FINAL

Bloomberg Transcript

# Q2 2014 Earnings Call

## Company Participants

- Paul Norton, Chief Financial Officer
- Philipp Gmür, Member-Management Board
- Ralph-Thomas Honegger, Chief Investment Officer
- Stefan Loacker, Chief Executive Officer

## Other Participants

- Marc A. Thiele, Analyst
- Peter Casanova, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst
- William H. Elderkin, Analyst

## MANAGEMENT DISCUSSION SECTION

### Stefan Loacker {BIO 15157193 <GO>}

Ladies and gentlemen, I have the pleasure of welcoming you to the presentation of our results for the first half of 2014. Helvetia once again performed very well. Business volume rose to CHF 4.8 billion, and net income came in at around CHF 197 million, which means almost 10% up against previous year.

The successful first half shows that we are on good track. We would now like to use this presentation to provide you with the most important facts and background in more detail which will probably take three-quarters of an hour, after which we are hoping for many questions from your side in the Q&A session.

After my introduction, Paul Norton will explain our current results. Ralph Honegger will discuss the investment result, and Philipp Gmür will describe the development of the business in our once more very successful home market.

Finally, I will update you on the recent takeover of Basler in Austria and the upcoming integration of Nationale Suisse. As you know, all the documents are also available on the Internet on helvetia.com on the Investor Relations department.

I would like to start on slide four with the key messages of the half year result. Helvetia can look back at an excellent first half year. Net income rose to CHF 197 million, which is almost up 10% against the comparable period in the prior year. The sharp increase at group level is mainly due to a very good result in non-life business which increased by

37.5% to more than CHF 100 million in profit, based on a solid technical result and a good investment result.

Helvetia's profits are also broadly based in geographic terms. In addition to the earnings in the home market, almost all foreign markets contributed to the increased earnings and improved their share of the overall result. We are very pleased with this development.

Due to a decreased burden from severe weather and major losses compared to the prior year, we once again improved the net combined ratio in non-life, which was already at a good level. All the country markets had a net combined ratio below 100%. Paul Norton will give you detailed information on this shortly.

Our business volume rose in the reporting period to CHF 4.8 billion, slightly above the figures for the same period last year. Growth was driven stronger by a strong momentum in the non-life business. We generated 2.8% more premiums here compared to first half 2013. Following the portfolio restructuring of the previous year, we are particularly pleased by the 3.4% growth in German business. The extremely profitable Swiss business also enjoyed another 2.8% growth over the previous year.

First rays of hope, we also see in Spain and Italy after the stunted economic growth caused by the recession. Our Spanish subsidiary, again, achieved slight growth of 1.2% in non-life, and Helvetia Italia also benefited from the acquisition of Chiara Assicurazioni.

Business volume in life insurance remains stable at group level, while Germany, Italy and Austria posted double-digit growth. Business volume in Switzerland slipped back slightly. The reasons for this were a specific one-off effect in occupation and pension business and a tranche product in individual life, which was already sold but only partially booked to a timing effect in the first half year. Philipp will later explain the details concerning our life operations in Switzerland.

Assumed reinsurance increased premiums by 12% during the reporting period due to successful new business on one hand and portfolios on the other hand. Investment result from group financial assets and investment property amounted to CHF 582 million, compared to CHF 594 million in the previous year's period.

Despite low interest rates, the direct yield fell only by 7 basis points to an annualized 2.7%. Generally, strong business performance is reflected in what continues to be a robust capital position. The solvency I ratio was 238%, SST ratio is in the range of 150% to 200% at the end of 2013 financial year. Return on equity rose from 9.3% to 9.4% due to increased earnings power despite the attractive dividend strategy and growth in equity over the same time in the prior year.



Finally, I would like to draw your attention to the important strategic steps we announced in May and July this year. To supplement our organic growth, we are pursuing an active acquisition policy at Helvetia. In the first half, Helvetia acquired Basler in Austria, thereby becoming one of the top 10 insurers in that country. Landmark decision was made in July this year, Helvetia and Nationale Suisse reached an agreement to form a new insurance group together. This union will create a strong Swiss insurance group with outstanding prospect. At the end of this presentation, I would like to update you on the status of both endeavors.

Allow me now to pass over to Paul Norton to discuss the financials of the first half. Please, Paul.

## Paul Norton {BIO 16145125 <GO>}

Good morning, ladies and gentlemen. I'd also like to welcome you to this conference call. I'd like to begin by providing some additional information on our very successful 2014 first half year. As usual, I'll begin with a look at the business areas on slide six.

Helvetia Group achieved impressive interim earnings of CHF 197 million, an increase of nearly 10% over the previous year. I'd particularly like to note especially strong 37.5% increase in earnings in the non-life business. Earnings in the life business were CHF 72 million, up slightly over the previous year. I'll come back to details (6:54) results in life and non-life business on slides nine and slide 11. At CHF 22 million, earnings and other activities were below the previous period. This is due mainly to lower capital gains.

I'd now like to take a look at the results by geography on slide seven. With the contribution to the result of CHF 120 million in the first half of 2014, an 8% increase over the previous year, Swiss home market again proved itself to be a solid pillar of the Helvetia Group. Philipp Gmür will inform you in detail later about this country market result, which is once again very good. In addition, nearly all our foreign markets increased their contribution to earnings over the previous year, in some cases significantly.

