



Helvetia Switzerland

*Operative
Account
2016*

Collective life insurance.

Your Swiss Insurer.



Reform “Pension Provision 2020” entering the straight.



Dear Readers,

In recent years, the reform project “Pension Provision 2020” of the Federal Council has been the dominant subject for the pension provision sector. Following intensive consultations in

Parliament, featuring controversial disputes in parties and commissions and committed opinions from pressure groups, this major project has now come to a conclusion and will be submitted to a national referendum on 24 September 2017.

There is widespread agreement on the need for reform and the reform is mandatory and urgent. The Federal Council and Parliament have drafted a bill that will lastingly shape the social insurance system of Switzerland and will above all secure it up to 2030. The reform is in its totality an important step towards stabilising occupational pension provisions and securing the level of benefits. As such, a window of opportunity has opened that has to be exploited quickly for pushing ahead politically with the next steps toward achieving a system sustainably financed in the long term.

The Federal Council and Parliament have deliberately put the reform of the AHV and LOB together as one package, because this is the only way to produce a solution that can win over a majority. The highly controversial discussions in Parliament, and the differing reactions to Parliament's decisions, showed that this enterprise was anything but simple.

The fact that the bill also includes two points that worsen general conditions for insurers, and as a result in the final instance injure the interests of SMEs, is a rather regrettable fact from the point of view of the life insurers. The new regulations on surpluses and the limitation of risk premiums contribute nothing to achieving the aims of the reform. It is the collec-

tive foundations of life insurance companies that for the most part insure the employees of small and medium-sized enterprises. These companies are frequently dependent on the guarantees of life insurers; many of them could not bear the risks of occupational pension provision on their own. Over many years, the full insurance model has proven to be the best solution above all for SMEs. Like all insurers, Helvetia will do everything it can to continue to maintain this attractiveness, even under the now less favourable conditions.

Overall, we can determine: The reform “Pension Provision 2020” is on the final straight. Even if the package includes several disputed points, it is gratifying that the voters will be able to express their opinion on the reform on 24 September 2017. We are dependent on getting a viable reform of pension provision as quickly as possible, because only in this way will our current successful model of Swiss pension provision continue to be financed sustainably, in a balanced and stable manner.

Thank you very much for the trust that you show in us today and in the future.

Helvetia Swiss
Life Insurance Company Ltd

Donald Desax
Member of the Group Management
Head of Occupational Pension Provision Switzerland

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Income statement.

The following income statement reports on Helvetia Insurance's income and expenses for its collective life business in 2016, 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	2016	2015
Income		
Savings premiums	2 264 823	2 143 337
<i>Of which contributions to strengthen retirement savings capital</i>	819 168	807 992
<i>Of which transferred retirement savings capital (individually transferred)</i>	1 039 049	888 156
<i>Of which retirement savings capital transferred (contracts transferred in the case of new associations)</i>	244 603	321 455
<i>Of which transfers-in for transferred old-age and survivor's pensions</i>	28 453	10 855
<i>Of which transfers-in for transferred disability pensions</i>	24 886	32 206
<i>Of which transfers-in for vested benefit policies</i>	108 664	82 673
Risk premiums	307 877	313 474
Cost premiums	88 003	89 484
Gross premium income earned	2 660 703	2 546 295
Direct income from investments	432 914	415 692
Proceeds from disposals	98 488	147 479
Exchange gains and losses	-52 098	-99 317
Amount of write-ups/depreciation	-56 954	-55 455
Interest expense	-3 370	-5 826
Asset management expense	-30 544	-22 931
Net income from investments	388 437	379 642
Other income	21 698	24 157
Re-insurance result	-10 686	-26 570
Total income	3 060 152	2 923 524

in TCHF, pursuant to the statutory financial statements	2016	2015
Expenses		
Retirement, death and disability benefits ¹	542 272	549 783
<i>Of which capital benefits</i>	348 946	340 185
<i>Of which pension benefits</i>	193 326	209 599
Vested benefits	986 502	906 463
Redemption values due to termination of contracts	435 303	215 295
Benefits processing costs	7 228	7 136
Insurance benefits	1 971 305	1 678 678
Retirement savings capital	394 557	621 364
Reserves for retirement and survivors' pensions	259 114	223 249
Reserves for disability pensions	-5 103	39 194
Actuarial reserve for vested benefit policies	40 394	21 884
Provision for incurred but outstanding claims	11 029	-12 548
Other	151 900	95 746
Change in technical provisions	851 891	988 889
Acquisition and administration costs	90 506	87 634
Other expenses	3 024	1 346
Surplus sharing allocated to the surplus fund ²	72 530	96 570
Operating result	70 895	70 409
Total expenses	3 060 152	2 923 524

¹ Retirement, death and disability benefits: Retirement 64%, Death 14%, Disability 22%.

