Helvetia Holding AG and Swiss National Insurance Co Merger Call

Company Participants

- Hans Künzle
- Paul Norton
- Stefan Loacker

Other Participants

- Andreas Frick
- Li Dunlop
- Marc A. Thiele
- Michael A. Klien
- Stefan Schürmann
- William H. Elderkin

MANAGEMENT DISCUSSION SECTION

Stefan Loacker {BIO 15157193 <GO>}

Ladies and gentlemen, it is a great pleasure to welcome all of you to this important analyst conference. Thank you, indeed for being present in person or via telephone in such large number despite the short notice which is unavoidable given by the nature of today's subject.

As we get started, please allow me to underline that I am absolutely convinced that with today's announcement, a new and very successful chapter in the corporate story of both Helvetia and Nationale Suisse is about to begin. We are fully committed to our ambition of forming a new strong Swiss insurance group with first-class perspectives at home and in selected countries abroad.

Helvetia and Nationale Suisse are ideal partners. We know each other since very long, have common platforms ongoing and the trustful mutual understanding already today at the beginning of our process. The remarkable date of today's announcement, 7/7/14, already indicates something special but yet in our case, the arithmetics will be different since we are fully convinced that in this combination, one plus one equals more than two.

We have a crystal clear value-enhancing transaction in front of us. In the course of the next 60 minutes, we will guide you through all the relevant facts, figures and perspectives of the new Helvetia Group, which should make you comfortable with the obvious upside of this compelling transaction. After my introduction, Hans Künzle, CEO of Nationale Suisse; and incoming Vice Chairman of the bigger Helvetia Group, will inform you on the decision-making process and rationale from Nationale Suisse perspective.

After that, we will inform you on the most important aspects of the transaction as follows. I will elaborate on the business profile, the strategic concept and the incoming governance of the new Helvetia Group, followed by an outlook on operational implications in the integration project.

Our CFO, Paul Norton, will guide you through all the financial implications, including synergy potential, capital and solvency; the positive impact on earnings and dividends; and the well-prepared financing structure. I will end up with an outlook on the transaction timetable of the formal takeover procedures and the most important milestones from now on to settlement which we envisage in October. After our presentation, we will be happy to answer your questions in the Q&A session.

This is now the place for me to hand over to my colleague, Hans Künzle, CEO of Nationale Suisse, who will inform you on the most important aspect from his perspective. Please, Hans, the floor is yours.

Hans Künzle

Dear, Stefan, thank you very much for the warm welcome. It's despite the fact that it is for Nationale Suisse quite tremendous development, a pleasure to be here and to explain to you what the position of the board of director and my opinion is about this transaction. Our board of directors started, some weeks ago, fundamental analysis of our strategic position as we have seen that the existing shareholder structure is not sustainable.

And this despite the fact that – and this I have not explained to you because you know Nationale Suisse quite well, despite the fact that Nationale Suisse is a successful company with high profitability and also with a very solid financial structure, good solvency ratio, and with highly motivated employees and managers. That we had to act quickly. And we did that also with clear idea.

We have developed in a very short timeframe the necessary basis in order to decide and we had of course to analyze that taking into consideration a lot of different issues. We have started an instructive process with different parties, parties where we found that going together would make sense. And we have then got offers. We have analyzed these offers and have taken into consideration the following criterias. First, the price for our shareholders; secondly, the perspectives with regard to strategy in order to bring together two strategies and make sure that one and one is not only two; and also taking into consideration the perspective for our employees and also for our Basel environment.

I think I have not to repeat all the issues with regard to our shareholding structure. You have these on this slide. The issues we have to cover all over the last weeks are difficult implication on the day-to-day business, conflict of interest in the shareholding, takeover speculations, and also – and this is an important element, also, uncertainty for our employees and clients. Based on these strategic assessment, we came to the conclusion and develop a clear and anonymous decision of the board of directors that it would make a lot of sense to go together with Helvetia. This is an important step for us, but we came to the conclusion that is really the right one.

Based on the fact that from an entrepreneurial, from an economical, from a strategic point of view, both companies together could achieve much more than especially we, at Nationale Suisse, could achieve. They have a broader distribution power, they have a broader product range in Switzerland, they have a much more attractive positioning in Europe, and what is for us also very important that the existing Specialty Lines strategy of both company would fit perfectly together, and it could develop that commonly.

At the end – and this is, I think, also an important element, this going together would also be in the interest of our employees. We think – and that will be explained later, that over the natural fluctuation, we can manage this process, the synergy project, and what for us is also important is that on all levels, on the board level, on the board of directors level, on the executive board level, we have common sharing interest and people on board contributing in the future.

What I also have to say is that, I think the discussions we had over the last weeks have shown that from a thoughtful point of view, both companies fit quite well together. Suisse Nat's (08:03) financial solidity and practical behavior in order to work on the issues have shown that we can work together. At the end, the offer of Helvetia was the best offer. We compared that offer then with a standalone solution and we came to the clear conclusion that we would like to go together with Helvetia.

At the end, a personal remark. As you can see in our annual report, based on a change of control, the top management of Nationale Suisse and also myself, we have the right to specific compensation. And, as Stefan has said, and if the board of director or the channel assembly would elect me as Vice Chairman, is for me clear that I don't expect any payment with regard to this change of control.

With this, I think, short explanation about the reasons of Nationale Suisse, I would like to hand over to Stefan and I would like to take the occasion to thank you because we had a very good contact about the last years. We have developed, I think, a lot of ideas. You helped Nationale Suisse also to develop these ideas. It's probably not the last time we want to speak together, but I would like to thank you for everything what you have done together with us.

Stefan Loacker {BIO 15157193 <GO>}

I would now like to continue on slide four in the presentation with an overview on the envisaged transaction which is, as I mentioned in the beginning, entailing a series of strong value drivers as we combine forces of these two companies.