The result with Germany was CHF 8 million, which is below the previous year. The reasons for this includes high allocation provision for interest rates of the life business, and the timing effect in expenses (7:53) most of which were not posted until the second half of the year in 2013.

In Italy, earnings per period (8:02) improved significantly to CHF 19 million, impressive 52% increase over the prior year with improved technical earnings in the non-life business and a higher investment result. The measures to improve portfolio quality in non-life are having an effect. The acquisition of Chiara Assicurazioni on 1st of May 2013 also contributed to the very good country results.

The interim result of our Spanish subsidiary was CHF 13 million, also ahead of the first half of 2013. The increase in earnings is mainly due to the improved investment result as well as a one-time tax effect which was, however, offset by the lower technical result.

Result for the period for the company segment, other insurance units, which includes Austria, France and reinsurance, rose by CHF 16 million to CHF 30 million. This improvement is due to significantly higher earnings in Austria and France, as well as the increased group reinsurance result, which was impacted in the previous year (09:01) average claims from natural catastrophes. A drop in earnings in the corporate segment is due to lower capital gains.

I will continue with the development of our business volumes on slide eight. The group's currently adjusted business volume increased by 1.3% in the first half of 2014. With an increase of CHF 36 million or 2.8%, the profitable non-life business was a clear growth driver. In contrast, the business volume in the life business remained stable at a previous year's level. I'll provide details in the life and non-life business with slides nine and slide 11.

Assumed reinsurance increased premium volume by CHF 11 million or 12% in the first half of 2014. The growth is attributable to both new business and existing business. Assumed reinsurance further improved its diversification both geographically and by sector, while maintaining our cautious underwriting policy. This brings me to the performance of our country markets. Philipp Gmür will provide you with information about Switzerland later on.

In Germany, we achieved premium growth of CHF 24 million or 6%. The main growth driver was the life business where we recorded encouraging growth in modern investment-linked insurance products. (10:24) volume rose once again in the non-life business.

The optimization measures in the motor and residential buildings lines have positive impact in the form of (10:33) rate increases on the existing portfolio. In addition, the expansion of profitable relationships with brokers and distribution partnerships provided a further boost to growth

In Italy, we were able to increase our premium volume by about CHF 36 million or (10:49). This growth was mainly generated from the life business. For Helvetia, the Italian life insurance market as a whole, traditional insurance solutions remained the growth drivers. They also recorded another increase in the non-life business, thanks to positive performance of their portfolio, Chiara Assicurazioni, which was recently acquired.

The premium volume of our Spanish business remains stable in the still challenging economic environment. On a positive note, we recorded another slight gain in the non-life business but a (11:20) continued decline in the market. In the life business, our premiums declined in line with the market trend.

We are satisfied with the volume development in Austria where we were able to outperform the market by 5%. While our premiums up by double digits in life insurance, premiums in the non-life business stabilized at the previous year's level. As in Germany, investment-linked insurance solutions rose strongly. The acquisition of Basler positions Aktiengesellschaft in Austria, which has now been successfully completed. Our business volume in Austria will increase to more than 50%.

The growth in our French business unit is primarily due to one-time recognition effect. This effect will, therefore, disappear from the (12:01) 2014 annual financial statements.

Now, I'd like to look at the life business from slide nine. The business volume in the life business remained stable at last year's level. Individual life business with recorded increase of 4.9%. The high investment-linked insurance premiums and high deposits confirm our strategy of achieving growth, managing more than capital efficient products. The share of investment-linked premiums within the total business volume of individual life was 29%. In the previous year, it was 28%.

Group life insurance in contrast was down by 1.8% compared to same period last year. While the important category of regular premiums grew by 6.4%, the maximum (12:46) volatile single premiums were down, due in part special effect connected with the assumption of pension liabilities by Swisscanto and the group life scheme we have with them. Philipp Gmür will have more details to you on that later.

The main reason for the increase in earnings in life business was solid technical results. At the same time, reserves have increased, mainly in Switzerland and Germany due to low interest rates.

Now, I'd like to look at the embedded value figures. The volume in new business decreased compared to first half of 2013 because of record high single premiums in the previous year, the occupational pensions (13:24) life business in Switzerland could not be matched in the first half of 2014.

After the foreign market suffered in the previous year due to the difficult market environment, the volume of the new business in this area rose again in the first half of 2014. New business profitability, which reflects the ratio of new business value and new business volume was within our strategic target range of 1.2% to 1.5% in the largest country, Switzerland. At group level, the new business margin fell to 1% as a result of lower interest rates outside of Switzerland.

I'd like to now look at direct yields and guarantees in life business on slide 10. In EU countries, direct yields continue to decline due to lower interest rates. In Switzerland, in contrast, they have recovered slightly. Average guaranteed interest rate which Helvetia has to generate in order to meet its obligations declined in all countries. This is due to the fact that expiring contracts with high guaranteed interest rates are being replaced by contracts with lower guaranteed interest rates and to the further strengthening of reserves.

Gross margins, to the benefit of the insured and shareholders at group level, (14:39) actually recorded a slight increase. We, therefore, remain clearly in a position to comfortably service the guarantees to our customers.

Slide 11 shows that all of the major metrics in the non-life business are very positive, encouraging growth and business volume of a currently adjusted 2.8% and for the motor and property business, extremely profitable home market in Switzerland as well as in Germany. A strong increase in earnings in the non-life business is due mainly to the solid technical results with investment results. The net combined ratio improved by 1.3% points to 93.6%.