² Patria Genossenschaft makes an annual contribution to the surplus fund of Helvetia Insurance. The share of the collective life business of CHF 21.7 million (prior year CHF 23.4 million) is included on the one hand as income in the item "Other income" and on the other hand as expense in the item "Surplus sharing allocated to the surplus fund".

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	31.12.2016		31.12.2015	
Assets				
Investments				
Liquid funds and time deposits	205 701	1.15%	428 808	2.55%
Fixed-income securities in Swiss francs	7 141 640	39.82%	7 244 713	43.06%
Fixed-income securities in foreign currencies	3 847 485	21.45%	2 956 698	17.57%
Mortgages and other par value receivables	3 494 520	19.49%	3 321 540	19.74%
Swiss shares and foreign shares	370 245	2.06%	356 043	2.12%
Investment fund units	405 541	2.26%	342 364	2.04%
Private equity and hedge funds	62	0.00%	751	0.00%
Assets from financial derivative instruments	25 469	0.14%	12 698	0.08%
Investments in holdings and affiliated companies	112	0.00%	112	0.00%
Real estate	2 442 198	13.62%	2 159 859	12.84%
Other investments	0	0.00%	0	0.00%
Total investments	17 932 973	100%	16 823 588	100%
Other assets	566 019		785 334	
Balance sheet total	18 498 992		17 608 922	
Liabilities				
Technical provisions, gross				
Retirement savings capital ¹	11 003 753		10 609 196	
Additional reserves for future pension conversions ¹	413 200		359 500	
Actuarial reserve for current retirement and survivors' pensions ¹	2 599 152		2 340 037	
Actuarial reserve for current disability pensions ¹	1 189 635		1 194 738	
Strengthening of the actuarial reserve for current pensions ¹	778 966		691 643	
Actuarial reserve for vested benefit policies	393 842		353 447	
Provision for incurred but outstanding claims	230 641		219 612	
Cost-of-living adjustment fund	315 024		310 146	
Provision for credited dividends	27 910		188 749	
Other technical provisions	25 906		25 307	
Total technical provisions, gross	16 978 028		16 292 376	
Surplus fund	156 643		160 064	
Other provisions	613 002		539 609	
Other liabilities	751 319		616 873	
Balance sheet total	18 498 992		17 608 922	

¹ Breakdown of the items into mandatory insurance and supplementary system:

As at 31.12. in TCHF	Mandatory insurance		Supplementary system	
	2016	2015	2016	2015
Retirement savings capital	5 937 284	5 808 208	5 066 468	4 800 988
Additional reserves for future pension conversions	339 900	296 600	73 300	62 900
Actuarial reserve for current retirement and survivors' pensions	1 375 320	1 250 643	1 223 832	1 089 395
Actuarial reserve for current disability pensions	724 723	732 435	464 911	462 303
Strengthening of the actuarial reserve for current pensions	591 575	525 147	187 391	166 497

Investments.

Investment year 2016

2016 was characterised by a slow start, a volatile performance and a happy ending. Landmark political decisions caused uncertainty, namely the Brexit vote in the UK, the constitutional referendum in Italy, with the subsequent resignation of Prime Minister Renzi, and the presidential elections in the US. The reaction by the financial markets was relaxed or even positive. This was mainly due to the very robust economic trend. In the US, unemployment continued to fall and reached a long-term low. The eurozone's economic recovery continued and unemployment is also gradually receding.

Despite the economic recovery the monetary policy of the central banks remained offensive. Bond yields fell to historic lows in the course of the year and only rallied somewhat after the elections in the US, accompanied by a slight increase in interest rates by the Fed. The majority of the equity markets closed on a positive note after a bad start and so-so performance, thanks to the pleasing final spurt. The Swiss real estate market proved once again to be a reliable source of income. The performance of the US dollar/euro exchange rate was quite stable, whereas the British pound suffered a serious slump due to the Brexit vote.

Investment volume and asset allocation

The investment volume for carrying amounts increased over the course of the year by a good billion francs to 17.8 billion francs. With a market value of 19.4 billion francs for the portfolio, the valuation reserves rose year on year by 44 million francs. The increase is on the one hand due to the conversion of the real estate valuation to the discounted cash flow method, which led to a one-off appreciation effect of 70 million francs. A further 25 million francs resulted from market price increases. This compared with an interest rate-related decrease in the case of bonds of over 50 million francs.

The new funds were mainly invested in mortgages, real estate, corporate bonds, US dollar treasuries and convertible bonds. Foreign currency positions were to a large extent hedged for the entire year.

