Helvetia Switzerland

Operative Account
2013

Collective life insurance.

Your Swiss Insurer.

helvetia

2013: success based on mutual trust.

Dear Readers,

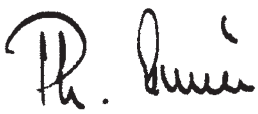
Pension provision for retirement in Switzerland is a successful model for which we are widely envied. Our three-pillar model has served as a template for the development of social insurance systems in numerous countries. As a result, forward-looking considerations by the Swiss Federal Council regarding the future of this successful model are both correct and welcome. The "Altersvorsorge 2020" reform does exactly this. The core elements of this reform have now been published, and Helvetia is satisfied that it is well equipped to meet these new challenges. For example, solutions to flexibly and individually structure your retirement assets have long been part of our standard offer. The greatest possible transparency and the responsible handling of pension assets with foresight are a matter of course for Helvetia and have proven themselves particularly in the last few difficult years, contributing to high customer loyalty.

Trust is essential for any business relationship. This is particularly true for occupational benefit schemes, in which large sums of pension assets are entrusted to Helvetia. Transparency has therefore always been a focus for Helvetia across all of its activities, while the "Altersvorsorge 2020" reform by the Federal Council also increases requirements in this area. Transparency and trust can also only be established by ensuring that you, our customers, understand what we do as well as how and why we do it. Our aim is to answer your questions. In the past year, Helvetia has introduced various new instruments to do precisely this: at the information event "Assurance under discussion", under the heading "Social and secure", Helvetia met with SME customers, officials, politicians and the media to explain the role an insurer plays in an occupational benefit scheme and what the planned reforms mean in practice. More of these events will follow. In addition, in the "Geld" programme on Central Switzerland's local television channel Tele 1, Helvetia representatives regularly respond to current issues relating to pensions, insurance and taxes – measures that demonstrate that Helvetia is your trustworthy partner for all questions relating to pensions.

This operative account also contains elements that comply with the new transparency requirements, such as the detailed representations of the savings premiums and the provisions (see pages 3 and 4). In the 2013 financial year Helvetia can once again report very pleasing figures in the collective life area. The increase of 5.1% in periodic premiums and 26.5% in one-time payments have ensured that Helvetia remains Switzerland's third largest provider in terms of market share. Helvetia primarily owes these increases to the continued demand for full insurance solutions and the diverse customer access points (incl. own sales representatives, direct business and brokers). Robust actuarial results and the profits on investments enabled reserves to be further reinforced, which provides additional security, especially in light of the low-interest-rate environment. Surplus funds and fluctuation reserves were also strengthened. Overall, the result in 2013 saw an increase in the operating result by CHF 1.5 million to CHF 60.2 million compared to 2012. The number of actively insured persons increased by 4.8%, which again reflects the pleasingly high customer loyalty.

Your trust is important to us and we thank you for it. As was the case over the past year, we will continue to invest in this trust in the future, as it forms the basis for our continued successful cooperation. We look forward to it!

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 2013, 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	2013	2012
Income		
Savings premiums	2 218 644	1 845 973
Of which contributions to strengthen retirement savings capital	*718 467*	*661 607*
Of which transferred retirement savings capital (new employees, new affiliations)	*1 235 523*	*950 415*
Of which transfers-in for transferred retirement pensions	*166 409*	*122 049*
Of which transfers-in for transferred disability and survivors' pensions	*25 477*	*23 102*
Of which transfers-in for vested benefit policies	*72 768*	*88 800*
Risk premiums	323 186	329 215
Cost premiums	88 029	86 237
Gross premium income earned	2 629 858	2 261 425
Direct income from investments	412 183	405 232
Proceeds from disposals	18 867	7 143
Exchange gains and losses	–11 945	–10 759
Amount of write-ups/depreciation	–22 989	–2 811
Interest expense	–52	–12
Asset management expense	–17 949	–17 273
Net income from investments	378 115	381 520
Other income	23 088	21 830
Re-insurance result	–7 757	–17 814
Total income	**3 023 305**	**2 646 961**
Expenses		
Retirement, death and disability benefits	542 238	546 740
Termination benefits	786 061	726 429
Redemption values due to termination of contracts	255 271	212 545
Benefits processing costs	6 475	6 332
Insurance benefits	1 590 044	1 492 046
Retirement savings capital	651 368	452 906
Reserves for retirement and survivors' pensions	347 973	249 141
Reserves for disability pensions	48 448	–2 195
Actuarial reserve for vested benefit policies	12 565	35 991
Provision for incurred but outstanding claims	–27 383	570
Other	165 828	198 314
Change in technical provisions	1 198 798	934 727
Acquisition and administration costs	86 501	88 507
Other expenses	5 923	4 893
Surplus sharing allocated to the surplus fund	81 841	68 070
Operating result	60 197	58 718
Total expenses	**3 023 305**	**2 646 961**

