# Operative Account 2012.
# Collective life insurance.

2012

Your Swiss Insurer.

# 2012: encouraging results – and yet more transparency.

Dear readers,

The first thing that stands out when viewing the figures for the 2012 financial year for Helvetia's collective life insurance business is that the figures are very encouraging. That goes for both the operating result, which increased by 5.5%, and the figures reported in this operative account in terms of portfolio development, the balance on the technical account and surplus sharing. The writing of new business was consciously cut back in the year under review, which is why the prior year's exceptionally high premium growth could, as expected, not be matched. However, this did not affect the positive overall picture, especially as periodic premiums were up 3.7% in 2012 and the number of active participants rose by 7,200.

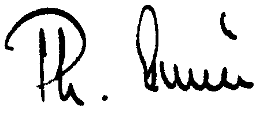
Maximum transparency has always been Helvetia's key objective when preparing the operative account for collective life insurance. Therefore Helvetia welcomed the new disclosure requirements of the Swiss Financial Market Supervisory Authority FINMA from the outset. They only required minimal adjustments, as Helvetia had already anticipated most of the new points that have to be complied with. A new feature is that operating expenses are reported according to cost centres and premiums according to cost units; this makes it possible to draw clearer conclusions about where costs originate and how they are financed. Once again, Helvetia did not have a cost deficit in 2012, with average premiums for the active participants covering their average costs. This means that there were no cross-subsidies at the expense of the interest margin owed to the beneficiaries. The new presentation on page 11 of this operative account makes this clear.

The sustainable increase in reserves is one of the most important obligations of a provider in the collective life industry. Thanks to the robust level of equity and adequate reserves, it has been possible in recent years to meet the considerable challenges that the industry has faced as a result of capital market developments and regulatory requirements. Solid balances on the technical account and good investment performances in turn have allowed us to sustainably consolidate the reserves and therefore quite literally make provisions to ensure that Helvetia will be able to fulfil its performance pledge in future despite a turbulent environment.

Following the conclusion of the structural reform, occupational benefit schemes in Switzerland are already facing new changes. The Federal Council's "Reform Package 2020" is the subject of intense debate within the Swiss Insurance Association (SIA). Helvetia particularly welcomes the transparency requirements of this package and supports all SIA pension system reform measures. By actively participating in various commissions, committees and bodies, Helvetia is supporting the necessary change process.

Transparency and sustainability will continue to be the basic values that underpin the actions of Helvetia and on which our customers can depend. We look 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 collective life business in 2012, thereby providing information on the type, amount and composition of our success in this business sector.

## Income statement

| in 1 000 CHF, pursuant to the statutory financial statements | 2012 | 2011 |
|---|---|---|
| **Income** | | |
| Savings premiums | 1 845 973 | 2 069 276 |
| Risk premiums | 329 215 | 327 827 |
| Cost premiums | 86 237 | 85 930 |
| Gross premium income earned | 2 261 425 | 2 483 033 |
| | | |
| Direct income from investments | 405 232 | 373 362 |
| Proceeds from disposals | 7 143 | 38 634 |
| Exchange gains and losses | –10 759 | –18 554 |
| Amount of write-ups/depreciation | –2 811 | –82 106 |
| Interest expense | –12 | 5 |
| Asset management expenses | –17 273 | –16 505 |
| Net income from investments | 381 520 | 294 836 |
| | | |
| Other income | 21 830 | 23 151 |
| Re-insurance result | –17 814 | –15 677 |
| | | |
| **Total income** | **2 646 961** | **2 785 343** |
| | | |
| **Expenses** | | |
| Retirement, death and disability benefits | 546 740 | 508 432 |
| Termination benefits | 726 429 | 733 026 |
| Redemption values due to termination of contracts | 212 545 | 201 966 |
| Benefits processing costs | 6 332 | 6 668 |
| Insurance benefits | 1 492 046 | 1 450 092 |
| | | |
| Retirement savings capital | 452 906 | 738 814 |
| Reserves for retirement and survivors' pensions | 249 141 | 400 342 |
| Reserves for disability pensions | –2 195 | – |
| Actuarial reserve for termination benefit policies | 35 991 | 7 995 |
| Provision for incurred but outstanding claims | 570 | –34 967 |
| Other | 198 314 | 12 077 |
| Change in technical provisions | 934 727 | 1 124 261 |
| | | |
| Acquisition and administration costs | 88 507 | 85 337 |
| Other expenses | 4 893 | 4 664 |
| Surplus sharing allocated to the surplus fund | 68 070 | 65 312 |
| Operating result | 58 718 | 55 677 |
| | | |
| **Total expenses** | **2 646 961** | **2 785 343** |

