Operative Account 2011.
Collective life insurance.

2011

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2011: A year marked by consolidation, expansion and innovation.

Dear Readers,

Financial year 2011 will go down as a relatively peaceful one in the history of employee benefit schemes in Switzerland, following a succession of turbulent years. However, this does not mean that the providers in this area, particularly Helvetia, can write this year off as uneventful – quite the opposite: consolidation of what has already been achieved, expansion of our strengths and implementation of innovations were the major challenges that Helvetia once again set itself and successfully met.

Despite the continued competitive pressure Helvetia's collective life insurance business grew by 18.7% in 2011, which is well above the market average. Once again, Helvetia's collective life insurance gained market share. The high level of trust that continues to be placed in Helvetia by companies in Switzerland is shown by the rising number of new affiliations and the increase in active participants, the number of whom has grown by more than 10,000 to 193,839. All these participants are entitled to expect that their pension assets are managed by a fiduciary who will generate additional income over and above the guarantees as far as possible. Despite the ongoing difficult interest rate environment, Helvetia has also honoured this entitlement: together with an interest surplus on the non-mandatory retirement savings capital, an attractive total yield was also generated. The implementation costs per active participant are CHF 408 on average and thus 4% higher than the prior year on a growth-induced basis.

With the takeover of the collective life insurance business of Phenix Assurances Helvetia took an important step in the expansion of its market position in French-speaking Switzerland in 2011. There is an explicit note in the operative account at every point where there are specific changes vis à vis the previous year due to this takeover or for other reasons. The marketing and advertising expenses are now recognised separately. In the interests of comparability we also show the corresponding figures for the prior year. We very much hope that this will add further transparency to the reporting.

The calm in the pension market will not be of a long duration. Despite the increasing saturation of individual submarkets Helvetia's collective life insurance sees interesting growth potential in selected customer segments. Helvetia strongly drove forward the development of the alternative products that it had announced last year. This new breed of solutions is aimed at customers who want to take advantage of additional yield opportunities and who at the same time are prepared and also financially able to carry the associated risks themselves. Innovations of this kind, as a supplement to the tried and tested full insurance model, will enable Helvetia's collective life insurance to optimally cover the needs of its customers in the future as well.

Helvetia is positive in the face of political challenges such as structural reform, together with the other associations in the sector. Structural reform will lead to further transparency in the occupational benefit scheme – a development that Helvetia has been anticipating for many years. It is through such measures that the reputation of and trust in the occupational benefit scheme can be strengthened for the long term.

Helvetia is and remains your reliable and innovative partner for the occupational benefit scheme. We look forward to our continued collaboration and would like to thank you for your trust.

Helvetia Swiss
Life Insurance Company Ltd

Ph. Gmür

Dr Philipp Gmür
Chairman of the Executive Management

Income statement.

The following income statement reports on Helvetia Insurance's income and expenses for its collective life business in 2011, thereby providing information on the type, amount and composition of our success in this business sector.

Income statement

in 1 000 CHF, in accordance with the statutory financial statements	2011	2010
Income		
Savings premiums	2 069 276	1 717 757
Risk premiums	327 827	288 114
Cost premiums	85 930	84 432
Gross premium income earned	2 483 033	2 090 303
Direct investment income	373 362	354 133
Sales proceeds	38 634	1 905
Exchange gains and losses	–18 554	–1 871
Balance of write-ups/depreciation	–82 106	–6 269
Interest expense	5	–152
Asset management expenses	–16 505	–15 276
Net investment income	294 836	332 470
Other income	23 151	9 804
Re-insurance result	–15 677	–13 710
Total income	**2 785 343**	**2 418 867**
Expenses		
Retirement, death and disability benefits	508 432	469 841
Vested benefits	733 026	620 448
Redemption values due to termination of contracts	201 966	244 042
Benefits processing costs[1]	6 668	6 268
Insurance benefits paid	1 450 092	1 340 599
Retirement savings capital	738 814	508 955
Pension reserves	400 342	392 616
Vested benefit policies	7 995	14 407
Other	–22 890	99
Change in technical provisions	1 124 261	916 077
Acquisition and administration expense	85 337	79 739
Other expenses	4 664	5 043
Surplus sharing allocated to the surplus fund	65 312	23 311
Operating result	55 677	54 098
Total expenses	**2 785 343**	**2 418 867**

[1] Pursuant to the new FINMA regulations the benefits processing costs are recognised separately from the insurance benefits as of 2011 and are no longer included in the implementation costs. In order to guarantee the comparability of the data, the corresponding figures for 2010 have been adjusted in line with this logic.

Balance sheet figures.