First of all, we will have a significant combination benefit which is more an issue of scale and scope and not only a volume item because we will have a massive improvement in our non-life Swiss position, which is the major change of the portfolio configuration later on. It's almost doubling of our footprint in the Swiss non-life market. But we will also have a very good business mix afterwards, that will also include an enhancement of our earnings profile through this business combination.

Secondly, the combination of these two groups is also strategically compelling because we will have three strong pillars of our future strategy to come based on our strong position as a clear top three player in the home market. We also have a much stronger emphasis in the European and also Specialty Lines businesses where we see clear platform to develop from ourselves.

And thirdly, it's also a value-enhancing transaction because we do have a lot of economies of scale and scope. It's clear, also, synergies play an important role, but also capital structure and other items which will help for this transaction to be clearly value-enhancing. So all in all, it is something which is a clear-cut case and is also including, right, the best prerequisites for a successful integration as we will develop later on.

From strategy to numbers, I would like to switch to slide five where we discuss the highlights of the financial side of this offer of this transaction as a whole. What you have already seen is that we have offered a price of CHF 80 per Nationale Suisse shares, which is including a 26% premium to the last listed price Friday late. And is entailing multiples which I already heard some of you find on the rather upper end of the corridor compared with industrial average. And we also say that we have fully valued Nationale Suisse as a standalone company with this price.

We are absolutely convinced that with all the additional leverages that we have, especially after the combination brings its fruits, this price is more than justified and it will be as we will elaborate later on accretive from year one and highly accretive once we have gone through the synergies. A consideration mix is also offering a portion of cash plus bit more than one-third in a share component which is allowing everyone to participate in this future upside with us. It was also an important element to offer this opportunity all shareholders should be in a position to stay as shareholders with this combined entity.

Synergies will play an important role. It's almost doubling up the standalone profit of Nationale Suisse as a standalone entity and therefore will help enormously to make this case highly accretive. Accretion will take place not only somewhere in the future, but on a cash basis, on a cash earnings basis, it will be accretive from year one and we will have more than 20% uplift once the synergies come through, which will be the case from 2016 onwards. And it's also good to say that because of the stronger non-life buyers, we will have also an improved dividend capacity so the non-life profits plus the synergies are main sources of increased dividend potential later on.

And I would like to end up by saying the beauty of it all is that we are not stretching or overstretching the balance sheet of Helvetia, since even after we have done this transaction, our solvency and capital metrics will be as they are today, rock solid, Helvetia-style. You will see later on that solvency is above 200. SST is above 150, and we will remain an A category play from Standard & Poor's perspective. So all in all, a very appealing concept which is now in front of us and offers a huge – large part of opportunities.

If we come from the overview to the bit more elaborated perspective of the combined entity, I would not spend much time on slide seven, which is just an introduction on Nationale Suisse, which is more than familiar to everyone here in the room. I just would like to underline that this is a very healthy and attractive company, it's the same for Helvetia. So two healthy companies signed together and is not a restructuring case at all.

And what we like in particular about the business profile of Nationale Suisse as a standalone company is the focus on the non-life business, mainly on the Suisse non-life business. Secondly, the very strong niche operations in the Specialty Lines. And thirdly, the perfect match in the geographical footprint in the European market. So these are the three main aspects that fit extremely nice into our common corporate story.

To give you a first idea of the combined entity, I would invite you to flip to slide eight which is providing a pro forma overview of this combined new Helvetia Group. You can find on the left hand side vertically, the Helvetia business, Nationale in the middle, and the pro forma combination to the right. And on the line items you see in the first line, the business mix drill down, and in the second line, the geographical market mix drill down, okay?

So a lot of information packed in to this slide. To help you through, I would like to start in the very bottom line where you find the indication on the business volume, CHF 7.6 billion as the starting point for Helvetia, CHF 1.5 billion on Nationale side. So it means like a 20% additional volume increase will lead us to a bit more than CHF 9 billion under entitling also, I would say, an incorporated strategic ambition to reach to the CHF 10 billion in the medium term future.

If we go to the line items on the upper part of the slide with regard to the business mix, you can strictly figure out what I just said that Helvetia is a bit more biased on the life side which is having like 62% of our portfolio while Nationale Suisse has only 17% in that particular business, and clearly more than two-third, including the Specialty Lines, the majority in the non-life. So the combined business, as you can find it on the right side, is almost equally right between life and non-life and Specialty Lines which is surely an advantage.

Also, to the very right corner, right bottom corner, you can find that our business mix geographically will not dramatically change. We will continue to have the major footprint in our home country which we think is a very good point. But within our home market, we will have a better mix between non-life, single life and group life business as you can also easily see. So all in all, the business configuration that is the result of this transaction is very compelling, needs no further corrections, is in itself an absolutely perfect basis to continue to grow profitably.

If we go to slide nine, I would like to underline that not only the business volume will develop in a favorable way, but also the profit and capital figures are doing the same. In the left upper part, again, you'll find a reference to the business volume, where you can find more or less that the 20% increase in premium is to be expected. But what I find even more interesting is what you see on the left lower corner, the profit situation because there we will have not a 20% jump, but a 30% jump because both companies are very profitable, and this is even before any synergy is factored in.

And with regard to shareholders' equity, we'll also have more shareholders' equity in place after our rights issue is then being drafted, but this is just a 10% increase. So we have more profit increase than volume increase, and we will have also a stronger ROE given this transaction is also using other means of capital, especially hybrid bonds so that we can finally have the excellent solvency ratio safeguarded, but more return on equity through shareholder. That's a key story. So we have not only volume increase, better earnings profile, better business mix. I think most of you like the bias to the non-life side, and capital cost and the balance sheet structure optimized through the means of this transaction.

