Helvetia Switzerland

Operative Account
2014

Collective life insurance.

Your Swiss Insurer.

helvetia

2014: reforms are needed – and so is transparency!

Dear Readers,

It is undisputed that our social security system and, in particular, the pension system have stood the test of time, but the continuation of this success story is under threat. Reforms are urgently required. The demographic trend, the situation on the investment markets, the current exchange rate situation and the low interest rates leave the competent bodies, above all the policymakers, no alternative. The Federal Council has taken an important step in the right direction with its "Altersvorsorge 2020" [Pension 2020] reform package. The parliamentary discussions on this bill are to start shortly. And just as the political bodies are required to offer a hand with finding a lasting solution to the obvious problems, so now are the providers of employee pension products and services, including Helvetia.

The ratio of working people to pensioners in the OASI is visibly worsening and interest rates remain stubbornly low. In occupational benefit schemes, funds that are supposed to benefit active participants are being redistributed outside the system to finance current pensions because of the excessively high pension conversion rate.

Therefore, Helvetia supports an overall view and the proposals of the Federal Council, which aim to preserve the weighting of the 1st and 2nd pillar and the benefit level, set the retirement age for men and women to 65, and reduce the pension conversion rate to 6.0%. The proposed accompanying measures and the contribution to the correct financing of pension benefits will contribute to a socially acceptable solution. These reform points are realistic and expedient in our view, especially with regard to the interests of our policyholders and the security of the pension assets entrusted to us.

On the other hand, the reform package also contains elements that would place the tried and trusted full insurance model, which Helvetia still supports, at risk, such as the proposed mandatory increase in the minimum distribution ratio, i.e. that part of the income that has to be used to the benefit of the active participants (read more about the minimum distribution rate at Helvetia on pages 9 and 10 of this operative account). An increase in the minimum distribution ratio would force life insurance companies to adopt a more defensive investment strategy, which would in turn lead to losses in terms of investment performance and operating results. In other words, the higher minimum distribution ratio would be outweighed by lower income; ultimately both the active participants and the venture capitalists would receive less, which cannot be in the interests of either the active participants or Helvetia. Life insurance companies already deal with the minimum distribution ratio in a forward-looking and responsible manner today and increase it according to the possibilities; it is imperative that this flexibility is retained.

Transparency and sustainability will continue to be the basic values that underpin the actions of Helvetia in the occupational benefit scheme and on which our customers can depend. As a leading Swiss insurance company, we are proud of having further consolidated our market position. Once again we can present a solid high-quality result for financial year 2014 for the group as a whole and, particularly, for collective life insurance in Switzerland. With this operative account, our annual year-end publication "News on the 2nd Pillar" (in which we have already presented to you the individual elements of the "Altersvorsorge 2020" reform package), the advisors on the ground and the specialists in administration, we would like to offer you the greatest possible transparency. Be assured that you are in the best hands as a Helvetia customer. We are committed to ensuring that the interests of the affiliated companies and the active participants are optimally safeguarded even in times of necessary change.

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 2014, thereby providing information on the type, amount and composition of our success in this business sector.

