

**Operating statement 2010.  
Group life insurance.**

2010

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# Transparent from conviction, successful through farsightedness.



Dear Readers,

Transparency in everything is in greater demand than ever before. Nowadays information on almost any topic is available at any time, and there are hardly any issues that are not being investigated critically by interested parties. The conduct of insurance companies in particular is also currently being put to the test.

Helvetia has always met all challenges head-on – from conviction. As always, the disclosures made by Helvetia in its operating statement for group life insurance (LOB) go far beyond what is required by the law and the authorities. With our new publication “Helvetia – News about 2<sup>nd</sup> pillar 2011”, of which we informed all associated companies at the end of the 2010 financial year and which is available on the internet, we have come another step closer to completely meeting the needs of our clients for information.

Helvetia can look back on a very pleasing and successful financial year 2010. Income from group life premiums rose by 6.8% and the number of insured increased by more than 5,000 persons to 183,337 thanks to the good new business results. As far as business financed by regular premiums is concerned, we successfully defended our position as number three in the market and also gained additional market shares.

In spite of the considerable growth in the number of policies, implementation costs rose only marginally, enabling us to reduce the costs per policy even further. Investment performance is also positive, and Helvetia earned an encouraging return in 2010 thanks to its forward-looking and differentiated investment policy. Our investment policy focuses on providing adequate risk cover in the long term

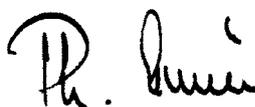
and is based on the full insurance model which guarantees clients full coverage of all their benefit claims at all times. Our business success confirms that demand for the full insurance model is unabated.

But sustained success can only be ensured by sustainable and forward-looking conduct. The group life business once again plays a central role in the Strategy 2015+ adopted for all of Helvetia Group in 2010. The growth rates of the past few years underline the real need in the market, mainly driven by SME. Occupational benefits insurance remains one of Helvetia’s core areas of expertise, and we will continue to expand this business area by adding new full insurance products. We also plan to offer alternative products that harbour greater potential for returns on investments, but these will only be suitable for clients who wish to and are able to accept all or part of the investment risks themselves.

Dear readers, security, reliability and transparency will continue to shape our actions in the future. We are convinced that this approach will allow us not only to meet the challenges of the times but also the demands of our clients.

We are looking forward to our continued collaboration and would like to thank you for your trust.

Helvetia Swiss Life Insurance Company Ltd



Dr. Philipp Gmür  
Chairman of the Executive Management

# Income statement.

The following income statement reports on Helvetia Insurance's income and expenses for its group life business in 2010, thereby providing information on the type, amount and elements of our success in this business segment.

## Income statement

| in 1 000 CHF, in accordance with the statutory financial statements | 2010             | 2009             |
|---|------------------|------------------|
| <b>Income</b>   |                  |                  |
| Savings premiums  | 1 717 757        | 1 587 333        |
| Risk premiums   | 288 114          | 285 441          |
| Cost premiums   | 84 432           | 84 077           |
| Gross premium income earned   | 2 090 303        | 1 956 851        |
| Direct investment income  | 354 133          | 341 149          |
| Sales proceeds  | 1 905            | -12 174          |
| Exchange gains and losses   | -1 871           | -18 650          |
| Balance of appreciation and depreciation                            | -6 269           | 4 254            |
| Interest payable  | -152             | -3 927           |
| Asset management costs  | -15 276          | -13 498          |
| Net investment income   | 332 470          | 297 154          |
| Other income  | 9 804            | 9 931            |
| Reinsurance result  | -13 710          | -15 778          |
| <b>Total income</b>   | <b>2 418 867</b> | <b>2 248 158</b> |
| <b>Expenses</b>   |                  |                  |
| Retirement, death and disability benefits                           | 469 841          | 461 457          |
| Vested benefits   | 620 448          | 606 991          |
| Surrender values due to termination of contracts                    | 244 042          | 177 618          |
| Insurance benefits paid   | 1 334 331        | 1 246 066        |
| Retirement assets   | 508 955          | 436 897          |
| Pension reserves  | 392 616          | 391 756          |
| Vested benefits policies  | 14 407           | 1 782            |
| Other   | 99               | 20 966           |
| Change in actuarial reserves  | 916 077          | 851 401          |
| Acquisition, benefits processing and administrative costs           | 86 007           | 84 543           |
| Other expenses  | 5 043            | 6 705            |
| Profit sharing allocated to profit fund                             | 23 311           | 25 303           |
| Operating result  | 54 098           | 34 140           |
| <b>Total expenses</b>   | <b>2 418 867</b> | <b>2 248 158</b> |

# Balance sheet figures.

With the following balance sheet, Helvetia Insurance provides information on the origin and use of the funds allocated to its group life business.