If I may now flip to slide 11 on the strategic side of this business combination, it is also like almost a given that the combination of these two companies will allow us to grow strongly on three distinct pillars. These three pillars are, first of all, our Swiss market, which is clearly the most important point also in the future. As I said before, both companies today are clearly geared towards their home margins. Both companies have their largest and most important business at home, so it's clear that also the combined entity will have this clear bias to the home market.

We think that this is good because a company, which has also an international ambition clearly requires a strong pillar at home. In common, we will have like CHF 5 billion of premium income here which is like a 19%, 20% more, but the biggest move is the doubling of the non-life business which is growing almost 90%, 85%. That's the biggest move.

Second pillar will be our European business. We already have successful franchises in Europe and is a clear healthy fit that we have more or less exactly the same country markets where we have operated with two different franchises which we can clearly combine as we continue to grow. This is only an 11% hike from Helvetia's point of view, but still is a very welcome element in this whole strategy.

The third item is the Specialty Lines which is traditionally a strong part of both identities. And both companies have a historical strength in there, so it's mainly transport insurance, but also engineering and the niche business within the reinsurance markets that Helvetia bring across. So here, together we can also combine forces and we will have just roughly CHF 1 billion of premium in that segment, which is also a clear improvement of like 60% seen from Helvetia's point of view. And we will, obviously, also have a better profile and more capacities on our balance sheet to write this risk also on a net basis.

This is the overview. And if we now go a bit deeper into these three segments, I would like to flip to slide 12, which gives you some of the indications of the improvements that we will entail in our home market, Switzerland. Here you see the market shares traditionally before the transaction and also the impact of this transaction later on. To the left-hand side on the chart is the non-life market where we have an equal size today, and we will double and make a clear jump up to 11% market share later on.

On the life side, it's a bit less spectacular, but also welcome to have this slight increase to 12% market share which will then mean that in the combination of the non-life and life market shares, we will be with a 12% footprint, the very clear and distinct number three in this market. And we could even say that we are the leading Swiss all-branches insurance because we have a vast of opportunities to continue from there. And since most of you, and as far as I learned when I discussed with you seem to like the non-life market in Switzerland from an investment point of view, this profile should really offer a compelling opportunity for you to invest.

We will have, on slide 13, this has illustrated a fantastic situation in terms of distribution. Already today, Helvetia enjoys a lot of strong client access channels, a clear multi-channeling concept, which will be even enhanced through the combination with Nationale Suisse. We will continue to have a very strong personal sales force. As you know, this is still the traditional channel in our market here in Switzerland, and we will have a large number of additional sales force.

Today, we have 35 agencies in the field. Nationale Suisse has more or less the same number. So we will have 70 pro forma combined, some of them are overlapping, some of them are complementary. And if we optimize this field, we tend to think that some 50 agencies is the right number for us, and that will give us a lot of additional closeness in all regions of Switzerland, even in those where Helvetia historically has not been that strong mainly in the western and southern parts of this country where Nationale Suisse brings a very strong footprint. But also, we will have a direct channel, smile.direct, which we think will play an important and growing role in this multi-channeling concept. We maintain to keep this under the given brand. And we also have very valuable strategic cooperations which are here to stay and where we have a lot to develop. So a company not only with a great portfolio but with a unique distribution opportunity is about to come.

Slide 14 is again underlining the Swiss portfolio situation, which the main points I already made so you can see here that the pro forma we will have CHF 1.4 billion non-life premium together, a very large improvement on that side. Also the proportion between motor and non-motor continue to keep on the – continue to be on a very healthy side. While life is just a marginal increase, but that again comes at a very high synergy rate because we can really just take this business without much of additional structure that will be needed.

Also location fit well. As you know Helvetia has its headquarters in St. Gallen on group level and in Basel on Swiss level. Nationale is also headquartered in Basel, so we will have a very good fit here. And no items with a third or a fourth headquarter position and that will also help us to grow together, and especially we'll see that there will a much stronger emphasis on the headquarters in Basel as we will continue to have all the existing operations there. But in future also quite a substantial amount also of non-life related functions will be kept in Basel so that we will have also the opportunity of keeping the talents within this combined group.

From here I would like flip to slide 15, which gives you an overview on the market positions outside Switzerland, in our European countries. Italy, Germany and Spain are three of the biggest market in Europe. And it happens to be the case that in these three markets we have franchises from both companies which gives a clear opportunity to optimize our situation in the medium term.

In Austria, as you might remember, we have recently announced the acquisition of the local business of the Basler Group, Basler Versicherungs in Austria. So also here, we are in the middle of this integration procedure. And we will also have quite a substantial progress in that respect. So, in four countries, we will have CHF 500 million roughly or more as a premium income and we see this as a very good footprint to develop with profitable growth in the medium term.

Proportionalities are a bit different compared to Switzerland where we have, especially in non-life, a one-to-one relation between both companies involved. This year, it's more an 80/20 or even 90/10 situation, which will also help to find clear solutions for integration concepts.

So all in all, it's also again a commitment to this European identity and we think that the combined forces we have a lot to develop and our aim is profitable growth in these markets again no appetite for different or new exposures. This is where we are and this is where we wanted to stay.

Third pillar quickly is the Specialty Lines platform. You can find the details on slide 16. Most of you know that within this title Specialty Lines, we see the engineering business, the marine and transport business, the art insurance and the active reinsurance that both companies bring across.

As you can see in the table, it's mainly transport insurance. So more than half, more than CHF 500 million of these, almost CHF 1 billion of business is written in the marine.

And within there, as you also know, we have a bias towards cargo and (29:23) business, which is very well-managed (29:27) for a group of this size. Together, this combined platform will bring some additional opportunities that we did not endeavor so far on a standalone basis. And that's also the reason why we'd like to bundle this together into one overarching division because a lot of synergies in terms of knowhow capacity, market knowledge, product knowledge will come through once this is formed as one division.