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

Balance sheet

in 1 000 CHF, in accordance with the statutory financial statements	31.12.2011		31.12.2010	
Assets[1]				
Investments				
Liquid funds and time deposits	1 092 754	7.96%	816 365	6.64%
Fixed-income securities	7 702 492	56.09%	7 052 552	57.39%
Mortgages and other par value receivables	2 448 818	17.83%	2 225 685	18.11%
Shares and investment fund units	589 576	4.29%	630 429	5.13%
Private equity and hedge funds	80 116	0.58%	80 031	0.65%
Investments in holdings and affiliated companies	43 539	0.32%	43 539	0.35%
Real estate	1 770 224	12.89%	1 388 513	11.30%
Other investments	5 564	0.04%	52 397	0.43%
Total	**13 733 083**		**12 289 511**	
Liabilities[1]				
Technical provisions, gross				
Retirement savings capital	8 096 562		7 257 408	
Actuarial reserve for current retirement and survivors' pensions	2 733 843		2 341 524	
Actuarial reserve for current disability pensions	1 119 800		1 092 844	
Vested benefit policies	289 431		276 385	
Provision for incurred but outstanding claims	261 574		294 832	
Inflation fund	280 842		267 242	
Credited surplus shares	128 224		113 669	
Other technical provisions	18 487		16 737	
Total	**12 928 762**		**11 660 641**	

[1] Excerpt from the balance sheet in accordance with the disclosure regulations of the Swiss Financial Market Supervisory Authority (FINMA)

On 01.01.2011 Helvetia took over the collective life insurance business of Phenix Assurances, which is recognised in income. This business unit is not yet included in the figures for 2010. Therefore any comparison with the prior year is possible only to a limited degree. In those places where the prior year values have been adjusted vis à vis the relevant statements of operations on account of this takeover the adjustment is indicated in a footnote.

Investments.

The investment year 2011

In the year under review the investment markets were increasingly influenced by the worsening international debt crisis. This led to increasing insecurity in the markets and to heightened flurries of activity in politics. The interest rates for first-class securities fell to historic lows due to the stringently offensive monetary policy of the central banks, whilst the spreads for the problem countries sky-rocketed. In the meantime the equity markets lost up to 30% of their value and ended the year with losses in the high single digit or low double digit percentage area on the whole. In contrast, investments in tangible fixed assets such as gold and Swiss real estate were highly sought after and posted corresponding price increases. The Swiss franc was once again forced into the role of a safe haven. Its meteoric rise could only be halted by the intervention of the Swiss National Bank. In this environment Helvetia's collective life insurance portfolio achieved a pleasing performance of 5% thanks to its tried and tested security-oriented investment policy.

Stable portfolio structure

Measured at market values, the investment volumes increased by almost CHF 1.7 billion. This increase is particularly due to the dynamic development in business. In addition to this, the valuation reserves, which are primarily accrued from fixed-income securities, made a substantial contribution with growth of almost CHF 400 million. The changes to the portfolio structure were minor. A large part of the new inflow of funds was invested in bonds; at the same time the real estate portfolio was expanded according to plan and the share of mortgages slightly increased. The quality of the bond portfolio continues to be excellent; in the year under review there were no defaults.

Solid investment performance

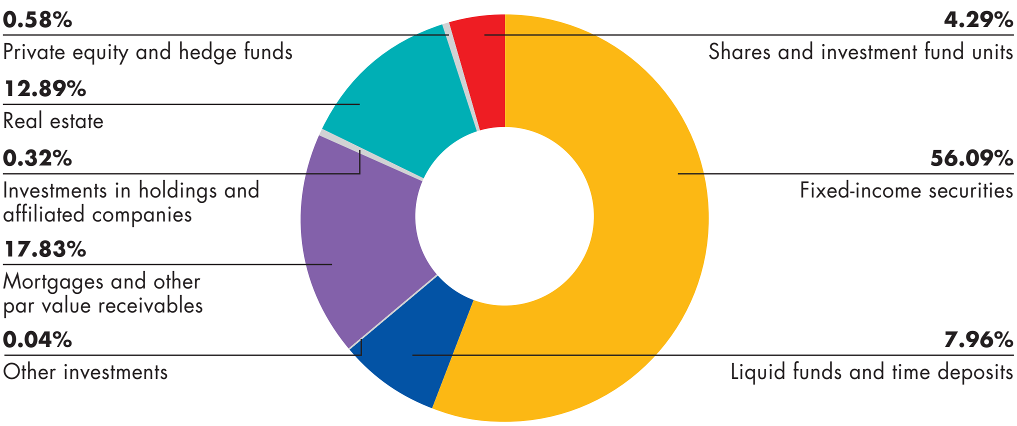
In total around CHF 300 million in investment income was generated in 2011. In comparison with the prior year this represents a reduction of at least CHF 35 million. Current income amounting to over CHF 370 million (+20 million in comparison to 2010) was reduced by losses caused to a large degree by the weak markets for shares and to a lesser degree from currencies. Net direct income on carrying amounts was respectable at 2.25% in view of the turbulent market conditions. The losses that affected the profit were heavily over-compensated by the increase in value of the fixed-income securities, so that performance measured at market value reached around 5%. On the one hand this underlines the outstanding quality of the bond portfolio and on the other hand it illustrates the advantages of our balanced asset allocation, which is geared towards sustainable maintenance of value and achieving consistent investment income.

