Q4 2014 Earnings Call

Company Participants

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

Other Participants

- Andreas Frick, Analyst
- Peter Casanova, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to Helvetia Full-Year Results 2014 Conference Call and Live Broadcast. I am Saya, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode, and the conference is being recorded. After the presentation, there will be a question and answer session. The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Stefan Loacker, Group CEO. You will now be joined into the conference room. Thank you. Ladies and gentlemen, please hold the line. The conference will begin shortly. Thank you.

Stefan Loacker {BIO 15157193 <GO>}

...results. We can once again look back at the highly successful and eventful reporting year. We would now like to use our presentation to provide you with the facts and background information in more detail.

We, this is my team, not changed to the prior year. Paul Norton will explain our key figures; Ralph Honegger will discusses the investment result; and Philipp Gmür will describe the development of the business in our home market in Switzerland. Finally, I will conclude the presentation with an update on the integration of Nationale Suisse. After this, we will be available to answer any questions you may have.

And now turning to Slide 3 to give you a first highlight overview of our reporting year. On the strategic side, as you know, we made a big move forward by acquiring Nationale Suisse and Basler in Austria. The new Helvetia, as we call it, will strengthen its rating among the Top 3 in Switzerland, improve the positioning in Europe, and emphasize its presence on the attractive international specialty markets.

At the same time, our group also made operational progress in the reporting year. Premium development was solid. The technical result is very healthy again. And the investment returns are excellent. As a result, also profits increased. But this is now more complex issue than it was before, because our group's IFRS earnings for the period are, to a certain degree, influenced by extraordinary accounting effects, that have temporary issues in itself and which will effectively disappear from 2018 onwards. Up to the year 2017, we will therefore focus additionally on the so-called underlying earnings, which will better reflect the operational development of Helvetia Group.

In 2014, Helvetia increased this so-called underlying earnings by a sizable 16% to CHF422 million. The acquired companies made a pro rate contribution of CHF22 million to these results. Improvement came from non-life business, which grew by 33% to CHF256 million, compared to the previous year. The underlying earnings from the life business generally remained stable at CHF151 million, despite the difficult conditions on the capital markets.

Thanks to these positive business developments, we have been able to maintain our attractive dividend policy and will propose to the shareholders' meeting that we increase the dividend by 2.9% to CHF18 per share.

Business volume increased 4.4% in original currency, thanks to the acquisitions. On an organic basis it remained stable. The non-life business provided strong impulses and increased by 10% in original currency to almost CHF2.8 billion. Austria saw an increase in non-life premium of almost 24% supported by the acquisition of Basler. Also, Switzerland recorded a strong growth of roughly 15% also helped by the acquisition impact.

As you know, the new companies were consolidated only pro rata. For Nationale Suisse, the date was the 20th of October. For Basler, it was the 1st of September. So, therefore, the full impact will be only in 2015 basically.

Slide 4 highlights of non-financial background. We are also making good progress with the integration of the new companies. Since acquiring Nationale Suisse on the 20th of October, integration has been running at full speed. The management, the target organization and the common product range of the new Helvetia has been defined for all country markets.

As part of the Nationale integration, joint sales will start at the expanded office agency network on the 1st of May this year under the Helvetia brand in Switzerland. Country markets Germany, Spain and Italy will follow gradually from mid-2015 onwards.

In Belgium, the process of the strategic examination was concluded with the successful sale of Nationale Suisse Belgium lately. Basler Austria already appears under the Helvetia brand. I will provide more details on the integration process later on.

It was very important to us that Helvetia continues to have a strong capital position following the acquisitions. Thanks to the rapid and successful refinancing, we have met this target as demonstrated by the practically unchanged Solvency I rate of 216% compared to 218% the year before. The planned SST ratio also remains within our target corridor of 150% to 200%. Overall, Helvetia Group can look back at a strategically and operationally successful year.

I will now hand over to our CFO, Paul Norton, who will present you with further important information about our key figures. Please, Paul.

Paul Norton {BIO 16145125 <GO>}

Thank you, Stefan. Ladies and gentlemen, I'd also like to welcome you to the 2014 year-end analyst conference. As usual, I'll go though the results in some more detail. Slide 6. Slide 6 is a rather different starting point from our usual presentation. As I'm sure that some of you are aware, the accounting treatment of acquisitions under IFRS is complex and can lead to disclosed results that do not reflect the underlying earnings pattern of our business.

The 2014 financial year was very successful, but the IFRS results have been significantly distorted by the accounting impact for two acquisitions in the year, in particular, the acquisition of Nationale Suisse. For this reason, we've decided to focus until the end of 2017 on the underlying earnings generated by the business as the main performance metric instead of pure IFRS earnings. This will allow investors to see much better how the underlying business is performing. We expect the distorting effect of the acquisitions should have, by and large, disappeared by the end of 2017, and that we will be on a business-as-usual basis by then.

The underlying earnings produced by the Helvetia group in 2014 were CHF422 million, a 16% increase from the previous year. By the way, we have not adjusted for 2013 IFRS reported earnings since there was only a very minimal impact of acquisitions in that year. Even on a reported IFRS basis, the IFRS earnings after tax of CHF393 million represents an 8% increase over prior year.

I'm going to go through the main differences between the underlying earnings and the IFRS reported earnings here. Later in the presentation, I'll give you some guidance as to how we see these items developing over the next three years.

Firstly, we have excluded the integration costs from the underlying earnings since these are one-off items. We expect these to be incurred in the first year of the integration projects with the synergies that result from these costs coming through in late years. We have incurred some CHF85 million integration costs in 2014. We'll be making faster progress on the Nationale Suisse acquisition than we initially foresaw, which is why we've been able to book a greater proportion of the overall integration costs in 2014 than we originally had expected.

Under IFRS, we have to value intangible assets in an acquisition and record them in the balance sheet. They have to be written off through the income statement over their defined lifetime, but they have no impact on cash flows or dividend capability. We have recorded CHF217 million of intangibles from the two acquisitions in 2014, which we've written off over the period until the end of 2017. We booked CHF70 million write-downs in 2014, of which CHF41 million relates to the two acquisitions in 2014.