Various items in the income statement have been changed pursuant to the new FINMA requirements. In order to guarantee the comparability of the data, the corresponding figures for 2011 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, pursuant to the statutory financial statements | 31.12.2012 | | 31.12.2011 | |
|---|---|---|---|---|
| **Assets**[1] | | | | |
| **Investments** | | | | |
| Liquid funds and time deposits | 943 470 | 6.46% | 1 092 754 | 7.96% |
| Fixed-income securities in Swiss francs | 7 168 154 | 49.07% | 6 823 724 | 49.69% |
| Fixed-income securities in foreign currencies | 1 330 560 | 9.11% | 878 768 | 6.40% |
| Mortgages and other par value receivables | 2 660 335 | 18.21% | 2 448 818 | 17.83% |
| Swiss shares and foreign shares | 314 924 | 2.16% | 325 361 | 2.37% |
| Investment fund units | 287 920 | 1.97% | 264 215 | 1.92% |
| Private equity and hedge funds | 2 620 | 0.02% | 80 116 | 0.58% |
| Assets from financial derivative instruments | 8 367 | 0.06% | – | |
| Investments in holdings and affiliated companies | 43 539 | 0.30% | 43 539 | 0.32% |
| Real estate | 1 847 058 | 12.65% | 1 770 224 | 12.89% |
| Other investments | 0 | 0% | 5 564 | 0.04% |
| **Total** | **14 606 947** | | **13 733 083** | |
| **Liabilities**[1] | | | | |
| **Technical provisions, gross** | | | | |
| Retirement savings capital[2] | 8 549 468 | | 8 096 562 | |
| Actuarial reserve for current retirement and survivors' pensions[2] | 2 385 287 | | 2 136 146 | |
| Actuarial reserve for current disability pensions[2] | 1 075 552 | | 1 077 747 | |
| Strengthening of the actuarial reserve for current pensions | 532 900 | | 410 863 | |
| Actuarial reserve for termination benefit policies | 325 422 | | 289 431 | |
| Provision for incurred but outstanding claims | 262 143 | | 261 574 | |
| Cost-of-living adjustment fund | 291 768 | | 280 842 | |
| Provision for credited dividends | 150 820 | | 128 224 | |
| Other technical provisions | 306 017 | | 247 373 | |
| **Total** | **13 879 377** | | **12 928 762** | |

[1] Excerpt from the balance sheet pursuant to the disclosure regulations of the Swiss Financial Market Supervisory Authority (FINMA)

### [2] Breakdown of the items into mandatory insurance and supplementary system:

| As at 31.12. in 1 000 CHF | Mandatory insurance | | Supplementary system | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Retirement savings capital | 4 677 334 | 4 408 915 | 3 872 134 | 3 687 647 |
| Actuarial reserve for current retirement and survivors' pensions | 1 345 598 | 1 154 819 | 1 039 689 | 981 327 |
| Actuarial reserve for current disability pensions | 662 043 | 672 017 | 413 509 | 405 730 |

Various items in the balance sheet have been changed pursuant to the new FINMA requirements. In order to guarantee the comparability of the data, the corresponding figures for 2011 have been adjusted in line with this logic.

# Investments.

**Investment year 2012**
In the year under review, developments on the investment markets were again marked by the international debt crisis. The first half of the year was characterised by a mixed price trend. The initial optimism over an early end to the crisis initially led to a pleasing market upswing, but this was soon halted by the outcome of elections in Greece that was for a long time uncertain and the worsening banking crisis in Spain. In the summer months, the situation threatened to escalate due to the unsolved debt problem and the slowing economy. Only the announcement by the European Central Bank in late summer that it would do everything to save the euro and would also intervene without limitation on the bond market if necessary allowed the system to stabilise. This laid the foundations for an impressive stock market rally and gratifying bond performance. In this climate we were able to achieve an attractive aggregate yield of 4.6% with our emphatically safety-oriented investment policy.