Income statement

in TCHF, pursuant to the statutory financial statements	2014	2013
Income		
Savings premiums	2 232 896	2 218 644
Of which contributions to strengthen retirement savings capital	*776 344*	*718 467*
Of which transferred retirement savings capital (new employees, new affiliations)	*1 337 387*	*1 235 523*
Of which transfers-in for transferred old-age and survivor's pensions	*29 112*	*166 409*
Of which transfers-in for transferred disability pensions	*24 925*	*25 477*
Of which transfers-in for vested benefit policies	*65 127*	*72 768*
Risk premiums	328 173	323 186
Cost premiums	89 165	88 029
Gross premium income earned	2 650 234	2 629 858
Direct income from investments	413 593	412 183
Proceeds from disposals	43 158	18 867
Exchange gains and losses	309	–11 945
Amount of write-ups/depreciation	974	–22 989
Interest expense	–43	–52
Asset management expense	–20 746	–17 949
Net income from investments	437 245	378 115
Other income	23 409	23 088
Re-insurance result	–11 017	–7 757
Total income	**3 099 871**	**3 023 305**
Expenses		
Retirement, death and disability benefits	1 490 138	542 238
Termination benefits	871 323	786 061
Redemption values due to termination of contracts	220 412	255 271
Benefits processing costs	6 758	6 475
Insurance benefits	2 588 630	1 590 044
Retirement savings capital	786 996	651 368
Reserves for retirement and survivors' pensions	–616 471	347 973
Reserves for disability pensions	31 543	48 448
Actuarial reserve for vested benefit policies	–6 423	12 565
Provision for incurred but outstanding claims	–136	–27 383
Other	36 145	165 828
Change in technical provisions	231 654	1 198 798
Acquisition and administration costs	89 574	86 501
Other expenses	7 120	5 923
Surplus sharing allocated to the surplus fund	130 249	81 841
Operating result	52 643	60 197
Total expenses	**3 099 871**	**3 023 305**

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 TCHF, pursuant to the statutory financial statements	31.12.2014		31.12.2013	
Assets[1]				
Investments				
Liquid funds and time deposits	1 060 692	6.56%	1 565 056	9.85%
Fixed-income securities in Swiss francs	7 347 964	45.43%	7 212 054	45.41%
Fixed-income securities in foreign currencies	1 984 541	12.27%	1 682 409	10.59%
Mortgages and other par value receivables	3 027 261	18.72%	2 903 619	18.28%
Swiss shares and foreign shares	379 814	2.35%	343 359	2.16%
Investment fund units	351 269	2.17%	327 296	2.06%
Private equity and hedge funds	1 198	0.01%	1 262	0.01%
Assets from financial derivative instruments	13 143	0.08%	18 731	0.12%
Investments in holdings and affiliated companies	112	0.00%	112	0.00%
Real estate	2 008 842	12.42%	1 828 782	11.51%
Other investments	0	0.00%	0	0.00%
Total	**16 174 837**		**15 882 681**	
Liabilities[1]				
Technical provisions, gross				
Retirement savings capital[2]	9 987 832		9 200 836	
Additional reserves for future pension conversions[2]	423 900		320 100	
Actuarial reserve for current retirement and survivors' pensions[2]	2 116 789		2 733 260	
Actuarial reserve for current disability pensions[2]	1 155 544		1 124 001	
Strengthening of the actuarial reserve for current pensions[2]	559 972		636 589	
Actuarial reserve for termination benefit policies	331 563		337 987	
Provision for incurred but outstanding claims	234 625		234 761	
Cost-of-living adjustment fund	304 569		298 306	
Provision for credited dividends	177 445		164 617	
Other technical provisions	23 310		20 211	
Total	**15 315 548**		**15 070 668**	

[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 TCHF	Mandatory insurance		Supplementary system	
	2014	2013	2014	2013
Retirement savings capital	5 487 347	5 054 122	4 500 485	4 146 714
Additional reserves for future pension conversions	335 500	224 900	88 400	95 200
Actuarial reserve for current retirement and survivors' pensions	1 123 574	1 536 850	993 214	1 196 410
Actuarial reserve for current disability pensions	693 561	690 263	461 983	433 738
Strengthening of the actuarial reserve for current pensions	422 338	494 028	137 634	142 561

Investments.

Investment year 2014

The continued offensive monetary policy of the central banks shaped events on the financial markets in 2014, causing interest rates to fall to new lows at the year-end, contrary to most predictions. Bonds excelled with outstanding returns in the double-digit percentage range in the case of longer maturities. By contrast, investing this new inflow of capital proved increasingly difficult.