Included in this CHF70 million total write-downs of intangibles is the full write-off of the goodwill resulting from an earlier acquisition of Chiara Vita in Italy. This is mainly due to deteriorating conditions in Italian life market. There's been a considerable adverse change in product mix and profitability due to the effects of much low interest rates and the recession.

Another effect of acquisition accounting under IFRS is that all investments in an acquired entity has to be revalued at market value at the date of an acquisition and the new market value becomes the new cost base. In the case of bonds, this means that the regular amortization of the differences between the cost value and the par value of the bonds changes.

The fall in interest rates in recent years and particularly in 2014, the market value of bonds has risen materially, which means that the amortization cost increases significantly. Again, as with the amortization of intangibles, this has no impact on cash flows or dividends, but does distort profits.

We owned 13.7% of Nationale Suisse prior to acquisition, and this has to be revalued to the offer value, leading to one-off profit, booked profit, of CHF109 million, which again does not have any impact in cash flows or dividends and does not represent underlying profit generation. These pre-tax-acquisition impacts have to be adjusted to policyholder participation and deferred tax.

We will all include synergies in underlying earnings since they represent real ongoing benefits and, for clarity, and show them (11:54) in this presentation.

We will provide this bridge each reporting period. You can also find on Slide 32 in the backup a summary of reconciliation between underlying and IFRS earnings by market unit and by secondary segment. The rest of my analysis, we're basing underlying earnings. With this, I'd like to turn to Slide 7.

The Helvetia Group generated a strong CHF422 million underlying earnings in the 2014 financial year, which was 16% above the previous year. The pro rata contribution from the Nationale Suisse and Basler acquisitions was CHF22 million. Thanks to the excellent technical (12:39) performance and better investment results, we also generated a 33% year-on-year increase in earnings in the non-life business to CHF25 million (sic) [CHF256 million] (12:48).

In a very difficult investment environment results of the life business remained generally stable at CHF151 million. I'll come back to details of the development of the results in the life and non-life business in Slide 10 and Slide 13. The CHF15 million result of other activities is below that of the previous year. This decline was primarily due to low investment results from internal group funds partially compensated by improved reinsurance results.

I'll continue with the results by geography on Slide 8. With an increase of 17%, Swiss home market contributed CHF294 million to 2014 results and continue to prove itself the strongest part of Helvetia Group. Philipp Gmür will fill you in detail later on about this country market result, which is, once again excellent.

In addition, in the Au-Fra (13:46) markets increased their contribution to earnings over the previous year, in some cases, significantly.

Only the earnings in Germany were lower than the previous year at CHF15 million. This was partly due to lower investment returns in the life business. In the non-life business, fewer claims were ceded to the reinsurers compared to the previous year and there were additional large claims in the industrial business.

In Italy, underlying earnings rose by 58% compared to previous year to CHF32 million. This was due to improved technical results in non-life business and better investment returns. The underlying earnings of our Spanish unit were also higher than previous year at CHF28 million. Higher investment returns and tax effects compensated for the poor technical results in the non-life business.

Other insurance units consists of the country markets of Austria and France as well as reinsurance. The segment also includes the new Nationale Suisse locations country market of Belgium, whose sale we have recently communicated; the representative offices in Liechtenstein, in Istanbul and Miami along with branches in Singapore and Kuala Lumpur.

Underlying earnings of this segment increased to CHF64 million, improving results significantly higher in Austria and France as well as the improved group reinsurance results, which have suffered from above average claims from natural catastrophes in the previous year. The income contribution from the new Nationale Suisse locations was minimal in 2014.

The lower underlying earnings in the corporate segment stem primarily from lower investment returns from internal group funds.

I'll continue with the developments of our volumes on Slide 9. The business volume of the new Helvetia Group was CHF7.8 billion and grew by 4.4% in original currency compared to the previous year. This was primarily due to acquisitions. Both of the acquired companies were consolidated pro rata in the consolidated financial statements for 2014 and will show the full impact of their contribution in 2015.

Organic growth was 0.3%. With an increase of CHF238 million, or 10.3%, the profitable non-life business was the clear growth driver. The acquisition of Nationale Suisse and Basler Austria made a significant contribution of CHF225 million. Helvetia was able to grow organically by over 1.4%.

The business volume in the life business expanded by CHF36 million or 1.1%, thanks to the acquisitions. I'll provide further details on both of these businesses on Slide 10 and Slide 13.

Active reinsurance increased its premium volume by CHF16 million or 7.8%. The growth results primarily from the newly-written policies as well as increased participation in existing business. Active reinsurance today would have further improved its diversification, both geographically and by sector, where we'd maintain a cautious underwriting policy while doing so.

I'd now like to take a look at the life business on Slide 10. The volume in the life business increased by 1.1% including the acquisitions. Organic volume fell slightly. Looking at our country markets, our Spanish business grew by a pleasing 10% due to demand for profitable investment-based products. Austria also generated more premiums thanks to the acquisition. The growth in Italy of 9% came from traditional single premium products. Germany also recorded a slight 1% increase. The Swiss home market declined partially, as expected. Philipp Gmür will explain this in detail later on. The stable earnings performance in a difficult investment environment is a product of an excellent risk result.

Due to increases in minimum interest rate guarantees set by the Swiss government for the mandatory product group life business, interest result was lower. This effect was almost completely compensated by lower policyholder participation compared to the previous year. Due to the sustained low interest rate environment, reserves were increased in the Swiss, German and Spanish country markets.

New business volumes shrank compared to the previous year because Swiss investment-linked (18:15) products could not be sold to the volume desired due to conditions in the capital markets. Group life business in Switzerland is also not able to obtain record single premiums of the previous year. The volume of new business in the foreign markets, by contrast, rose again.

The new business value in 2014 fell sharply which was primarily due to the low new investment yields in all country markets. As a consequence, Helvetia Group's new business profitability, which is the product of the new business volume and value, also sank to 0.8%.

Slide 11, as we have promised, we have disclosed an analysis of profit, which shows the breakdown of operating profits in the life business by source. I'd like to point out that this year, it does not include the impact of the two acquisitions, which are minimal in any case.

