Y 2016 Earnings Call

Company Participants

- Paul Norton, CFO
- Philipp Gmuer, CEO
- Ralph Honegger, CIO

Other Participants

- Daniel Bischof, Analyst
- Guilhem Horvath, Analyst
- Iain Pearce, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst
- Stefan Schurmann, Analyst

Presentation

Philipp Gmuer {BIO 5605415 <GO>}

Ladies and gentlemen, I would like to welcome you to our yearly analysts' conference. I welcome all the people gathered here in this room, in Zurich, as well as all those joining us on the phone.

I'm very pleased to present to you our 2016 full-year results. We are looking back on an intense and successful year, 2016, which resulted in a solid business development.

During this presentation, I would like to give you detailed information on the key aspects of our 2016 financial statements.

So let us turn to slide number 3. Following my introduction, our CFO, Paul Norton, will explain the key financial figures to you, report briefly on the highlights of our business performance in our Swiss home market. And then present our investment result; I will then provide you with an update of the implementation of the Helvetia 2020 strategy.

Following the presentation, Paul Norton and I, as well as our Chief Investment Officer, Ralph Honegger, will be pleased to answer your questions, as always.

I will start with slide number 4. First of all, I would like to share with you a brief overview of the main performance indicators. Paul will give you detailed information on the developments of these figures, later on.

Let us begin with the underlying earnings, which achieved a pleasing increase of 12% to CHF492 million in 2016. The improvement was driven by the non-life business and the other activities, while the life business was more or less stable, despite the ongoing challenging environment.

In the non-life business, the good technical development underpinned the earnings performance. The business area, other activities, also benefited from a better technical result from Group reinsurance.

The solid technical performance in the non-life business is also reflected in the net combined ratio that improved by 0.5percentage points to 91.6%.

Thanks to the very good progress of the integration of Nationale Suisse and Basler Austria, underlying earnings already included synergies of more than CHF118 million pre-tax, on a yearly cost basis. Back in 2015, CHF45 million synergies pre-tax were included in underlying earnings.

The integration of Nationale Suisse is almost completed. The merger of the operating Italian entities is still outstanding. But will be realized in the course of this year, according to our plan.

Business volume increased by 2.6% in original currency to more than CHF8.5 billion. Life business volume grew by 3.4% in original currency.

Let me highlight that the modern capital-efficient life products showed very satisfactory growth, resulting in an increase of over 18% in original currency compared to last year.

The non-life business volume was impacted by portfolio optimization measures, which have been initiated following the acquisition of Nationale Suisse, as already communicated at the full-year results presentation one year ago. These measures had a negative impact on volume growth which was, therefore, only 1.5%.

The portfolio optimizations are almost completed by now and should, therefore, affect volume in 2017 to a lesser extent.

I also want to highlight that the new business margin in the life business rose from 0.9% in the previous year to 1.3% in the current year. This improvement shows that we have successfully turned our new business towards modern capital-efficient products.

Ladies and gentlemen, when acquiring Nationale Suisse we promised our shareholders a sped up in dividends as soon as synergies are realized. Now that we are ahead of our original timetable with the synergy realization, we want our shareholders to benefit from this by speeding up part of the dividend increase as well.

So I am very happy to announce that the Board of Directors will propose to the shareholders' meeting to increase the dividend to CHF21 per share.

Please understand, however, this does not mean that we increase our dividend every year by CHF2 per share. The timing and amount of the increases in the future will, of course, depend on both further realization of synergies and, following the completion of the synergy program, the usual considerations around profits and capital adequacy.

I will now continue with the details on the achieved synergies, on slide number 5.

As of end 2016, Helvetia had 585 full-time employee equivalents fewer than it did as of June 30, 2014, when we started synergy tracking. Of these employees, 446 left the Company due to the two acquisitions and can, therefore, be counted as net staff synergies.

As of January 1, 2017, an additional 30 employees left the Company. But they have not yet been included in the reductions mentioned above.

At the same time, however, we had a slight counter-effect with the business investments that were made to support our strategy, in particular, in IT and to expand functions that Nationale Swiss had outsourced.

The staff reduction corresponds to around CHF82.8 million in personal cost savings, on a yearly cost basis.

We also generated non-personal cost savings of CHF35.5 million in 2016. In particular, synergies were achieved here through a reduction in redundancies in the areas of IT, logistics, marketing. And corporate.

Overall, we realized synergies of CHF118.3 million.

And I am happy to confirm, once again, that we make great progress in achieving our target. Originally, we were setting forth a range of between CHF105 million to CHF130 million. In the meantime, we are confident to end up at the higher end of this range.

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

Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. Ladies and gentlemen, I'd also like to welcome you to the analysts' conference. Over the next 20 minutes, I'll give you some more detailed information on our financial performance in the 2016 financial year.

I'd like to turn to slide 7, with results by business area. Our underlying earnings for the 2016 financial year amounts to CHF492 million, an increase of 12% compared to the previous year. This increase was due to the solid non-life business. And a significant improvement to the results of other activities.

We increased underlying earnings in the non-life business by 2.6%, compared to 2015, to CHF341 million, which is mainly due to a better technical result. We'll have a closer look on the non-life profit by sources in a few minutes, on slide 11.

The result from other activities improved from minus CHF69 million in 2015 to minus CHF22 million in 2016. This is mainly attributable to the technical result of our Group reinsurance, which improved significantly compared to previous year.

Just to remind you, in 2015 the technical result was impacted, in particular, by a number of large losses and claims arising out of the portfolio of the former Nationale Suisse.

Alongside the improvement in the technical result of Group reinsurance, the previous year had been negatively impacted by currency effects, which are attributable primarily to the SNB's decision in January 2015 to move the Swiss franc pegged to euro.

In the current reporting year, we've had several one-off positive tax effects.

The life underlying earnings amounted to CHF174 million and were, therefore, with improvement of the operating profit, marginally lower compared to the previous year. I'll provide you with details on profit by sources of the life business on slide 14.

If we turn now to the segment results on slide 8, all segments posted robust results in 2016. The Switzerland segment, once again, showed that it is a stable foundation for the Group by reporting a profit of CHF366 million.

In the Swiss non-life business, underlying earnings increased compared to the 2015 financial year, thanks to better technical development and synergies.

In the life business, underlying earnings were slightly below last year's figure. Increased operating result was offset by lower gains and losses on investments, as well as reserve strengthening, related to lower interest rates.

The segment result for Europe, which comprises the market units of Germany, Italy, Spain. And Austria, increased by 15% to CHF113 million. Both the non-life business and the life business contributed to this profit increase.

Non-life underlying earnings in Europe increased. Alongside a slightly better technical result, the net profit increase is mainly attributable to one-off positive tax effects in

Germany and Italy.