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	31.12.2013		31.12.2012	
Assets[1]				
Investments				
Liquid funds and time deposits	1 565 056	9.85%	943 470	6.46 %
Fixed-income securities in Swiss francs	7 212 054	45.41%	7 168 154	49.07%
Fixed-income securities in foreign currencies	1 682 409	10.59%	1 330 560	9.11%
Mortgages and other par value receivables	2 903 619	18.28%	2 660 335	18.21%
Swiss shares and foreign shares	343 359	2.16%	314 924	2.16%
Investment fund units	327 296	2.06%	287 920	1.97%
Private equity and hedge funds	1 262	0.01%	2 620	0.02%
Assets from financial derivative instruments	18 731	0.12%	8 367	0.06%
Investments in holdings and affiliated companies	112	0.00%	43 539	0.30%
Real estate	1 828 782	11.51%	1 847 058	12.65%
Other investments	0	0.00%	0	0.00%
Total	**15 882 681**		**14 606 947**	
Liabilities[1]				
Technical provisions, gross				
Retirement savings capital[2]	9 200 836		8 549 468	
Additional reserves for future pension conversions[2]	320 100		286 000	
Actuarial reserve for current retirement and survivors' pensions[2]	2 733 260		2 385 287	
Actuarial reserve for current disability pensions[2]	1 124 001		1 075 552	
Strengthening of the actuarial reserve for current pensions[2]	636 589		532 900	
Actuarial reserve for termination benefit policies	337 987		325 422	
Provision for incurred but outstanding claims	234 761		262 143	
Cost-of-living adjustment fund	298 306		291 768	
Provision for credited dividends	164 617		150 820	
Other technical provisions	20 211		20 016	
Total	**15 070 668**		**13 879 377**	

[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	
	2013	2012	2013	2012
Retirement savings capital	5 054 122	4 677 334	4 146 714	3 872 134
Additional reserves for future pension conversions	224 900	199 500	95 200	86 500
Actuarial reserve for current retirement and survivors' pensions	1 536 850	1 345 598	1 196 410	1 039 689
Actuarial reserve for current disability pensions	690 263	662 043	433 738	413 509
Strengthening of the actuarial reserve for current pensions	494 028	425 630	142 561	107 270

Investments.

Investment year 2013

The investment year 2013 was primarily characterised by the aggressive liquidity policy pursued by the central banks. Monetary policy remains extremely loose in order to further stabilise the economy. The equity markets in America and Europe shone in this environment, while the emerging markets fell sharply due to economic concerns and the looming interest rate rises. The bond markets suffered under the rising interest rates. Even though yields remained at modest levels from an historical perspective, securities with high debtor quality in particular recorded price falls. In contrast, bonds with lower creditworthiness ratings were able to benefit from the tightening spreads. In light of the continued minimum rate of CHF 1.20 per euro, the development of the exchange rate to the euro was very stable.

Stable asset allocation

The investment volume at market value increased by over CHF 700 million in the year under review. The rise was supported by the continued favourable business development and was hampered by the interest-rate-based fall in valuation reserves on the fixed-income investment holdings. The funds to be invested flowed into bonds, mortgages and loans predominantly, as well as into shares and convertible bonds to a lesser extent. Due to the increased liquidity requirement at the start of 2014, a comparably high level of liquid funds and time deposits has been retained. The asset allocation was close to the strategic target weightings. In 2013 we continued our safety-oriented investment policy due to the ongoing market uncertainty. The equity portfolios and the foreign currency exposures continued to be largely hedged by options and futures.