Outlook

As the debt problems have not yet been solved, markets can be expected to remain volatile. Helvetia's collective life insurance will continue to follow its tried-and-tested path for investments and hedging policies in this difficult environment.

Asset allocation

Investments by asset class as per 31.12.2011 (in % of carrying amount)



Balance as per 31.12.2011, in 1 000 CHF	Carrying amount	Market value
Investments		
At beginning of financial year[1]	12 422 003	12 845 934
At end of financial year	13 733 083	14 538 296
Valuation reserves		
At beginning of financial year		423 931
At end of financial year		805 213
Change		381 282

Balance as per 31.12.2011, in 1 000 CHF	Gross[2]	Net[3]
Investment income		
Investment income	311 341	294 836
Return on carrying amounts	2.38%	2.25%
Performance on market values	5.06%	4.94%

[1] The carrying amount for the investments at the beginning of the financial year is higher by the amount of CHF 132.5 million than at the end of the prior year, due to the takeover of Phenix Assurances. Correspondingly, the market value is increased by CHF 139.1 million.
[2] Including interest expense; before offsetting the asset management expenses
[3] Including interest expense; after offsetting the asset management expenses

Legal quote.

Business subject to the legal quote

The statutory provisions governing the legal quote require that at least 90% of income be used to the benefit of the active participants. This ensures that they participate appropriately in the profits earned by the insurance company.

Balance as per 31.12.2011, in 1 000 CHF	Savings	Risk	Costs	Total
Gross income	262 059	218 855	56 929	537 843
Allocated benefits	–226 923	–126 243	–44 648	–397 814
Gross result	**35 136**	**92 612**	**12 281**	**140 029**
Longevity risk				–53 987
Deficits from pension conversion				–48 512
Strengthening of disability and survivors' pensions				585
Incurred but not yet registered insured events				23 059
Claims fluctuations				–200
Interest guarantees				–1 135
Increase/Decrease of strengthening of reserves				–80 190
Allocation to the surplus fund				–18 771
Operating result for business subject to the legal quote				**41 068**
Distribution rate				**92.4%**

In its business subject to the legal quote, Helvetia used a total of CHF 496.8 million to the benefit of the participants in 2011. This equals a distribution rate of 92.4%.

The benefits paid to the active participants include the following components:

- Benefits allocated directly to the savings, risk and cost processes (see table): CHF 397.8 million
- Increase in reserves: CHF 80.2 million
- Allocation to profit fund: CHF 18.8 million

Helvetia sets an extremely high priority on the security of the pension assets. The risk result trended positively, therefore the strengthening in this area could be decreased. In contrast, the assumed development in the "longevity" process required strengthening of the reserves in 2011 as well. This is good practice in view of prevailing demographic and economic conditions. A consequence of these conditions is, for example, the deficit which is caused by the difference between the statutory and the actuarially correct pension conversion rates. For the mandatory retirement savings capital of active and disabled participants, this deficit 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 savings captial into retirement pensions
Risk	Risk premium	Payment of disability and survivors' benefits, accrual of mathematical reserves for new pensions
Costs	Cost premium	Services provided as part of the administration of the occupational benefits and insurance solutions as well as customer advice

Business not subject to the legal quote

Contracts that contain a special contractual regulation regarding surplus 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 31.12.2011, in 1 000 CHF	Savings	Risk	Costs	Total
Gross income	32 777	108 972	29 001	170 750
Allocated benefits	–38 254	–43 745	–15 984	–97 983
Gross result	**–5 477**	**65 227**	**13 017**	**72 767**
Longevity risk				–15 300
Deficits from pension conversion				–8 500
Strengthening of disability and survivors' pensions				600
Incurred but not yet registered insured events				11 583
Claims fluctuations				0
Interest guarantees				0
Increase/Decrease in strengthening of reserves				–11 617
Allocation to the surplus fund				–46 541
Operating result for business not subject to the legal quote				**14 609**
Distribution rate				**91.4%**

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), whereby surplus 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 Swisscanto's collective foundations as employee benefit institutions with their own bonus groups. As a ratio of the total number of participants, the Swisscanto business accounts for almost one-third of Helvetia's total collective life business. The investment risk of this business segment has not been re-insured with Helvetia.

