivalent of only 0.8% of the foreign currency exposure and illustrates the high efficiency of our hedging approach.

I'll turn now to slide 20 to the bond credit ratings. In addition to currencies, the credit quality of the bond portfolio also received a high level of attention in the 2010 reporting year.

Our portfolio continues to show its excellent creditworthiness. Once again, no impairments were required. A very large proportion 97% of the bond portfolio has a rating of at least A, while 88% of the portfolio has a rating of AA or higher.

The sector allocation shown on slide 21, also demonstrates a high degree of stability. Measured as a percentage of the total bond portfolio, the financial sector makes up 50%, while corporate bonds make up almost 10% of the portfolio and governments and supranational organisations make up the remaining 40%.

Within the financials, the rating quality remained high and even improved modestly against the previous year. Furthermore, almost one-third of the bonds have a government guarantee while an additional 38% mostly Pfandbriefe have additional security.

The exposure in Italian government bonds amounts to CHF 740 million and in Spanish government bonds to 300 million. This exposure is intended to cover insurance liabilities in these country markets. Our exposure to Greek, Portuguese and Irish bonds is 26 million, 34 million and 32 million respectively. In total, this makes up a minimal component of the overall portfolio of CHF 33.6 billion.

The appendix to the presentation contains a detailed list of our exposure to government bonds. I will close my presentation with a summary of the overall performance on slide 22.

Current investment income amounted to CHF 932 million, which was 37 million lower than in the previous year. The reduction was due to the market-wide decline in interest rates on new investments as well as lower investment income from the individual euro business units after conversion to Swiss francs.

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These currency losses from the consolidation process are not covered by our hedging policy. The decline of the euro against the Swiss francs resulted in a reduction in income of some 40 million after conversion to the Group currency compared to the previous year.

Realised and book gains amounted to 126 million stem predominantly from tactical sales of equities and the partial replacement of short duration bonds with long duration bonds, in line with the stepwise extension of the asset duration in the life business which we have been working on for several years now.

The currency losses have been hedged successfully as mentioned before. The investment income generated for our own account therefore amounted to CHF 1,051 million. This was slightly above the figure for last year.

The reduction in unrealised gains in equity of 128 million reflects the above mentioned sales. The resulting performance is 2.9%, which represents a decline of 1.9% in comparison to the previous year.

However, the drop in performance is also due to the equity markets, which generated lower price gains than in the previous year, as well as the strength of the Swiss franc. Overall, investment income was very solid and satisfactory, achieving a direct yield of 3% and a stable contribution to profit.

With this I would like to pass you over to my colleague, Philipp Gmür, who will inform you about developments in the Swiss business.

Philipp Gmür

Thank you, Ralph. Ladies and gentlemen, I would like to start with the following statement: Helvetia Switzerland is in excellent shape.

Our growth is above average and our portfolio is very healthy. A special highlight of the last financial year was the acquisition of the Alba and Phenix insurance companies, which I will discuss in detail in a moment.

I will start with an overview of business operations on slide 24.

In the 2010 financial year, we generated a profit after tax of 191 million in the Swiss market, thus posting a good result and generating a profit that is almost on a par with the excellent result of the previous year. The premium volume was expanded once again by more than 4% to around CHF 3.5 billion.

This pleasing growth was achieved in both the life and non-life business. We are able to report growth of almost 5% in the life business and 1.5% in the non-life business. The outstanding technical result is reflected in the once more excellent net combined ratio of 82.9% in the non-life business.

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As is shown on slide 25, the individual life business was practically in line with its performance in the previous year. We launched two extremely successful single premium tranche products, Helvetia Kapital Plus and Helvetia Trendmarket.

Growth of 1.3% in the regular premium business was especially pleasing. Growth in the group life business remains dynamic with a growth rate of almost 7% indicated that we have once again won market share and have further strengthened our position.

The technical results are also strong, thanks to the good portfolio quality and risk-appropriate pricing. The low level of interest rates remains a big challenge for the life business. The lower interest rates led to an appropriate strengthening of the life actuarial reserves.

As usual, I now will briefly review the group life business on slide 26.

As in the past, we will inform you separately of the statutory result for the Swiss BVG business. For today, I would only like to say that for the business that is subject to the legal quota, a total of more than 92% of our gross income was credited to our clients in the form of benefits. We therefore, once again exceeded the required legal quota of 90%.

Let's go to the non-life. As I mentioned before, our non-life business is still in a good shape. In a fiercely competitive environment and a saturated market, we managed to achieve further growth. This growth was generated across virtually all segments with the exception of the marine insurance business, which declined in view of the weak economy and still shows the impact of the financial markets and economic crisis.

Health and accident insurance feature on the financial statements for the first time in 2010 as a result of the acquisition of Alba and Phenix last November. The premiums and benefits of the new entities are consolidated on a pro-rata basis only.

The net combined ratio of 82.9% is in line with the excellent result in the previous year and once again shows a strong operating result. The low loss ratio of 54% was one contributing factor. The excellent ratio is the result of careful risk selection and appropriate pricing as well as the profitable portfolio composition. Other contributing factors includes the general absence of major claims in 2010, and additional savings on the cost front which resulted in a 0.3 percentage point reduction in the cost ratio to 28.9%.

Next, let us turn to the acquisitions in the home market. As already mentioned Helvetia acquired the insurance companies Alba and Phenix on the November 01, 2010. The Swiss market is highly consolidated and therefore rarely present the opportunity to purchase portfolios or even entire companies. These acquisitions allow us to expand our non-life portfolio by about one quarter to increase our distribution reach and to boost our presence in the French speaking region of Switzerland.