**Tried and trusted investment strategy**
The investment volume measured at market value grew in 2012 by CHF 1.3 billion in total. The growth is, on the one hand, attributable to the continued excellent business development and, on the other, to the further increase in valuation reserves of a good CHF 300 million. This increase mainly stems from the bond portfolio and underlines its high quality. In addition, shares also generated an attractive value appreciation.

The bulk of the new cash inflows were invested in interest-bearing securities, and smaller amounts were invested in investment properties. The equity exposure remained constant for the most part, while the hedge funds exposure was reduced for investment policy reasons. As a result of the fragile state of the market, the share portfolio and the foreign currency positions were to a large extent hedged by options and futures for the entire year.

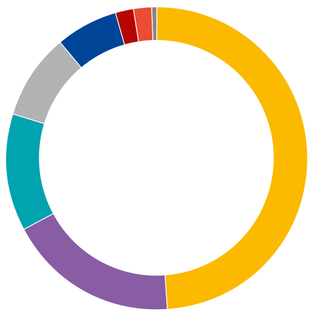
**Pleasing investment performance**
Investment performance amounts to almost CHF 400 million, which is an increase of almost CHF 90 million compared with the prior year. As a result, the return on carrying amounts climbed from 2.38% to a gratifying 2.81%. The performance measured at market value, which also takes into consideration the increase in valuation reserves of CHF 306 million in addition to investment performance, reached 4.66%. It is 0.4 percentage points lower than the prior year, but the decrease is above all due to a smaller increase in the valuation reserves for bonds compared to 2011. As we generally hold fixed-interest securities until final maturity, such interest-related changes are ultimately irrelevant for the beneficiaries in contrast to the investment performance, which rose by CHF 90 million.

**Outlook**
Despite the successful central bank policy, the markets remain susceptible to setbacks given the varied facets of the debt problem on this and the other side of the Atlantic. For this reason, we shall continue to maintain our proven safety-oriented investment policy in the current year.

**Asset allocation**

Investments by asset class as
per 31.12.2012 (in % of carrying amount)

| | |
|---|---|
| Fixed-income securities in Swiss francs | 49.07% |
| Mortgages and other par value receivables | 18.21% |
| Real estate | 12.65% |
| Fixed-income securities in foreign currencies | 9.11% |
| Liquid funds and time deposits | 6.46% |
| Swiss and foreign shares | 2.16% |
| Investment fund units | 1.97% |
| Investments in holdings and affiliated companies | 0.30% |
| Assets from financial derivative instruments | 0.06% |
| Private equity and hedge funds | 0.02% |
| Other investments | 0.00% |



| Balance as per 31.12.2012, in 1 000 CHF | Carrying amount | Market value |
|---|---|---|
| **Investments** | | |
| At beginning of financial year | 13 733 083 | 14 538 296 |
| At end of financial year | 14 600 594[1] | 15 712 002 |
| **Valuation reserves** | | |
| At beginning of financial year | | 805 213 |
| At end of financial year | | 1 111 408 |
| Change | | 306 195 |

[1] Excluding liabilities from financial derivative instruments

| Balance as per 31.12.2012, in 1 000 CHF | Gross[2] | Net[3] |
|---|---|---|
| **Investment income** | | |
| Investment income | 398 793 | 381 520 |
| Return on carrying amounts | 2.81% | 2.69% |
| Performance on market values | 4.66% | 4.55% |

[2] Including interest expense, before offsetting the asset management expense
[3] Including interest expense, after offsetting the asset management expense

## Asset management expense

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 expense.

These costs do not include transaction costs or real estate expenses, which are deducted from income as is customary in the sector. Helvetia's cost ratio was reduced further; in 2012 it amounted to 0.11% of the average investments.

| in 1 000 CHF | 2012 | 2011 |
|---|---|---|
| Average investments at market value | 15 125 149 | 13 692 115 |
| Asset management expense | 17 273 | 16 505 |
| Asset management expense in % of investments | 0.11% | 0.12% |