It's clear that this business also has a delicate side so we need to be careful on the underwriting and for us it's not the rocket for growth. It is seen as a solid pillar in which we think we can develop first within the given territories then also with a concept to go into some selected new territories within this niche. In Asian markets, for example, where cargo is an important source of additional growth for an insurer and also South America could begin to play a little role in this coming concept. But clearly, profit development here is our first priority, not for client growth.

These three pillars, and I'll flip into slide 18 to the governance part of the coming new Helvetia. These three pillars are also playing an important role in how we will form the responsibilities in the executive team, so you find the three notions again, Switzerland, Europe, and Specialty Lines which will also be a managerial responsibility in our group.

It is great to say that we will have David Ribeaud, a real expert on the businesses. He's the actual Head of Specialty Lines in foreign countries within Nationale Suisse, and I'm greatly happy that he will join our team with all his expertise and knowledge. The rest is, I would say, all the forces that you know, that have proven that they can also deliver what we start to begin and I'm really happy that we have this constellation as an incoming, new executive team.

Also in the board of directors, it is important that we find identity for all people involved and that we have an integrative approach which is also like a role model for an integrative approach on different lines of managerial responsibilities, which are yet to define, but is a very strong signal that Hans Künzle and also Andreas von Planta, plus other members of the board are committing themselves and taking responsibility, not only for their self, so to say, but for the common future of this combined entity. And I'm very grateful for these decisions taken.

On an operational side, on slide 19, I would just like to mention that, yes, this is a bigger – a big approach than the ones that we have before. No one would like to deny this no? I think – and it's important – it's like coming close to the merger of Helvetia and Patria which is 15 years gone by now. But nevertheless, we also did a couple of other integrations in the last five years to find the names on this chart. And I'm happy to say that these have been more or less 10 acquisitions and they together brought CHF 1 billion of premiums. So it's not so different from the magnitude that we are seeing now and we could really prove our concept and experience, methods and skills which are now available also to start this biggest integration that we have in the last couple of years with a lot of knowledge and good ideas.

In terms of integration, on slide 20, I would just like to underline that first of all, yes, every integration process is a challenge. I won't be not true to say that this is not the case, but here we have optimal prerequisites both in terms of culture, for those strategy and location. Everything looks wonderful in terms of being best prepared to grow together.

If you are envisaging the incoming integration project, I would like to give this program like four major aspects. The first integration that we have to do is in the home market, so to bring together our Swiss operation. This is the biggest project of it all. But here also we have the best people and we are very well-equipped to do this. I have no worries at all.

Second movement is the combination of forces in Europe. You have seen it before. We have the same footprint. We have a clear proportionality also manageable. Third movement is the establishment of the specialty lines, which comes from various legal entities and has to be reshuffled for a managerial divisional performance and result measurement.

Fourth is the unification of the group functions, especially finance and investments. And here, we can rely on the given platforms of Helvetia, which are existing and scalable, and they can easily carry also the amount of business we have as a combined entity.

So those are the four movements and we will give a lot of attention to a very good and strong project management, enough resources and make this the priority of the next one-and-a-half or two years to make this a success, and we are all convinced that this integration will be very well manageable.

With this, I would now like to hand over to Paul Norton, who will guide you through the financial implications of the transactions starting on slide 22.

Paul Norton {BIO 16145125 <GO>}

Thank you, Stefan. I think as you've just heard, one of the most important features of this transaction financially is the significant economies of scale effects and the synergies we can get after that. As Stefan Loacker has shown just a couple of minutes ago, we are pretty confident of reaching those synergies because of the very strong similar business fit and the overlaps both from the products geographically and the culture of fit that we have between our units. It will be an exaggeration to say that this is a very large bolt-on acquisition, but it certainly does have elements of that.

The synergies we are aiming for and I think you'll understand at this stage, we've obviously done some work and it's not just a number off the top of our head but clearly, we need you to find those but we're pretty confident of them, CHF 100 million to CHF 120 million pre-tax sustainably. The ramp-up profile of our synergies is clearly you cannot achieve them in day one. It will take approximately two years to three years. We expect that as soon as we fully realized in 2017.

The way we get those synergies – Stefan has indicated what we're going to be doing. Essentially, there'll be processes streamlining particularly in non-life business and particularly in Switzerland. We will have very similar products, very similar way to do things and we can streamline that and cut out the overlaps.

The combined distribution network we saw in Switzerland, we have synergy potential there. We are extending our reach particularly in the West of Switzerland, the French-speaking areas which is very useful and helpful to us but has clearly overlapped which we can cut out.

There are some group-wide costs which clearly that we don't need. Stefan mentioned the corporate center. It is clear that we don't need two listed companies with all of the infrastructure and all the requirements that brings. There are group-wide costs such as large projects, IT expenses which can be cut down and simplified; marketing, we don't need that. Nationale Suisse brand will disappear everything we marketed under the Helvetia brand. That clearly is as well as the non-staff cost, a large element of staff cost for with the majority of the cost that we are saving will come from staffing.

We have a – both of us, both entities have a roughly 5% to 10% natural fluctuation rate in staff. People retired, people leaving and so on. And it's our key aim that we use this natural fluctuation rate over the next three years to make the most of the synergies that we need. We recognize our responsibilities particularly in Switzerland through our location at particularly St. Gallen to Basel. And where we cannot achieve those synergies, those reductions in staff through normal attrition rates, we will clearly develop socially acceptable solutions including social plans and redundancy payments.

What we haven't done yet, we've deliberately not done that is factoring revenue synergies. So, we're very conservative on that basis. There clearly are significant potential revenue synergies through the cross selling potential both in the current units where the Nationale Suisse customers don't have access to a significant life insurance network but ours do, and also here, for example, in Switzerland with the group life business and other Specialty Lines businesses, which we can cross sell.

It's clear that to achieve these synergies, it costs something. And we've estimated a CHF 150 million to CHF 180 million pre-tax restructuring cost, which we would expect also to be phased in over three years. So, after 2017, we have the pure synergies coming through into the net income.