As you can see on slide 28, the Helvetia sales force is now made up of approximately 770 well-qualified advisors, at approximately 60 branch offices.

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The tangible increase in sales force, employees, customers and portfolios make it possible for us to clearly expand our distribution network. We are benefiting from the growth opportunities of the Alba and Phenix locations, which now also give us better representation throughout the country. For the 2010 finance statement, the premiums of the new companies are only consolidated for the months of November and December, which is why the impact on the book is marginal for the full year results. Overall, the acquisition is expected to generate growth of roughly 25% in the non-life business from 2011. The growth in the life business is less significant due to the size of the Helvetia life portfolio. In the medium-term, the portfolio's customer relationships and employees offer an enormous development potential that takes a major step forward into Swiss market.

The integration of the insurance companies into Helvetia is progressing very well. We have decided to fully integrate Alba and Phenix into Helvetia Switzerland and to merge them with our legal entities in 2011. A partial transfer of the operations will be completed by May 01, 2011. And the sales force employees from Alba and Phenix will then immediately start selling Helvetia products. The sales force will receive Helvetia employment contract and the necessary sales training and instruction. The vast majority of employees in the sales force have accepted the offer from Helvetia and signed a contracts with Helvetia. This means that around 140 sales force employees from Alba and Phoenix will be starting their employment contracts with our company on May 1st.

Helvetia will continue to maintain its consistent single-brand strategy into domestic markets, what means that Alba and Phenix brands will be gradually replaced by Helvetia on the market. Of course nothing will change for the customers in both. Their customer advisors will remain the same and the policies concluded will remain valid without any changes. The legal merger of Alba and Phenix with Helvetia is planned for the November 01, 2011. The insurance portfolios will largely be migrated to the system landscape in 2012. In conjunction with this there will be changes for the internal staff in the general agencies and as a headquarters in . Although we are still in the planning stage. We already seem to have find the solution for most of those affected. The wast majority will receive a job offer from Helvetia or the offer of early retirements. If this is not possible we will support those employees affected in finding a new job.

Today the integration has proceeded very well and fairly fast and we assume that it will be completed according to schedule. With this I would like to pass back to Stefan Loacker.

Stefan Loacker {BIO 15157193 <GO>}

Thank you. I'm now turning to slide 30 onwards. I am trying to capture more mid term view and just analyzing the business development of the last 12 months. As you might know that 2010 was the last year for so call strategy period 2007 to 2010 which we found came to a successful close with those results. Our primary objective have been achieved. Helvetia grew dynamically in the last couple of years through organic growth and targeted acquisitions in the country markets of Italy, France, Austria and Switzerland. At the same time we have enhanced our operating efficiency. So the cost ratios in both lines of business and optimized our financial structure especially to be prepared for SST and Solvency 2.

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Helvetia will use the positive momentum for continued further development inline with our moto to excel in growth, profitability and customer loyalty. During our presentation of the half year results last September, we announced in the core elements of our new strategy which we call Helvetia 2015 plus. So, today I would not like to repeat everything but just summarize some highlights and then especially elaborate on our priorities for this year 2011. Now, turning to slide 31 to illustrate our overall long-term ambition which is simply to significantly expand our business portfolio in the current markets. In doing so, we place great value on meaningful geographic diversification as well as a sound balance between the profitable non-life business, the faster growing life insurance, and the cyclical reinsurance business. The linear expansion of our successful course creates a opportunities in the years ahead to add value for customers and shareholders.

Our most important objective in summary. First of all, our growth strategy which is based on the sustained further development of sales reach, sales channel and productivity. In addition, we aim for targeted acquisitions and strategic cooperation agreement in our 15 country markets. To improve our earnings power, we will continue to give the highest priority on technical discipline. Further improvements in the cost efficiency and also a sustainable liability driven investment strategy. We believe that we can further increase our productivity especially through Group wide processes and systems. And satisfied, loyal customers are at the centre of our strategic ambition. We have already reached a very good level as we can see in many surveys that we do, but aim to improve our service further. For this reason, we place great importance on stable long-term distribution structures, as it relationship quality depending there, flexible product concepts and a customer centric IT.

As you all know, strategic planning is one thing but the strategy implementation is another story. We think that Helvetia has demonstrated a great deal of discipline and execution around the last couple of years. And of course, our ambition is to stay on this track also in future. With this, I'm now referring to page 32 to go a bit deeper into our growth initiatives for 2011. Let me start by looking into the last four years, which indicate that Helvetia has increased its business volume by around 37%, of which more than half mainly 20% was through organic growth. Part of this development was also an increase in our historically very low proportion of life business in our foreign units which started from a really low 22%, which indicates that we have been traditionally more or less in non-life insurer abroad to now 32% approaching to a better balance.

Of course, we aim to continue on this path also in the years ahead, where we see a lot of opportunities. We worked on our concrete priorities for 2011. I would like to highlight some specific topics from one country to another, starting with Germany, I just want to underpin that we have reached an agreement with the legal protection insurer IR at the end of last year for an exclusively referral of their motor insurance to Helvetia in Germany over the next couple of years. This will be of course another momentum for our growth. So the successful development of this agreement is one of our focus points for 2011. And again we have a lot of expectations for the life insurance in Germany, which has taken up good pace in the last couple of month and we have also plans for this year. In Italy, where we have been growing very strongly through the new and dynamic channels that we have the road side marketing concept and the lot of new agencies following the .

