Helvetia Collective life insurance

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Operative Account 2017.

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Your Swiss Insurer

From plan A to plan B: goodbye AV2020, hello BV2020.

Dear Readers,

Swiss voters cast their vote on 24 September 2017. The 2020 Pension Reform, known as AV2020, will not be implemented.

In the run-up to the vote, Helvetia – along with numerous other providers of employee benefit schemes – repeatedly emphasised the importance of this proposal to the health of Switzerland's trusted social security system. To this day, we are convinced that important opportunities were missed due to the outcome of this vote. The biggest missed opportunity is the failure to eliminate cross-subsidisation, a concept that runs counter to the idea of solidarity and the structure of our social security system. Some income from the occupational benefit scheme has to be diverted to finance current pensions, instead of using it to improve benefit schemes for the active generation, as the occupational benefit scheme actually intends.

Be that as it may, we must respect the will of the voters and react accordingly. We are already looking at the best ways to do so: Now that the voters have rejected the AV2020 option, Helvetia is taking a close look at "BV2020" as in "Berufliche Vorsorge 2020", or "Occupational benefit scheme 2020". The goal of this project is to find ways for Helvetia to remain an attractive and reliable provider of employee benefit schemes. Helvetia is doing everything it can to give SMEs in Switzerland a broad selection of 2^{nd} pillar solutions after the rejection of the 2020 Pension Reform – from full insurance solutions to semi-autonomous services and pure risk insurance for autonomous pension funds.

However, providers are not alone in this. Politicians and associations have a part to play as well. We welcome the fact that the Federal Council intends to press ahead with still-needed reforms for the OASI and occupational benefit schemes. Little will change in terms of the key requirements, though: Rising life expectancies are here to stay, and there is no getting around the need to adjust retirement ages for men and women as a first step. These high life expectancies, combined with persistently low interest rates, will force legislators to lower the minimal conversion rate in occupational benefit schemes. The resulting pension losses must, however, be offset separately for OASI and for LOB if we want to avoid the mistakes of AV2020 and not dilute the trusted three-pillar system.

It is unfortunate that the Federal Council plans to reform the 1^{st} and 2^{nd} pillars separately but has only defined a clear timetable and substantive requirements for the OASI. For pension funds and collective foundations that manage LOB plans, the LOB system is at least as urgently in need of reform as the OASI. We will continue working hard in the political arena, the media and industry associations to ensure that the 2^{nd} pillar is reformed promptly in order to put occupational benefit schemes on a sustainable financial footing as soon as possible.

Thank you for continuing to put your trust in Helvetia Insurance.

Helvetia Swiss
Life Insurance Company Ltd

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

Contents

Income statement.

The following income statement reports on Helvetia Insurance's income and expenses for its collective life business in 2017, 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	2017	2016
Income		
Savings premiums	2 171 499	2 264 823
Of which contributions to strengthen retirement savings capital	829 108	819 168
Of which transferred retirement savings capital (individually transferred)	983 973	1 039 049
Of which retirement savings capital transferred (contracts transferred in the case of new associations)	285 762	244 603
Of which transfers-in for transferred old-age and survivor's pensions	33 876	28 453
Of which transfers-in for transferred disability pensions	24 959	24 886
Of which transfers-in for vested benefit policies	13 821	108 664
Risk premiums	302 940	307 877
Cost premiums	89 561	88 003
Gross premium income earned	**2 564 000**	**2 660 703**
Direct income from investments	443 613	432 914
Proceeds from disposals	46 677	98 488
Exchange gains and losses	–83 070	–52 098
Amount of write-ups/depreciation	–16 112	–56 954
Interest expense	–3 687	–3 370
Asset management expense	–31 808	–30 544
Net income from investments	**355 612**	**388 437**
Other income	19 926	21 698
Re-insurance result	–12 903	–10 686
Total income	**2 926 635**	**3 060 152**

in TCHF, pursuant to the statutory financial statements	2017	2016
Expenses		
Retirement, death and disability benefits[1]	565 603	542 272
Of which capital benefits	368 833	348 946
Of which pension benefits	196 770	193 326
Vested benefits	1 012 688	986 502
Redemption values due to termination of contracts	543 089	435 303
Benefits processing costs	7 067	7 228
Insurance benefits	**2 128 448**	**1 971 305**
Retirement savings capital	236 440	394 557
Reserves for retirement and survivors' pensions	247 964	259 114
Reserves for disability pensions	14 545	–5 103
Actuarial reserve for vested benefit policies	–64 163	40 394
Provision for incurred but outstanding claims	–1 012	11 029
Other	111 145	151 900
Change in technical provisions	**544 919**	**851 891**
Acquisition and administration costs	97 948	90 506
Other expenses	14 009	3 024
Surplus sharing allocated to the surplus fund[2]	74 343	72 530
Operating result	66 968	70 895
Total expenses	**2 926 635**	**3 060 152**

[1] Retirement, death and disability benefits: Retirement 65%, Death 14%, Disability 21%.