The operating profit declined by 5% compared with the prior year almost entirely due to the savings result. This was, as I mentioned earlier, due to the high minimum interest rate, guarantees on retirement assets within the mandatory group life business in the face of declining market yields. This effect was offset by a lower policyholder participation. The risk result, which is the largest component of the operating profit, remained constant at a very good level.

As Slide 12 illustrates, the direct yield in Switzerland and in the EU countries sank as a result of the low interest rates. However, it should be noted that the average interest rate Helvetia has to generate in order to meet it whole guidance (19:57) is also continuing to fall.

This is because expiring policies at high fixed interest are being replaced by those with lower-guaranteed interest, while the strengthening of the reserves effectively increases invested assets available to fund the guarantees.

In today's perspective, the interest margin will remain positive with our projections even if the low-interest rate environment continues into the foreseeable future. On this basis, we are, therefore, in a position to honor reliably our guarantees to customers in the long-term.

Slide 13 shows that all of the major key figures in the non-life business are very positive. Broken down by country market, the high premium growth of 10.3% including acquisitions was greatest in Switzerland and Austria, although also experienced organic growth in both countries.

Spain also recorded pleasing growth of 9%. Beginning of the economic recovery had a positive impact from our Spanish non-life business. Thanks to Nationale Suisse, premiums increased by 6% in Italy. Developments in Germany were also once again positive. This is the result of portfolio restructuring in the previous year, as well as Nationale Suisse contributing to growth.

France was the only country where premiums were lower than the previous year due to portfolio cleansing. The strong increase in results for non-life was due to organically improved technical results, a higher investment income and is also supported by both acquisitions.

The net combined ratio improved by half percentage points to 93.1%. I would like to look at the details of the combined ratio on Slide 14. The improvement of the net combined ratio is mainly due to the lower claims ratio of 62.4% as a consequence of fewer natural catastrophes. In addition, it's particularly satisfying that all country markets have combined ratios below 100%.

The increase of the cost ratio is due to the higher cost ratios in acquired units. Organically, we were able to slightly lower the cost ratio.

This brings me the changes in equity on Slide 15. Group equity had increased in the 2014 by 37% to CHF5.7 billion. The main causes of the higher earnings, the CHF535 million share capital increase and the CHF400 million perpetual bond – hybrid bond issued in 2014 as part of the financing for the Nationale Suisse takeover.

Unrealized gains on investments recognized in equity increased significantly due to the decline in interest rates to make up a substantial proportion of equity of 16%.

In Slide 16, I'd like to briefly look at the financing of the takeover of Nationale Suisse. We already held shares of 13.7% prior to the takeover offer and as of the formal completion date, the public tender, on 20 October, 2014, we held 96.3% of Nationale Suisse representing an acquisition price of CHF1.73 billion. After that date, we purchased shares representing 2.2% of Nationale Suisse in the market. So, we held 98.5% as at the year end. 96.3% holding is used as the basis of the acquisition accounting and the goodwill calculations. Purchases after this date are simply transactions with minority interest shareholders. It did not affect goodwill.

As well as the CHF535 million of new share capital, we managed to raise CHF1 billion of debt within a few weeks despite considerable market turbulence. This is much faster than we had expected. We raised CHF625 million in solvency rating eligible hybrid debt of which the CHF400 million perpetual debt is classified as equity under IFRS, and CHF225 million of liabilities and CHF375 million of senior debt.

This is one the biggest financing transactions in the insurance sector in many years, certainly in the Swiss market and was achieved with terms and conditions that exceeded our expectations. Prior to debt issuance, we had a very conservative leverage ratio with a current 23% debt to equity plus equity it remains conservative. We have now made better use of our balance sheet.

I'll continue with Slide 17. I'd like to come back to acquisition-related special effects and give you an indication of how these are likely to impact the IFRS earnings over the next three years. You should be aware this is only broad guidance and most of these items can change.

Firstly, we expect to achieve between CHF105 million and CHF130 million in annual pre-tax synergies from the two 2014 acquisitions, predominantly from Nationale Suisse, and to a lower extent from the takeover of Basler Austria. These will develop over the next three years, and we expect the synergies will be fully phased in by the end of 2017. These are real cost savings that will have an impact on underlying earnings and will be reported within net result. We will report on the progress on a regular basis.

Since we have just started the integration work only late in 2014, we were unable to report any notable synergies in 2014. We expect to be able to achieve some 10% to 20% of the total synergies in 2015, mainly as a result of natural fluctuations in staff in Switzerland. This assumption is based on staff resignations, early and normal retirements, and ending of temporary contracts at the end of 2014 to the first months of 2015.

Additionally, we've already identified potential for cost reduction, especially in the areas of IT, logistics and facility management, marketing and branding, as well as other fees, which we gradually implemented. As a result, we are quite confident that we'll be able to achieve another 30% to 60% of our planned synergies by the end of 2016. So, by the end of 2017, all synergies should be fully phased in.

As a result, the group progress on the integration process with CHF85 million, we were able to book a significantly higher proportion of integration costs in 2014 than we'd originally expected. We've all agreed and announced social plans for staff to be made redundant in Switzerland. We expect to incur a further large part of the cost in 2015, with an initial 10% to 20% in 2016 and the remaining approximately 10% in 2017.

The write-off of intangibles will basically follow a three-year straight line path. Additional amortization of the bonds to par will occur over the time to maturity, meaning that this will continue to past 2017 but in reducing amounts. The finance costs represent the additional coupons from the debt we raised to acquire Nationale Suisse. The amount we are showing here for integration costs, amortization intangibles and the amortization of bonds to par are based on our best estimates and can change.

Finally, I want to emphasize the above mentioned extraordinary accounting effects will predominantly as disappear from 2018 onwards. After 2017, the synergies should be fully realized.

I shall conclude my presentation by taking a look at the proposed dividends for last year on Slide 18. A very good annual result and a sustained balance sheet strength have enabled us to increase the dividend proposal to the Annual General Meeting by around 3% compared to previous year to CHF18 per share. Based on underlying earnings, this equals a dividend payout ratio of 44%, which is in our target range. Based on the IFRS earnings, the payout ratio is 47%. The dividend yield is an attractive 3.8%.