Underlying earnings of the European life business increased. The largest effect was higher gains and losses from investments, offset, to a large extent, by higher expenses for interest-related reserve strengthening.

Specialty markets includes the business lines marine, engineering. And art. In the specialty lines, Switzerland and international market unit; the French unit, specializing in marine insurance; and the global reactive reinsurance.

The segment result for specialty markets was CHF36 million, which was below the previous year. The decline was mainly attributable to a lower technical result in France, due to higher run-off result in the previous year.

The corporate segment includes the corporate center and the Group reinsurance, in addition to the financing companies and the holding company. Its result, of minus CHF24 million, significantly improved against the previous year's figure of minus CHF67 million. This was driven by a stronger result from Group reinsurance. And lower currency effects compared to 2015.

I'll continue with our growth in business volume, on slide 9.

In 2016, Helvetia Group achieved a business volume of CHF8.5 billion. This equates to an increase of 2.6% over the previous year, expressed in original currency.

In the non-life business, we achieved an increase in premium volume of 1.5% in original currency, despite the fact that we were carrying out portfolio restructuring, in order to improve profitability, in some country markets. This growth was driven by active reinsurance, in line with its strategy.

The life business increased by, currency-adjusted, 3.4%. In particular, I'd like to emphasize that in individual life business the volume of the so-called modern insurance products, that's the investment-linked insurance solutions and deposits, increased by 18.3% overall. The traditional insurance solutions declined in line with our strategy.

Looking at the individual segments, the Swiss market posted the biggest growth in absolute terms with an increase of CHF153 million, or just over 3%. I'll return to that on the next slide.

In the Europe segment, we generated slightly premiums, compared to 2015, in original currency.

As I have already mentioned, we carried out targeted portfolio optimization measures in the former Nationale Suisse portfolios in Germany, Italy. And Spain in order to improve profitability.

In Italy, alongside portfolio restructurings, the motor business suffered from a price-sensitive competitive environment, which resulted in decline of average premiums, in line with the market.

In the specialty line segment -- specialty market segment, sorry, we also achieved a greater than 13% increase in volume over the 2015 financial year, in original currency.

Growth was driven by active reinsurance, in line with our strategy, resulting from targeted diversification by region and business line, as well as the selective expansion of existing business relationships.

With that, I'd like to turn to our home market, on page 10. In the 2016 year, the domestic market was, once again, the solid foundation of the Group.

In non-life business, we slightly increased premium volume to CHF1.4 billion. The main growth driver was a change to the invoicing period for motor vehicle insurance.

As we already mentioned in the half-year results, the former Nationale Suisse motor portfolio partly had a different invoicing sequence, which has now been aligned to the Helvetia portfolio. This already had a positive effect on growth in the first half year. And slowed down towards the end of the year.

The other lines of business, volumes remained stable or slightly declined compared to the previous year, due to the intentional termination or non-renewal of some major contracts and the reduction of coverage for liability policies.

Business volume in life business increased by 4.1%, with the biggest growth contribution coming from the Group life business.

In Group life, Helvetia continued to pursue its strategy of being very selective about new business; nevertheless, single premiums increased by 8.2%. The increase was due to a single transfer of policyholder bonuses into retirement assets, booked as premiums. And should, therefore, be regarded as a one-off effect. We did report that at the half year.

Regular premiums, which are important for assessing business performance, increased by nearly CHF10 million, or 0.8%.

I'd like to highlight, the demand for the modern capital-efficient product sold through Swisscanto also grew pleasingly. Here, Helvetia only acts as a reinsurer for death and disability risks.

In individual life business, premium volume increased by 2.7% to CHF977 million, whereby the main contribution came from modern capital-efficient insurance solutions increasing by 11.8%.

Sales of both the guarantee plan and the two-tranche products issued in spring and autumn were, again, very strong. Traditional life, by contrast. And in line with our strategy, decreased.

I'd like to look now at the profit by sources in the non-life business, on page 11. In 2016, Helvetia, again, showed a very strong technical performance of the non-life business, which is reflected as a net technical result being 10% above the prior year.

Looking at the profit by source, you can see that the gross technical result, meaning before reinsurance, increased by 41%, thanks to portfolio optimization measures and significantly lower large claims in 2016.

However, because the recoveries from reinsurers in 2016 were lower than in the previous year's results, the net technical result improved by 10%. This was due to changes in our reinsurance structures between the units and Group reinsurance. And because of the different nature of many of the claims, which meant that a lower claims expense could be ceded to reinsurers in -- than in 2015.

The investment result, net, decreased compared to the 2015 financial year. This was due to lower gains and losses on investments, partly as a result of performance of equity markets in the first half year.

Also, in 2015 Helvetia actively realized higher gains in order to compensate for currency effects, which were attributed primarily to the SNB's decision to move the Swiss franc pegged to the euro.

Finally, the previous year's investment result was positively impacted by a high (appreciation) for real estate.

I'd now like to move to the combined ratio, on slide 12. The net combined ratio improved over the prior year by 0.5percentage point to 91.6%.

As a result of much better claims development, following the portfolio optimizations, the gross claims ratio decreased significantly in almost all country markets. These developments also benefited Group reinsurance and the -- as the European entities ceded less to them.

The net claims ratio also improved.

The cost ratio also improve, thanks to realized synergies, although synergies were partly offset by higher commissions and special effects. I'll give you some details of those on the following chart.

Finally, I'd like to mention that all market units achieved combined ratios below 100%.

So move to slide 13. Compared to 2015, the cost ratio improved from 29.4% to 29.2%. Additional realized synergies had a positive impact on the cost ratio of 1.3percentage points. But were partly offset by the following factors.

Firstly, lower business volumes, resulting from portfolio optimizations, were partly compensated with better new business, the positive effect of which can already been seen in the claims ratio. By contrast, new business commissions increased and, therefore, had a negative impact on the cost ratio.

Other effects with negative implications on the cost ratio include several single items, with the biggest single impact coming from the pension cost accounting under IAS 19.

Slide 14 contains the details of our life business. The operating result increased by CHF32 million, or 8%, against its prior-year level. The improvement came from a better savings result, which benefitted from the decrease of the minimum interest guarantee in the Group life business in Switzerland in the mandatory and the non-mandatory area.

The changes made to traditional life insurance products in recent years also have a positive effect on the savings result. However, the risk results are mainly due to weaker claims development, which is, however, in line with normal volatility.

Higher interest rate related to reserve strengthening, especially in Switzerland and Germany, was partly compensated by higher capital gains and losses with the policyholder participation mechanism also partially offsetting reserve strengthening.

The tax charge was lower, due to one-off effects.

Profit after tax, therefore, was up by CHF1 million.

I now continue with the new business margin and embedded value, on slide 15.

On this slide, first of all, I wanted to highlight that the new business margin used in the traditional embedded value methodology improved by 0.4percentage points to 1.3%. This very pleasing development shows the impact of our measures to improve profitability in the life business.