## Balance

| in 1 000 CHF, in accordance with the statutory financial statements | 31.12.2010        | 31.12.2009        |
|---|-------------------|-------------------|
| <b>Assets<sup>1</sup></b>   |                   |                   |
| <b>Investments</b>  |                   |                   |
| Cash and cash equivalents and fixed-term deposits                   | 816 365 6.64%     | 590 915 5.20%     |
| Fixed-income securities   | 7 052 552 57.39%  | 6 602 135 58.11%  |
| Mortgages and other nominal value receivables                       | 2 225 685 18.11%  | 2 018 992 17.77%  |
| Equities and investment fund units                                  | 630 429 5.13%     | 517 909 4.56%     |
| Private equity and hedge funds                                      | 80 031 0.65%      | 96 026 0.85%      |
| Investments in associates and affiliated companies                  | 43 539 0.35%      | 51 386 0.45%      |
| Real estate   | 1 388 513 11.30%  | 1 464 722 12.89%  |
| Other investments   | 52 397 0.43%      | 18 656 0.17%      |
| <b>Total</b>  | <b>12 289 511</b> | <b>11 360 741</b> |
| <b>Liabilities<sup>1</sup></b>                                      |                   |                   |
| <b>Actuarial reserves, gross</b>                                    |                   |                   |
| Retirement assets   | 7 257 408         | 6 748 453         |
| Actuarial reserve for current retirement and survivors' pensions    | 2 341 524         | 1 988 169         |
| Actuarial reserve for current disability pensions                   | 1 092 844         | 1 053 583         |
| Vested benefit policies   | 276 385           | 261 978           |
| Reserve for incurred but outstanding claims                         | 294 832           | 305 804           |
| Inflation fund  | 267 242           | 257 120           |
| Credited profit shares  | 113 669           | 116 809           |
| Other actuarial reserves  | 16 737            | 56                |
| <b>Total</b>  | <b>11 660 641</b> | <b>10 731 972</b> |

<sup>1</sup> Excerpt from the balance sheet in accordance with the disclosure regulations of the Swiss Financial Market Supervisory Authority FINMA

# Investments.

## The investment year 2010

Although the global economy recovered from the recession comparatively quickly and, driven by the dynamic development of Southeast Asia, returned to a solid growth path, the financial markets remained uncertain and vulnerable. Markets were burdened principally by the sovereign debt crisis in Europe and persistent unemployment in the US.

The central banks saw no other option but to continue their offensive monetary policy and to keep interest rates low, as a result of which the yield on ten-year Swiss government bonds temporarily dropped to 1%. Stock markets remained volatile during the year but most of them ended the year with a positive performance. Although some markets reported respectable double-digit growth, the marked weakness of the euro and the US dollar eroded these gains for Swiss franc investors. However, Helvetia posted a year-on-year improvement in investment income and direct portfolio yield in spite of falling market yields.

## Stable portfolio structure

In the reporting year the investment volume grew by almost CHF 900 million. The new funds were mainly invested in fixed-interest securities, mortgages and, to a lesser extent, in equities. The changes to the portfolio structure were minor. At around 57%, the most important asset class is fixed-income securities, followed by mortgages and other nominal value receivables (18%) and real estate (11%). The remaining 14% is divided between equities and cash and cash equivalents.

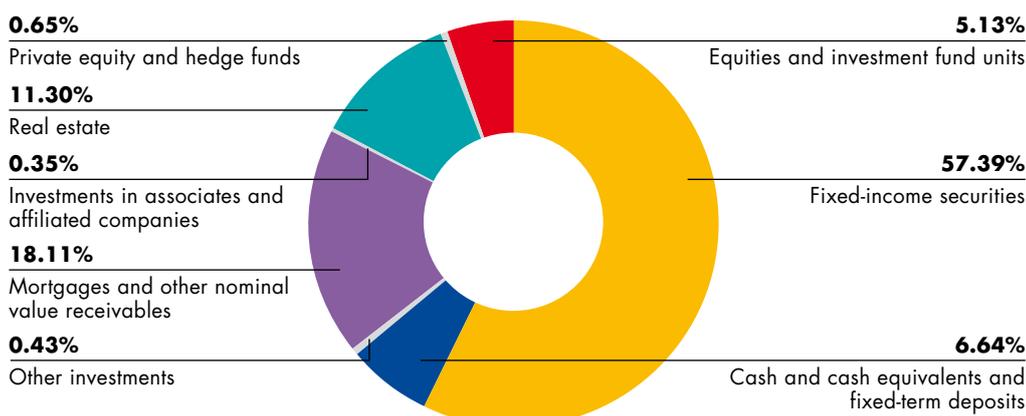
The portfolio quality is sustainably high. Credit ratings for bonds remain high and most of them have an A rating, with predominantly AA and AAA bonds. There were no defaults in the reporting year. Real estate and mortgages did very well and generated sustainable and stable income.