My colleague, Ralph Honegger, will now provide you with more information about the investment results.

Ralph-Thomas Honegger {BIO 4932832 <GO>}

Ladies and gentlemen, 2014 was once again a good year for investments. The continuing aggressive monetary policy still followed by the central banks was decisive for the development of the markets. In contrast to most forecasts, interest rates continued to fall over the course of the year and reached a new low point at the end of 2014.

The same applies to interest rate spreads, which fell across the board. This generated significant price schemes in the fixed interest rate segment with the performance of longer maturities reaching double-digits. At the same time, this situation made it more difficult to invest new money.

The equity markets performed unevenly and remained fragile throughout the entire year while share prices fluctuated constantly. Geographical risks in the wake of the Ukrainian crisis, economic concerns in Europe and fears of the re-ignition of the debt crisis repeatedly caused setbacks along with high market volatility.

At the end of the year, the American and Swiss equity markets, in particular, has demonstrated a strong performance of 13.7% respectively 13%. By contrast, the European markets barely moved. The Swiss franc to euro exchange rate remained within a narrow range due to the minimum rate guaranteed by the Swiss National Bank. Driven by the robust economy and the coming end of the QE programs, the U.S. dollar rose against the euro and Swiss franc.

Under these conditions, Helvetia generated a pleasing overall performance of 7.7%. The details will be presented on Slide 20. This figure shows Helvetia's overall investment performance for the entire year and that of Nationale Suisse started from the date of acquisition. The Nationale Suisse assets were recorded at their current market value.

Current income was almost CHF1 billion, an increase of CHF25.9 million compared to the previous year. The direct yield declined from 2.7% to 2.5% as a result of the continuously falling interest rates, which put pressure on current yields.

Capital gains were increased by CHF92.7 million compared to 2013 and reached CHF282 million. This amount includes the book profit from the holding in Nationale Suisse prior to its acquisition of CHF108.9 million. The investment result in income totaled CHF1.275 billion or 3.3% of the invested funds.

Driven by the sharp fall in interest rates, unrealized gains in equity increased to CHF1.677 billion and the total investment result for the group was almost CHF3 billion, which represented a performance of 7.7%.

I would, once again, like to point out that long-term liabilities and interest rates guarantees in the life insurance business require that the fixed interest investments will most likely be held until maturity. Unrealized gains in equity occurring in the meantime must therefore be seen in this overall context. Investments for the investment-linked life products, which are held after risk and for the benefit of our insurance customers generated an overall attractive return of CHF201 million.

Slide 21 provides information about the contributions of the individual investment classes. At CHF585 million, fixed interest investments contributed most of the current income, followed by the investment property at CHF209 million. Mortgages provided CHF92 million and equities, CHF63 million.

Investment property provided the highest direct yield at 3.8%. Two-thirds of the total investment result of CHF1.275 billion came from interest-bearing investments, of which CHF740 million came from bonds and CHF91 million from mortgages. The remaining third came with CHF235 million from equities and CHF212 million from investment property.

The unrealized gains in equity (sic) [bonds] (35:02) of CHF1.677 billion came almost exclusively from the fixed interest investments. Driven by the extraordinary interest rate developments, bonds provided a total return of CHF2.396 billion thereby, making up over 80% of the overall investment result of CHF2.952 billion.

The table in the lower part of Slide 21 refers to Helvetia Group without Nationale Suisse. In the reporting year, we made new investments of CHF1 billion. 80% of this was invested in fixed income – fixed interest rate investments. The remaining 20% were allocated to investment property, 9%, and mortgage rates 8%, while equities made up just 3%.

The average return on new investments was at 2.2% overall and 1.9% on fixed interest investments and mortgages, making it an attractive yield given the current interest rate environment. This is primarily because a large share of the funds could be invested in the first half of the year at even higher yields.

The asset allocation at the end of the year is shown in the following Slide 22. The investment portfolio increased by CHF8.4 billion to an overall level to CHF48 billion. Nationale Suisse contributed CHF5.3 billion. Both Nationale Suisse and Helvetia have similar investment structure. Combining the two portfolios, therefore, did not create any major shirt in asset allocation.

As Nationale Suisse stopped using mortgages as an investment class a few years ago, the new allocation resulted in slight shift between fixed interest investments and mortgages. The first gained 4 percentage points in rating, the latter lost 2 percentage points. The other changes were minimal. The portfolio continues to demonstrate a balanced distribution and a high investment quality.

The credit quality of our portfolio is shown in Slide 22. The fact that only 11% of the holdings have a credit rating of less than A or are not rated testifies the high credit quality of the portfolio. 70% of the holdings have the two highest credit ratings, 43% of the holdings received the highest rating at AAA, 27% received the second highest rating of AA. No impairments were needed in the reporting year, which also emphasizes the high quality of the portfolio.

That brings me to our outlook. We are assuming that interest rates in Europe will remain low in the light of the European Central Bank's decision to pursue an extremely loose monetary policy. Switzerland is likely to experience even lower rates after abandoning the minimum exchange rate with the euro and introducing negative interest rates although it is not expected that interest rates will remain negative for a longer period of time.

Thanks to our balanced safety focused investment policy and the high hedging ratio, the consequences of the currency shock could be well absorbed. The low interest rate environment remains a challenge for new investments. However, in order to generate improved returns, a selective increase of investment risks will be needed. Following a decision from last year, we are currently investing in corporate bonds in the BBB segment primarily in the United States as well as in U.S. Treasuries, convertible bonds and first-class Swiss mortgages.

Furthermore, alternative investment classes such as infrastructure debt or private debt are being examined in order to be able to do corresponding investments in the second half of 2015.

I now hand over to Philipp Gmür who will give you detailed information on Swiss business.

Philipp Gmür

Thank you, Ralph. Ladies and gentlemen, I am pleased to report another very successful financial year. As you have seen from the previous presentations, the Swiss business has once again proven to be a solid pillar of the Helvetia Group. With the acquisition of Nationale Suisse, Helvetia has now strengthened its top three position as a leading all-line insurance company in the home market, Switzerland.