The equity markets remained vulnerable throughout the year and were defined by constant ups and downs. Geopolitical risks in the wake of the Ukraine crisis, economic worries in Europe or fears of the debt crisis flaring up again caused prices to collapse again and again. At the end of the year particularly the American and the Swiss equity market achieved impressive price gains, while most European markets achieved somewhat modest overall returns.

The exchange rate of the franc to the euro stayed within tight limits due to the minimum exchange rate set by the Swiss National Bank and the dollar appreciated markedly based on the robust economic development.

Stable asset allocation

In the year under review the new inflow of capital was mainly invested in fixed-income securities, land and buildings, and Swiss shares; cash and cash equivalents were reduced in line with objectives. Effective and strategic target allocation are therefore closely linked.

The investment volume measured at the carrying amount increased by nearly CHF 300 million and reached a total of almost CHF 16.2 billion as at 31 December. If the valuation reserves of a good CHF 1.6 billion are included, market values total CHF 17.8 billion. The increase of around CHF 1.4 billion compared to the previous year is largely due to the interest rate-related increase in the valuation reserves for fixed-income securities. It should be pointed out that the long-term liabilities and the interest guarantees of the occupational benefit scheme require the bonds to be held until final maturity for the most part. In this respect, any increases in valuation reserves for these bonds occurring in the meantime will be cancelled out over time.

To cushion against the effects of market setbacks, which are always possible, the share portfolio and the foreign currency exposures were to a large extent hedged by options and futures for the entire year.

Reliable investment performances

In the year under review an investment performance of nearly CHF 460 million was generated. The returns on carrying amounts therefore amounted to 2.86%. The increase compared to the previous year, with virtually the same current income, was achieved through targeted profit realisations facilitated by the favourable market climate.

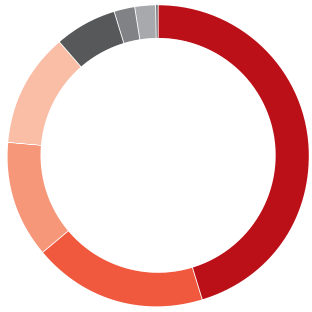
The performance at market value stood at a pleasing 8.94%. This extremely high figure from a historical perspective was supported equally by shares and fixed-income securities, which both boasted an overall performance of over 12%. The comments made in the preceding section also apply in this case to fixed-income securities.

Outlook

It can be assumed that interest rates in Europe will remain at a low level for some time yet as a result of the further relaxation of the European Central Bank’s monetary policy. This trend will be even more pronounced in Switzerland after the abandonment of the minimum CHF/EUR exchange rate and the introduction of negative interest rates, although interest rates are unlikely to remain negative for long periods of time. To achieve the yields that are necessary for the occupational benefit scheme it is absolutely essential that we extend the investment spectrum and take somewhat higher investment risks on a selective basis. Corresponding measures are in the pipeline.

Asset allocation

Investments by asset class as per 31.12.2014 (in % of carrying amount)	
Fixed-income securities in Swiss francs	45.43%
Mortgages and other par value receivables	18.72%
Real estate	12.42%
Fixed-income securities in foreign currencies	12.27%
Liquid funds and time deposits	6.56%
Swiss and foreign shares	2.35%
Investment fund units	2.17%
Assets from financial derivative instruments	0.08%
Private equity and hedge funds	0.01%
Investments in holdings and affiliated companies	0.00%
Other investments	0.00%



Investments

Balance as per 31.12.2014, in TCHF	Carrying amount	Market value
At beginning of financial year	15 881 873	16 429 082
At end of financial year	16 135 199[1]	17 752 984

[1] Excluding liabilities from financial derivative instruments.