Asset allocation has changed only marginally. The weighting of real estate increased due to the described valuation effects by roughly one percentage point.

Stable return on investment

In the year under review net investment income of around CHF 388,000 was generated. This equates to a direct yield of 2.25%. Despite the continuing low level of interest rates and negative interest rates, this yield was kept virtually stable. All asset classes made positive contributions. Once again real estate was the most profitable asset class, with a direct yield of 3.2% and a total yield of almost 7%, followed by shares with 5.4% and fixed-income securities with 2.5%. The performance measured by market values achieved an impressive value of 2.29%, a year-on-year increase of 54 basis points, although 38 basis points were attributable to the revaluation of real estate due to the methodology used.

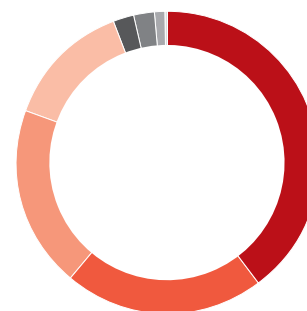
Outlook

The economic environment at the beginning of 2017 gives grounds for optimism; further progress can be expected. Rising inflation rates also give rise to hopes of somewhat higher interest rates. However, key elections are just around the corner in Europe, which could lead to uncertainty and increased volatility on the financial markets. In this climate we shall continue our tried and trusted investment policy, accompanied by timely risk management.

Asset allocation

Investments by asset class as per 31.12.2016 (in % of carrying amount)

■ Fixed-income securities in Swiss francs	39.82%
■ Fixed-income securities in foreign currencies	21.45%
■ Mortgages and other par value receivables	19.49%
■ Real estate	13.62%
■ Investment fund units	2.26%
■ Swiss and foreign shares	2.06%
■ Liquid funds and time deposits	1.15%
■ Assets from financial derivative instruments	0.14%
□ Private equity and hedge funds	0.00%
□ Investments in holdings and affiliated companies	0.00%
□ Other investments	0.00%



Investments

Balance as per 31.12.2016, in TCHF	Carrying amount	Market value
At beginning of financial year	16 774 523	18 328 636
At end of financial year	17 824 813 ¹	19 422 630

¹ Excluding liabilities from financial derivative instruments.

Valuation reserves

Balance as per 31.12.2016, in TCHF	Market value
At beginning of financial year	1 554 113
At end of financial year	1 597 817
Change	43 704

Investment income

Balance as per 31.12.2016, in TCHF	Gross ²	Net ³
Investment income	418 980	388 437
Return on carrying amounts	2.42%	2.25%
Performance on market values	2.45%	2.29%

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.

in TCHF	2016	2015
Average investments at market value	18 875 633	18 040 810
Costs of asset management without upkeep of real estate	30 544	22 931
in % of investments at market values	0.16%	0.13%
Costs of upkeep and maintenance of real estate	24 124	23 194
in % of investments at market values	0.13%	0.13%
Costs of asset management with upkeep of real estate	54 668	46 125
in % of investments at market values	0.29%	0.26%
Share of collective investments ¹	1.59%	1.70%
Share of non-cost-transparent investments ²	1.08%	0.71%

¹ 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)).

² 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.

Overview of asset management expense

Costs incurred	Market value	TER ³	TTC ⁴	SC ⁵	Total
Direct investments	18 904 985	48 448	4 911		53 359
Single-level collective investments	308 215	538			538
Multi-level collective investments	0	0			0
Non-cost-transparent investments	209 430				
Total market value / total before capitalisation	19 422 630	48 986	4 911	771	54 668
Capitalised costs		0	0	0	0
Total recognised in the income statement		48 986	4 911	771	54 668

³ TER costs: costs of administration and management (internal and external)

⁴ TTC costs: transaction costs

⁵ SC costs: costs that cannot be allocated to individual investments

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 31.12.2016, in TCHF	Savings	Risk	Costs	Total
Gross income	370 491	219 050	62 685	652 226
Allocated benefits	235 959	140 021	45 780	421 760
Gross result	134 532	79 029	16 905	230 466
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				73 400
Deficits from pension conversion				53 000
Interest guarantees				1 000
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				10 300
Incurred, but not yet registered, insured events				0
Claims fluctuations				5 000
Increase/decrease in reinforcement of reserves				142 700
Allocation to surplus fund				27 681
Operative account result for business subject to the legal quote				60 084
Distribution ratio				90.8%

In its business subject to the legal quote, Helvetia used a total of CHF 592.2 million to the benefit of the participants in 2016. This equals a distribution rate of 90.8%.