[2] Patria Genossenschaft makes an annual contribution to the surplus fund of Helvetia Insurance. The share of the collective life business of CHF 19.6 million (prior year CHF 21.7 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	31.12.2017		31.12.2016	
Assets				
Investments				
Liquid funds and time deposits	608 766	3.28%	205 701	1.15%
Fixed-income securities in Swiss francs	6 635 292	35.77%	7 141 640	39.82%
Fixed-income securities in foreign currencies	4 133 352	22.28%	3 847 485	21.45%
Mortgages and other par value receivables	3 639 342	19.62%	3 494 520	19.49%
Swiss shares and foreign shares	420 009	2.26%	370 245	2.06%
Investment fund units	601 941	3.24%	405 541	2.26%
Private equity and hedge funds	0	0.00%	62	0.00%
Assets from financial derivative instruments	20 003	0.11%	25 469	0.14%
Investments in holdings and affiliated companies	112	0.00%	112	0.00%
Real estate	2 491 043	13.43%	2 442 198	13.62%
Other investments	0	0.00%	0	0.00%
Total investments	**18 549 860**	**100.00%**	**17 932 973**	**100.00%**
Other assets	510 285		566 019	
Balance sheet total	**19 060 145**		**18 498 992**	

in TCHF, pursuant to the statutory financial statements	31.12.2017	31.12.2016
Liabilities		
Technical provisions, gross		
Retirement savings capital[1]	11 240 192	11 003 753
Additional reserves for future pension conversions[1]	436 900	413 200
Actuarial reserve for current retirement and survivors' pensions[1]	2 847 116	2 599 152
Actuarial reserve for current disability pensions[1]	1 204 180	1 189 635
Strengthening of the actuarial reserve for current pensions[1]	866 227	778 966
Actuarial reserve for vested benefit policies	329 679	393 842
Provision for incurred but outstanding claims	229 629	230 641
Cost-of-living adjustment fund	316 409	315 024
Provision for credited dividends	22 072	27 910
Other technical provisions	24 606	25 906
Total technical provisions, gross	**17 517 010**	**16 978 028**
Surplus fund	152 379	156 643
Other provisions	588 608	613 002
Other liabilities	802 148	751 319
Balance sheet total	**19 060 145**	**18 498 992**

[1] Breakdown of the items into mandatory insurance and supplementary system

As at 31.12. in TCHF	Mandatory insurance		Supplementary system	
	2017	2016	2017	2016
Retirement savings capital	6 025 940	5 937 284	5 214 252	5 066 468
Additional reserves for future pension conversions	369 000	339 900	67 900	73 300
Actuarial reserve for current retirement and survivors' pensions	1 502 637	1 375 320	1 344 479	1 223 832
Actuarial reserve for current disability pensions	729 843	724 723	474 337	464 911
Strengthening of the actuarial reserve for current pensions	658 614	591 575	207 612	187 391

Investments.

Investment year 2017

2017 was an excellent year for the stock market. Most markets achieved double-digit gains driven by robust economic conditions, a global economic upswing and solid corporate profits. The MSCI World Index gained 20%; the US market performed even better with an increase of 25%; and European and Swiss markets yielded between 10% and nearly 20%.

Interest rates bounced back slightly from their lows but remained extremely modest. Central banks began to gently prepare markets to exit ultra-expansive monetary policies. The Fed raised benchmark interest rates three times in 0.25 percentage point increments and, in October, began to gradually contract its balance sheet. The European Central Bank, by contrast, continued to demonstrate restraint. It cut its bond buying programme in half in the autumn, from EUR 60 billion to EUR 30 billion per month. At the same time, however, it announced the extension of the programme until October 2018. This environment left the Swiss National Bank little room for manoeuvre. To protect the Swiss franc, it maintained its negative interest rate regime even as the euro’s significant appreciation in the final quarter eased pressures and reduced the overvaluation somewhat.

Investment volume and asset allocation

The investment volume measured at carrying amounts increased CHF 639 million in the year under review and totalled CHF 18.46 billion at the end of the year. When marked to market, the total volume stood at CHF 20.03 billion. The valuation reserves thus declined a slight CHF 27.5 million year-on-year to CHF 1.57 billion. This decline is primarily the result of higher share prices as well as lower bond valuations due to interest rate levels.