If we look at the capitalization, Stefan mentioned that was a feature. I have to say the post-deal capital strength was a key factor in our decision making and our pricing. We have stood before you for the last seven years and emphasized the strength of our capital position through the difficult times of the financial crisis and it is a fundamental feature of Helvetia. So we want, even with this very, very large transaction, to say that we could keep strong capital metrics.

As you can see, our solvency ratio still is above 200%. The SST ratio, which we have disclosed in the region of 150% to 200% is still maintained. As you know, we're not – because of the uncertainties of the volatility SST, we don't disclose exactly this, but I can clearly tell you now that we are not moving towards the bottom end of that range. It's not hidden in there that suddenly we dropped down.

From an S&P perspective, we have sufficient capital on the model or estimate of the combined entity to maintain the A rating and the other metrics in particular, leverage and interest cover are well within the A category rating.

We have had talks, preliminary talks with S&P, and I believe that they will issue a statement today. But usual practice, I don't want to preempt them but clearly from their perspective, they obviously have not seen the transaction of this size done by Helvetia. They have no (41:29) integration skills but they also do not know Nationale Suisse. They don't rate Nationale Suisse. It's rated by A.M. Best. And obviously, there is a refinancing risk, which I'll come to in a minute. But as I said at the beginning, we are confident that we are well within the A category.

If you look at the results of this transaction, you have improving earnings quality. As Stefan mentioned, it's supported basically by the increased share of non-life profits and not only just non-life itself but particularly the Swiss market which everybody knows is a very strong – financially strong market, plus the synergies. And that leads in turn – this CHF 100 million to CHF 120 million pre-tax synergies leads to significant improvement in the dividend capacity, the future earnings and therefore the dividend capacity of the combined group.

Two indications about increased dividend capacity, firstly, the EPS. The normalized EPS is accretive from year one by 15% roughly, and after two years by roughly by 20%. You would ask why are they normalized? Well, we have taken out – we wanted to show what the run rate would be. So we've taken out the one-off charges, the restructuring charges, which only about three years and we've also taken out the amortization of intangibles that arise purely from acquisition accounting, which again is basically a short-term effect. So you get a longer-term consistent view. And of course, that brings you down to basically the cash earnings, which are relevant for long-term dividend growth.

Under ROE, again, we took a very simple pro forma just so you can see the immediate impact of the improved earnings quality and what synergies would do. Just taking Helvetia and Nationale's 2013 earnings, the year one synergies, not the fully phased-in synergies, the year one synergies less the financing costs of the financing structure and you can see we have an immediate potential increase in ROE.

When you take the future synergy potential, obviously, taking out the financing costs and taking out the tax charge, a quick calculation shows that you can balance our standard 30% to 50% payout ratio to a dividend per share potential of between CHF 1.70 and CHF 3.60 per share additional dividend. As you know, we don't give forward guidance, so please don't take this as an absolute promise that we'll be paying those dividends out, but that gives you the indication of what we will be able to do with this synergy potential.

I would just like to emphasize here the IFRS disclosed net income in the first couple of years. Clearly, we'll not be able to show this massive accretion because of these one-off items that you unfortunately have to have in the first couple of years, particularly, for example, the non-cash amortization of the intangibles generated by the IFRS acquisition accounting.

But from a dividend perspective, driven by the synergies and the improved earnings quality, once you got past integration phase, this is a very, very compelling, compelling story. And I'm sure a lot of you will question, that's fine, can we achieve those synergies. I hope that Stefan has clearly shown, given our track record with integration in the past and the close cultural fit and geographical fit that we believe we are very, very capable of achieving those results.

If you look at the finance structure, the split shows 35% in equity, which will be approved by the extraordinary general meeting of the shareholders in mid-September, we hope will be. We are also pretty confident that that will occur. Please do not forget that we have 38% of our shareholding is in the hands of our four (45:52) partners have already said yes that they, of course, will support that transaction, which makes it significantly easier than any other kind of structure.

The bridge financing of just under CHF 1 billion has been guaranteed by UBS. We have that in place and we will refinance that. The best mix that we found at the moment is roughly CHF 600 million to CHF 650 million on hybrid and roughly CHF 350 million on senior debt. As you know, we have a very good track record in this respect.

We've issued three bonds in the last four years. The hybrid was issued in 2010 was innovative led the market. At the moment, hybrid rates are really low. I've already had this morning two calls to investment bank saying, can we get it on the financing, please? We really don't have a great deal of problem I think in refinancing that bridge loan.

So with that, that's the summary of the financial implications and I would like to hand back now to Stefan Loacker for the summary and the next steps.

Stefan Loacker {BIO 15157193 <GO>}

Before we finish and go to the Q&A session, I would like to highlight slide 27 which is giving you an idea of the preliminary transaction timetable. Obviously today, we are at the starting point as you perfectly understand that we have the first announcement of this transaction. The formal prospective for the offer is expected to be submitted around the 8th of August. Start of the main offer period will be around the 25th of August and it will take until middle of September, where the end of the main offer period is expected around the 19th of September.

We plan to hold our extraordinary general meeting towards the end of this offer period. Also, Nationale Suisse is discussing the right moment to have their extraordinary general meeting in order to facilitate all the necessary resolutions on both sides. There is a legal additional offer period that we have to respect and that brings us towards middle of October where we can expect settlement around the 20th of October, from now on, as a preliminary indication.

To conclude on slide 28, I would like to summarize as follows: I think we can say, yes. We have valued Nationale fully. But we've done this on the back of a justified and very clear value enhancing transaction, which brings a lot of additional leverages for financial value but also strategical value.

We will have a strong footprint in Switzerland, a better footprint in Europe, and an interesting specialty lines business. We can factor this in a way that is earnings accretive on cash basis from the first day on and will bring a considerably upside later on. This is a compelling opportunity for us and we hope that you will have a lot of interesting and interested questions from now on. And I would like to say that we end with the presentation. Thank you for your attention for the time being.