As an introduction, I will briefly outline the most important key figures for the Swiss business on Slide 25. Over the past year, we were able to increase our premium volume by 1.8% to roughly CHF4.4 billion. Both Helvetia and Nationale Suisse were able to grow organically and gain market share in the non-life business, and stabilize their positions in the life business.

Primarily, of course, the growth driver was the non-life business, which expanded by almost 15%. This increase was due to both organic growth and the acquisition of Nationale Suisse's non-life business. The premium volume in the non-life business was a strong CHF912 million in the reporting year and could thus more than compensate for the decline in premiums in the life business.

The combined ratio net was an excellent 85.4%. The strong technical results in both the life and the non-life business, as well as the solid investment income, allowed the reserve to be strengthened again and that's substantially. Bottom line profit was 17% higher at almost CHF300 million.

On Slide 26, we see some highlights with regard to the life business. Premium from the life business fell by 1% compared to the previous year. This slight decline is due to the development of the individual life business and the one-off effect in the group life business.

The premium volume in the life business totaled to roughly CHF3.5 billion. The majority came from the group life business which recorded a slight gain of 0.8%. The regular premiums even recorded growth of 6.1%, which testifies the continued demand for so-called full insurance solutions and further reinforces our market position as the Number 3 in the group life business. In addition to our own sales force, selected brokers and direct sales contributed to the business expansion.

In contrast, single premiums in group life's business recorded a decline. As already mentioned in the half year presentation, this decline is primarily attributable to the outsourcing of the Swisscanto pension business. Since January 1, 2014, Swisscanto has taken over the liabilities for these pensions from Helvetia. Without this one-off effect that was deliberately planned, single premiums in the group life business would have generated positive growth.

As expected, we were not able to continue the enormous success of the previous years for the single premiums in the individual life business. The index linked tranche product Value Trend was once again highly popular amongst our customers. The tranche has sold well within a very short period of time. However, due to the situation of the capital markets, it was much more difficult to satisfy demand in the reporting period with appropriately-structured products and volumes.

The interest rate environment severely limited our capacity. By contrast, the regular premiums, which are important for assessing business performance, grew by another 1.3%. When including the proportional contributions of Nationale Suisse, growth was even 11.7%. The profits also grew year-on-year, thanks to the sustained strong demand for our so-called payment plan product. The sales of the unit-linked pension product, Garantieplans, were also strong.

The increase in regular premiums and deposits was not able to counter the decline in single premium products. The modern capital-efficient pension product made up 37.2% of the overall business volume in individual life. In accordance with its strategy, Helvetia is focused specifically on growth in these specific product categories

The solid technical results in the death and disability business lines and the investment results allowed for yet another topping up of the bonus reserves this year. Against the backdrop of sustained low interest rates and the demographic trends, we have also decided to further strengthen our reserves.

With the Slide 27, we will now focus on the non-life business. As mentioned earlier, the largest share of growth in the Swiss market was in this area. Due to the pro rata consolidation of Nationale Suisse, the premium volume is now CHF912 million, which represents a growth of almost 15%.

Gross premiums in all non-life segments grew through both acquisitions and organic growth. Our independent growth across all business lines was particularly good at 2.5%. Hence, we were able to increase market shares. All sales channels contributed to growth. Our own sales force and brokers remained the most important sales channels for the non-life business.

The positive development reflects the successful investments in training for our specialists and client consultants, as well as an expansive customer relationship program. Another reason for the positive growth was the high level of stability and targeted marketing in our different sales channels.

The excellent portfolio quality allowed us to provide attractive pricing in selected segments, which also drove growth. The new earthquake insurance created in cooperation with (48:09) Cantonal Bank is also worth mentioning. Last but not least, economic growth also provided an extra impetus.

Our non-life business was once again impressive in generating excellent technical results, reflecting the high quality of our portfolio. This is a direct result of our consistent risk selection and management quality. We also benefited from relatively few natural catastrophes in 2014.

The net combined ratio is a very good 85.4%. This ratio increased over the previous year due to a pro-rate consolidation of Nationale Suisse. Over the medium term, however, integration will provide additional opportunities for improved efficiency with corresponding potential for cutting costs. We intend to utilize this potential swiftly.

To conclude, I would like to mention that the integration of Nationale Suisse is on track as we were keeping to schedule and have already made good progress. Stefan Loacker will provide you now with more details on his outlook.

Stefan Loacker {BIO 15157193 <GO>}

Ladies and gentlemen, to conclude our presentation, I would now draw the focus a bit away from the pure figures and more to the integration topics that are driving our agenda. Please let me lead you to Slide 29, which provides you an overview.

The merger of Nationale Suisse and Helvetia is offering the opportunity to build on the foundation of two successful companies, and literally pick the best of both to design our future path. It is bringing a great deal of change for both Nationale Suisse and Helvetia Group. Internally, we are referring to the combined company therefore as the new Helvetia and please allow me also to use this term now in this presentation.

Within this integration project, we place great importance on dealing with the three main issues that are essential to our future success: first is strategy and finance; second, structures and processes; third, corporate culture and employees. We are off to a strong start in all these three areas also taking into consideration that we were allowed really to start off only at the end of October, so it's not much than four months that we have already in place.

We clearly outlined the strategy for the new Helvetia already when announcing the acquisition last July. We are still envisaging a company resulting from this merger to generate premium volumes of roughly CHF9 billion and the profit potential of more than CHF500 million. Most important market also in future will remain our home market in Switzerland, where we have the position of one of the leading tier companies and the premium income of roughly CHF5 billion ahead of us.

Focus of the integration, as Philipp Gmür has already mentioned, is on the non-life business, which will practically double. The new Helvetia in Switzerland can benefit from extensive scale and synergy effects. Just imagine the larger product range, customer access, customer services, but also technical expertise within our group and, in general, payroll and overhead cost synergies.

Market area Europe is consisting of Germany, Austria, Italy and Spain, will generate roughly CHF3 billion in premium income. Growth of a bit more than 10% will be generated primarily in the non-life business as Nationale Suisse, with the exception of Italy, has been only active in the non-life businesses abroad.