## Successful hedging policy

In view of the volatile markets, shares and currencies were hedged at a high level throughout the year. This paid off for currencies in particular. The substantial losses in value recorded by the US dollar and the euro led to considerable losses on the underlying investments, which were almost entirely eliminated by gains on the hedging instruments. As a result the investment income was hardly affected by the falling exchange rates. Our tried-and-tested hedging concept has once again proved its worth.

## Asset allocation

Investments by asset class as per 31.12.2010 (in % of book value)



### Improved investment income

Investment income improved by CHF 37 million year-on-year to a total of CHF 348 million. The increase is explained by the higher investment volume as well as the fact that it was possible to improve the yield from 2.90% to 2.94% in spite of falling interest rates. In contrast, however, performance fell to 3.11% as the stock markets generated substantially smaller gains than in the excellent previous year.

| Balance as per 31.12.2010, in 1 000 CHF | Book value | Market value |
|---|------------|--------------|
| <b>Investments</b>                      |            |              |
| At beginning of financial year          | 11 360 741 | 11 745 920   |
| At end of financial year                | 12 289 511 | 12 706 880   |
| <b>Valuation reserves</b>               |            |              |
| At beginning of financial year          |            | 385 179      |
| At end of financial year                |            | 417 369      |
| Change                                  |            | 32 190       |

| Balance as per 31.12.2010, in 1 000 CHF | gross <sup>1</sup> | net <sup>2</sup> |
|---|--------------------|------------------|
| <b>Investment income</b>                |                    |                  |
| Investment income                       | 347 746            | 332 470          |
| Return on book values                   | 2.94%              | 2.81%            |
| Performance on market values            | 3.11%              | 2.98%            |

<sup>1</sup> incl. interest expenditure; before deduction of asset management costs

<sup>2</sup> incl. interest expenditure; after deduction of asset management costs

# Legal Quote.

## Business subject to Legal Quote

The statutory provisions governing the Legal Quote require that at least 90% of income be used to the benefit of the insured persons. This ensures that the insured persons participate appropriately in the profits earned by the insurance company.

| Balance as per 31.12.2010, in 1 000 CHF                     | Savings       | Risk          | Costs        | Total          |
|---|---------------|---------------|--------------|----------------|
| Gross income  | 295 024       | 192 022       | 54 675       | 541 721        |
| Allocated benefits  | -217 732      | -94 596       | -51 072      | -363 400       |
| <b>Gross result</b>   | <b>77 292</b> | <b>97 426</b> | <b>3 603</b> | <b>178 321</b> |
| Longevity risk  |               |               |              | -64 700        |
| Gap in cover from pension conversion                        |               |               |              | -49 300        |
| Strengthening of disability and survivors' pensions         |               |               |              | -13 900        |
| Interest guarantees   |               |               |              | -1 500         |
| Creation/release of strengthening of reserves               |               |               |              | -129 400       |
| Allocation to profit fund                                   |               |               |              | -9 014         |
| <b>Operating result for business subject to Legal Quote</b> |               |               |              | <b>39 907</b>  |
| <b>Distribution rate</b>                                    |               |               |              | <b>92.6%</b>   |

In its business subject to the Legal Quote, Helvetia used a total of CHF 501.8 million to the benefit of the insured in 2010. This equals a distribution rate of 92.6%.

The benefits paid to the insured persons include the following components:

- Benefits allocated directly to the savings, risk and cost processes (see table): CHF 363.4 million
- Increase in reserves: CHF 129.4 million
- Allocation to profit fund: CHF 9.0 million

Helvetia sets an extremely high priority on the security of the pension assets. To eliminate future fluctuations and thus ensure continuity in the results, the reserves were strengthened in 2010 too. This is a good practice in view of prevailing demographic and economic conditions.

A consequence of these conditions is, for example, the shortfall in coverage which is caused by the difference between the statutory and the actuarially correct pension conversion rates. For the mandatory retirement assets of active and disabled insured persons, this shortfall currently amounts to around 0.4%.