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

- Benefits allocated directly to the savings, risk and cost processes (see table p. 12): CHF 421.8 million
- Increase in reserves: CHF 142.7 million
- Allocation to surplus fund: CHF 27.7 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.

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 31.12.2016, in TCHF	Savings	Risk	Costs	Total
Gross income	17 946	88 827	25 318	132 091
Allocated benefits	13 986	41 063	17 059	72 108
Gross result	3 960	47 764	8 259	59 983
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				-29
Deficits from pension conversion				700
Interest guarantees				0
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				3 651
Incurred, but not yet registered, insured events				0
Claims fluctuations				0
Increase/decrease in reinforcement of reserves				4 323
Allocation to surplus fund				44 849
Operative account result for business not subject to the legal quote				10 811
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 31.12.2016, in TCHF	Subject to legal quote		Not subject to legal quote		Total
Savings	370 491		17 946		388 437
Risk	219 050		88 827		307 877
Costs	62 685		25 318		88 003
Gross income	652 226	100.0%	132 091	100.0%	784 317
Benefits paid to active participants	592 142	90.8%	121 280	91.8%	713 422
Operating result	60 084	9.2%	10 811	8.2%	70 895

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

Surplus fund.

The surplus fund for collective life insurance business was allocated a total of CHF 72.5 million from the 2016 result. CHF 27.7 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 31.12.2015	96 945	63 118	160 064
Allocation from operative account	27 681	44 849	72 530
Distribution to pension plans	30 441	45 510	75 951
Balance as per 31.12.2016	94 185	62 457	156 643

For the business subject to the legal quote, surpluses in the amount of CHF 30.4 million were paid out in 2016. This concerns the interest and risk surpluses for 2015 that were credited to the pension plans retroactively on 01.01.2016 as well as the surplus sharing of vested benefit policies for 2016.

In its surplus policy of past years Helvetia has given centre stage to continuity and stability. This consistent surplus policy and the good business result in 2016 allow adequate surplus sharing. As at 01.01.2017 the following surpluses will be credited retroactively for 2016:

Interest surplus and total interest for 2016¹

	Guaranteed interest rate	Interest surplus	Total interest
LOB retirement savings capital	1.25%	0.00%	1.25%
Supplementary retirement savings capital	0.50%	0.50%	1.00%

¹ Applies to 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 legal quote relating to the distribution of surpluses, a risk surplus of 5% of risk premiums was paid out for 2016 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

	2016	2015
Active participants	187 792	185 741
Pensioners	24 449	23 163
Vested benefit policies	10 135	10 251
Number of active participants	222 376	219 155
Number of collective contracts	17 809	17 826

Interest and conversion rates 2016

	Mandatory insurance	Supplementary system
Rate of interest on retirement savings capital	1.25%	0.500%
Pension conversion rate men (age 65)	6.80%	5.601%
Pension conversion rate women (age 64)	6.80%	5.481%
Technical interest rate for assessing pension obligations	1.35%	1.350%

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 31.12.2015	310 146
Cost-of-living premiums received	6 390
Tariff interest	0
Cost of adjusting risk pensions to increase in price index	-233
Withdrawal for expenses	-1 278
Balance as per 31.12.2016	315 024

The adjustment rates of pensions are calculated and published by the Federal Social Insurance Office (FSIO) in line with the Swiss consumer price index. The current rate is 0.0%.

Operating expenses

in TCHF	2016	2015
Acquisition costs	20 434	17 911
<i>Of which commissions to brokers and agents</i>	6 412	6 866
<i>Of which commissions to own sales representatives</i>	3 369	4 269
Benefits processing costs	7 228	7 136
Marketing and advertising expenses	3 009	3 489
General administration expenses	67 063	66 234
Re-insurance share of administration costs	-8 993	-7 584
Total net operating expenses	88 740	87 185

According to cost units

Operating expenses of active participants in absolute terms	80 464	79 070
Operating expenses of pensioners in absolute terms	7 228	7 136
Operating expenses of vested benefit policies in absolute terms	1 049	979
Operating expenses for other cost units	0	0

Total net operating expenses	88 740	87 185
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Per head (in CHF)

Operating expenses of active participants	428	426
Operating expenses of pensioners	296	308
Operating expenses of vested benefit policies	103	96

Cost premiums

in TCHF	2016	2015
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According to cost units

Cost premiums of active participants in absolute terms	86 856	88 408
Cost premiums of vested benefit policies in absolute terms	1 147	1 076
Other cost premiums	0	0

Total cost premiums	88 003	89 484
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Per head (in CHF)

Cost premiums of active participants	463	476
Cost premiums of vested benefit policies	113	105

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