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In Italy of course we want to keep our pace, but more and more also a component by a very consistent technical controlling, because actually our results are below our expectations and we want to earn more in the Italy market in the medium-term. In Spain, this year of course we have a specific situation because the economic environment is still challenging, as you could see also through the market figures especially in non-life. Our plans are still offensive once, so what we have plan is to increase our efforts in the previously under represented areas for our business, as the bask region Catalunya, also the Greater Madrid area by our focused broker initiative. Our exclusive network is quiet weakened there and so we have an opportunity to tackle this. But, of course clearly the top priority for the whole group will be given to the home market and Switzerland where the successful integration of the two new companies Alba and Phenix are at the top of our list.

And as Philipp Gmür has explained here very well in France underway in this regard. As a Group, we also remain on the look out for suitable acquisitions that could supplement our business in order to expand the customer access or to better absorb our cost structures in the given markets. As to the recent acquisitions of Alba and Phenix, the financial ability to act immediately in the right situation is again ensured by following the issue of the subordinated bond last year. Please now turn to slide 33. It will life insurance, which in the current environment especially in the market, where we are present offers enormous opportunities, but is also on the other hand challenging. In particular for us with a relatively small life portfolios outside Switzerland, for historical reasons we have not significant profit contribution still after those operations.

We continue to see significant growth potentials in our markets of growth and we believe that we can still reach a lot in the medium and long term, so for the next five to 10 years we have lot of ambitions, because we think it's the well capitalized company and a good Swiss franc where there is a lot to earn. However, at the current the low interest rate environment on one hand and the income in new regulatory regime on the other hand provides a challenging environment. To give support for our country units, which so far had more or less acted on their own autonomous and also in the life insurance. We have decided for the future to develop and manage the life insurance business much stronger than previously to a corporate approach, which is supported to a new competent center to call the life center under the management of .

The life center will primarily be responsible for managing the product portfolio in order to ensure the profitability of our new business chain, as well as the exploitation of synergies in product development, for example, guarantee concepts, investment strategies and also cost efficiency. We have feasible shifts always will be deployed and process is more standardized in future. For 2011, in particular, we are now focusing on the launch already in the first year of our first innovative product solution on our cross border platform. The sales launch of this which is intended to be an individual guarantee product concept is planned for this year already in our home markets for Switzerland. Please now turn to slide 34, which indicates on the left hand side of the chart that we did a lot to improve our cost ratios in the last couple of years.

In the life and in the non-life business, we are carrying a lot more business on smaller or equally sized cost infrastructure. But we want to go further here, it's not the point to

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stopping this ambition. We will continue to push the industrialization of the processes in the country markets and also accelerate our Group wide IT bundling. Resupply in particular, to one of our focus areas of 2011 which is CRM trans-relationship management which is something that we are seeing as an opportunity both to keep our clients close to us and force customer attention in order to steer distribution even more closely to the opportunities. But not only IT, but also in general operations are an area of concentration this year. In Germany in particular, we have decided to reorganize our geographic operational structure in this year.

We have traditionally being an extremely decentralized companies for more or less all processes, We have been decentralized and now we have decided to centralize what we call for the first level support because those processes probably are not really the key for us to be recognized as close to the distributors and this will help us in our cost ratios. In Switzerland, we also anticipate significant synergy effects from the integration of Alba and Phenix. So these and also other measures will result in further improvements of our cost ratios this year and in the medium-term. And of course, we will continue to have a close look on the capital efficiency of our company. Helvetia as you have seen has a sustainable and comfortable capital base in terms of Solvency 1 and is also well positioned to meet the new solvency requirements and also to do in this in a capital efficient manner.

But given the ongoing evolution, the moving target of the SST requirements and for Solvency 2 setup, the capital base and capital efficiency will surely remain as one of the top issues on our agenda for 2011. Let me now briefly turn to slide 35 which treats our winning strategy. Many of you are aware that in the year 2006, as not that long ago, we have applied a semi brand strategy across our group which allowed us to systematically exploit also opportunities to better position our Group especially through our sponsorship of scheme. Over the last few years we have been able to raise brand reorganization significantly. In the Swiss home market now even 94% of the people surveyed know Helvetia. Of course outside our home market our brand are still considerably potential to make up ground because we have much lower market share there.

Helvetia is sponsoring the Swiss key applications since 2005. On the last year 2010 we have renewed those contracts until the 2013-2014 season. This winter we have been for the first time presenting sponsor of the Four Hill tournament which is very well positioned for our German speaking markets and we have plans to do more to international as sponsorship commitments in the coming years. We will also develop a Group-wide branding concept more consistent now a days and throughout our market and country units. So, before I go to slide 36, I just briefly wrap up our priorities for 2011 growth projects. We have a lot of them especially the integration of Alba and Phenix. The focus on the profitability of the life insurance through the new life centre, cost efficiency, regulation and capital in the light of SST and Solvency 2 and the internationalisation of the brand, those topics which are on the top of our list as a corporate. Of course, supplemented by a lot of specific issues which vary from one market to another.

With this, I can on slide 36 confirm our financial objectives for the period, medium term period up to 2013, which are growth above market, as we did again. Good technical results, as we have delivered again.

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A solid balance sheet, as is our staffing position, and the double-digit return on equity with an attractive dividend policy, which we wants to highlights again this year.

So, seeing overall, we are satisfy with the 2010 results. We have clear priorities for the new year 2011, and of course we are all committed to make Helvetia even more successful in this year.

With this, I want to thank you for your concentrate in listening to our presentations. And we are now turning to the Q&A session. As usual, I would proposed that we start with the people in the room and then turn to the many colleagues that are attending on the phone.

I would like to ask you, if you start with your questions, also to give your name. And those who are in the room have to use a microphone, so that also the people on the telephone can hear your questions.