Let's take a look at the details of combined ratio on slide 12. The improvement in the net combined ratio is mainly attributable to the lower claims ratio. At 64%, this is 1.4 percentage points below the previous year, the low exposure to severe weather events. In addition, it is particularly pleasing that all country markets once again had combined ratios of below 100%.

The slight increase in the cost ratio is due to the recognition effect of pension revisions in June (15:50), you mentioned above, and the higher cost ratio of Chiara Assicurazioni. This business is fully consolidated this year as opposed to two months in consolidation in the comparative period. Although Chiara Assicurazioni had a higher cost ratio (16:06) banks, insurance solutions marketed to the company are specific lower claim ratios (16:11).

This brings me to changes in equity on slide 13. By 30th of June, 2014, the group's equity had increased by 6.1% compared with 31 December, 2013 to CHF 4.4 billion. Alongside a very good interim result, growth was driven by the increase in realized – unrealized gains of our AFS financial assets, which were attributable to share policy holders and shareholders. At over (16:40) 13%, unrealized gains accounts for a significant proportion of equity. This naturally has an effect on our return on equity.

In terms – concluding my presentation, I'd like to inform you that dividend integration in Nationale Suisse, the next financial press conference for the 2014 financial year, which is currently scheduled for 2nd of March 2015 will be postponed by approximately two weeks to three weeks. Because of the complexity involved and the consolidation of the financial statements of these companies, we want to make sure the publications conform to our usual high quality standards.

We will let you know the details in the next few weeks. Thank you in advance for your patience and understanding in this respect. My colleague, Ralph Honegger, will now provide you more information on the investment results.

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

Ladies and gentlemen, (17:31) monetary policy of Central Bank continued to set the tone for the investment markets in the first half of 2014 (17:39). The like of inflationary pressure caused rates to fall sharply once more and credit spreads for corporate and government bonds of European periphery companies continued to tighten.

The continued investment pressure has led to a yield that favored the equity market along with the strong U.S. economy. The tepid upswing (18:08) in Europe and the (18:10) political unrest in Ukraine and the Middle East failed to make a lasting impact on markets at least in the first half of 2014.

The Swiss real estate market remained stable. Although the vacancy rate for office and commercial properties increased slightly, rental properties, which dominate Helvetia's portfolio continued to enjoy strong demand. In general, the investment market was in good shape, all (18:46) investment classes achieving positive overall return.

Helvetia experienced impressive performance we've gained of 3.7%. The details can be seen in slide 15. Current income of CHF 510 million and thus at the same level as the previous year. The positive impact from the somewhat higher investment volume was offset by declining interest rates of bonds and loans.

Nevertheless, the direct yield declined by only 4 basis points and is now at non-annualized 1.4%. We expect 2.7% in the year as a whole and thus a decline of 0.7 basis points as already mentioned earlier.

The extraordinary contributions were CHF 72 million and came primarily from equities and convertible bonds, an investment class we have systematically expanded over the past few months.

The investment result for the group totaled CHF 582 million, and was slightly less than CHF 594 million from the previous year. The decline is primarily the result of lower realized and unrealized gains on assets. The non-annualized return was 1.6% as in the previous year.

While the investment result remained very stable, thanks to the beneficial investment of the unrealized gains and losses from equities fluctuated due to volatile interest rate movements over the period. The non-realized gains on equity increased by CHF 776 million due to the unexpectedly sharp drop in interest rates and the lower spreads. Compared to the first half of 2013 which had an interest rate induced decline of CHF 485 million, the balance sheet valuation reserves increased by more than CHF 1.2 billion. All of it resulted in an encouraging investment result of CHF 1.358 billion or a performance of 3.7%.

The results do not include the increase in value of bonds classified (21:30) as held to maturities and loans and receivables. Here, I would like to emphasize once more that interest rate induced price fluctuations and the resulting unrealized gains or losses in equity should not be overvalued, as we hold the great majority of interest-bearing securities to maturity due to our integral asset-liability approach.

Finally, I would like to note that the yield from the investments we made as part of our fund and index-linked life insurance products for the account (22:09) risk of policy holders was at CHF 116 million, and was also very gratifying. Slide 16 has a breakdown of the profit and performance-related contribution of the individual asset classes.

Interest-bearing investments contributed two-thirds or CHF 331 million to the total yield of CHF 510 million. CHF 285 million came from securities and CHF 46 million from mortgages. Real asset investments generated a third of current income or CHF 158 million with CHF 104 million from property and CHF 54 million from equities.

At 4.7%, the fixed interest securities and the equities performed at exactly the same rate. However, equity performance is almost solely recorded as profit, while interest-bearing securities of CHF 770 million, roughly more than 72% of the total was reported in equity as unrealized gains. Property and mortgages produced only marginal deviations between current income and overall performance.

The lower part of the presentation on slide 16, you can see that almost 88% of the newly invested funds were placed in fixed-interest securities, followed by mortgages at 8%. Properties accounted for 3%, and only 1% were placed in equities.

The average return for new investments was an annualized 2.2%. Figures for the mortgages, fixed-interest (24:08) securities and equities were comparatively close, while real estate was far higher in keeping with expectations (24:15). The asset allocation for the half year after new investments and changes in value is depicted on slide 17.