I would now like to start with the Q&A session. And as you know from all the previous sessions that we already had together, I would like to suggest that we start with the people here physically present in the room, and then we have – after we had the questions here, we will then also give an opportunity to everyone on the phone to also ask questions.

For the people in the room, you should also know the procedure, please press the red button in front of you so that you can also be heard outside this room over the wire. And please, start by saying who you are and then place your questions, if possible not more than three. Otherwise, we'll get a bit confused.

Q&A

Operator

A - Stefan Loacker {BIO 15157193 <GO>}

...floor. And I'm asking who is having the first question? There is one question over there.

Q - Michael A. Klien {BIO 4262408 <GO>}

Yes. Good morning. It's Michael Klien from Nomura. I have two questions to start off with. Firstly, and obviously some key shareholders in Nationale Suisse, have you been in contact with them yet? Are you going to contact them? Do we know what the intentions are? And also, could this potentially have an impact in terms of what you're envisaging to achieve here, or in other words, what kind of legal hurdles could we potentially stumble upon?

Second question would be, you have talked about the natural attrition ratio on the FTE side, do you have any targets in terms of head count reductions overall? Or will this be sort of a fluctuating number go-and-see (51:19) in terms of where they need to cut? That will be my two questions so far.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you very much. I'm looking also in the direction of Hans Künzle. With regard to the first question, I am not entitled to discuss or disclose any context or note that we had with other shareholders. It would be best to ask them directly. That's my suggestion, or maybe Hans could even say more to this. No more? No more information. So you should ask them directly.

With regard to the natural attrition target, we have no announcement in terms of ideal staff numbers in the medium-term. We will discuss this as we start with the integration project very thoroughly. We have not started the integration project. We will need time to really develop a plan and to discuss the situation location-wise and functional-wise. And today, we are still very comfortable that the magnitude that we have shown is very feasible, but a clear target we do not have. We will also not be a fluctuating target. I think we will have our plan and then we will also consequently implement that.

Q - Michael A. Klien {BIO 4262408 <GO>}

If I may just come back to the first question, do you have any minimum acceptance levels in order to go ahead?

A - Stefan Loacker {BIO 15157193 <GO>}

Yes, of course. Our offer is conditional as every offer tends to be. And one of the conditions is the quota that we reach in terms of tendered shares and this is a two-thirds quota that we have. So 66.7% is the minimum that we have set in our conditions.

Other questions? Yes, please.

Q - Stefan Schürmann

Stefan Schürmann from Vontobel. I have two questions as well. The first one on the synergies, can you maybe give us a little bit more color on, I mean, how you reached – how you're going to reach these synergies going forward, maybe how much will stem from Switzerland? And in terms of timing, I mean, in 2015-2016, how quickly you think you will get there? And the second one, on the reserving side, on non-life, do you think that you will have to adjust on the reserving side or on contrary maybe to be able to release reserves from non-life side going forward?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. I suggest that Paul can use the time to prepare for the second question while I'm coming back to the synergy topic which as has been mentioned is now – is a planning topic and not yet being discussed in detail. It's all people that need to be involved.

We have a clear cost synergy idea which is based on non-personal costs which you can easily manage once you have only one brand that we have only one auditor or that we have only one IT system or that we have only optimized facilities on the logistics side, that there would be a substantial saving which are non-staff related.

But on top of that, there is also the idea that we will have slimmer processes and that we can combine forces also in doing so. And there, clearly, the natural attrition rate will help a lot if you imagine that we will have like 7,000 employees as a combined group and you apply 5% to 10% per annum attrition rate, you can see that much of these potential redundancies will be digested by this topic alone. And if there is more to do because of just simple redundancies need to be fixed, it is a clear idea to be socially acceptable and fair in all solutions to be discussed. Today, there is no further detailing needed with regard to locations or functions that we could already disclose.

On the non-life side and the reserves, I would like to pass to Paul Norton.

A - Paul Norton {BIO 16145125 <GO>}

As part of the process, it was made clear to all parties that there would be only a very limited due diligence review, which is actually normal in such processes. In fact, I think, compared with many takeover of public companies I think we've got a reasonable understanding at a high level, I repeat, at a high level of reserves. Our initial view, obviously, we would have to go in detail is that reserves are set in a similar way the way we do it. It's a conservative periods, but I think it'd be too early to tell if there is – I would doubt that there is any under reserving, and it's unlikely (56:05) probably just about right.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. Next question, please. We could use the opportunity to have the colleagues on the line. Maybe the operator can have the first question in the line, please.

Operator

The first question comes from Mr. William Elderkin from Goldman Sachs. Please go ahead.

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

Thank you and hello everyone. A couple of questions please. The first one is can you just help us understand what's the acquisition accounting-related effects are both in terms of goodwill, (56:46) whatever else it may be, and what the associated amortization charges flowing through income as a result will be.

And secondly related to that, when we're thinking about your actual dividend potential, you've retained, as I've understand it, the payout ratio target of 30% to 50% of IFRS net income. Is that net income number net of those acquisition related charges? The reason for the question is it seems likely that you got a situation where your underlying cash earnings are growing substantially, but your net income growth on a reported basis is rather depressed by those accounting effects. And I just wanted to understand how your dividend payout ratio interacts with that. That was the first area of questions.

And then second one and I think it's a fairly straightforward, have you had a conversation with the regulators and what's their response been. And thirdly in terms of the synergies that you're targeting, are these all flowing through to shareholders or is there any life policyholders' participation which you should be considering.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these questions. I suggest that we pick them up in the order of your questions and I would like to refer to Paul with regard to acquisition accounting, goodwill amortization charges, dividend potential and a potential difference between cash earnings and reported IFRS statements. Please Paul.