Questions And Answers

Operator

[Operator Instructions].

A - Stefan Loacker {BIO 15157193 <GO>}

And I'm giving the word to the first one raising the hand, it's right in front of me.

Q - Analyst

Its Patrick from Bank --. I have just a quick one Paul, regarding the tax rate, which was down to I think 15%.

A - Paul Norton {BIO 16145125 <GO>}

There are couple of one-off effect there. One is a tax rate dreduction in Switzerland by about 1 percentage point. But that impact obviously be deferred taxes. Secondly, the German tax authorities finally close their audits of the years that for 2004, now the light with us -- and the result, we had a favorable result. And clearly certain tax provisions there, you had since then. And thirdly, we have a very favorable tax net one-off ones, a third one which is will be ongoing some years, we had a very tax ruling regard to the acquisition of Phenix and Alva which will float through into our Swiss results.

A - Stefan Loacker {BIO 15157193 <GO>}

Next question.

Q - Analyst

Very quickly follow-up on this profit detail -- in Germany, can you specify this little low or is just a number?

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A - Corporate Participant

A higher one digit number in million euro.

Q - Analyst

-- So I have three questions. The first one is that swing in other activities, I have seen that realized capital gains in other activities something from minus 10 to plus 15, I think it's something to be slide number 40, but if you could just quickly run me through that.

And then the second one is -- real estate looks very, very interesting from return on investment point of view, you have now a 13% exposure investment property, 10% in mortgages, still perhaps, can you just quickly let us know how you see right from the Swiss market or will rating is still good quality out there?

And then the last question is for Mr. Gmür. Mr. Gmür is talking about seriously comparative market in Switzerland and you come out with the combined ratio of 82.9%. So, I would say in a pretax level that something like 35% ROE. So, I mean, it's not the one of you have now this excellent performance for years and years. So, perhaps you can explain a little bit, or let us know how the market behaves especially in household and the motive business? Thanks.

A - Corporate Participant

Okay. Starting...if you want to talk to stand at the beginning, the other segment is where we have the hedges from hedges box. And the majority of that movement is showing a positive swing is due to the gains on the foreign currency hedges.

And if you like the losses on the underlying that were hedged are reflected in the equity. So, it's a positive influence in the other in net income, and a negative influence in equity which could lead you to the question well, that's just the one-off positive in your income.

On the other hand, if you take the overall impact of the weaker Swiss obviously the weaker euro against the Swiss francs this year. When you look at the other impacts, the other segments due to lower investment income, lower net income from the -- such as and so on, those effects broadly can -- other out.

You got a slightly positive impact from this accounting as such, but basically if you were to say we have an exchange rate from segment last year and that's income, we would be roughly the same. To our positive mark, 10 million is not easy to say, that's the impossible.

Is that clear enough -- because I think it was a topic that many of you wanted to address.

Q - Analyst

Yeah.

HELN:} Just once you have a five times now. We have also gave more explanations --.

So this is FX accounting even more.

A - Corporate Participant

Okay. So, let's leave it for the time being and go through the real estate question, is the market --.

First of all, I would like to say you have mentioned that more than 85% of our real estate property actually is -- 70% of it is in residential buildings. I would say in a good average price segment, widely spread all over the countries. In this market, we certainly don't see any -- at all. I mean on -- is a stable cash flow for many many years. And we don't have any sites looking at licensee rates for -- that you shouldn't hold on.

And again, if I look to the mortgaged portfolio here again, it's always interest mainly the vast majority itself used property actually. Like the spread again in all the Nordic country and here again, we don't see any --. We stick to our investment criteria in both these of investments and if you can read the criteria, it will be translate in the --.

From a market, the overall endeavor we don't see an overheating I mean there might be some places like I don't know -- here at the Gulf Coast -- areas of the platform. That's not the place where we have our exposure.

Q - Analyst

And what about, I mean I'm thinking about 2% guarantees in the second business, I mean we can see that bond yields are now down from 2.9 to 2.6, so I mean I believe it's very interesting to be invested in real estate but I guess do you still find good quality so...

A - Corporate Participant

We're still doing, we still -- we'll be looking for. But it's getting --.

Q - Analyst

A non-life business, how clear is this possibility?

A - Corporate Participant

It is actually...In fact this is very fierce but I was mentioning that with regard to our growth opportunities in the domestic market, and thus we are glad to realize a fairly nice growth ratio in a saturated markets.

With regard to our combined ratio, I mean you all know that our combined ratio is not only the result of the absence of major claims but also one major reason is our portfolio composition. We have a good portfolio which is healthy especially with regard to our property portfolio in the household business.

And nevertheless, we have the big price pressure. You were mentioning motor business. We did see a price pressure in the motor business as well as in the SME business. And not

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so much in the household business so far. And it has to do probably with the premium volume decline have to pay which is fairly higher in the motor business than in the household.

But actually that the proof of putting is, are you well priced in the period when you encounter major claim? And right now we do not, but we are pretty sure that our pricing is still fair. And then good enough. But in the absence of claims, you don't really see the proof of putting. But with our track record, we are pretty positive that, we are not only promising but also actually realizing a good combined ratio in the long-term.

I'm not underwriting 85% in the long run but say...as we usually say in a corridor between 1995 for the domestic markets unless then if I have to probably also take some words on the other markets. Of course, those who are present in the Swiss market, the five years sales in the competition, in a fierce competition compared to the years before, compared to the other markets, I think it also quite clear that the Swiss one is what I think is at the moment the most profitable market in Europe.