Valuation reserves

Balance as per 31.12.2014, in TCHF	Market value
At beginning of financial year	547 209
At end of financial year	1 617 784
Change	1 070 575

Investment income

Balance as per 31.12.2014, in TCHF	Gross[2]	Net[3]
Investment income	457 991	437 245
Return on carrying amounts	2.86%	2.73%
Performance on market values	8.94%	8.82%

[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 0.12%, as in the prior years.

in TCHF	2014	2013
Average investments at market value	17 091 033	16 070 542
Asset management expense	20 746	17 949
Asset management expense in % of investments	0.12%	0.11%
Share of collective investments[4]	1.95%	1.84%
Share of non-cost-transparent investments[5]	0.65%	0.69%

[4] Collective investments are assets that are provided by investors for collective investment and administered for their account. The investment needs of investors are satisfied equally (Federal Act on Collective Investment Schemes, Art. 7 (1)).

[5] If the asset management expenses for a collective investment cannot be calculated or disclosed according to the instructions of the Swiss Federal Commission for Occupational Pension Plans (OAK BV), the investment is not transparent.

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 31.12.2014, in TCHF	Savings	Risk	Costs[1]	Total
Gross income	415 288	232 491	61 179	708 958
Allocated benefits	253 689	147 750	51 127	452 565
Gross result	**161 599**	**84 741**	**10 052**	**256 393**
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				59 600
Deficits from pension conversion				108 800
Interest guarantees				2 700
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				–14 900
Incurred, but not yet registered, insured events				0
Claims fluctuations				0
Increase/decrease in reinforcement of reserves				156 200
Allocation to surplus fund				58 055
Operative account result for business subject to the legal quote				**42 138**
Distribution ratio				**94.1%**

In its business subject to the legal quote, Helvetia used a total of CHF 666.8 million to the benefit of the participants in 2014. This equals a distribution rate of 94.1%.

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

- Benefits allocated directly to the savings, risk and cost processes (see table p. 11): CHF 452.6 million
- Increase in reserves: CHF 156.2 million
- Allocation to surplus fund: CHF 58.1 million

Helvetia generates cost-covering revenues in the savings, risk and cost processes. 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%.

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 31.12.2014, in TCHF	Savings	Risk	Costs	Total
Gross income	21 956	95 682	27 985	145 624
Allocated benefits	18 338	32 089	18 115	68 542
Gross result	**3 618**	**63 593**	**9 870**	**77 082**
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				–1 129
Deficits from pension conversion				700
Interest guarantees				0
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				–5 188
Incurred, but not yet registered, insured events				0
Claims fluctuations				0
Increase/decrease in reinforcement of reserves				–5 617
Allocation to surplus fund				72 194
Operative account result for business not subject to the legal quote				**10 505**
Distribution rate				**92.8%**

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.

In 2014 the Swisscanto collective foundation's retirement pensions and survivors' pensions payable after retirement were transferred by Helvetia to the foundation. The reinforcement of reserves for these inventories could therefore be reduced.

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

Redistribution of income

In business subject to the minimum distribution ratio, large amounts are reported for the longevity risk and coverage gaps in pension conversion in the presentation of the strengthening of reserves in the savings process.

It can be seen from this that the mathematical reserve for the payment of pensions would not suffice at the high conversion rate that currently applies. In order however to be able to pay guaranteed pensions in the future and long term, it is necessary to assign a large part of the profit from the capital investment income earned from savings contributions made by active insured persons to the corresponding strengthening of reserves. As such, the possibility of paying more interest on the retirement assets of active insured persons via the incorporation of surpluses is reduced significantly.

Business that is not subject to the minimum distribution ratio will only be affected to a minor degree as the conversion rates here are lower and as such less strengthening of reserves is required. Moreover, this business at Helvetia focuses primarily on the Swisscanto collective foundation. As of 1 January 2014, those old-age pensioners whose pensions were previously reinsured at Helvetia have been adopted into the foundation by Swisscanto, with the result that the strengthening of reserves in this area could be released.

Recapitulation of operating result

Balance as per 31.12.2014, in TCHF	Subject to legal quote		Not subject to legal quote		Total
Savings	415 288		21 956		437 245
Risk	232 491		95 682		328 173
Costs	61 179		27 985		89 165
Gross income	708 958	100.0%	145 624	100.0%	854 582
Benefits paid to active participants	666 820	94.1%	135 119	92.8%	801 939
Operating result	**42 138**	5.9%	**10 505**	7.2%	**52 643**

Surplus fund.