The overall investment volume at the half-year mark was CHF 41 billion. Three-fourths is invested in interest-bearing securities, loans and mortgages, and a quarter is invested in real assets, mainly real estate and equities. Taking into account our liabilities from the insurance business, we see this mix balancing risk and return as ideal for both our policyholders and our shareholders. I will now discuss the credit quality of our investment portfolio on slides 18 and 19. First, the rating quality of the overall holdings on slide 18.

Rating quality remained equivalent to the previous period. Almost 90% of the holdings had A rating, whereby half were classified as AAA. Once again, no impairments were necessary in the first half of 2014. Further details can be found in the note starting from slide 44.

Slide 19 contains details about the A-rated securities. The lion's share of exposure is still in Italian and Spanish government bonds, which we hold due to our life insurance business in these countries. Italian securities dominate accounting for 50% of the holdings. The remainder, depicted in the graph to the upper right, are distributed amongst several counterparties and are thus very well-diversified. The exposure to securities below investment grade made only CHF 150 million or 0.3% of our overall holdings.

In the second half of 2014, we will continue to pursue our investment policy. The geopolitical problems in Ukraine, the Middle East and Iraq may generate market turbulences in the second half of the year. Responsive management (26:46) remains vital.

With that, I would like to hand over to my colleague, Philipp Gmür, who will provide additional information about the Swiss market.

## Philipp Gmür

Thank you, Ralph. Ladies and gentlemen, I am glad to report yet another successful year for our Swiss business. We were able to improve our technical results and to generate a solid increase in profit, thanks to our stable capital market returns.

Turning to slide 21, you see that the premium volume slightly fell mainly due to the single premium business in the insurance segment. The continued growth in regular premiums as well as the strong business in the non-life segment merely made up for the decline. Despite renewed increases in reserves, we were able to raise the earnings by 8% to CHF 120 million. In doing so our net combined ratio improved by 1.5% points to a very good 83.9%

The decline in gross premiums in the life business is due to the performance in single premium products. In the single life segment as shown on slide 22, the decline was due to the exceptionally high premium volumes generated in the previous year. Also of note, our value trend tranche products launched in May with a volume of almost CHF 90 million was not entirely included in the first-half report. A large share of the income will be reported in the second half. Regular premiums, however, are more important for long-term business performance, and those have increased substantially. Our performance-based products especially, particularly the guarantee plan, enjoyed growing demand.

In the group life business, regular premiums also grew significantly. The decrease in single premiums is largely due to the outsourcing of Swisscanto pensions. Since January 1, 2014, these pensions have been handled directly by Swisscanto instead of Helvetia. At the same time, under a group life agreement with Swisscanto, Helvetia will continue to handle coverage for death and disability. The strong demand for full insurance products remains unchanged. Growing technical results makes it possible for us to strengthen our technical provisions and bonus reserves in both lines of the life business. Thus, our customers in the private and professional pension business can also profit from our earnings strength.

Our own sales force remains our most important distribution channel. Broker distribution and right-sizing, however, also make a material contribution to our success.

And turning to slide 23. We were able to increase the premium volume in the non-life sector by a notable 2.8% to CHF 576 million. Growth thus exceeded that of the general market, which according to the Swiss Insurance Association increased by 1.9% in the product lines we offer.

Another positive factor is that along with the motor vehicle business, the property line also substantially increased. Both the claims and the cost ratio were again reduced, which led to a further improvement in the net combined ratio to an excellent 83.9%.

Claims from storms in July and August are of course not yet included in the figures presented. Based on the damage reports received so far, we forecast costs in the single-digit millions, which means no significant impact on the results for the second half.

In the second half of the year, we expect consistent satisfactory growth in the non-life business. The development in individual life will depend on whether and when the capital market environment will allow us (31:42) to launch another product tranche of the Helvetia value trend.

In summary, we can look back on the success we have and our optimistic that this trend will continue in the future. And with that, I'll pass back to Stefan Loacker.

## Stefan Loacker {BIO 15157193 <GO>}

Thank you very much, Philipp. Once again, brilliant numbers. I'm continuing on slide 25 where you see the already very well-known ambition of Helvetia 2015+ which remains unchanged and refers to the three pillars: growth, profitability and customer loyalty. And we think with the encouraging 2014 interim results, we are on good track with each and every one of these pillars.

Obviously, the acquisition of Basler in Austria and the announcement of the takeover of Nationale Suisse are two very special strategic milestones to which I would like to refer now in more detail.

Please join me to slide 26 where you see additional information on the successful implementation of the Basler acquisition in Austria. This purchase we had already announced in May 2014. In the meantime, we have obtained all regulatory approvals, and we were able to successfully close this transaction exactly last week.

Basler generated in 2013 premium volume of more than €135 million mainly in the non-life business, which brought more than €100 million of premium (33:27). Probably you have also noticed the recent half-year disclosures in Baloise Group which showed you that this franchise has increased its volume despite the incoming integration by 2% in the first half, which is really remarkable, and also posted an excellent combined ratio of 92%, which shows again that it's really a period (33:50) that we could apply in here.

The acquisition will increase our volume by more than 50%. And by that, we will become one of the top 10 Austrian insurance players. We will have the sixth largest network, personal network in Austria, and we will also have brokers and agencies as our strong sales forces.

The consolidation of central services will lead to additional professionalization, improved efficiency and also will realize synergies. We waited quite a long time to make such an important purchase in the Austrian market, and we are now very happy that these two companies which are very similar in terms of their business and also culture, we have now found an excellent opportunity to expand our business in Austria.