A - Paul Norton {BIO 16145125 <GO>}

It's early yet to give exact figures on the acquisition accounting and how that will be reflected in the books. You'll probably have to wait until the year-end to see that. In terms of the quality (58:31) that's both the quantitative intangibles that will affect the net income, the biggest is the value of business acquired and that is account durations, predominantly on the life side where the life portfolio is relatively small but also under IFRS you have to (58:47) non-life side as well. There are other such the discount in reserves you have to book, they tend to have a very short life span and so will be mostly amortized every three-year period, three-year to five-year period. But at that moment, we don't want to give any numbers on that.

Your point about our 30% to 50% payout ratio based on IFRS net income is correct. It will obviously include those. But one of the reasons why we gave a wide range, 30% to 50%, is it gives a certain latitude in setting the absolute dividend. And if you remember that one of our key – the primary aim when we set dividend is to make sure the dividend, at least, does not go down. It will go up. So we have a certain amount of flexibility to set dividends which are independent of the pure impact of the IFRS accounting which is why we showed in the slides the dividend capacity in the normalized EPS.

So, certainly, we don't see at the moment any at all, any risk of existing dividend and although it might take a couple of years before the full benefits start to come through. I think you will recognize it's not our policy to certainly open up the watering can and pour dividends out regardless of what the IFRS numbers say. But clearly, clearly a strong potential to face (01:00:16).

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

Can you make a comment on the question if there is a considerable policyholder part to be respected or if this is, more or less, a normalized driven type of synergy?

A - Paul Norton {BIO 16145125 <GO>}

We expect there should be virtually no policyholder benefits coming out of the synergies because Nationale Suisse does not have a group life business which is where they occur, and life businesses clearly at Switzerland, so there may be some contractual amount that go to policyholders and the synergies, but it's very, very small. So it should be almost negligible.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. The second question was on regulators' filings and feedbacks. And of course this is a project which needs to follow very correctly all the standard the procedures in terms of information and also then contacts and discussions with the regulators. So far, we have just given the first indication obviously which has been taken in without any flags or whatever particular items to be discussed so far. But it will be a clear process in Switzerland and also in the European entities that we have to ask for clearance of this transaction. And that's also one reason why we need also the next couple of weeks to get deeply involved and discuss all the local items with the regulators in charge of these different entities.

May we come to the next question? There is another question in the telephone line. So, if I could ask the operator to put it through please.

Operator

The next question comes from Li Dunlop from JPMorgan. Please go ahead.

Q - Li Dunlop {BIO 5997826 <GO>}

Good afternoon, gentlemen. I just wanted to ask the Nationale Suisse management there. Just what was the process you went through in order to conclude this transaction. I was just wondering if there are other third parties you considered teaming out with. And second one, just understand Nationale Suisse shareholders need to approve changes to the articles of association. And what's the majority vote required for that? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

I would like to ask Hans Künzle to answer directly.

A - Hans Künzle

Yes. As I explained before, I think we started the process in order to assess, in fact, two options. The one option stay independent and the other option was to go together with a partner. The process going together with partners, analyzing the potential offers was a restricted process to a restricted number of participants where we had several management meeting, where we had a limited due diligence, where we had then say where the invited parties offered the concept – the business concept, and this was then the basis for our board of directors to assess all options and we came then to the conclusion that Helvetia's offers met best the board of directors' criteria.

With regard to the extraordinary shareholders' meeting, we would need a two-third majority in order to change the limitation of the voting rights which is one topic which has to be addressed. Then, we have some smaller GAAP adjustments to the statutes and then it's the question of the composition of the board of directors. Is this sufficient?

Q - Li Dunlop {BIO 5997826 <GO>}

Thank you very much.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. We have more questions in the line. Please go ahead.

Operator

The next question comes from Mr. Marc Thiele from Mediobanca. Please go ahead.

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

Yes. Hi. Good afternoon. My first question is have you also considered potential disposals both for your own portfolio onto one of Nationale Suisse, be it in areas where you think you may lack critical mass or areas where you revisit your strategy?

And then, secondly, this may be a bit premature to ask, but I'd like to understand your thinking. The solvency continues to look good. There's now, I guess, a limit to the gearing. But there'll be retained cash earnings coming through quickly. So if you then think beyond this deal, would you then see areas for further strengthening, be it in Switzerland or outside or do you have specific preferences where you aim to get more critical mass inorganically?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these two strategic questions. I would like to answer the first question from Helvetia's point of view with a no. We have not envisaged further disposals or franchises to revisit. I would like also to give the word to Hans Künzle to discuss if there are ongoing procedures on the Nationale Suisse side in that respect.

A - Hans Künzle

Thank you very much. I think you know that from our point of view, we have decided to go into a strategic assessment with regard to the Belgium operations. This process is ongoing. And as long as we stay independently, that means until closing, we want to continue that strategic assessment and finding future-oriented solutions. And then the moment after closing is done, of course, it will be discussed together and decided together. Other issues are not on the table.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. With regard to solvency and retained earnings, indeed you said it's a bit premature, we didn't, of course, not discuss about the ideas of how to develop the group after this integration in detail. If I have to give an answer today, I would say, is a clear priority to say integration comes first until this is finished, nothing else will be possible in the larger degree.

And we have today also a clear comment that we are restricting ourselves to the given geographies that we are in and that we are now enforcing through the mutual combination. We will use also the process of the integration to discuss our longer term ambition, which in any case would have been due next year because we have strategy and financial targets 2015. So through the integration process, we will also have this strategic discussion. But it's clear that for the next year and two, this is our clear given priority.

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

Perfect. Thank you very much.

A - Stefan Loacker {BIO 15157193 <GO>}

We have more questions in the line. Please go ahead.

Operator

The next question is from Mr. Andreas Frick from Bank am Bellevue. Please go ahead, sir.