In line with our strategy in 2016, we focused on marketing modern capital-efficient life insurance products and we reduced sales of traditional products. New business volume, therefore, was down in 2016, compared with 2015. But portfolio quality improved.

The increase in new business volume from investment-linked products considerably exceeded the decline in new business volume in traditional savings products in Switzerland.

Helvetia took -- sorry, in Switzerland Helvetia took a conscious decision to reduce its sales of full insurance solutions for occupational pensions; that's the second pillar. By contrast, new business generated by Swisscanto increased significantly. Here, Helvetia only act as a reinsurer for the risks of death and disability.

In Europe, new business volume for capital-intensive traditional products also declined. The decrease was almost fully compensated by higher volumes of investment-linked products.

The value of the new business written in 2016 increased from CHF23 million in the previous year to CHF33 million. In Switzerland, traditional savings products were revised, which helped to offset declining yields.

In Group life business, value of new business also increased. The improvement was due to the higher share of new business coming from Swisscanto, on the one hand. On the other hand, more favorable assumptions lead to improved interest margins for the occupational pension business.

In Europe, however, the value of new business declined year on year, mainly to lower volumes and lower new investment yields.

Helvetia Group's traditional embedded investment value was CHF3.3 billion at the end of 2016. This means an increase of just over 2% compared to December 2015. The main drivers were a positive in operating profit and a positive contribution from new business, despite the lower interest rate environment.

Negative economic deviations, due to lower interest rates, had a counter effect, although not to the same extent as in the previous year.

Helvetia financed a dividend attributable to the shareholders also out of the life business, as in the past years. This additionally reduces the embedded value.

If we move to slide 16, which deals with our direct yield and guarantees in the life business. The direct yield in Switzerland and the EU countries declined as a result of low interest rates; however, the interest margin improved significantly in Switzerland and in European countries. The increase of the interest margin in Switzerland and Europe was closely linked to lower average technical interest rates on the liability side.

In Switzerland, the biggest impact resulted from the adjustment of a guaranteed interest rate for BVG retirement assets, as of January 1, from 1.2% -- sorry, 1.25% to 1% for the mandatory part and a corresponding adjustment of non-mandatory rates.

The lower average technical interest rate in both Switzerland and Europe is also because we have been successfully restructuring our portfolio of traditional products. Maturing insurance contracts with high guaranteed rates are being replaced by lower guaranteed rates.

Additional reserve strengthening also had a positive influence on the interest margin.

On the right-hand side of the slide we have a graph showing the interest rate buckets on guarantees on a Group level. Whereas in 2015 only some 25% the Group-wide life reserves had guarantees less or equal to 1%, this year more than 40% of reserves have average interest rates below that level.

Whilst the lowering of the BVG minimum interest rate in Switzerland played a significant role here, it also shows how much we have done to restructure our portfolio to improve profitability and capital efficiency.

I'd now like to move to investment performance, on slide 17. The current income in the 2016 financial year was CHF1 billion, which was CHF11 million higher than in 2015, due to the higher investment volume. Direct yield was at 2.2%. And, therefore, unchanged compared to prior year, despite an unchanged challenging low interest rate environment.

In addition to current income, realized, as well as booked, gains and losses amounted to CHF145 million. This figure came mainly from gains on and sales of fixed income instruments, predominantly due to the deliberate switch of the bond portfolios from low euro yields to currently more attractive US dollar bonds.

In total, the investment result recognized in the income statement was CHF1.14 billion; CHF39 million up on 2015.

Investment performance increased to 2.5%, against 1.6% in the prior year end.

Unrealized gains and losses recognized in equity marginally increased.

Finally, we earned CHF66 million more in assets backing investment-linked insurance solutions for our customers.

On slide 18, you can see the investment result broken down by asset class. Two-thirds of the current income of CHF1 billion came from bonds and mortgages, which contributed CHF574 million and, respectively, CHF87 million in absolute terms. Dividends accounted for CHF65 million. And investment property CHF236 million.

Gains and losses on investments were CHF145 million, mainly driven by bonds.

You should note that the other category relates almost entirely to our own hedging instruments, which generally move in the opposite direction to the underlyings. Most of these cover interest rate and currency risks from bonds, as well as price movements on equities.

As a result of the hedges, the net equity gains were not material, which showed the impact of our conservative approach to hedging.

The development of non-realized gains in equity was driven by lower gains and losses on bonds, due to the slight increase in interest rates, as well as the recovery in share prices.

The unrealized gains on the bond portfolio decreased by CHF32 million.

The lower half of the slide shows the return on new and recurring investments. Around CHF5.4 billion in total was reinvested or newly invested in the 2016 financial year, 77% of which are allocated to bonds, primarily US dollar bonds, in the corporate sector, as well as long-term US treasuries.

We had to contend with higher hedging costs to cover our foreign currency exposure. But on a net basis, we earned a yield pickup which allowed us to mitigate the negative and very low bond yields in Swiss francs, to some extent.

Investing in mortgages and equities and, to a small extent, also in investment property, also contributed strongly to mitigate the impact of a low investment yield environment.

Direct yields on new and reinvestments totaled an appealing 1.6%.

I now continue with slide 19. I would like to remind you that we are, as usual, only in a position to report the previous half-year's SST ratio. Based on the end of June 2016 SST ratio, Helvetia still enjoys a solid capital position. The SST ratio then was within the new target range of 140% to 180%.

I understand that certain of you would like more information regarding exact SST figures. But given the great state of flux that the SST is in at the moment with the development of (standard) models and other initiatives by FINMA, it would make little sense to give you further details.

Once the situation has stabilized and the formal so-called BUFL, the Bericht uber die Finanzlage, which is equivalent of the EU's SFCR, reporting has been introduced, you will obviously be able to have much more information around this topic.

Thanks to increase in underlying earnings, return on equity improved from 8.9% to 9.7%.

Equity also increased, driven by the strong earnings. And despite paying an attractive dividend. By comparison with last year, the lower volatility in interest rates and FX caused only very limited movements in unrealized gains and losses within (equity).

I'll finish my presentation with details on the dividend, on slide 20. The excellent full-year result, the good progress on synergy realization. And sustained balance sheet strength have enabled us to increase the proposed dividend to the shareholders' meeting to CHF21 per share. This corresponds to a dividend payout ratio of 44% on an underlying earnings basis, which lies within the target range.

The dividend payout ratio is 58%, based on the pure reported IFRS result. The dividend yield is what we consider to be an attractive 3.8%.

I would like to emphasize that an increase of 10% per share in the dividend will not necessarily be repeated again regularly in following years.