Integration of Nationale Suisse also there will create cost synergies and also cross and up-selling potential. The position in Belgium, as you have heard, was already under review inside Nationale Suisse's strategy focus 2014 and has now been successfully sold a couple of days ago.

The new specialty markets include the guidance and development of engineering, transport and art insurance in Switzerland and the markets outside of Europe, supplemented by the existing market units in France, which is focused on marine business and our active reinsurance, both will continue to develop their focused business model. So, all in all, the strategic direction remains unchanged to our ideas early in July last year, but has been refined in more detail.

We have also made good progress in the finance area, as Paul Norton has discussed. The funding of the acquisitions was done swiftly and neatly and has put us back to a very strong balance sheet position despite being large in size.

We have, again, analyzed in more detail the Q2 profit potential including the synergies from the merger and we are able to confirm all the main targets that we have defined already. By 2017, we will have generated at least CHF100 million from sustainable pre-tax synergies, have created a profit potential of more than CHF500 million and should be in a position to incrementally increase our dividend. In general, we think that the synergy case and the stronger bias into the non-life business are of great benefit to the group, also in light of the difficult low interest rate environment.

Structures and processes for the new organization have already been defined. All leadership issues, organizational charts, locations, the future IT systems, the future product suite, sales landscapes and all other factors important to the new Helvetia have already been fully designed before the end of last year. So, conceptually, the new company is already crafted and we need to put it in place now step-wise, one stop after the other. This will take, certainly, a couple of months ahead of us.

One issue in this area of structures is also the future concept of our legal structures both in Switzerland and also abroad. As you might have followed, the squeeze-out process that we launched in December for Nationale Suisse is proceeding as planned. We project to have 100% of all the shares as well as the associated delisting of Nationale Suisse within a few weeks from now, just a few weeks to go. Following that, the operational legal entities of Nationale Suisse and Helvetia will be merged.

This phase will bring us very close to the goal of one integrated new Helvetia starting in Switzerland, but then also abroad. The success of any company depends most of all on the employees and on a healthy sustainable corporate culture. We have already accomplished important achievements in this respect. The joint management teams were appointed very quickly at group level and in all country markets. So, just weeks after the conclusion of our takeover, the teams have been in place.

In Switzerland, for example, more than one-third of the first and second management levels below executive team were staffed with colleagues from Nationale Suisse. The new Helvetia is therefore also receiving a large injection of additional talent.

Meetings have been held with employees since the start of the year to discuss individual career options. Over the course of the next couple of weeks, more and more employees will have their perspectives clarified. We have placed great importance on stabilizing the workforce with a series of supporting measures so that our customers can continue to receive excellent quality levels.

But, nevertheless, natural fluctuation has been more accentuated. This is not coming as a surprise in this particular context that we are. And especially in Switzerland, we see that the labor market in the insurance industry is very receptive. As you might know, there are more than 1,000 vacancies in this country and that people are using this also to clarify their future individually.

We have some staff synergies probably already in 2015 despite the guarantees that we have given because of these resignments (57:43) early and normal retirements, as well as the termination of temporary employment contracts. Where it becomes necessary to lay off employees due to structural redundancies, such layoffs shall be carried out fairly and in a socially acceptable manner. So far, we did not have this situation.

To conclude, we can say that a great deal has been achieved in the four months since the acquisition. Strategy and finance topics have been specified, structures and processes defined, and management and staff issues are quickly progressing.

So what are the next steps from now on? In Switzerland, the integration of the two sales organizations, as well as the integration of the back office, will take place on the 1st of May, on Labor Day. A joint range of products and services will be offered under the Helvetia brand and under unified leadership from the same moment on. Also, the legal mergers, as I said before, of the two non-life and the two life insurance operations in Switzerland are planned already in May.

In less than two months that means nothing else, in less than two months the old Helvetia and the Nationale Suisse will be history and the new Helvetia will take its place.

We are also working to launch a joint product range in the European companies and also on the merger of operational and legal structures there. Due to different formal requirements in each individual country markets, we will need a few more weeks, but are still very well on our way. We expect to launch the unified common product range on a staggered basis starting from mid-2015 on.

Also, the specialty market area, our third market area, will be integrated in the multi-channeling organization launched in Switzerland, which means it is operating as an integral unit also from May this year onwards.

With the same timing in early May, all group function teams such as finance, investments, IT, strategy, communications, operations, and so on will also be placed under one management. This will provide them the operational market areas with hopefully the best possible support and safeguard an efficient way also of maintaining the group focus.

To conclude, I am pleased to state that the integration is on track in all respects and then I am looking forward to reporting on the successful further implementation of our plans already at the half-year conference in August. This is it for the moment. I would like to thank you for your attention.

And I am now available, together with my colleagues, for the questions that you might have. I would suggest that we start with the Q&A session with the people physically here in the room before we open up the line to the participants on the telephone. I would just like to remind you that you should press the button with the speaker symbol that you find on the mics so that everyone, also the colleagues on the line, can hear you.

I'm starting now the Q&A session here in Zürich. And I would like to give the word to those who have a question. I'm starting right in front. It's Stefan Schürmann.

Q&A

Operator

Q - Stefan Schürmann

Yes. Hello. I have three questions. The first one is on the life reserve increase. A point reported, you increased by CHF108 million for the group and CHF115 million in Switzerland. Just maybe, could you clarify what the rest is – where the rest is coming from? And also, how much of life reserve increase is basically based on interest rate and how much on biometric (01:01:49) adjustments?

The second question on integration costs, CHF85 million, could you give us some granularity where that stems from, I mean, how much of that is sort of personnel cost related, how much is from the rest and where?

And then the third one, just a small question in profit by source on the risk result, is that already including the impact from the Swisscanto decrease?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. All three questions are best answered from our CFO's side. So, please, Paul, I will give to you. Life reserving, more details on the additional ingredients.

A - Paul Norton {BIO 16145125 <GO>}

The life reserving in total was, as you said, CHF116 million, CHF115.7 million for the Swiss business for the extraordinary amount. The vast majority of that was for interest rates serving. There was a small offset against that for others. It's a positive release of – particularly disability that's reserving that's the major part of it.