Reliable investment performances

Investment performance was just below CHF 400 million, similar to the prior year. The result was upheld thanks to the growth-related higher investment volume. The persistently low interest rate level meant that new investments reduced the carrying amounts of the portfolio returns by 0.2 percentage points to 2.6%. This moderate fall is the result of the successful implementation of our policy over several years, which aims to gradually reduce the maturity gaps between fixed-income assets and liabilities. The performance measured at market value is negative, at –1.05%, due to the rise in interest rates, which resulted in a significant fall in valuation reserves. In light of the positive equity contribution, the net effect amounts to minus CHF 564 million. However, it must be remembered that interest-rate-related price fluctuations are actually irrelevant as, from an integrated asset-liability view, we hold the vast majority of fixed-income securities until final maturity. In addition, while the interest-rate-related correction during the year may have diminished the valuation reserves previously established in the crisis years, it did not erode them completely.

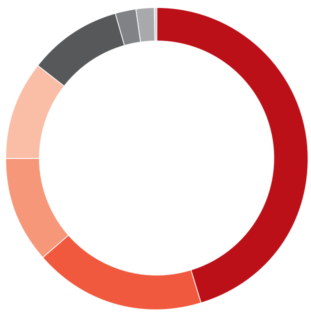
Outlook

In the current year we expect that the economic climate will continue to improve, especially in America and Europe. However, there are still a number of risks that may cause market turbulence at any time, whether due to the unsolved problems of the European debt crisis or the clouds gathering over the emerging markets. As a result, we will continue to implement our established investment policy and our successful operational risk management in the coming year.

Asset allocation

Investments by asset class as per 31.12.2013 (in % of carrying amount)

Fixed-income securities in Swiss francs	45.41%
Mortgages and other par value receivables	18.28%
Real estate	11.51%
Fixed-income securities in foreign currencies	10.59%
Liquid funds and time deposits	9.85%
Swiss and foreign shares	2.16%
Investment fund units	2.06%
Assets from financial derivative instruments	0.12%
Private equity and hedge funds	0.01%
Investments in holdings and affiliated companies	0.00%
Other investments	0.00%



Balance as per 31.12.2013, in 1 000 CHF	Carrying amount	Market value
Investments		
At beginning of financial year	14 600 594	15 712 002
At end of financial year	15 881 873[1]	16 429 082
Valuation reserves		
At beginning of financial year		1 111 408
At end of financial year		547 209
Change		–564 199

[1] Excluding liabilities from financial derivative instruments.

Balance as per 31.12.2013, in 1 000 CHF	Gross[2]	Net[3]
Investment income		
Investment income	396 064	378 115
Return on carrying amounts	2.60%	2.48%
Performance on market values	–1.05%	–1.16%

[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 remains at a very low level of 0.11%, as in the prior years.

in 1 000 CHF	2013	2012
Average investments at market value	16 070 542	15 125 149
Asset management expense	17 949	17 273
Asset management expense in % of investments	0.11%	0.11%

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 31.12.2013, in 1 000 CHF	Savings	Risk	Costs	Total
Gross income	336 391	224 961	59 937	621 290
Allocated benefits	–215 941	–111 418	–48 763	–376 121
Gross result	**120 450**	**113 544**	**11 174**	**245 168**
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				–47 500
Deficits from pension conversion				–50 200
Interest guarantees				–200
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				–28 200
Incurred, but not yet registered, insured events				0
Claims fluctuations				–21 300
Increase/decrease in reinforcement of reserves				–147 400
Allocation to surplus fund				–51 297
Operative account result for business subject to the legal quote				**46 472**
Distribution ratio				**92.5%**

In its business subject to the legal quote, Helvetia used a total of CHF 574.8 million to the benefit of the participants in 2013. This equals a distribution rate of 92.5%.