The surplus fund for collective life insurance business was allocated a total of CHF 130.2 million from the 2014 result. CHF 58.1 million of this is allocated to business subject to the legal quote.

Development of the surplus fund

in TCHF	Subject to legal quote	Not subject to legal quote	Total
Balance as per 31.12.2013	84 318	36 162	120 479
Allocation from operative account	58 055	72 194	130 249
Distribution to pension plans	44 451	28 918	73 369
Balance as per 31.12.2014	**97 922**	**79 437**	**177 359**

For the business subject to the legal quote, surpluses in the amount of CHF 44.5 million were paid out in 2014. This concerns the interest and risk surpluses for 2013 that were credited to the pension plans retroactively on 01.01.2014 as well as the surplus sharing of vested benefit policies for 2014.

The good business result for 2014 and a surplus policy that has given centre stage to continuity and stability in the past years allowed Helvetia to substantially increase the surplus allocation compared to the prior year. This will enable us to guarantee surplus sharing in the next few years even if the performance of returns is unfavourable. As at 01.01.2015 the following surpluses will be credited retroactively for 2014:

Interest surplus and total interest for 2014[1]

	Guaranteed interest rate	Interest surplus	Total interest
LOB retirement savings capital	1.75%	0.00%	1.75%
Supplementary retirement savings capital	1.25%	0.90%	2.15%

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

In accordance with the regulations for the minimum distribution rate relating to the distribution of surpluses, a risk surplus of 10% of risk premiums was paid out for 2014 in addition to the interest surplus. 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.

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

	2014	2013
Active participants	183 175	177 612
Pensioners	22 112	21 000
Termination benefit policies	10 560	11 249
Number of active participants	**215 847**	**209 861**
Number of collective contracts	**17 802**	**17 595**

Interest and conversion rates 2014

	Mandatory insurance	Supplementary system
Rate of interest on retirement savings capital	1.75%	1.250%
Pension conversion rate men (age 65)	6.80%	5.835%
Pension conversion rate women (age 64)	6.80%	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 TCHF	
Balance as per 31.12.2013	298 306
Cost-of-living premiums received	4 923
Tariff interest	1 406
Cost of adjusting risk pensions to increase in price index	–67
Balance as per 31.12.2014	**304 569**

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 not adjusted to take account of the increase in the cost of living on 01.01.2014:

Pension beginning in year/period	Adjustment rate
1985–2009	0.0%
2010	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 TCHF	2014	2013
Acquisition costs	19 676	19 220
Of which commissions to brokers and agents	*6 469*	*5 424*
Of which commissions to own sales representatives	*4 199*	*4 166*
Benefits processing costs	6 758	6 475
Marketing and advertising expenses	3 386	3 433
General administration expenses	66 512	63 848
Re-insurance share of administration costs	–4 043	–5 158
Total net operating expenses	**92 289**	**87 817**
According to cost centres		
Operating expenses of active participants in absolute terms	84 532	80 326
Operating expenses of pensioners in absolute terms	6 758	6 475
Operating expenses of vested benefit policies in absolute terms	999	1 017
Operating expenses for other cost units	0	0
Total net operating expenses	**92 289**	**87 817**
Per head (in CHF)		
Operating expenses of active participants	461	452
Operating expenses of pensioners	306	308
Operating expenses of termination benefit policies	95	90

Cost premiums

in TCHF	2014	2013
According to cost units		
Cost premiums of active participants in absolute terms	88 093	86 947
Cost premiums of vested benefit policies in absolute terms	1 071	1 082
Other cost premiums	0	0
Total cost premiums	**89 165**	**88 029**
Per head (in CHF)		
Cost premiums of active participants	481	490
Cost premiums of vested benefit policies	101	96

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