Integration costs, where did they come from? The predominant amount is the non-technical provision we put in for the social planned assistance (01:03:13). That's based on estimates of the number of people who take that up. We've also got in there – that's the largest part of it. There's obviously also support services we have from various advisory firms, IT, lawyers. Obviously, the legal merger and the squeeze-out is a very technical legal process and our lawyers, unfortunately, will profit from that as well the accountants that's the major components.

And profit by source, the Swisscanto – that's a very good question. It should do. But I can come back and double-check that.

A - Stefan Loacker {BIO 15157193 <GO>}

Yes. An additional expertise to this question in the room...

A - Philipp Gmür

Yes.

A - Stefan Loacker {BIO 15157193 <GO>}

Life Switzerland, we have Philipp Gmür.

A - Philipp Gmür

Yes. Swisscanto has no impact, because if we are continuing making the administration of these pensions and Swisscanto pays cost (01:04:12) and we'll have the cost. There's no change.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. We have more questions in the room. Let's hear again in the first row.

Q - Andreas Frick {BIO 1883910 <GO>}

Yes. It's Andreas Frick from Bank am Bellevue. One question that I have is on the earnings contribution of CHF22 million from the acquisitions. Maybe you can give us the split between Nationale Suisse and Basler Austria. I don't expect too much from Basler Austria, but that might have a little even a negative – I don't know.

And second question then is on the gains and losses in the investment result. There is – I think on Page 20 in the presentation, and you said that you have a valuation gain on the Nationale Suisse shares of CHF109 million. I guess the CHF109 million is not included in the gains and losses that you present here of CHF292 million.

And the third question then is on Page 17, the financing costs. These seem very low with CHF13 million. I think you had already CHF13 million in 2014 actual reported numbers according to IFRS, so I would assume that the CHF3 million are kind of additional financing costs on your acquisition only. And if I would take something between CHF20 million and CHF25 million as a run rate going forward, that would be more reasonable.

A - Paul Norton {BIO 16145125 <GO>}

Ralph?

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

Yes. I think you're ...

A - Stefan Loacker {BIO 15157193 <GO>}

Answer all these in more detail, Paul, again.

A - Paul Norton {BIO 16145125 <GO>}

The first question on the contribution both (01:05:58) you can find it in Slide 32. There is a slide which shows the breakdown of the underlying earnings, including the contributions from individual entities. And as you know, we currently didn't show Austria separately, but Austria is very small. So it's about CHF2.5 million, I can tell you that.

And the gains and losses do include the CHF109 million because they are a book gain, you have to book them. And the financing costs are the incremental financing costs that go through the P&L, that don't include the dividends. We will discuss how best we should show that it's a bit difficult, because we're trying to show the bridge here within the P&L between the underlying and the IFRS. But there are, also, obviously the CHF400 million that go through the equity, which is accounted as a kind of dividend, the coupon for that.

And you're right, we've got about the total financing costs that we have as incremental was CHF27 million gross from the CHF1 billion that we raised.

Operator

A - Stefan Loacker {BIO 15157193 <GO>}

We have more questions, again, in the room. Mr. René Locher.

Q - René Locher

Yes. It's René Locher with MainFirst. So, first question on Slide 50...

A - Stefan Loacker {BIO 15157193 <GO>}

5-0?

A - Paul Norton {BIO 16145125 <GO>}

Sorry?

Q - René Locher

5-0. Yes. It's on these hedging. And, yes, I've seen that you are hedging now a little bit less of your CHF4 billion foreign currency exposure. And, yes, I'm just wondering if that does make you a little bit nervous.

And then also on investments, when I'm looking at Slide 21, I mean, for investors or – well, just looking at the press, always negative news about the real estate market, right? And, well, your usual investment property, I don't know if it's a gross or a net yield, this 3.8% you achieved. And even on the new investments – investment property, you have a yield of 5.1%. So, that's really amazing and it's always hard to explain, for example, London-based investors, that you can generate a return of 5.1% in the Swiss real estate market.

And then on Slide 11, I guess, – I guess I'm a little bit (01:08:33). These profit by sources, can you walk me through for your operating profit of CHF429 million to the segment result in the life business of CHF154 million?

And, if I may just, one more for the Swiss business, just the combined ratio, very strong again and this is, yes, of course, very positive. But I'm wondering a little bit, I mean, the outlook for the Swiss economy looks a little bit weak, just wondering if that could have a negative impact on the combined ratio, because there's a certain correlation between GDP and combined ratio.

And now with Nationale Suisse, as far as I know, you are in quite a lot of motor business. Should we expect a slight increase in the combined ratio? Could you offset that with a lower expense ratio? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Ralph, I suggest that you pick up on the FX policy, Ralph, and then also discuss the real estate investments of 3.8% in the existing, and 5.1% in the new investments that we could do last year, please.

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

Okay. To the hedging provisions, the numbers that you mentioned on the slide are basically the numbers reflect (01:10:00) are the numbers that for year-end 2014. And we published this perhaps for many years now. Before, we had exchange rates fixed by the Swiss National Bank. We were at 85% and then certainly, we realized on this hedge of the national bank and loosened our hedging ratio somewhat to two-thirds to 70% in this area. So, after the Swiss National Bank gave up the exchange rate goal, we lifted it again up to about 85%. So, we are not nervous.

The second one, looking at investment property under 5.1%, you have to be aware that we usually enter real estate engagements on the stages (01:11:10) of projects. So, we acquire projects today that probably come to market in three years or four years or five years from now.

So, looking at the 5.1% of last year, so basically these are projects that we acquired maybe three, years maybe four years, maybe even longer years before. And since, for the most part, we have residential property and the situation in Switzerland is still very, very good, we really could realize the yield that we expected when we acquired the project a few years ago. And a few years ago, our goal was at around 5%. So, then we get the results with this, which is still at the level that we expected it to be.

A - Stefan Loacker {BIO 15157193 <GO>}

And there's additional risk and return for these first time rental situations. So, you can judge a little bit more for a completely new flat, but you have the risk of renting it out. So, this is also logical. And therefore the new investments we have slight premium in excess to what we have in the back book.