We made certain estimates of what we believe the dividend potential for the Nationale Suisse acquisition to be. And we stated that we expected a steady, conservative increase in dividend until the synergies had been fully earned, when we expected a larger step-up. At the moment, we are confident that we could slightly accelerate the timing of the step-up and, hence, a slightly earlier increase in the dividend than we had originally anticipated.

And on that note, I will hand back to Philipp Gmuer.

Philipp Gmuer {BIO 5605415 <GO>}

Thank you, Paul. Now, after all those details regarding the financial performance in 2016, I would now like to come to the last part of our presentation and give you an update on our strategy. We will start on slide number 22.

One year ago, in March 2016, we announced our new Helvetia 2020 strategy. The new strategy makes us fit for the future. Ladies and gentlemen, you already know these slides. But, once again, fit means that our product offerings and sales channels are becoming more innovative and increasingly digital. And we, as an organization, become more agile and efficient.

By combining our strength with new opportunities, we want to focus even more intensely on the needs of our customers.

With that, I would like to move on to slide 23. Over the past months, we have been fine-tuning the details for implementing the Helvetia 2020 strategy. The implementation is based on our vision of being the leading Swiss all-lines insurer with a national and an international ambition, digital and innovative. And with a highly developed customer focus.

Together with our objectives of accelerating profitable growth, enhancing efficiency. And delivering quality, as well as with our financial targets, this forms the basis for the implementation framework.

I will continue on slide 24. As you can see on this slide, the new framework comprises 16 Group-wide strategic initiatives and ensures a consistent and well-managed implementation of Helvetia 2020.

Every initiative is sponsored by a member of the senior management. All initiatives have been designed to accelerate profitable growth, enhance efficiency. And deliver quality.

16 initiatives, of course, sounds like a lot. To obtain a holistic view, however, we also included internal initiatives that form the basis for the successful strategy implementation. For instance, future oriented IT systems, or an executive CRM.

Other initiatives, such as value-creating capital management, or strong international positioning, are not new for us. And we have been constantly working on these topics in any case. Due to their strategic importance for the entire Group, however, they have been included in the framework as well.

I will now move to slide 25. Over the past months, we have already been working with the framework, as well as starting our initiatives. And, therefore, we already achieved important milestones in various areas.

Within the next minutes, I am happy to provide you with some insight

regarding selected initiatives; those on which I want to take a closer look at are shaded in green.

In December 2016, Helvetia successfully concluded Project ONE. The project focused on combining the Group and the market unit Switzerland functions, defining an (adecrete) organizational structure. And nominating the relevant functional Executives.

Vacancies in the newly created Executive management area of non-life Switzerland and IT, as well as in the new support function corporate development, have already been successfully filled.

The new structure has been operative since January 1, 2017.

Both the Board of Directors and the Executive management furthermore focused on designing an implementation framework for Helvetia 2020, as just discussed on the previous slide.

Project ONE also looked at individual issues, such as the future growth strategy of the direct insurer, smile.direct. I will give you more details on that on the following slides.

Turning to slide 27, in Switzerland, we are very well positioned. Helvetia is already able to serve all customer segments: pure direct customers, hybrid customers. And traditional offline customers.

With smile.direct, Helvetia has the only direct insurer in Switzerland that is already very well established on the market and repeatedly achieves top results in terms of quality, service. And quotes in independent comparison tests.

According to our own estimates, smile.direct has a market share of 22% of the Swiss online market.

Please have a look at the following short film, it shows how smile.direct is working and aiming to enhance its services.

(video playing)

Okay. With a smile, I would like to turn on to slide 28. Ladies and gentlemen, as you have just seen, smile.direct is already well positioned in the Swiss market. And continues to make very good progress. This is the reason why we aim to further expand and strengthen its product portfolio.

The ambition of smile.direct is to deliver the greatest possible benefit to its customers. In order to achieve this, the Company will, according to its new strategy, realize, step by step, new innovations, based on the customers' needs and their feedback. An example could be on-demand insurance.

smile.direct also intends to offer new products that can be easily bought online, as, for instance, a pure risk life insurance, or a building insurance in the non-life area. smile.direct will, of course, take advantage of Helvetia's product know-how.

With innovations and new products, smile.direct is fostering the profitable growth of its core business.

By successfully developing new partnerships, smile.direct intends to tap into new business areas and to exploit new distribution channels. This might include partnerships with other industries, such as car dealers or in the retail sector. The goal is to expand both the product offering and the customer reach.

Finally, within its new strategy, smile.direct wants to develop new customer segments. Families with a high online affinity, for instance, are in the ideal new customer group with a perfect fit to the smile brand, offerings. And services.

smile.direct aims to position itself as a professional advisor for the day-to-day family life and, therefore, build up the eco system, smile family, as a second foot hold.

Let us now move to slide 29. In order to further providing our customers with first-class customer interaction and experience, one of the key pillars of our strategy is to systematically transform our business model. We are, therefore, putting emphasis on the following three key topics, first, development of eco systems; second, corporate venturing; and third, development of own business models through an in-house incubator.

We define eco systems as an interaction, a network, or a cooperation between different suppliers of solutions, service providers. And customers around a particular topic, such as home. The partners participating in an eco system will profit from gaining access to customers, while the customers themselves will benefit from a continuous and excellent customer journey.

Helvetia aims to achieve a leading position in building up a home eco system.

By acquiring 70% of MoneyPark, the largest and most advanced technology based mortgage intermediary in Switzerland, we set forth a strong anchor in building our eco system home.

With MoneyPark, we are adding a new independent business model to our current portfolio. This offers us not only the possibility of tapping into new sources of revenue. But also opens up access to new customers and a broader range of products.

With corporate venturing and corporate incubation, we will be taking advantage of the opportunities from targeted business model innovation, giving us the opportunity to capture new value from the market.

We have launched the Helvetia venture fund, at the beginning of 2017. The fund invests in start-ups which can contribute to the digital transformation of Helvetia's existing core business. We will invest around CHF55 million, in approximately 25 young companies, over the next five years.

Helvetia aims for an operational cooperation with the start-ups we are investing in.

We are working together with b-to-v Partners in the venture capital sector. The Helvetia venture fund will, thus, benefit from the start-up (yield) flow and the experience of b-to-v.

Any investment decision, however, will remain with us. This allows for the necessary agility, lean processes. And quick decisions for all investments.

Finally, we are also putting emphasis on the development and the implementation of own business innovations through our in-house incubators.

With slide number 30, I would like to provide you with more details on our strategic initiative comprehensive customer access.

The objective of this initiative is to enable Helvetia to achieve above-market growth through relevant customer channels in the profitable private and corporate customer segments by opening new and expanding existing channels. In this context, Helvetia has initiated measures to promote SME business in Switzerland.

The non-life market in Switzerland is reasonably saturated. Nevertheless, due to our own market position, our distribution capabilities. And our products, we consider the SME business to be a market segment that still offers attractive growth opportunities.