And therefore, France of course is not a disadvantage to have our whole market here. And also it is important to see the trends on the other geographies where especially in Italy, in Germany market wide, the results have deteriorated substantially in the last few years, which is now giving the opportunity for, I would say turning the things on the positive side again. We see there is a mid-term expectation for Italy and Germany that especially in the car insurance business margins are going to be better in the next couple of years. And also our own expectation is in the same direction.

For the Spanish market is still a difficult set up, because there is a volume loss in the overall market. So, especially normalized has loss some 2% opinions and market wide last year. It has done a bit better, but also we were not able to grow. And of course, there is also a price pressure to a certain degree because keeping the volume and therefore to avoid the cost ratio drop is in place. And what we are all looking for is of course, the refueling of the economic situation in the Spanish market.

So we have a certain mix perspective which is also indicating that for us, this diversification is a good issue. Don't forget that for non-life, we are not as buyers to the Swiss market as we are in the life insurance. It's not more than 25% on that business that we are earning in Switzerland. So there is really a good chain of diversification also for markets which are in different circumstances. But nevertheless, actually now the Switzerland is of course our favorite, which was also one of the reasons why we thought investing into this non-life market through Alba especially easier thing to do.

Okay. And with this, I think we are prepared for the next question over there.

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Q - Analyst

--. I have three questions. First one on your ROE targets 10 to 12%. And should we apply that to the equity including the hybrid or excluding? The second one is basically on acquisition of Alba, Phenix. Did you book any integration cost in 2010? And may be on the non-life side going forward and historically, both of these units have the higher combined ratios than Helvetia had. So should we have an expectation of basically an increasing combined ratio due to the acquisition in 2011-'12? And then the third question on Swiss Solvency Test. Can we expect that you might published a figure or a ratio number this year from today's point of view?

A - Corporate Participant

Okay. Thank you for those questions. I'll just start with commenting of the ROE targets. And then we'll pass to Paul to technically explain how the hybrid is being shown in our balance sheet.

The overall target is net of the hybrid. and what we have also made clear is that we want to avoid to have the distortion, a distorted impact, a diluted one or a helping one through this hybrid. So it's more or less a neutral figure which has been the same before and after. And the technical answer is certainly is Paul's domain.

A - Paul Norton {BIO 16145125 <GO>}

We've followed the zero connect to model. They've got us a separate line item and they show equity fully access to the shareholder of the group. Then they call it preferred type and then it's a total equity when they calculate the ROE just as we do on the basis of the need. But they could follow the -- therefore the dividend, book to the dividend.

A - Corporate Participant

So, it's included in our solvency numbers but it's certainly be neutralized in our ROE statements in order to show the real, this is the shareholders results, not diluted with this -- of the bonds.

We think after the perspective of our non-life combined ratios in Switzerland, I will also start it with the general answer. But I'll feeling good like then to go further in this. As you have heard, those leading companies will be merged into the existing leading companies that elevates by the end of this year. So, we will not see case-by-case before and after situation of Alba and Phenix in 2012-2013, what to really compare the situation before and after.

Of course, our portfolio mix to certain degree will change a little bit. We have always been under represented in the car insurance business, where we had a market-share of less than 3% now, compared to some 9 in the property. This will slightly increased. But we will still be not a car insurance company predominantly.

And of course, car insurance might be less profitable from a combined ratios point of view, against the profitability. And of course with the extra volumes that we are generating what we at least expect is that we have more profit, is the combined ratio is little bit better or a bit worse is probably is not the point because the top-line and especially the bottom-line that is what counts. And of course, we are looking for substantially cost synergies.

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So compared with the situation now, the performance standalone cost ratios will surely be much more efficient than they have been. And we think that the technical qualities of the companies is very encouraging, also if you look at the closing figures of 2010, they have both produced combined ratios below 9 on a statutory level. So, we have a very good starting point.

Philipp is there anything that you would like...

A - Philipp Gmür

No, I mean they had especially Alba only a slightly higher combined ratio because of their claims ratios. Whereas the cost ratio was below --. And since they are selling Helvetia product as of May 1st, we will have a combined portfolio. And we are calculating with finally in the mid and long-term with the Helvetia loss ratios, if you will. And as Stefan mentioned, with the lower cost ratio because of a bigger portfolio.

A - Corporate Participant

Okay. the question is restructuring costs included in the figures '10 Paul? And then yes, to the disclosure.

A - Paul Norton {BIO 16145125 <GO>}

Yes. We have booked some integration cost and integration provision. We're not disclosing the number. But it's...

A - Philipp Gmür

It should on the safe side.

A - Paul Norton {BIO 16145125 <GO>}

It's on the safe side but in accordance to the IFRS. And the SST, as I said in the presentation, the SST is subject to fluctuation. And the model is still not finalized. We would like to publish the number, when we come to September, a lot will depend on -- as well. They have certain views about publication as well and so it will depend, A --, we have a finalized number we can published and two, we have terms and -- to what we can say.

A - Corporate Participant

Okay. The next question here in the room.

Q - Analyst

--. I would be interested to know about your hedging policy of -- risk. We learned that Spain has been downgraded by Moody's, may be other countries could follow up. So could you give us your standpoint?

A - Corporate Participant

Well so far, we don't have trade business of our risk at all.

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Q - Analyst

Why not?

A - Corporate Participant

Well, as I said where we have liabilities in the countries, we just have the opposite the assets. And overall, we try to really concentrate not to have more than our -- liabilities that's why we really please -- we shouldn't do it. It depends on the country, it depends on the product.

And in Spain, there is no legal court or anything, it will probably going to large extent like shareholder. But on the other hand, I don't think we're expecting the total loss out of Spain. Now our view is also I would say supported by the technical question on how is it booked, and we have especially the long-term liabilities are of course also invested in long-term assets which mainly are classified as all to majority or loans in receivables in our balance sheet, which is a good thing to stabilize the overall picture and as long as you have no defaults.