When the acquisition was completed end of last week, we have also announced the reorganization of our management team. Probably you have noticed that it is now consisting of members from both companies, from Helvetia and Basler, and thus provide the best conditions to have a smooth and consequent integration. We plan to integrate the businesses promptly and we will combine the two legal entities of these two companies in the course of the first half in 2015 when they both will merge into the new Helvetia in Austria.

And that brings me now to slide 27 which is once again showing the strategic rationale behind our most important strategic decision the last couple of years, which we announced on the 7th of July.

Nearly two months have passed since then, and I would like to use this opportunity to give you an update on the progress achieved with regard to that specific transaction. Right at the outset, I should say I'm very pleased with what has been achieved so far. The combination with Nationale Suisse and the result in new expanded Helvetia Group generated convincing perspectives for all. Public perception is positive, and the reaction of the capital market is very gratifying. This is especially reflected in the positive price development of the Helvetia shares since the announcement of the purchase and exchange offer.

We have already increased by some 10% since the 7th of July. And that has indirectly also helped and increase the share price of Nationale Suisse because of the increased implied value of our offer of Nationale is now a bit higher than CHF 81.

Completion of the deal will result in the creation of a stronger Swiss insurance group with outstanding prospects under the brand of Helvetia based on the following three pillars which are obviously unchanged since the pre-announcements beginning of July. First pillar is to establish ourselves in the top three in our home market, we will be one of the very leading all sector insurers in our Swiss market. Second pillar are the clearly attractive prospects in Europe because three of the largest European markets, Germany, Italy and Spain Helvetia and Nationale have previously been represented confidently and can now combine forces.

The third pillar will be specialty lines, including marine transport, engineering, art and assumed reinsurance of Helvetia and Nationale Suisse. An interesting growth area can be selectively developed in this new business stream (37:45).

Employees involved from both companies have started to project work very enthusiastically and constructively, and have already achieved considerable progress in preparing for the incoming integration. All in all, we are off to a good start. However, we are still at the very beginning of our common path. I would like to now about the projected time frames and the next steps planned. We'll find the details on slide 28.

Following the preannouncement of the takeover in early July, we published the offer prospectus as planned on 8 August. It can be downloaded from the Helvetia Group website if you like to do so. It sets out the specifics of our announcement of July 7 and contains such items as the report of the board of directors of Nationale Suisse which recommends that its shareholders accept the offer, as well as reference to the fairness opinion of Bank J. Safra Sarasin.

Now, it's the turn of the Nationale Suisse shareholders. They have the opportunity between 25 August and 19 September to accept Helvetia's offer and tender their shares. We are very confident that the shareholders will make use of this option in large numbers, and Helvetia will thus receive the qualified majority of shares of Nationale Suisse Group.

On the 7 September, Helvetia holders at their Extraordinary General Meeting will decide on the necessary capital increase intended to create the new shares for the exchange component of our offer.

In late September, on the 29th, the necessary resolutions will be adopted at the Extraordinary General Meeting of Nationale Suisse. Settlement of the transaction is projected to take place 20th of October 2014. This is the reference date on which the offer will be settled, meaning that the new Helvetia shares will be issued to the shareholders of Nationale Suisse and the cash component paid. As a result, Helvetia Group will become the new majority shareholder of Nationale Suisse and can initiate further courses of action to enable the companies to consolidate.

It's important to understand that even after the assumption of ownership by Helvetia at 20 October, Nationale Suisse Group will continue in its current form for the time being since subsequent consolidation of legal entities cannot begin until the second quarter or third quarter of 2015. Both companies, therefore, still have a fairly long-range assignment to continue working successfully in current form. We are simultaneously making internal preparations to quickly begin the integration work once the takeover is completed.

The corresponding project structures are already established and the employees of both companies are highly motivated to collaborate on this forward-looking task. We are, therefore, certain that we can proceed expeditiously in all aspects and give you an update on good progress by our next reporting date, which as Paul Norton has mentioned will be the press conference and investors' conference in March 2015.

This is it from our side for the time being. Thank you for your attention. The speakers and I will now be happy to answer the questions you may have. Please introduce yourself shortly before asking your questions.

I give now back to Selena from Chorus Call.

## Q&A

### Operator

Your first question comes from Mr. Marc Thiele from Mediobanca. Please go ahead.

### Q - Marc A. Thiele {BIO 3503774 <GO>}

Yes. Hi. Good morning. My first question is on the life insurance division. Can you provide us with the IFRS impact of the reserve increase in Switzerland and Germany? And can you also quantify the statutory reserve increase for the German and the Swiss business?

And then, my second question is on non-life. There is a 1.5 percentage point increase in the cost ratio and you mentioned earlier in the presentation, pension timing effect. Can you repeat the nature of this again and is this exactly equivalent to 1.5 percentage points? And then, also on the group claims ratio, excluding nat cat, there's been a 1.1 percentage point year-on-year increase. Has that been a slowdown in the reserve runoff? And is this temporary or permanent?

And my final question is on the integration of Nationale Suisse. Do you have an indication regarding the allocation of the intangibles to goodwill and value of business acquired?

## A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, Marc, for these questions, which all probably will be best answered by Paul Norton.

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

Okay. I'll take them probably in reverse order. (43:14) we don't have any details of the Nationale Suisse, (43:19), Marc. We haven't formally, even got approval to integrate yet. And we're well away from creating an open balance sheet. So at this point in time, it's most impossible to tell you what they will be.