Helvetia has, thus, launched a new insurance package especially for SME customers, including redesigned and simplified product coverages, which are now much more convenient and relevant for our customers, as well as for our distribution partners. With that, Helvetia is getting closer to the market leader in this segment.

In addition, the new SME product also includes attractive adaptations with regard to specialty lines components, such as technical insurance and cyber insurance. This enables us to make use of our dedicated know-how in providing specialty lines coverage at the point of sale also for our SME customers and, thus, differentiates ourselves from our competitors.

Another strategic business area we want to push further is the mortgage business; we, therefore, launched a new sales initiative for our own tied agents.

Helvetia has been successfully providing mortgages for selected customer segments for many years. A unique value proposition for our customers is the overall risk assessment, combining with financial planning and insurance advice for pension solutions, building, household. And liability insurance.

Mortgages do not only offer considerable growth potential, they are also an important element of our home eco system. Furthermore, in this low interest rate environment, mortgages will generally remain an interesting asset class for insurance companies.

Especially when providing long-term mortgages, insurance companies do not have to hedge interest rate risks, due to the long duration of the liabilities, providing a financial advantage compared to banks.

With the development of new online models, we are expanding our digital products and service range, thus, responding to the needs of the growing share of online affluent customers by making their customer experience more convenient. In Germany, for instance, only a few clicks are needed to buy a Helvetia insurance policy by digital means.

All products have a modular design in order to deliver greatest possible benefit to the customers. Payment is easily arranged with PayPal, the most popular online payment service provider today. This is a service that has not been offered by any other insurance company in Germany so far.

With these products, Helvetia Germany has been a first mover when it comes to a full digital insurance solution.

In Spain, finally, Helvetia insurance, in collaboration with Telefonica, launched the mobile application, Helvetia Good Driver. Through this new app, our Spanish customers can learn about their driving habits. And how to improve them; gamification of insurance-related behavior.

Both the Helvetia Good Driver app, as well as the My Helvetia app, that offers registered customers the possibility to consult personal data, agents' data, policies, receipts. And claims data, were very recently nominated among the best insurance apps in Spain.

Let me now move to slide 31. Ladies and gentlemen, a lot has happened in the 2016 financial year. We are driving forward the implementation of our strategy; and I am proud of what we have already initiated, not least thanks to the strong commitment of our employees.

Helvetia is well position and, therefore, I am certain that we also -- that we will also be able to report on many interesting achievements on our Capital Markets Day, on June 8, 2017, here in Zurich. You are already cordially invited to join us for that event.

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

Questions And Answers

Operator

(Operator Instructions)

A - Philipp Gmuer {BIO 5605415 <GO>}

First, are there any questions in this room? Stefan Schurmann, Vontobel.

Q - Stefan Schurmann {BIO 15823331 <GO>}

I have three questions. The first one is on the life side. Can you, maybe, remind us how much you increased reserves in 2016. And give us some indication how much was due to Switzerland Group life, individual life. And or abroad?

The second one, on sensitivities, you showed that on SST a 100 basis points lower level of interest rate has a minus 11% impact. Can we assume that one to be more or less linear if interest rates increase?

And the last one, also on SST, can you give us some feel how much the, basically, change in the reporting by FINMA market value margin and scenario would bring as an uplift to your SST ratio?

A - Paul Norton {BIO 16145125 <GO>}

Can you repeat the last one?

Q - Stefan Schurmann {BIO 15823331 <GO>}

The changes from FINMA in terms of market value margin and scenario accounting.

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay. Thank you for those three questions. It's easy for me, I hand over to Paul.

A - Paul Norton {BIO 16145125 <GO>}

The reserving on the life business is actually shown on page 172 of our accounts. It's CHF162 million, of which almost entirely it's Switzerland. And almost entirely the life business. The split between Group life and individual life is not given.

The SST scenarios, increase versus decrease, we have an interest capping mechanism in place, which acts as a dampener. So we don't get too wild swings. So it's difficult to say whether the -- it's equal pluses and minuses. You tend to find that you won't get the same, necessarily, impact. But it's not too far off.

In terms of the changes in the market value margins and the scenarios, the scenarios, by the way, are still in play. They have not changed. They promised, at one point in time, to take them out. But they are back in.

The market value margin is a cosmetic move. I can't tell you off the top of my head. I think we can give you some figures at some point. But.

A - Philipp Gmuer {BIO 5605415 <GO>}

Daniel Bischof, Helvea Baader.

Q - Daniel Bischof {BIO 17407166 <GO>}

Three questions, as well. The first one, on the integration cost of CHF217 million, there seems to be a little bit of an overrun here. What was the reason for that?

The second one, also on SST, different sensitivity, the credit-spread sensitivity, you increased the corporate bond exposure, also moved a little bit further into the BBB segment. So this sensitivity increased by another 6 points. We are at, I think, 32% or 34% -- points now. Do you feel comfortable with that number? And is this re-risking process anyway complete? Or would you even move up further here?

And the last one, on page 38, yes, all entities with the combined ratio below 100%; Austria, Switzerland, very pleasing; Italy, you mentioned the pressure on the motor side. Could you talk about Germany, Spain. And France, whether you are satisfied with the performance. And what you expect here in the years to come?

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay, Daniel, I would ask Paul to answer question one and question two; and I will then answer question number three. In regards to the integration costs?

A - Paul Norton {BIO 16145125 <GO>}

The integration costs, as you said, slightly higher than we expected; but also, the end synergies should be slightly higher than we expected. We expected over CHF130 million now. And when you look at the payback period then it's not much changed.

The other thing, of course, is in certain countries, particularly in Europe, you just don't know how long it's going to take and how much you're going to have to pay to people. But I think, from a payback perspective, it's roughly in line with what we expected.

In terms of SST, yes, you're right, that the credit spread is now the biggest risk that we have. It's clearly a reasonable size risk. But we are comfortable with it.

There's always a risk-reward tradeoff. And that's something that, when we're looking at -- obviously, driven almost entirely out of the life business. That's what Ralph, Beat. And myself, together with our Chief Risk Officer, Peter Bamert, we form a sort of triumvirate, a quadrumvirate, if that's the right word, where we're looking at all those tradeoffs. And we're looking at the potential yield we want, the asset liability matches that we need for the business we're writing. And the right business. And the risk impact. And so, we are comfortable with that.

A - Philipp Gmuer {BIO 5605415 <GO>}

Turning to your question number three, with regard our combined ratios in the different country markets, we have, as you probably know, given a guidance, with regard to the Group-wide combined ratio, which should end up in the range between 92% and 94%. We do not give --

A - Paul Norton {BIO 16145125 <GO>}

Below 93%.

A - Philipp Gmuer {BIO 5605415 <GO>}

Below 93%, okay. So we are below this target.