It's nothing at all is happening especially also spread wideing or no problems on the spread side is flowing through the equity statement of our balance sheet which is absolutely in position to carry those volatilities.

only in the case of impairments or default, there will be a P&L exposure. And our view is not to expect defaults from Italy or Spain. And therefore for us, a hedging would mean to increase the P&L volatility drastically because the derivatives of course they will be booked under the P&L.

And the impacts will be sufficient I would say, even it could be if you are on the wrong side, it could also be quite heavy impacts. So therefore for us, looking at those investments as being linked to natural liabilities and not down as a carry trade investment to hedge those would really be something very typically in the long-term.

But one of the things we mentioned earlier and mentioned briefly on Spanish results is the life reserve that regulates the effects, a discount rate every year for those life reserves and that is impacted by the local spread on the Spanish government bonds.

So if you have a higher spread because of the downgrade, yes, on the asset side it goes down but on the liability side, it also goes down as well compensating it. And as Stefan said in the meantime, until you get a default, most of it doesn't flow through in the P&L because it's help the maturity or it's valuable the same flows through the equity. And as I said we don't expect that that loss in Spain and we don't expect default in Spain.

Q - Analyst

The other question is regarding your dividend policy, will you pay also less dividend until --?

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A - Corporate Participant

potentially, it's roughly...it's not been setting stone, but that's...we have the capacity three to four years was based on a half-for-half basis.

More questions in the room? If it's not the case, I think we have colleagues on the line, who is also want to come up with their questions. We are handing over to the operator onto our colleagues in London. Who is the first one?

Operator

The first question on the phone is from Mr. Michael Klien, Nomura. Please go ahead, sir.

Q - Michael Klien {BIO 4262408 <GO>}

Yes, good morning all. My first question would be on the tax rate again. So you highlighted the one-offs and the effect that we have seen in 2010 on tax rate and the tax rate. You mentioned here that you have for Switzerland, you have got a 1 percentage point improvement on the deferred tax and also ongoing the tax ruling on the Phenix and Alba acquisition. So what in tax overall do you expect for the tax rate going forward, or what kind of tax rate should we be assuming for the short medium-term in our models?

And number two, would be on the reserve floating over reserving. And in the past, you have provided numbers on this. Could you just update us on where we stand in 2010, I think 2009, it was something like 175 million.

And thirdly, we have seen some of your peers cutting again, credit being raised on annuities. Have you done anything in 2010 or are you considering making some similar movements in 2011? Thank you.

A - Corporate Participant

Okay. Thank you, Mike. I think the question of the tax ratio to be apply is on your side, Paul.

A - Paul Norton {BIO 16145125 <GO>}

Yeah. Michael, I can't give you on top of my head a tax rate going forward for Switzerland. This is not that easy. The impact of the rate reduction, impacts by the current tax rate and the deferred tax rate. The reason why you got a deferred tax, the reason why you got a big one-off this year is because when you revalue the deferred tax from liabilities, you get one-off effect.

So 1% or so rate reduction in Switzerland should not have a major impact going forward in Switzerland. I think the rate now varies between -- is something like 20% roughly, as opposed to 21%, so that's why you can apply.

Additionally, we will have for the next five years roughly I think 4 million benefit per annum from the Alba and Phenix ruling on the tax line.

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Reserved lending, we haven't changed at the moment and I think I reported to you at the half year, this question came up. We have a process in place to review the reserve lending concept. Unfortunately, the IFRS came out with a new standard or new exposure drop for IFRS 4 which is not yet been finalized and of course the -- is a questions about how -- we treated. And so at the moment we have brought whole -- while we understand the implications of that and the final dropped about say down a little come out in the summer.

A - Corporate Participant

With regard to the credit the annuities we have not made any cuts in 2010. And there are also no immediate plans to do so in 2011. Of course, if you would see the low interest rate environment also in the next couple of years with the action to be take that is not something that we see as annuity management.

Is there another question?

Operator

The next question is from Mr. Chris Hitchings, KBW. Please go ahead, sir.

Q - Chris Hitchings {BIO 2034501 <GO>}

Good morning, gentlemen. A couple of issues. Just some little technical things. One is I can't find any geographic split of the new business and D&B. Is that which is disclosed anymore or just been an indulgent finding it?

Secondly, I noticed from the solvency sensitivity, the SST sensitivity has gone up quite a lot since the half year. And it's not massive but it's obviously gone out. Is it going to any corresponding increase in the exposure?

And thirdly, yes, you've said a Solvency I, a sort of target for 2015 and Solvency I ratio of greater than 175%. I'm wondering will you re-pass back in the following SST I? And what is a 175 suppose to be equivalent to an SST term?

The final one, my biggest question is on Italy, I'm going to question who's Paul faster the top-line goes up, the faster the bottom-line goes down. I don't entirely by this idea that it's all those horrible claims. Can you just try and take me through what you think has gone wrong and what you're doing about it? Thanks.

A - Corporate Participant

Thank you for those questions. In order to give my colleague a bit time, I'm starting with your last question on Italy, and then probably Paul will answer the questions about the new business margins split and especially sensitivity also the SST targets.

With regard to Italy, we have a situation which makes us partially satisfied with regard of the dynamics that we have been reaching, also according to the usage that we have. But

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on the other hand, we are very well aware that this needs to be also accompanied by a very technically controlling approach in order not to be left with business without profits.