The claims ratio changes in the (43:39) the nat cats. I don't think there's any particularly underlying changes in the run-off patterns. As you know, we do not disclose details of these. Separately, the run-offs – there's nothing specific in there, I would say, at the half year, that would give us rise in the (43:57) – there's a long-term increase in the underlying claims ratio.

Then you asked about the IFRS impact of Germany and (44:10) statutory. Certainly, the statutory, we wouldn't give at this stage because statutory is only reported on a yearly basis. And there's, obviously, no point in producing it in the half year because, obviously, it depends, what happens in the second half year.

And the same is true, I think, of the IFRS. I think at this stage, it's not worth going into exact (44:36) details of what's happening because it's something that you manage over a period of time, you manage over a year, and we'll give more details, I think as we did in the previous years in the annual report. You will see the overall increase in the reserves strengthening, which was disclosed at the end of last year in the full annual report, and we will do the same in the full annual report this year.

## Q - Marc A. Thiele {BIO 3503774 <GO>}

It was just to get a sense in terms of the life division earnings run rate. I mean it will be helpful if you could sort of point us to anything that sort of helps us to, yeah, clarify where we are in terms of the run rate. Should we expect a similar number for the second half of the year? Or would you say we should be adding back a few millions for the reserve additions? Yeah, if you could provide some sense for that.

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

The reserve strengthening is in sort of double-digit millions overall for both Germany and Switzerland. The run rate we don't, as you know, we don't give prognosis. We have guidance for the full year. But I mean the run rate that you've seen for the half year is not particularly out of line with what we'd expect for the full year. There are some obviously difficult (46:00) with policy holder benefits and bonuses. It's almost impossible to predict at this stage what they'll turn out to be. It all depends on the capital markets, which should also affect the gross numbers. More than that it's very difficult to say on a half-yearly basis for our life business.

## Q - Marc A. Thiele {BIO 3503774 <GO>}

All right. Thank you very much.

## A - Stefan Loacker {BIO 15157193 <GO>}

Can we have the next question, please?

## Operator

The next question is from Mr. Stefan Schürmann from Bank Vontobel. Please go ahead.

## Q - Stefan Schürmann

Yes. Good morning. I have some – three questions, the first one, again, on the life reserves. Can you maybe give us some indication in Switzerland on what books you have to increase reserves in real life, group life, (46:46) or other?

Then the second one also life at (46:51) Switzerland, the impact of Swisscanto, can you maybe give us some more details on how much exactly the negative impact was in the first half? And is that – is it a one-off that will not continue in the future? What are (47:05) the future impacts would be here?

And the third question on your acquisition in Austria, you mentioned that you will see some synergies. Do you expect some synergies here? Can you maybe give us some quantification here what we have to expect here?

## A - Stefan Loacker {BIO 15157193 <GO>}

I suggest that Philipp takes over the Swisscanto impact, which is something that is easy to quantify as a one-off. Philipp, please.

## A - Philipp Gmür

On a yearly basis, it's going to be a one-off effect of roughly CHF 120 million. And it's fair to say that roughly three-quarter of this sum is already in the half-year result. So, roughly CHF 90 million.

## Q - Stefan Schürmann

Okay.

## A - Stefan Loacker {BIO 15157193 <GO>}

On life reserving, I'm afraid that the disclosure will not be more (48:06) if we are now focusing on the Swiss situation. But what we can say is that we did an additional reserve in both on the single and in the group life. Both have been concerned in that respect.

With regard to Austria, it's not yet the time to quantify in detail synergy potential. We have just started since Friday. We have now the green light from the regulator. But it's clear that we have quite an overlap of our operations both in terms of geographic, but also lines of business. And therefore, it will be a cost synergy that we are addressing within the next two years and three years.

Mainly it's now also the duty to keep businesses up, and therefore I exactly underlined this very strong momentum that especially on Basler side, they had another 2% growth in the first half year ahead of them, the integration. And that's really a strong feature. And also given both (49:07) with a very strong combined ratio after the first half year in a very strong and solid situation, that will also allow the smooth integration. So we'll certainly provide you with more details in March next year.

## Q - Stefan Schürmann

Okay. Yeah. Thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

Can we have the next question?

## Operator

The next question is from Mr. William Elderkin from Goldman Sachs. Your line is open.

## Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Good morning, everybody. A couple of questions, mainly follow-ups. One, just on the non-life nat cat side, can you just remind me what sort of the average expected level is either per year or half year or something like that?

Secondly, what was the earnings of (49:55) Baloise Austria over the first half of this year just so we can get a sense of calibrating our models?

Thirdly, on – in terms of new money investment rates, can you tell me what that was for non-life? I think you've given us a figure of 2.2% for the group overall. But I'd like to see what the non-life number is.

And then final one is, do you have any sort of further indications of how you expect the major Nationale Suisse shareholders to vote when they get to their AGM (50:26) later in the months?

## A - Stefan Loacker {BIO 15157193 <GO>}

Okay. So a couple of questions which would require very strategic disclosures, which probably not all of them are part of our business life plans. With regard to Basler in the first half year, I don't think the Baloise Group has disclosed the bottom line of this entity, and therefore, we are not allowed to do so. So the only thing that we can refer to is the technical ratios of 92%, which gives you an indicator of probably what is left bottom line.