We do not give any guidance with regard to the specific country markets, however, we are happy with the overall sense. We are happy with the fact that all business units do have combined ratios below 100%. We are not yet satisfied, though, with the combined ratio in France, for instance. France is specific because the marine business is pretty cyclical. And we do not want to give a guidance over the cycle.

So overall, we are confident to achieve combined ratios overall below 93%. And to really work profitable in all different markets. The trend, as you see, goes in the right direction.

A - Paul Norton {BIO 16145125 <GO>}

Philipp, maybe I can say a word on Germany and Spain. Spain, as you know, the prior year they changed their so-called Baremo rules on bodily injury and that resulted a little bit of additional reserving across the whole market. And in Germany, actually, if you look at the gross combined ratio it is absolutely excellent.

And I mentioned that the Group reinsurance absorbs a lot of the pluses and minuses. So it acts as a buffer. So this year, effectively, they're paying back a little bit for Group reinsurance. So we expect further improvements in that.

A - Philipp Gmuer {BIO 5605415 <GO>}

A signal regarding the way on how we are working on the combined ratio might be our portfolio management in different foreign countries, especially in Spain and Germany, where we wanted to get rid of certain be it client segments or non-life portfolio.

Okay, more questions? Rene Locher, MainFirst.

Q - Rene Locher {BIO 1921075 <GO>}

I would to start with slide number 14, that's the breakdown of the life result. As we can see, there is quite a lot of volatility, like in the savings results, in other results. And I was wondering if you could give us a little bit of a feel here what the life result could look like in 2017, 2018? So what is a reasonable run rate?

On slide 33 and 34, here, again, I guess, 2017 is the last year when you are showing the underlying earnings. And trying to get a little bit of feeling, because I do believe in 2018 we shouldn't see integration costs; we shouldn't see this amortization of intangible assets, we should see a little bit more of the synergies. And here, as well, perhaps you can give us a little feeling where you see this going into 2018, 2019.

And a third and a fourth question, if I may. But very quickly on slide number 18, for Ralph Honegger, it's interesting to see then the new money yield on bonds is 1.3%. And looking where the 10-year Swiss franc yield is I would say this 1.3% looks very good. So I'm wondering a little bit where do you invest?

And this might be a little bit a strange question. But Helvetia is very active on slide 29. They're active in insurance stack. You bought MoneyPark. You have this Helvetia venture fund. And interestingly, I saw that in the latest financing round, in the fintech area, investments are decreasing now. So I'm wondering a little bit if insurers are now jumping on the train on this fintech story.

And well, last. But not least, I'm asking if you invest that much money into fintech is there enough money left to pay a decent dividend to shareholders? Thank you.

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay. Thank you, Rene. Four long questions; maybe short answers, I don't know yet. I would ask Paul to answer questions number one and two, regarding the life business and the integration costs; then, ask Ralph to answer the question with regard to the investment results; and I will then end up with answering the last question, regarding the fintech investment.

A - Paul Norton {BIO 16145125 <GO>}

Okay, slide 14, I seem to get from that you wanted some guidance on future years; but, as you know, we don't give guidance on future years.

I think what I can say is that the savings results and the risk result have always remained the steady, stable, underlying pillars of the life result. And the risk result had a bit of fluctuation this year. But Beat Muller has indicated that that's well within the bounds of his expected fluctuations. And, therefore, it should carry on that way.

And the savings result will depend, to a large extent, on the two things we mentioned earlier, which is the decisions of the Bundesrat in respect of the second pillar (inaudible) (results), interest rate; and also in our ability to turn round the products and sell them, some of the individual life products, turn them around, make them more modern, capital-light, lower guarantees. And so on. And whether we can sell.

But as you've seen, we seem to have had a reasonable success in the past couple of years. So that goes on.

The extraordinary result, this is the reserving here. And I think predominantly the reserving. And I think that's also a factor of the lower interest rates. And if we -- if it stays the same, you will see more. In particular, in -- obviously, the biggest amount is in Switzerland. And you have their reserving for the conversion rate, the (on-line banking stuff). So that's a big (technical difficulty) coming up in the next few months.

And also, in Germany and Austria there's a very crude, simplistic mechanism that (inaudible) reserve there where we have no control over that.

So from that, hopefully, you can take your own guidance.

If you go to page 34, the acquisition, I think you were -- if I understood it, you were looking at how underlying earnings will eventually move on after 2018, (inaudible) (to date).

Q - Rene Locher {BIO 1921075 <GO>}

(inaudible; microphone inaccessible).

A - Paul Norton {BIO 16145125 <GO>}

They should be converging, that's correct, yes. So they will start converging. There will be a little bit of a tail of difference there. So the amortization of the bonds-to-par value, there should be some of that still going on, because that goes on for some time; it's on an, effective, amortization period.

The amortization of intangible assets, I think we decided to get rid of them over three years. So you shouldn't see any of that.

And the integration costs. And -- well, the synergies, the synergies should be fully earned by the end of this year. There may be some still going into 2018, that means there may be some integration costs going into 2018. But it should be very minimal, (the conversation rate).

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay. Thank you, Paul. Then, Ralph, please?

A - Ralph Honegger

As you know, we only started investing in the BBB corporate bonds in 2015. So also in 2016 there was some room left to make investments in these asset class. And that's what we basically did, in US dollar. But also in Europe. And in Switzerland. So this certainly was one of the main drivers of the direct yield number.

Obviously, there were also some investments in (inaudible). And there again in US dollars. But also in euro; and then, obviously, in the financial sector, market share-backed securities.

A - Philipp Gmuer {BIO 5605415 <GO>}

Thank you, Ralph. With regard to the fintech industry, of course, we are carefully looking at what's going on in the market.

Now, as we announced in January, we want to invest, over the next five years, CHF55 million. And what do we want to do with that? We want to learn from new business models; we want to invest in new possible business models, in new possible earnings streams. And at the same time, we have the ambition to, in roughly 10 years, double what we are investing now.

So it's not only a nice idea of going on a learning journey, it's also a financial target, of course, to get not only an impact in our traditional business model. But also an impact on our earnings stream.

Now, CHF55 million is a lot of money, of course. But if we split it up in five years, it's CHF11 million per year, which makes roughly 2% of our underlying profit of 2016, for instance. So it does not have any impact on our dividend capacity.

It's an investment in our future; it's an investment in new ideas. We could, at the same time, invest in new people, or invest in other ideas; we are investing not only in new people, not only in our own IT systems. But also investing in new ideas coming from outside.

And given, over the period of five years, the number of, as I said, CHF10 million/CHF11 million per year, if it's finally split up, it depends on the investments we are doing, at the end of the day, I think it's very reasonable.

A - Paul Norton {BIO 16145125 <GO>}

Can I just add to that? You're assuming that's being taking away from the dividend capacity. But it's actually an investment. It's no different from other investments that Ralph makes. It's not --

Q - Rene Locher {BIO 1921075 <GO>}

(inaudible; microphone inaccessible).