# 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 31.12.2012, in 1 000 CHF | Savings | Risk | Costs | Total |
|---|---|---|---|---|
| Gross income | 338 943 | 223 982 | 57 780 | 620 705 |
| Allocated benefits | 201 625 | 128 584 | 51 231 | 381 440 |
| **Gross result** | **137 318** | **95 398** | **6 549** | **239 265** |
| **Increase/decrease in reinforcement of reserves in the savings process** | | | | |
| Longevity risk | | | | –77 189 |
| Deficits from pension conversion | | | | –62 714 |
| Interest guarantees | | | | –1 739 |
| **Increase/decrease in reinforcement of reserves in the risk process** | | | | |
| Strengthening of disability and survivors' pensions | | | | –10 948 |
| Incurred, but not yet registered, insured events | | | | 0 |
| Claims fluctuations | | | | –6 500 |
| Increase/decrease in reinforcement of reserves | | | | –159 090 |
| Allocation to surplus fund | | | | –38 081 |
| **Operative account result for business subject to the legal quote** | | | | **42 094** |
| **Distribution ratio** | | | | **93.2%** |

In its business subject to the legal quote, Helvetia used a total of CHF 578.6 million to the benefit of the participants in 2012. This equals a distribution rate of 93.2%.

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

- Benefits allocated directly to the savings, risk and cost processes (see table opposite): CHF 381.4 million
- Increase in reserves: CHF 159.1 million
- Allocation to surplus fund: CHF 38.1 million

Helvetia generates cost-covering revenues in the savings, risk and cost processes. No cross-subsidies take place. Helvetia sets an extremely high priority on the security of the pension assets. The demographic and economic conditions are taken into account through the appropriate reinforcement of reserves. 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 | Revenues | Allocated benefits |
|---|---|---|
| Savings | Net investment income | Rate of interest for retirement savings capital and the actuarial reserves for current pensions, conversion of retirement savings capital into retirement pensions |
| Risk | Risk premium | Payment of disability and survivors' benefits, accrual of actuarial 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 31.12.2012, in 1 000 CHF | Savings | Risk | Costs | Total |
|---|---|---|---|---|
| Gross income | 42 577 | 105 233 | 28 457 | 176 267 |
| Allocated benefits | 39 923 | 44 187 | 17 244 | 101 354 |
| **Gross result** | **2 654** | **61 046** | **11 213** | **74 913** |
| **Increase/decrease in reinforcement of reserves in the savings process** | | | | |
| Longevity risk | | | | –29 800 |
| Deficits from pension conversion | | | | 5 600 |
| Interest guarantees | | | | 0 |
| **Increase/decrease in reinforcement of reserves in the risk process** | | | | |
| Strengthening of disability and survivors' pensions | | | | –4 100 |
| Incurred, but not yet registered, insured events | | | | 0 |
| Claims fluctuations | | | | 0 |
| Increase/decrease in reinforcement of reserves | | | | –28 300 |
| Allocation to surplus fund | | | | –29 989 |
| **Operative account result for business not subject to the legal quote** | | | | **16 624** |
| **Distribution rate** | | | | **90.6%** |

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

- Contracts with their own profit and loss account (so-called own bonus groups). Participation in profit in the form of surpluses 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 pension plans 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 31.12.2012, in 1 000 CHF | Subject to legal quote | | Not subject to legal quote | | Total |
|---|---|---|---|---|---|
| Savings | 338 943 | | 42 577 | | 381 520 |
| Risk | 223 982 | | 105 233 | | 329 215 |
| Costs | 57 780 | | 28 457 | | 86 237 |
| Gross income | 620 705 | 100.0% | 176 267 | 100.0% | 796 972 |
| Benefits paid to active participants | –578 611 | 93.2% | –159 643 | 90.6% | –738 254 |
| **Operating result** | **42 094** | 6.8% | **16 624** | 9.4% | **58 718** |

# Surplus fund.

The surplus fund for collective life insurance business was allocated a total of CHF 68.1 million from the 2012 result. CHF 38.1 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 31.12.2011 | 96 395 | 44 997 | 141 392 |
| Allocation from operative account | 38 081 | 29 989 | 68 070 |
| Distribution to pension plans | –50 929 | –38 717 | –89 646 |
| **Balance as per 31.12.2012** | **83 547** | **36 269** | **119 816** |

For the business subject to the legal quote, surpluses in the amount of CHF 50.9 million were paid out in 2012. This concerns the interest and risk surpluses for 2011 that were credited to the pension plans retroactively on 01.01.2012 as well as the surplus sharing of termination benefit policies for 2012.