Paul, can you bridge the CHF429 million operational profit by sources to the reported CHF151 million?

A - Paul Norton {BIO 16145125 <GO>}

We deliberately concentrate – we deliberately decided for the full disclosure to concentrate on the operating results, because that's what we were discussing, the underlying operating results. So, we haven't given a bridge. The bridge is basically the so-called extraordinary result, which is basically the extraordinary reserving plus the Chiara Vita write-down, the realized gains and losses, and the policyholder participation offsets against that. And that will come down to the profit before tax, CHF154 million (01:13:09). But we haven't given that this year.

A - Stefan Loacker {BIO 15157193 <GO>}

Philipp, combined ratio in Switzerland and how is it impacted by the macroeconomic environment on one side and the integration of Nationale Suisse on the other side?

A - Philipp Gmür

I mean, the first point is that we do not give any specific guidance to the combined ratio in a country market. But what I can tell you is, of course, there is a certain correlation between the GDP and, for instance, our premium increase. But to give you one answer to this, during the first two months, I think that the car sales in this country got to new heights we have never seen before.

Another point is that we want to stick to – still to a reasonable pricing and a best practice in managing our loss ratios. And when we have a look at the Nationale Suisse portfolios and compare it to the loss ratio management of the Helvetia portfolio, we see still some potential for even better managing our specific loss management. Another point here is also our reinsurance policy, which will be strengthened, of course, combining those two portfolios.

Another point is that we, of course, will have the ambition to even better manage our non-life portfolios, and thus, get cost synergies. And finally, we have the ambition not to see a worse combined ratio than we are used to in former years, at least not by combining the two portfolios. But of course, we were pretty lucky with the elementary loss situation in this country and the other circumstances. But, finally, we think that, of course, we can get some cost synergies also.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, Philipp. We will come back to more questions in the room from Mr. Casanova.

Q - Peter Casanova {BIO 2168233 <GO>}

Thank you. A quick question on Swiss distribution with Nationale you've acquired smile, the online platform. Can you give us, roughly, what's the distribution volume is? I'm curious to see or to hear where the cost is and maybe combined ratio of this distribution channel to other channels. Thank you.

A - Philipp Gmür

The combined ratio of the smile.direct business is very attractive. We do not give you a specific guidance with the different business lines, but it's very profitable, probably the most profitable sales channels in the Nationale Suisse environment as of today. Of course, we have good cost ratios there. But still, the pricing is reasonable and thus, the loss ratios are pretty good.

And we want to keep this online sales channel apart from the other sales channels. So, we want to keep it as our own direct sales channel. And we see there quite some potential in developing it furthermore.

Q - Peter Casanova {BIO 2168233 <GO>}

And what's the volume today, roughly?

A - Philipp Gmür

We have not disclosed yet the different volumes of the different sales channels.

Q - Peter Casanova {BIO 2168233 <GO>}

Okay. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

We have more questions in the room. If it's not the case, it will be an opportunity to ask questions from London, Frankfurt or where else you might be. Do we have questions in the queue, Chorus line?

Operator

No questions.

A - Stefan Loacker {BIO 15157193 <GO>}

Everything already answered?

Operator

No question from the phone.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. Then we have final hand here in the room again from René Locher.

Q - René Locher

A final question. Life looks so easy. If I go to Slide 6, so you have – a positive one-off . So, I mean, I don't want the guidance, but is it fair to assume that 2015, 2016 when you don't have the gains from your Nationale Suisse shares, when you don't have the tax benefit, you have a little bit synergies coming in then, but is it fair to assume that 2015, 2016 could be a little bit below the 2014 level?

A - Paul Norton {BIO 16145125 <GO>}

We showed you earlier on Slide 16 (sic) [17] (01:18:11) what the guidance would be for that. So, in – that gives you the numbers you are likely to see. So, the synergies, we're expecting of CHF105 million to CHF130 million, whatever we call them, 10% to 20%. You see what the integration costs are likely to be. So for all those numbers there, you've got some guidance that was going to be – clearly, you don't have CHF109 million.

The tax and other effects is purely a – very automatic whatever that might be on the calculation. So, on the underlying earnings basis, you can work it backwards, but I don't see any impacts, any negative impact. We expect the underlying earnings should grow. On the IFRS earnings, it's clearly very possible that they will decline. That's why we've given this measure.

A - Stefan Loacker {BIO 15157193 <GO>}

And I always think important to differentiate between what is cash relevant because some of these are neither cash relevant nor operationally, but accounting. And others tend to be temporary items. So, therefore, I think the focus on these underlying earnings are in combination with the IFRS pattern that will evolve probably, as Paul has demonstrated, will help you to understand the – I would say, the different realities between the two measures.

Q - René Locher

Okay. Just very quickly general question, I'm always surprised (01:19:35) a little bit between the autonomous pension schemes and the private insurance sector, right? And I do believe that in the current low bond yield environment, it will be quite interesting for a small-, medium-sized enterprise to switch out of the autonomous, pay a little bit more, shift the business to the private insurance sector, but get the guarantee then. And, I mean, just a general view on this, please?

A - Stefan Loacker {BIO 15157193 <GO>}

Philipp, can you give an update so from the renewals experience or, in general, with the results 2014 that you are have explained.

A - Philipp Gmür

I mean, you're totally right. What we see is the shift you mentioned, the demand for guarantees. And our ambition is to sell those guarantees, but we are trying to find new models with respect to the – to maybe third party like in the individual life business to bear more and more the guaranty. And we are also working on new products, like for instance, in cooperation with Notenstein. For all those clients who want to shift from the autonomous solution, they are looking for a life insurance as a provider for their solutions, but they, at the same time, are looking for more potential.

So there are new business models, which are evolving over time. And, of course, there is a trade-off between the guaranties we have to provide for and our own ambitions with regard to our return on equity.

A - Stefan Loacker {BIO 15157193 <GO>}

There are no more questions here in the room. No questions in the queue. This is then the end of our session. We would like to thank you, really, for your interest and your coverage of our company. And of course, we are available, if you want for one-to-ones, and we will meet some of you on the road during next couple of days. Thank you very much and have a good afternoon.

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.