## Sources of revenue and most important expenses for the three processes

| Process | Income                | Allocated benefits  |
|---------|-----------------------|---|
| Savings | Net investment income | Rate of interest for retirement assets and the mathematical reserves for current pensions, conversion of retirement assets into retirement pensions |
| Risk    | Risk premium          | Payment of disability and survivors' benefits, accrual of mathematical reserves for new pensions  |
| Costs   | Cost premium          | Services in connection with the administration of occupational benefits and insurance solutions and advising clients                                |

## Business not subject to Legal Quote

Contracts that contain a special regulation regarding profit sharing are partly or totally excluded from the statutory provisions governing the Legal Quote. The source of the results and their allocation to business not subject to the Legal Quote are shown below:

| Balance as per 31.12.2010, in 1 000 CHF                         | Savings      | Risk          | Costs         | Total         |
|---|--------------|---------------|---------------|---------------|
| Gross income  | 37 446       | 96 092        | 29 757        | 163 295       |
| Allocated benefits  | -34 890      | -46 799       | -16 018       | -97 707       |
| <b>Gross result</b>   | <b>2 556</b> | <b>49 293</b> | <b>13 739</b> | <b>65 588</b> |
| Longevity risk  |              |               |               | -25 300       |
| Gap in cover from pension conversion                            |              |               |               | -5 200        |
| Strengthening of disability and survivors' pensions             |              |               |               | -6 600        |
| Interest guarantees   |              |               |               | 0             |
| Creation/release of strengthening of reserves                   |              |               |               | -37 100       |
| Allocation to profit fund                                       |              |               |               | -14 297       |
| <b>Operating result for business not subject to Legal Quote</b> |              |               |               | <b>14 191</b> |
| <b>Distribution rate</b>  |              |               |               | <b>91.3%</b>  |

Contracts that contain a special contractual regulation regarding profit sharing include in particular

- contracts with an integral profit and loss account (so-called own bonus groups). Profit sharing is dependent upon the individual claims history of the contract;
- contracts where policyholders bear the investment risk themselves and therefore participate directly in the investment income.

The result of the business not subject to the Legal Quote was particularly affected by the Swisscanto collective foundations as employee benefits institutions with their own bonus groups. As a ratio of the total number of insured, the Swisscanto business accounts for almost one-third of Helvetia's total group life business. The investment risk of this business segment has not been reinsured with Helvetia.

## Recapitulation of operating result

| Balance as per 31.12.2010, in 1 000 CHF | Subject to Legal Quote |             | Not subject to Legal Quote |             | Total         |
|---|------------------------|-------------|----------------------------|-------------|---------------|
| Savings                                 | 295 024                |             | 37 446                     |             | 332 470       |
| Risk                                    | 192 022                |             | 96 092                     |             | 288 114       |
| Costs                                   | 54 675                 |             | 29 757                     |             | 84 432        |
| Gross income                            | 541 721                | 100.0%      | 163 295                    | 100.0%      | 705 016       |
| Benefits paid to insured persons        | -501 814               | 92.6%       | -149 104                   | 91.3%       | -650 918      |
| <b>Operating result</b>                 | <b>39 907</b>          | <b>7.4%</b> | <b>14 191</b>              | <b>8.7%</b> | <b>54 098</b> |

# Profit fund.

The profit fund for group life business was allocated a total of CHF 23.3 million from the 2010 result. CHF 9.0 million of this is allocated to business subject to the Legal Quote.

## Development of profit fund

| in 1 000 CHF                                   | Subject to Legal Quote | Not subject to Legal Quote | Total          |
|--|------------------------|----------------------------|----------------|
| Balance as per 31.12.2009                      | 125 436                | 37 982                     | 163 418        |
| Allocation from operating result               | 9 014                  | 14 297                     | 23 311         |
| Distribution to employee benefits institutions | -19 764                | -32 805                    | -52 569        |
| <b>Balance as per 31.12.2010</b>               | <b>114 686</b>         | <b>19 474</b>              | <b>134 160</b> |

For the business subject to the Legal Quote, surpluses in the amount of CHF 19.8 million were paid out in 2010. This concerns the risk surplus for 2009 that was credited to the employee benefit institutions retroactively on 01.01.2010 as well as the profit share of vested benefits policies for 2010.

The good business result for 2010 and a profit sharing policy that has given centre stage to continuity and stability in the past years allowed Helvetia to substantially increase the profit share compared to the previous year. On 01.01.2011, the following surpluses were credited retroactively for 2010:

### Risk surplus for 2010<sup>1</sup>

| in %                       | Surplus rate |
|----------------------------|--------------|
| On risk premium disability | 10           |
| On risk premium death      | 25           |

<sup>1</sup> Clients with a special surplus agreement and group life contracts that are not related to the occupational benefit scheme do not qualify for a risk surplus.