The good business result for 2012 and a surplus policy that has given centre stage to continuity and stability in the past years allowed Helvetia to substantially increase the surplus sharing compared to the prior year. On 01.01.2013, the following surpluses were credited retroactively for 2012:

## Risk surplus for 2012[1]

| | 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 aggregate yield for 2012[2]

| | Surplus rate | Guaranteed interest rate | Aggregate yield |
|---|---|---|---|
| LOB retirement savings capital | 0.0% | 1.5% | 1.5% |
| Supplementary retirement savings capital | 0.9% | 1.0% | 1.9% |

[2] Applies for full insurance solutions offered by Helvetia's collective 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. Pursuant to 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.

## Inventories

| | 2012 | 2011 |
|---|---|---|
| Active participants | 169 387 | 162 751 |
| Pensioners | 20 021 | 19 366 |
| Termination benefit policies | 11 657 | 11 722 |
| **Number of active participants** | **201 065** | **193 839** |
| **Number of collective contracts** | **18 113** | **18 639** |

## Interest and conversion rates 2012

| | Mandatory insurance | Supplementary system |
|---|---|---|
| Rate of interest on retirement savings capital | 1.5% | 1.000% |
| Men (age 65) | 6.8% | 5.835% |
| Women (age 64) | 6.8% | 5.574% |

## Cost-of-living adjustment fund

The cost-of-living adjustment fund is a technical provision. It is used to finance the future adjustment of current disability and survivors' pensions to the price index pursuant to the LOB.

### Development of cost-of-living adjustment fund

| in 1 000 CHF | |
|---|---|
| Balance as per 31.12.2011 | 280 842 |
| Cost-of-living premiums received | 7 871 |
| Tariff interest | 3 511 |
| Cost of adjusting risk pensions to increase in price index | –456 |
| **Balance as per 31.12.2012** | **291 768** |

## Pension adjustment

The adjustment of pensions to the price index is governed by Art. 36 LOB. The cost-of-living adjustment is granted for the first time once the pension has been running for three years. The subsequent adjustments 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 not adjusted to take account of the increase in the cost of living on 01.01.2012:

| Pension beginning in year/period | Adjustment rate |
|---|---|
| 1985–2007 | 0.0% |
| 2008 | 0.0% |

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

## Operating expenses

| in 1 000 CHF | 2012 | 2011 |
| --- | --- | --- |
| Acquisition costs | 18 875 | 20 028 |
| Benefits processing costs | 6 332 | 6 668 |
| Marketing and advertising expenses | 3 047 | 2 972 |
| General administration expenses | 66 585 | 62 337 |
| Re-insurance share of administration costs | –3 095 | –6 219 |
| **Total net operating expenses** | **91 744** | **85 786** |

## Operating expenses according to cost centres and per head

| in 1 000 CHF | 2012 | 2011 |
| --- | --- | --- |
| Operating expenses of active participants in absolute terms | 84 373 | 78 146 |
| Operating expenses of pensioners in absolute terms | 6 332 | 6 668 |
| Operating expenses of termination benefit policies in absolute terms | 1 039 | 972 |
| Operating expenses for other cost units | 0 | 0 |
| **Total net operating expenses** | **91 744** | **85 786** |
| Operating expenses of active participants per head in CHF | 498 | 480 |
| Operating expenses of pensioners per head in CHF | 316 | 344 |
| Operating expenses of termination benefit policies per head in CHF | 89 | 83 |

## Cost premiums according to cost units and per head

| in 1 000 CHF | 2012 | 2011 |
| --- | --- | --- |
| Cost premiums of active participants in absolute terms | 85 218 | – |
| Cost premiums of termination benefit policies in absolute terms | 1 019 | – |
| Other cost premiums | 0 | |
| **Total cost premiums** | **86 237** | **85 930** |
| Cost premiums of active participants per head in CHF | 503 | – |
| Cost premiums of termination benefit policies per head in CHF | 87 | – |

The new detailed list of expenses according to cost centres and of cost premiums according to cost units shows that the cost premiums per active participant are on average higher than the average expenses per active participant. Therefore Helvetia generates enough revenue to cover its costs.

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**Helvetia Swiss**
**Life Insurance Company Ltd**
St. Alban-Anlage 26, 4002 Basel
T 058 280 1000 (24 h), F 058 280 1001
www.helvetia.ch

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