But I'm not in a position to disclose Baloise Group's figures so far. With regard to the new money investment, Ralph probably can also not really give you the comment beyond this. What is your basic guidance in that respect?

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

Well, that's correct, but if you turn to slide 40 (51:28) where you can see the direct yield and the performance of the overall investment portfolio, if you go have a look at the second last line you'll see the direct yield in non-life – of life 0.1%. So, it talks about the same in the life sector, (51:44-51:50). So you can expect that there is not really (51:54) business. So it's more or less the same what happened to the overall portfolio.

## A - Stefan Loacker {BIO 15157193 <GO>}

With regard to a, I would say, long-term (52:11) expectancy. I would like to refer to Paul Norton.

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

Well, now as you can see that from prior year, we've had some – quite some fluctuations, and we don't disclose any long-term expectations on nat cats. Last year, it was 3.5%. For the half year 2012, it was 1.4%. This year, it was a very low cat year. It was 0.7%. So you can probably take as an estimate, somewhere between those boundaries as a reasonable expectation of where nat cats would turn out to be. But last year was very exceptional (52:47).

## A - Stefan Loacker {BIO 15157193 <GO>}

Okay, William, unfortunately, I'm not sure if I really caught your fourth question. Could you repeat it then for me again?

## Q - William H. Elderkin {BIO 3349136 <GO>}

Yes. Sure. It was just, do you have any (53:00) understanding that you can share with us as to how you expect the major shareholders of Nationale Suisse to vote at their AGM (53:07)?

## A - Stefan Loacker {BIO 15157193 <GO>}

Okay. Well, I can obviously repeat that we have a statement from Nürnberger (53:15) which is tendering. We have no statements from the other two major shareholders that we are allowed to communicate. So probably, you should (53:27) at the 12th of September when they have their half year's conference. Probably that will be an opportunity to get guidance.

## Q - William H. Elderkin {BIO 3349136 <GO>}

Okay. Thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

Next question, please.

## Operator

The next question is from Mr. Peter Casanova from Kepler Cheuvreux. Please go ahead.

## Q - Peter Casanova {BIO 2168233 <GO>}

Thank you. Good morning, everybody. A small follow-up on the combined ratio. You showed country development on slide 38 (53:57) and we have the Austria office a very good development. You commented on that. But also, France made an improvement of six points. Could we quickly elaborate on that? And specifically – were there specifically negative issues in the previous year or are we talking operating on underlying improvements? Thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these questions. Indeed, we had already an excellent track record in Austria last year until the end of May. And then, we had the floodings of Danube and other rivers in June, which has distorted and rolled back the level to a three-digit last year. Now, we have more or less a reporting season in absence of any major nat cat or hail or floods, and that's the main contributor that we have now reached these good numbers.

Also, in France, as you might remember, we were just at the beginning of the integration process last year. A lot of additional cost loadings. And we also took in the (54:56) Groupama business, as we know, with a so-called overstaffed starting configuration. We had more than 339 (55:07) employees by then. Nowadays, we are back to 260 employees, while the portfolio has been growing – not yet 260 employees, below 300 employees, but on the course of 260 employees. And therefore, also we have clearly a better situation. And those are the main contributors, and obviously is a good sign that we can also produce results here.

## Q - Peter Casanova {BIO 2168233 <GO>}

Okay. Thank you very much.

## A - Stefan Loacker {BIO 15157193 <GO>}

Next question, please.

## Operator

The next question is from Mr. René Locher from MainFirst. Please go ahead.

## Q - René Locher

Yes. Good morning. It's René Locher with MainFirst. So just if I can a few follow-up question. First of all, for Philipp, could you perhaps just explain once again, what's new with this corporation so this comp (56:01) and what the CHF 120 million exactly is?

And will that also have an impact on your actual reserves in the life business? And then I also was wondering with these products like Helvetia Volume Value Trend, could you give us a little bit of sense how profitable this business is? Is it – I mean not in absolute terms, but I'm just wondering if it's of a higher profitability than traditional life business?

And then (56:42) in Austria, I mean you're expecting synergies, I do believe that we should also factor in some integration costs before, I don't know, 2014, 2015. And then just curious for Ralph Honegger, looking on slide 16, the new reinvestment yield on investment property is, if I see it right, 5.2%, so that's extremely high, and I'm wondering what is the reason for this.

And just – well, unfortunately, I was on a holiday when you announced the tender offer for Nationale Suisse here, but I'm just wondering, looking at the Suisse portfolio of Nationale and Helvetia, I do agree that it's – you're a little bit exposed to life so you can add non-life business. But just looking at property and motor business, should we not expect that you are going to lose some business due to overlaps?

And then just my general final question, given that you can – or the integration will be finished in Q2 2015, Q3 2015, how make you sure as a management that people (58:22). I do believe, you might see some job cuts, just a little feeling, how you see that as a top management of Helvetia? Thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

Okay. So wide area, you have different items, probably we'll start in the order of your questions, which means, the rationale between the realignment of the Swisscanto collaboration. Philipp?

## A - Philipp Gmür

Yes. As you probably know, we do our Swisscanto business as a specific group life business, which is for the main part of it, an off balance business. That means we are providing the Swisscanto customers with our second pillar business with regards to disability and motability (59:20). And the savings part goes with Swisscanto. But until recently, even though the savings part goes with Swiss Canto, we were providing all those people retiring within the Swisscanto network, and we were providing them with our pension plan.