A - Paul Norton {BIO 16145125 <GO>}

No. It's from the investment pool. So, basically, it's just another investment class. So it's not being written off. So it doesn't affect the dividend capacity. Obviously, if we have failures in some of them they get written off, some of them. And that will affect the dividend capacity. But think of it as investing, I don't know, in private equity as opposed to bonds.

And if you look at an investment portfolio of nearly CHF50 billion then CHF55 million shifting from bonds into something more speculative doesn't make any difference.

A - Philipp Gmuer {BIO 5605415 <GO>}

More questions in the room? If not, I would like to hand over to the operator. Maybe, there are some questions on the 'phone?

Operator

Guilhem Horvath, Exane BNP Paribas.

Q - Guilhem Horvath {BIO 18460437 <GO>}

I actually have four questions. And the first two ones are following-up questions on what has been asked by my colleagues.

First one is on the life operating result split. And on fee result, which I'm a bit surprised to see it flat year on year. Can you, maybe, elaborate a little bit on the reason why it's flat, despite nice contributions from modern products, etc.? And what's your ambition there?

The second is on Germany. And you spoke about German P&C already. But I read an article from (Balwar), saying that (default) has been making in re-underwriting the book was ahead of competition. And I just wanted to make sure that you're perfectly comfortable with what you have on the book today in terms of industrial risk and (inaudible) risk in Germany, in German P&C.

Then, on synergies, you say that you are confident that will be -- it'll be above CHF130 million in terms of synergies, run rates, going forward. And maybe if you can comment, it might be a bit complicated. But if you can comment on how substantially above CHF130 million you expect to be.

And the last one is an update on the growth target, which is (CHF10 billion). And it depends very much on how much you are able to source M&A deals. Maybe, if you can update us on if it's still German P&C, Spanish P&C that you are targeting; maybe, also, if you have already some targets, potentially, in sites on this -- on this side. Thanks very much.

A - Philipp Gmuer {BIO 5605415 <GO>}

Thank you for those four questions. I would ask Paul to answer the questions regarding the life and fee results, then to answer the question about the German book, I might add, maybe, two or three words. And the questions regarding the synergies; whereas, I will then answer the question regarding the growth target. Paul?

A - Paul Norton {BIO 16145125 <GO>}

Yes. The fee result is flat. But the product mix that we have is actually not similar to say, I don't know, other companies, such as Swiss Life, a much more fee-based business.

When we talk about modern products fees do take -- play a role there. But the savings result will be one of the biggest drivers of those. And it's all about how you allocate also the benefits. So it's not purely a fee-based business there, that's the most important thing to understand.

The second thing is on the German P&C, we are much more comfortable with the book of business. We have had a process, for the last two to three years, of cleaning the book up; first of all, our own book. And then the Nationale Suisse book.

We have a good retail book of business. We did have a small. But rather unpleasant, portfolio, or it turned out to be an unpleasant portfolio, large industrial business, where we had some large claims coming out of that.

As I mentioned earlier, we have, in Germany, a very good gross combined ratio this year, which indicates that, that is doing -- that cleaning process is doing very well.

There are always pockets you have to follow and clean up. But we're pretty comfortable now with our book there.

And in terms of the synergies, we've always stuck to the line, first of all, CHF105 million to CHF130 million. And in the last year, when we got more comfortable, we said it will be over CHF130 million. But we don't want to put any numbers on it at the moment.

A - Philipp Gmuer {BIO 5605415 <GO>}

Thank you, Paul. With regard to our growth target, I would like to make the point, once again, with regard to our financial target, there are some tough and promised targets, such as the dividends, such as the RoE, such as the profitability overall; and there is a rather soft target, like the ambition of growing to a CHF10 billion Company.

And why is it soft? It depends on the opportunities we might encounter during our way to Helvetia 2020; and, on the other hand, it also depends on our own wishes.

Of course, there are targets in the market. But if, for instance, they would not comply with our profitability targets, especially in the traditional life business, we would not want to have a look at it.

As we said on previous conferences, we are especially having a look at targets in Germany. And in Spain, because we think that those two markets are still fragmented. And we know both of them. We know the Spanish -- we have known the Spanish market for decades now. And we have been active in Germany for 150 years. So those two markets are well known in our Company.

And of course, it depends on the opportunity. But it's too early to talk about specific targets we are or that we'll be identifying.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay, that's very clear.

Operator

Jonny Urwin, UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Just two from me, please. Firstly, on reserve releases, I note that there's no change in disclosure today. Can you guide us to the -- or just give us some color around the absolute level of reserve releases? That would be great. We're just trying to get a better view of the underlying combined ratio.

Secondly, on claims inflation, are you noting any trends in each of your key P&C territories? We've seen some signs in certain regions of late.

And I'd be interested to hear what pricing is doing versus claims inflation; i.e., are combined ratios sustainable at current levels, especially in Switzerland? Thank you.

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay, Paul, please.

A - Paul Norton {BIO 16145125 <GO>}

We don't, as you know, give any details on the so-called reserve releases. Our view is we don't have reserve releases.

But I can turn you to slide 40 in the pack, which gives you a walk between the prior year and the current year combined ratio. And you can see that the changing claims in previous years was 0.7% impact on the claims ratio. So it fluctuates within a reasonable range. But I would argue that is part of the underlying claims ratio.

A - Philipp Gmuer {BIO 5605415 <GO>}

I would like to add, with regard to question of sustainability, we did not top up this result with any specific reserve releases in order to make any kind of window dressing. We are. And we remain, adequately reserved in our non-life book.

A - Paul Norton {BIO 16145125 <GO>}

Claims inflation versus pricing, that's a good one. It varies from market to market. I think in Italy we've obviously seen the situation, less the claims inflation, more that the pricing is coming down compared with existing level of claims.

I think, generally, there's not been much in the way of claims inflation going across our markets at all.

The pricing environment, our personal pricing environment. So to speak, compared with the market, it varies from market to market. We have a big pricing initiative at the moment going through the markets, particularly looking at the motor business. And we're adjusting the tariffs and the input into the tariffs. But certainly, at the moment, there's nothing that indicates that claims inflation is significant or is, indeed, outstripping our pricing.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

Operator

In-Yong Hwang, Goldman Sachs.

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

Just two from me. First, on smile.direct, which you seem to focus on quite a lot today, could you just give us some details around, as this becomes a more substantial part of your business, whether you're worried about risk of cannibalizing your core non-life business in Switzerland. And how you control for that risk?

And second, hopefully, a very quick one on Swisscanto. You talked about good progress there; I was wondering if you could give any numbers or figures around that. So that I can get a clearer sense of what's going on there. Thank you.