But we have to see this in the dynamics in which things are happening. Growth has been strong last year in the non-life area with a 90% growth, within those numbers is a predominant proportion of car insurance which might look as if you're putting in the first glance.

I think the topic behind it is that we have been going through a number of new agencies which are now producing for Helvetia. It's almost 100 new agencies that we have been attracting in the last 18 months, especially following that new distribution law that they have in Italy, the so-called the salary law, that every agent which formally was an exclusive agent, which is now force to use the second or the third insurance to provide products to his customer.

Since we have always been positioned as a company for multi-type agent, that was our historical idea already. We have of course gained a lot of new agencies in that situation. And what is happening when they have a portfolio they bring in first of all the products that have the faster turnover rate and that is traditionally is the car business. And therefore we have in the first hand, you have been growing in the car business and now of course our emphasis is also to receive the property business and the accident business and the other lines which are more profitable. Obviously the car business itself is in a difficulty situation in Italy. As I have been mentioning before, much bigger peers than ours have suffered combined ratios of much more than 100%. We have still 99 on a gross level we are somewhere in the region of 96-97. So we are really doing much better than the market, also we have allowed for that number of increase in most policies.

And now we have of course the idea that first of all the market will react or has started to react, so we are able to sell higher prices. And secondly, we have may be, some of those 100 agencies are not good one and we have to clean them out again. But what we want to avoid is to have a self control policy, it's really the idea of keeping the good momentum we are in a favorable situation to pick and choose, we don't have to search urgently for growth. So we can really now incorporate the back balance between top and bottom-line development. So, that is more or less for the non-life business. We are not happy with the 99% combined ratio, given the actual opportunities that we have, we find there is a good investment because if you look at 100 agencies is more or less like acquiring a company, which would have cost money anyhow. But here we have the possibility to react.

The other thing is life insurance, and life insurance is of course the one that you see most predominantly on the volume side especially the life insurance that comes through the bank which is still producing according to plan. And nevertheless we have had a slightly lower result on the life insurance operation. Also according to the investment result which has not been so favorable in view of in Italy and also the equity market was not so great. So all those ingredients together brought our results down to a net 8 million which you have seen in the segments report which is clearly below our medium-term expectation. And therefore we don't have any problems in growing but now the emphasize is of course to make this as profitable as we wanted it to have.

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Q - Analyst

Can I comeback actually on that, is that possible?

A - Stefan Loacker {BIO 15157193 <GO>}

Yes.

Q - Analyst

Because I mean that actually what worries me because you've clearly taken lot's of new agents. And some of them as you say and I am aware of this are forced to use as a provider to qualify as agents. And so they are giving you the business they don't want to give to the main provider. And so you have taken lot's and lot's in your business that's producing worst claims because that's what it is, read this out but you probably hadn't the so much volume. You may not have seen yet how bad it is. I mean how comfortable are you that you've reserved for this as properly.

A - Stefan Loacker {BIO 15157193 <GO>}

Yeah, I think we have a lot of experience in also making those kind of mistakes. And it really the top point in the agenda of our Italian CEO to make sure that these businesses are profitable and they are sufficiently reserved. In particular we have a very close look in the ingredients of those results, for example we analyze the frequency of the claims. Frequency of the claims of the new agents is on par with the frequency of the claims that we have in our old books so to say which indicates is not the problem of the quality, of that new client deal which is probably the most important point. The pricing is another story because if you allow for a certain period, let's say for a year or two to really offer at the given price level, you do of course being in a discount and that's something that you can calculate. And as far as I can see from now we have completely within our calculation and we did not buy business which is bad in terms of frequency or quality but which is to a certain degree discounted to the market level which is of course offering the opportunity to enter into those agencies in a broader sense. And we do a lot of let me say every agency that is coming to us you see if it's big enough, its portfolio quality is sufficient. And also the composition of its business is alright. And with that I think is really something that we don't see as a major point of worry but it's a point of attention in any case. And of course we want to see the results of these new business in the bottom-line in the next two or three years.

Just to answer that question in talking about process we are fully aware of the risks here. We have developed our non-life group function considerably over the last year. And we are now monitoring on a quarterly basis for example line of business by market unit, the price policy frequency on the average claim size. So, we are aware of this potential and units so Italy for example we can break it down by motor, motor liability and so on and we're merging that and taking actions accordingly.

Q - Analyst

Okay, fine. That's yeah thanks.

A - Stefan Loacker {BIO 15157193 <GO>}

New business margin. The EBITDA margin we have no signs of disclosure. I think we got the annual report for the relevant internet now we still have the as before Switzerland and EU.

Q - Analyst

Thanks so much.

A - Stefan Loacker {BIO 15157193 <GO>}

Sensitivities; we -- as you said it's not a great deal. I think it's probably to do with the fact that you got the slide package, slide 53 you will see there is a slight increase in the equity exposure and also in the way the hedging is concerned, it's probably at that point in time. At the end of December, there is a slight increase in and that was adjusted in hedging. And therefore, sorry and that was just therefore on the sensitivity, but as you say it's not a massive amount. It's still well and affordable.

Q - Analyst

And the SST and target?

A - Stefan Loacker {BIO 15157193 <GO>}

Yeah. That is a very good question. I'm not sure I can give you an easy answer to that, because as also you are aware the trans relating solvency into SST is incredibly difficult and there just two very difficult measures with different volatilities. At the point in time it's clear I think we will need to do that, we want to do that. But the moment until we have some kind of certainty and where the SST is going to turnout and how volatile its going to be, it's very difficult to do that.

Q - Analyst

But I appreciate it's a difficult question so I asked it. On more of the due that are you comfortable with if you were down at a 175% than your minimum target, you would still pass the SST?