### Interest surplus and total return for 2010<sup>2</sup>

| in %                            | Surplus rate | Guaranteed interest | Total return |
|---------------------------------|--------------|---------------------|--------------|
| LOB retirement assets           | 0.1          | 2.0                 | 2.1          |
| Supplementary retirement assets | 0.5          | 2.0                 | 2.5          |

<sup>2</sup> Applies for full insurance solutions of the Helvetia collective foundations and company-owned foundations with full insurance contracts

Total interest paid on the mandatory retirement assets is 0.4% lower than for the supplementary retirement assets as this reflects the loss on the conversion rate for the mandatory assets.

### The profit fund

The profit fund contains reserves for future surplus participations. It is used to guarantee customers a long-term, stable surplus participation and to smooth out any fluctuations in the course of business. The reserves may only be used to the benefit of insured persons as part of their occupational benefit scheme. In accordance with the provisions of the Supervision Ordinance (AVO), an allocation from the operating statement must be paid out after five years at the latest, whereby the distribution may not exceed two-thirds of the profit fund.

# Other key figures.

## Inflation fund

The inflation fund is an actuarial reserve. It is used to finance the adjustment of current disability and survivors' pensions to the price index in accordance with the LOB.

## Development of inflation fund

in 1 000 CHF

|  |                |
|--|----------------|
| Balance as per 31.12.2009                                  | 257 120        |
| Inflation premiums received                                | 8 062          |
| Tariff interest  | 3 255          |
| Cost of adjusting risk pensions to increase in price index | -1 195         |
| <b>Balance as per 31.12.2010</b>                           | <b>267 242</b> |

## Pension adjustment

The adjustment of pensions to the price index is governed by Art. 36 LOB. The adjustment to the increase in the cost of living is granted for the first time once the pension has been running for three years. The adjustments that ensue are made at the same time as the adjustment to the OASI pensions. As a result of this rule, the mandatory survivors' and disability pensions were adjusted on 01.01.2010 as follows:

| Pension begins in year/period | Rate of adjustment in % |
|-------------------------------|-------------------------|
| 1985–2005                     | 0.0                     |
| 2006                          | 2.7                     |

The adjustment rates are calculated and published by the Federal Social Insurance Office (FSIO) in line with the Swiss consumer price index.

## Number of insured persons and contracts at the end of the financial year

|  | 2010           | 2009           |
|--|----------------|----------------|
| Active insured                             | 154 425        | 149 745        |
| Pension recipients                         | 17 543         | 16 918         |
| Vested benefits policies                   | 11 369         | 11 497         |
| <b>Number of insured persons</b>           | <b>183 337</b> | <b>178 161</b> |
| <b>Number of group insurance contracts</b> | <b>16 653</b>  | <b>16 205</b>  |

## Interest and conversion rates 2010

|                               | Supplementary system in % |
|-------------------------------|---------------------------|
| Interest on retirement assets | 2.000                     |
| Men (age 65)                  | 5.835                     |
| Women (age 64)                | 5.574                     |

## Implementation costs

| in 1 000 CHF   | 2010          | 2009          |
|--|---------------|---------------|
| Acquisition costs  | 19 192        | 24 082        |
| Benefits processing costs                                | 6 268         | 6 706         |
| Cost of general administration                           | 60 547        | 53 755        |
| Reinsurance share of administrative costs                | -7 887        | -6 610        |
| <b>Total implementation costs</b>                        | <b>78 120</b> | <b>77 933</b> |
| Average implementation costs per insured person (in CHF) | 426           | 437           |
| Average cost premium per insured person (in CHF)         | 461           | 472           |

Helvetia posted strong growth in 2010 for the number of contracts as well as the number of insured persons. This led to a slight increase in the implementation costs. Due to changes in cost distribution, the allocation of the implementation costs in 2010 to the categories "Acquisition costs" and "Cost of general administration" cannot be compared with the previous year. The average cost was further reduced to CHF 426 per person.

When calculating the average cost per insured person, all types of insurance (insurance at full value, risk insurance, etc.) are taken into account. These costs, however, vary according to the level of service provided.

## Asset management costs

| in 1 000 CHF                               | 2010       | 2009       |
|--|------------|------------|
| Average investments at market value        | 12 226 400 | 11 003 561 |
| Asset management costs                     | 15 276     | 13 498     |
| Asset management costs in % of investments | 0.12       | 0.12       |

All the internal costs in connection with the investment business and external fees (safekeeping account fees, other fees, costs of alternative investments, etc.) are included in the asset management costs.

These costs do not include transaction costs or real estate expenses, which are deducted from income as is customary in the sector. At 0.12% of the average investments, Helvetia's cost ratio is well below the current sector average in 2010 too.

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