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay, with regard to the smile business, of course, we are following the customer journey. And we are following the customers where they are moving around, be it offline or online. And we do not want to cannibalize our own book, of course. We are also working with smile.direct as (an own) brand. So in the eyes of the clients it's not, at first sight, a Helvetia Company; to the contrary.

And if you are talking about cannibalizing, we have always to take into account are we addressing the same clients with the same risks in the same circumstances, under the same brand? And here, we are not; we are addressing other clients with, to a certain extent, other risks in another customer journey. So we do not see a big risk with cannibalizing our own book.

And talking about Swisscanto, Paul?

A - Paul Norton {BIO 16145125 <GO>}

I don't think we disclose separately the Swisscanto volumes, actually. We have -- if you look on page 44, which shows the breakdown of reserves, you'll see that of the Group life, we have CHF17 billion worth of Group life reserves, of which CHF6 billion is other, which is essentially the Swisscanto business. So you can say, basically, it's about one-third of the business.

A - Philipp Gmuer {BIO 5605415 <GO>}

What I can add here is that we are happy, from the perspective of our set up in the Group life business, that we have more than 40% of our clients in the off-balanced model of Swisscanto. And with Swisscanto, we also see good growth during the last two or three years.

And of course, we want to stress that point in the future, because here we are purely reinsurance company; we do not bear the savings risks of the Swisscanto clients on our own balance sheet.

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

Great. Thank you very much.

Operator

Iain Pearce, Berenberg.

Q - Iain Pearce {BIO 19522835 <GO>}

I just had a couple of questions on dividend guidance, in particular, because it seems to be a little bit confusing.

At the moment, you're saying not to expect a CHF2 increase, the step-up could be brought forward earlier. At the moment, consensus is assuming a CHF25 dividend in 2018, which is clearly assuming a CHF2 step-up over the next two years. So I'm just slightly concerned about that. Could you give me a bit more guidance on that, please?

Then, on slide 34, again, on the forecast and target (senses) of when the synergies and integration costs are coming through, I don't think those have changed. Are you still happy with those, or those are just what you're sticking to?

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay, I ask Paul to answer question number two; and I will then turn to the dividend guidance.

A - Paul Norton {BIO 16145125 <GO>}

Yes. The synergies, we are happy with basically the phasing-in and the integration costs that relate to them.

As I said, I think, earlier, it's not always predictable, particularly in certain European countries, where the laws, labor laws, are more complicated than one expects; and also, certain laws regarding mergers of companies are also not as easy as one would expect. So there may be a little bit of a tail-end at 2018. But basically, yes, the synergy phase-in and the integration costs phase-in, as we expected.

A - Philipp Gmuer {BIO 5605415 <GO>}

With regard to the dividend guidance, when we announced the take-over of Nationale Suisse, back in 2014, we also said. And promised, that we are going to share the synergies with our shareholders. And we then assumed that the integration will be completed. And, at the same time, of course, the synergies will be realized, by end of 2017.

In the meantime, however, we are ahead of schedule. And that's why we were talking about a dividend increase of CHF2, which is a little bit ahead of our schedule, of course.

Now, with regard to the future, what we promised is to hand over at least CHF1 billion over the next few years, over the next five years, of course. At the same time, we have to take into account that the dividend will be dependent on our profitability in the next few years; it will be dependent on our risk coverage capital ratios; it will be dependent on what the market is doing, of course. So it's too early now to promise a specific dividend number as of 2018.

Paul, do you want to add something?

A - Paul Norton {BIO 16145125 <GO>}

I think that's about right. We estimated, at the time of acquisition, that synergies to be round about the CHF3 to CHF4 -- were CHF3 to CHF4 -- just under CHF4, actually, per share.

And I understand there is some I wouldn't say concern. But it's a question mark as when is that timing going to take place? We've always said a steady-state increase and then one big functional jump. I think what we're doing now is simply saying, look, we're a little more confident. So we can increase slightly more than that CHF1 per share increase.

But at the end of the day, it will turn out probably, hopefully, to be around about the CHF3 or CHF4 that we anticipate. It's a question of when that will take place. And we don't want to finalize that until the synergies have been fully phased in, which will certainly be not until the end of this year. So at the earliest, 2018 year, (and this) payment.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay. Thank you.

Operator

Peter Eliot, Kepler Cheuvreux.

Q - Peter Eliot {BIO 7556214 <GO>}

I apologize, in advance; I had to step off for 10 minutes of the call. So I hope I'm not asking something that has already been asked. The first one, would you be able to say what the payout ratio is on statutory earnings?

And perhaps, just a quick follow up on Ian's question just then. Just looking from a slightly different point of view, taking the things that you said earlier on the call, you were saying you're still expecting the upper end of the synergy range. So that implies there's (CHF12 million) left to find. You were saying that you would raise the dividend in line with the realization of synergies.

It sounds from your comment just then to Iain that you haven't raised the dividend as far as you could have done for the synergies that you have realized. Presumably, there's still a little bit of catch-up to go there. But I just want to square that with your earlier comments.

Perhaps, a final point on M&A, I guess now your -- management's time is a bit more freed up. Does that mean that you're, perhaps, a little bit more open to bolt-ons than you were, or have been, over the last couple of years? Thank you.

A - Philipp Gmuer {BIO 5605415 <GO>}

Paul?

A - Paul Norton {BIO 16145125 <GO>}

The payout ratio on statutory is roughly 58%. Obviously, that's a bit provisional because statutory accounts take longer to produce. But that's a good guidance.

Yes. We potentially could raise the dividend a bit more. But we want to be a little conservative. We want to wait until the dividends are -- sorry, the synergies are fully phased in and we actually know where we are with the synergies.

A - Philipp Gmuer {BIO 5605415 <GO>}

M&A?

A - Paul Norton {BIO 16145125 <GO>}

M&A, yes, we do have more capacity, more time to do M&A transactions. But the first. And biggest, consideration is can we find the right M&A transaction to do?

Those of you who remember us pre; Nationale Suisse days, we often reported we'd had a look at a lot of M&A deals over the year and we hadn't done any. And that will still be our philosophy. Just because we've got more time, please don't expect us to rush into doing M&A transactions.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much.

A - Philipp Gmuer {BIO 5605415 <GO>}

We are having a look at quite some targets. But becoming rich means somehow not to buy what you could buy.

Okay, more questions?

Operator

There are no further questions from the 'phone.

A - Philipp Gmuer {BIO 5605415 <GO>}

Are there any questions left in the room? If not, I would like to thank you very much for your attention, for your interest in our Company.

And I would, once more, like to invite you, cordially, to our Capital Markets Day on June 8, 2017, here in Zurich. We would like to provide you with some more insights on our future projects and the different products we are launching, or thinking about. If not, then we are gathering again on September 4, for our half-year results.

Thank you very much. Goodbye.

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. Goodbye.