A - Stefan Loacker {BIO 15157193 <GO>}

Yes.

Q - Analyst

Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

For the time being there's also lack of visibility there somewhere the market is and of course until we are also seeing what is a unusual point of reference and something that we feel comfortable with. And also incorporating the volatility that measure is going to produce it must be pretty mature to say at what percentage points that will be. But of

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course we are all in the all Solvency 1 target maybe outdated in a year two but for the time being its really the best that we have.

A - Paul Norton {BIO 16145125 <GO>}

I would say, it's difficult to tell because how do you look at it do I reduce Solvency 1 by leasing the liability side or the charge all available equity. You cannot translate it. But I think generally, if you get that it would down below where we are at the moment somewhere above 175 I think we should be okay on the SST at good level.

Q - Analyst

Thank you very much. And that's all for me.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. Another question in the line and there should be one more.

Operator

And final for today is from Mr. Peter Eliot, Berenberg Bank. Please go ahead, sir.

Q - Peter Eliot {BIO 7556214 <GO>}

Hi, thanks a lot. Just a couple actually on margins. First of all on the non-life margin I know the spread net in the gross ratio was the feature of the first half results. But I know just the second half which was basically in line with the first half. I just want clarification whether we should consider that's an ongoing level? And secondly on the life margin, I appreciate what you said for the life was touched on rates just generally given the competitor actions recently could you talk very briefly about the sort of outlook and for most potential interest rate and et cetra but first just give what you're saying in capacity --? Thanks.

A - Stefan Loacker {BIO 15157193 <GO>}

Okay. Thank you for those questions. I would like to start with a non-life spread between the gross and the net result which is very much in favor of reinsurers this year, because the spread is almost 5% which has started already in the first half and our reaction was well that is really very unusual. And we had expecting the net result at least to a certain degree in the next six months. But it didn't happen which is as we said before is a very unusual. If you look at the in the long-term in 10 or 20 years perspective a 5% result loss in only favor of the reinsurer is really a rare event. We do not see that we did something wrong here because it's really the catching of the claims. We had several for example in Germany the is would have had reinsurance protection above €8 million was something like 7.5 or so. So it's really exactly at the bottom and we have had also obviously in other market plus an excellent gross combined ratio in Switzerland well of course through the proportion of treaties, there is always something to earn.

So, that combination was the reason behind this result. Personally we are more happy, if we have an excellent underlying combined ratio of less than 90, and passing something away instead of the other way around and even bringing rubbish reason for someone else

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should take. So, that is not an immediate point of worry. As, we go ahead in the future, we do not expect this 5% side or to be repeated in this year. So, our longer-term experience is somewhere between 2%, 2.5 maybe 3, to the favor of the reinsurer but not 5. So, we are not budgeting this number internally for this new year. With regard to life crediting, I'm not sure if I got really all the details of your answer maybe was my lack of native speaking, Paul if you?

A - Paul Norton {BIO 16145125 <GO>}

Yeah.

A - Stefan Loacker {BIO 15157193 <GO>}

The aspect to that question.

A - Paul Norton {BIO 16145125 <GO>}

Pete your question is what is the margin line to be given the pressures on crediting and insurers higher interest rates given the low interest rate environment, is that it?

Q - Peter Eliot {BIO 7556214 <GO>}

Yes essentially I mean I guess I was just looking for a sort of guidance or your view where March to go and particularly describe the assumption change of the one-off but I am not expecting that to be reversed out next year. And yes secondly, I was coming from the competitive angle, in terms of current trading ratios is one action that we've seen. And we've seen margins go up to some of your peers, and I just really was wondering your views on the outlook for margins in general?

A - Paul Norton {BIO 16145125 <GO>}

I think on just on the new business volumes, clearly it's one-off. The margins from the interest rate result have not really changed, but that's not an issue in the new business margin. So, major issue this decision to increase the solvency costs. And so on like-for-like basis, the margins were not a problem. So going forward, I guess that's a commercial issue maybe Philipp you considering that just pressures on margins, crediting to policy holders.

A - Philipp Gmür

Finally we have to compare with the market and there is not . The reason why we highlighted there on page 13 in your presentation, it's really also to make clear that the new business that we are writing is coming in of course at much lower and guaranteed interest rates which are 175 in Switzerland they are going to be lower. And they're also going to be 175 for many European markets like the German one by the end of this year. So the overall guarantee note that we have to carry is diluting down and it's more or less in the same pace as our direct yield is developing. And I think it's really important to see this, the recent effect of an ongoing portfolio which is unwinding is listing guarantees against existing bonds on the asset side and replacing them with new business which is of course made to fit into the low interest rate environment that we have. And that the same situation is also happening in our European subsidiaries. So in the end the profit margin

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in between which is left to allocation decisions between policy and shareholders is more or less stable. And for this which we are not worried at all, the margin on the new business is a problem, and we are also not worrying that even in a sustained, low interest rate environment. We could come into any problem in serving our back foot guarantees, because we are fairly matched on this topic. For the new business mix in any case, we are enhancing the less capital intensive products. So the unit link, or individual guarantee product and the off balance products in our second business in Switzerland. So we do actively also mange of course our new business trend. But it's not necessary to do this on the back of our existing customers. We think there are other majors to take.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Well thanks a lot.

A - Stefan Loacker {BIO 15157193 <GO>}

Alright. Thank you very much. And with this we could answer all the questions that came through the telephone and there are also seem to be at least no public questions in the room. We are of course available for individual discussions from now on. Please let me say thank you very much for your interest and hope to see you in six months when we have update on our semester results. Thank you very much.

Operator

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

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