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 376.1 million
- Increase in reserves: CHF 147.4 million
- Allocation to surplus fund: CHF 51.3 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 31.12.2013, in 1 000 CHF	Savings	Risk	Costs	Total
Gross income	41 724	98 224	28 092	168 040
Allocated benefits	–42 052	–54 415	–15 415	–111 881
Gross result	**–328**	**43 809**	**12 677**	**56 159**
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				–15 601
Deficits from pension conversion				16 100
Interest guarantees				0
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				–12 388
Incurred, but not yet registered, insured events				0
Claims fluctuations				0
Increase/decrease in reinforcement of reserves				–11 889
Allocation to surplus fund				–30 545
Operative account result for business not subject to the legal quote				**13 726**
Distribution rate				**91.8%**

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 31.12.2013, in 1 000 CHF	Subject to legal quote		Not subject to legal quote		Total
Savings	336 391		41 724		378 115
Risk	224 961		98 224		323 186
Costs	59 937		28 092		88 029
Gross income	621 290	100.0%	168 040	100.0%	789 330
Benefits paid to active participants	–574 818	92.5%	–154 314	91.8%	–729 132
Operating result	**46 472**	7.5%	**13 726**	8.2%	**60 197**

Surplus fund.

The surplus fund for collective life insurance business was allocated a total of CHF 81.8 million from the 2013 result. CHF 51.3 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 31.12.2012	83 548	36 269	119 816
Allocation from operative account	51 297	30 545	81 841
Distribution to pension plans	50 527	30 652	81 178
Balance as per 31.12.2013	**84 318**	**36 162**	**120 479**

For the business subject to the legal quote, surpluses in the amount of CHF 50.5 million were paid out in 2013. This concerns the interest and risk surpluses for 2012 that were credited to the pension plans retroactively on 01.01.2013 as well as the surplus sharing of vested benefit policies for 2013.

The good business result for 2013 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, especially the share in business subject to the legal quote, compared to the prior year. We were able to make distributions to pension plans to the same extent as the allocations. On 01.01.2014, the following surpluses were credited retroactively for 2013:

Risk surplus for 2013[1]

	Risk surplus
On risk premium disability	10%
On risk premium death	15%

[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 interest for 2013[2]

	Guaranteed interest rate	Interest surplus	Total interest
LOB retirement savings capital	1.5%	0.00%	1.50%
Supplementary retirement savings capital	1.0%	0.75%	1.75%

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

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.

Portfolios

	2013	2012
Active participants	177 612	169 387
Pensioners	21 000	20 021
Termination benefit policies	11 249	11 657
Number of active participants	**209 861**	**201 065**
Number of collective contracts	**17 595**	**18 113**

Interest and conversion rates 2013

	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 31.12.2012	291 767
Cost-of-living premiums received	5 731
Tariff interest	844
Cost of adjusting risk pensions to increase in price index	–36
Balance as per 31.12.2013	**298 306**

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, at the start of the following calendar year. 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 adjusted on 01.01.2013 as follows:

Pension beginning in year/period	Adjustment rate
1985–2008	0.0%
2009	0.4%

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	2013	2012
Acquisition costs	19 220	19 471
Of which commissions to brokers and agents	*5 424*	*5 487*
Of which commissions to own sales representatives	*4 166*	*4 176*
Benefits processing costs	6 475	6 332
Marketing and advertising expenses	3 433	3 047
General administration expenses	63 848	65 990
Re-insurance share of administration costs	–5 158	–3 095
Total net operating expenses	**87 817**	**91 744**
According to cost centres		
Operating expenses of active participants in absolute terms	80 326	84 373
Operating expenses of pensioners in absolute terms	6 475	6 332
Operating expenses of vested benefit policies in absolute terms	1 017	1 039
Operating expenses for other cost units	0	0
Total net operating expenses	**87 817**	**91 744**
Per head (in CHF)		
Operating expenses of active participants	452	498
Operating expenses of pensioners	308	316
Operating expenses of termination benefit policies	90	89

Cost premiums

in 1 000 CHF	2013	2012
According to cost units		
Cost premiums of active participants in absolute terms	86 947	85 218
Cost premiums of vested benefit policies in absolute terms	1 082	1 019
Other cost premiums	0	0
Total cost premiums	**88 029**	**86 237**
Per head (in CHF)		
Cost premiums of active participants	490	503
Cost premiums of vested benefit policies	96	87

In 2013, Helvetia was able to reduce operating expenses both overall as well as per active participant. The positive processes and the cost-covering cost premiums generated reflect the efficiency of Helvetia's business activities.

12-6247 05.14

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

Your Swiss Insurer.

helvetia