Q - Andreas Frick {BIO 1883910 <GO>}

Hi. Thank you. I have just two questions. The one first is on the remaining significant channel such as Mobiliar, the neutral company here in Switzerland. They have more than 19%. Do you have spoken to the company? Do you have any kind of agreement? Or can you say anything on what intention of Mobiliar is, whether they will accept the offer or not? And then, also, what would happen if they wouldn't accept from a legal point of view?

And the second question is on the cost of the new debt, senior debt and hybrid debt. Do you have any indication what you would expect as cost in terms of percentage points?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, Andreas. I would like to state what I obviously said that I'm not entitled to speak in the name of other shareholders. Unfortunately, you have to ask them directly. And I would also not want to speculate what would happen under various scenarios. I think you heard that we need a two-third majority. That's also the criteria that is valid here, and it's a two-third majority. We are ready to execute this combination. And that's also the answer probably to that sort of question.

With regard to the third question, debt costs, I'm not sure if Paul has anything to disclose for the time being. Paul?

A - Paul Norton {BIO 16145125 <GO>}

Our best estimates are that the hybrid would be roughly around about 4% and the senior around about 1.5% (01:09:57). And the colleagues from UBS seem to think we can even get it lower than that. We will see.

Q - Andreas Frick {BIO 1883910 <GO>}

Okay. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

We have one more question in the line. Please go ahead.

Operator

We have a follow-up question from Mr. William Elderkin. Please go ahead.

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

Thank you for taking the additional question, two small points. First of all, in terms of the two-thirds majority, so it's a very obvious question, but does that mean in practice given your 19% stake, you need sort of whatever that comes by 47% of the outstanding shareholders to supporters in practice?

And then, secondly, just when looking at the pro forma numbers you've given, I just want to understand the accounting of how your existing stake in Nationale Suisse flows into your numbers? I guess it's a pro-rata share of a dividend, but again it's (01:10:50) life policyholder participation effect that we should be thinking about.

A - Stefan Loacker {BIO 15157193 <GO>}

I'm afraid Paul needs a bit more time to reflect that. Did you capture the second question or...?

A - Paul Norton {BIO 16145125 <GO>}

I'm just trying to think of the – let me try to answer it another way around. The pro-forma figures that we have given, which are right at the front with Stefan Loacker's overview were clear pro forma stakes from a 100% combination. The dividend per share and the EPS calculations that we're showing are clearly for the company as a whole, for all shareholders. So we're looking at the overall 100% perspective. The fact that we own already 18% in combination with the Patria Genossenschaft doesn't affect those earnings and dividends.

At some point in time I think that's – we have not yet decided how the Patria Genossenschaft or rather when the Patria Genossenschaft stakes would probably be transferred directly to us. It's clear, obviously, the offer we're making at CHF 80 per share and the overall price is for the outcome shares that we do not own. So the overall value, not so sweet. I think it's CHF 1.76 billion, and we are paying CHF 1.44 billion because we already own 18%.

A - Stefan Loacker {BIO 15157193 <GO>}

With regard to your first question, that sound to me like a decent proposal that our almost 19% plus another 47% might end up at 67%. I think that was correct.

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

So let me add just sort of quick...

A - Paul Norton {BIO 16145125 <GO>}

(01:12:32) it's also the quorum of people who turn up, or both at the annual general meeting. So to this, I mean, not everybody turns up at an annual general meeting or extraordinary general meeting and both. One would assume that more would probably turn up now, but I don't know what the normal attendance rate is at Nationale Suisse AGMs. It could be they actually need less.

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

May I just have one clarification? So in terms of if we're looking at the pro forma numbers, the 18% of the dividend of Nationale Suisse, do they flow into your existing financials, say, your 2013 financials at all? Or are they actually just flowing into Genossenschaft?

A - Paul Norton {BIO 16145125 <GO>}

5% is held by the Genossenschaft and we held roughly 13%. So we've included in our net income for 2013 just 13% of the Nationale Suisse's dividend.

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

And that number is flowing to ordinary shareholders? There's not some of that 13% sitting with your life funds, for example?

A - Paul Norton {BIO 16145125 <GO>}

No, it doesn't. It's in the segment marked other, which you remember showed some volatility. And I think we actually mentioned that quite clearly at the press conference that one of the reasons for the other going up was the significant benefits we had increased in the Nationale Suisse share price plus the dividend we received.

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

That's very clear. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. There are no more questions in the telephone line. So we have another opportunity to come back here to this room if there are questions around the floor. Everyone happy? All the questions answered?

(01:14:25)

Okay. (01:14:28)

This is just a journalist question, buzzer type, simply want to know, you're paying this price and the assumption is high price on the assumption that the Swiss insurance market is going to stay where it is. It is going to stay most profit full insurance market in Europe. What makes you so sure that this is going to be the case for another 10 years? I guess that's about the time you need in order to make real – to reap the real benefits of this acquisition?

Thank you for this question. Indeed, if you are evaluating a company, you do have to make some assumptions going forward because we are talking about a future idea and that is naturally also incorporating assumptions on the various markets. The Swiss markets is one of the important ingredients here in this case, but is not the only one so is not only driven by the assumption of combined ratio going forward. So there are all the other ingredients that are offsetting this one assumption to a large degree especially the cost-driven items and also what we think about the European situation, about the investments that we will see come through.

And all these assumptions are finally guiding us in our belief that we do have a future ahead of us on which we can probably anticipate that for the Swiss market, we will not see a dramatic change in the behavior neither of the supply side nor the demand side of this insuring market. It's not necessarily that it stays on the record level. It's just necessary that it stays on the healthy side. And here, we have no signs to ask for something different.

Okay. If there are no additional questions here in the room, then I would like to close the session by thanking you really for your interest, for your fast reaction, which came at short notice, and we will obviously be available for your questions. And we are also going on road shows to Zürich, London and Frankfurt during the course of this week, and we hope to see you then in person again. Thank you for the time being and have a nice afternoon. 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.