So now transferring the pension scheme to the Swisscanto network, again, it helps us lower our technical reserves in our balance sheet, and it makes the business a true off-balance business with regard to the whole savings plan. But, of course, the business model is continuing, and it helps us even better diversify our group life (01:00:22) business portfolio.

## Q - René Locher

Just – so that means the longevity goes to Swisscanto but you are still reinsuring the mortality and disability, is that right?

## A - Philipp Gmür

Yes. Yeah. That's right.

## Q - René Locher

Okay. Okay. Fine. Thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

It's mainly a question of capital efficiency.

## Q - René Locher

Yeah. Yeah.

## A - Stefan Loacker {BIO 15157193 <GO>}

(01:00:44) driver on our side and it was also win-win situation since (01:00:48) Swisscanto to be a bit more integral with regard to taking care of their clients (01:00:54).

## Q - René Locher

Yeah. Definitely. Thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

Yeah.

## A - Philipp Gmür

And then...

## A - Stefan Loacker {BIO 15157193 <GO>}

Philipp.

## A - Philipp Gmür

Your second question. Yes, with regard to our new product such as Helvetia Value Trend, those products as well, they help us to better invest our own capital and then to better know what the profitability will be even in advance when we are launching the product. And what I can say is that it perfectly fits in with our new business margin targets, which we are communicating. So that means we need less capital than for the traditional products and we get the new business margin of at least – they communicated 1.2%.

## Q - René Locher

Okay. Okay, thank you.

## A - Stefan Loacker {BIO 15157193 <GO>}

Would you like to just continue, Philipp, with the question of probable overlaps on the Swiss property and motor book after the combination with Nationale Suisse if that's a point of management intention so far.

## A - Philipp Gmür

Yes, it is. But I mean we have to be aware of the fact that even combined, we only have like 11% or 12% of the market. So it's still – it's probable even though we do not know their customers, of course, until now. But it's probable that we do not have so much overlapping in our customer structures. So it helps us really expand not only the network but also the customer base.

## A - Stefan Loacker {BIO 15157193 <GO>}

Product range.

We also have this (01:02:36) – obviously that we have – as a combined company, we have a broader product range. So it's not just the synergy and overlap play, but it's also something that we can play because we will have the travel insurance and other special lines. And from our side, we will have the second pillar pension business back again in the operating model. So it's killing also the idea that we will reach more customers also through an increased cross-selling and up-selling initiative and that should probably offset those (01:03:12) mentioned by having an overlap.

Generally speaking, on the Nationale Suisse integration and the question of having the right mood around the upcoming integration, I can really give you a picture which is pleasing. The work so far is still dominated by the legal environment which is forcing us to be fully compliant with the law, which means that we have to accept that we are so far two fully separated entities which have to respect anti-trust law and other regulatory environments, so we cannot start to really dig deep now. What we can start to prepare, especially to prepare the framework of the upcoming integration means we can start to think about the project organization, how to shape ourselves, who is onboard of the project team, and so on. And those preliminary tasks have been very well received from both companies.

So it's really a huge task, but it's very challenging and also fruitful task because it is defining our future. And, therefore, we do not have many problems so far. It's fine (01:04:27) as you have mentioned, we are still in a very good situation, but not yet at the point of fully starting through. So we have to be a bit patient. Both companies also need to be working as separate entities.

Beyond the 20th of October, as we said, there will still be a listed Nationale Suisse which will have to produce its work of year-end closing and so on. And, therefore, we have to stick to this reality on one side, but we also start to integrate or plan to integrate on the other side, but it will not be done overnight.

On – the question was new property investments, more than 5% yield, how can it come?

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

Well, probably the 5.2% are a little misleading at the half year because there is a couple of effects that we should consider. First of all, if you look that we had investments of 3% of the overall new investments, there I have to say that we only valuate our real estate portfolio once a year, which is at the end of year.

So, therefore, if you know that we have projects, be it new projects or refurbishments that come to market, they are not fully valued at the half year. So the direct yield might also be partly in this direct yield, and the value of the buildings will be a little bit too low. So this is certainly one of the explanations there.

The second one, if you turn to the direct yield on slide 41 (01:06:13), you can see investment property has a direct yield here at the half year of 2.2% which, on a yearly basis, will be – we probably could double it, so it's roughly 5%. But this is a net number, which means all (01:06:31) refurbishments are already taken away. So I can say (01:06:37) new investment, certainly yield at the same – more or less at the same yield than we have in the portfolio.

## A - Stefan Loacker {BIO 15157193 <GO>}

Normally a bit higher because of the impact of the first ever rental, so we have a brand new apartment.

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

Yes.

## A - Stefan Loacker {BIO 15157193 <GO>}

We can get a bit more. And that's normally what's happening. But the major impact of all these new investments into property area will be shown only at the end of the year because in our revaluation models, we are not doing this properly at the interim results. So it will be something that will be more accurate after 12 months.

Also, the dimension now because the 3% or what it was in terms of new money flowing into the property are also not reflecting what we are really doing because there are much more projects out there. And we are even confident that on a yearly basis, the money flowing in equity will be double-digit in percentage points.

Okay. So that was the set of answers from René Locher. Are there more questions in the queue? No questions. Now is your last opportunity to come up with a question. If this is not the case, then obviously, we are all available for one-on-ones.

See one or two of you on the roadshow in a couple of the next days and wish you a successful day. Thank you for joining in. Bye-bye.

## Operator

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