Recapitulation of operating result

Balance as per 31.12.2011, in 1 000 CHF	Subject to legal quote		Not subject to legal quote		Total
Savings	262 059		32 777		294 836
Risk	218 855		108 972		327 827
Costs	56 929		29 001		85 930
Gross income	537 843	100.0%	170 750	100.0%	708 593
Benefits paid to active participants	–496 775	92.4%	–156 141	91.4%	–652 916
Operating result	**41 068**	7.6%	**14 609**	8.6%	**55 677**

Surplus fund.

The surplus fund for collective life insurance business was allocated a total of CHF 65.3 million from the 2011 result. CHF 18.8 million of this is allocated to business subject to the legal quote.

Development of the surplus fund

in 1 000 CHF	Subject to legal quote	Not subject to legal quote	Total
Balance as per 31.12.2010[1]	114 753	19 474	134 227
Allocation from operating result	18 771	46 541	65 312
Distribution to employee benefits institutions	–37 129	–21 018	–58 147
Balance as per 31.12.2011	**96 395**	**44 997**	**141 392**

[1] The balance of the surplus fund as per 31.12.2010 is increased by CHF 66,000 in the business subject to the legal quote vis à vis the final balance given in the operative account for 2010, due to the takeover of the collective life insurance business of Phenix Assurances.

For the business subject to the legal quote, surpluses in the amount of CHF 37.1 million were paid out in 2011. This concerns the interest and risk surpluses for 2010 that were credited to the employee benefit institutions retroactively on 01.01.2011 as well as the surplus share of vested benefit policies for 2011.

The good business result for 2011 and a surplus sharing policy that has given centre stage to continuity and stability in the past years allowed Helvetia to substantially increase the surplus share in business subject to the legal quote compared to the prior year. On 01.01.2012, the following surpluses were credited retroactively for 2011:

Risk surplus for 2011[1]

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

[1] Customers with a special surplus agreement and collective life contracts that are not related to the occupational benefit scheme do not qualify for a risk surplus.

Interest surplus and total yield for 2011[2]

in %	Surplus rate	Guaranteed interest	Total yield
LOB retirement savings capital	0.0	2.0	2.0
Supplementary retirement savings capital	0.9	1.5	2.4

[2] Applies for full insurance solutions offered by Helvetia's group foundations and company-own foundations with a full insurance contract.

The total interest for the mandatory retirement savings capital is 0.4% lower than that for the non-mandatory retirement savings capital. The difference is due to the conversion losses in the mandatory insurance.

The surplus fund

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

Other key figures.

Inflation fund

The inflation fund is a technical provision. 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 31.12.2010[1]	269 835
Inflation premiums received	8 582
Tariff interest	3 299
Cost of adjusting risk pensions to increase in price index	–874
Balance as per 31.12.2011	**280 842**

[1] The balance of the inflation fund as per 31.12.2010 is increased by CHF 2.6 million due to the takeover of the collective life insurance business of Phenix Assurances. It therefore does not agree with the final total given in the operative account for 2010.

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 01.01.2011 as follows:

Pension beginning in year/period	Adjustment rate in %
1985–2005	0.0
2006	0.3
2007	2.3

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

Number of active participants and contracts at the end of financial year

	2011	2010
Active participants	162 751	154 425
Pension recipients	19 366	17 543
Vested benefit policies	11 722	11 369
Number of active participants	**193 839**	**183 337**
Number of collective life insurance contracts	**18 639**	**16 653**

Interest and conversion rates 2011

	Supplementary system in %
Interest on retirement savings capital	1.500
Men (age 65)	5.835
Women (age 64)	5.574

Implementation costs

in 1 000 CHF	2011	2010
Acquisition costs	20 028	16 419
Marketing and advertising expenses	2 972	2 773
General administration expenses	62 337	60 547
Re-insurance share of administration expenses	–6 219	–7 887
Total implementation costs	**79 118**	**71 852**
Average implementation costs per active participant (in CHF)	408	392
Average cost premium per active participant (in CHF)	443	461

When calculating the average cost per active participant, 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.

In 2011 the marketing and advertising expenses were recognised separately for the first time. These were previously included in the acquisition cost. Pursuant to FINMA regulations the benefits processing costs are now recognised separately in the insurance benefits and are no longer included in the implementation costs (see income statement). In order to guarantee the comparability of the data, the corresponding figures for 2010 have been adjusted in line with this logic.

The slight increase in the average implementation costs is primarily due to the volume of new business written and the associated acquisition costs as well as to the takeover of the agencies of Phenix Assurances and its employees.

Asset management expenses

in 1 000 CHF	2011	2010
Average investments at market value	13 692 115	12 226 400
Asset management expenses	16 505	15 276
Asset management expenses 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 expenses.

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 for the third year in a row.

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