New funds were invested in mortgages, foreign currency bonds, shares and real estate in line with the long-term investment strategy. Holdings of Swiss franc-denominated bonds, by contrast, were reduced slightly due to low interest rate levels. The strong increase in cash, cash equivalents and time deposits was the result of relatively high premium inflows (2018 premiums) at the end of December that could not be invested before the year ended. There were no other noteworthy changes in the overall asset allocation.

Solid return on investment

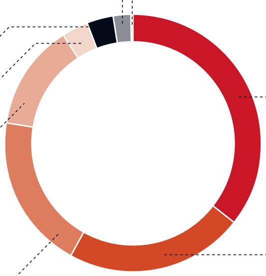
Net investment performance reached CHF 355 million, over CHF 30 million less than in the year before. Due to the increase in investment holdings, the direct yield declined from 2.25% to 1.96% as well. The decline is the result of persistently low interest rates and a volume-related increase in foreign currency hedging costs. These two effects were only partially offset by higher income from shares. The performance measured at market values was 1.66%, compared to 2.29% in the prior year. This decrease was partly caused by the same factors that pushed down the direct yield. However, it was also caused by the absence of the one-time effects from method-related real estate appreciation that had positively impacted the aggregate yield in 2016.

Outlook

The global economy got off to a good start in the first months of the current year. Economic growth is continuing to rise, unemployment is dropping and inflation is moderate. Despite this encouraging environment, we must remain vigilant and identify emerging risks early on. Our tried-and-true investment policy and proven risk management aim to produce stable, sustained returns for our customers.

Asset allocation

Investments by asset class as at 31.12.2017 (in % of carrying amount)	
Fixed-income securities in Swiss francs	35.77%
Fixed-income securities in foreign currencies	22.28%
Mortgages and other par value receivables	19.62%
Real estate	13.43%
Liquid funds and time deposits	3.28%
Investment fund units	3.24%
Swiss shares and foreign shares	2.26%
Assets from financial derivative instruments	0.11%



Investments

Balance as at 31.12.2017, in TCHF	Carrying amount	Market value
At beginning of financial year	17 824 813	19 422 630
At end of financial year[1]	18 463 332	20 033 634

[1] Carrying amount: Excluding liabilities from financial derivative instruments.

Valuation reserves

Balance as at 31.12.2017, in TCHF	Market value
At beginning of financial year	1 597 817
At end of financial year	1 570 302
Change	**–27 515**

Investment income

Balance as at 31.12.2017, in TCHF	Gross[2]	Net[3]
Investment income	387 420	355 612
Return on carrying amounts	2.14%	1.96%
Performance on market values	**1.82%**	**1.66%**

[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	2017	2016
Average investments at market value	19 728 132	18 875 633
Costs of asset management without upkeep of real estate	31 808	30 544
In % of investments at market values	0.16%	0.16%
Costs of upkeep and maintenance of real estate	26 603	24 124
In % of investments at market values	0.13%	0.13%
Costs of asset management with upkeep of real estate	58 411	54 668
In % of investments at market values	0.30%	0.29%
Share of collective investments[1]	1.85%	1.59%
Share of non-cost-transparent investments[2]	1.60%	1.08%

[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

in TCHF	Market value	TER[3]	TTC[4]	SC[5]	Total
Costs incurred					
Direct investments	19 343 292	54 449	2 571		57 020
Single-level collective investments	369 739	679			679
Multi-level collective investments	0	0			0
Non-cost-transparent investments	320 603				
Total market value / total before capitalisation	20 033 634	55 128	2 571	712	58 411
Capitalised costs		0	0	0	0
Total recognised in the income statement		**55 128**	**2 571**	**712**	**58 411**

[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 at 31.12.2017, in TCHF	Savings	Risk	Costs	Total
Gross income	339 547	214 381	61 358	615 285
Allocated benefits	213 923	140 995	66 131	421 050
Gross result	**125 623**	**73 386**	**–4 774**	**194 235**
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				77 900
Deficits from pension conversion				24 400
Interest guarantees				–1 200
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors’ pensions				6 900
Incurred, but not yet registered, insured events				0
Claims fluctuations				0
Increase/decrease in reinforcement of reserves				108 000
Allocation to surplus fund				28 396
Operative account result for business subject to the legal quote				**57 839**
Distribution ratio				**90.6%**

In its business subject to the legal quote, Helvetia used a total of CHF 557.4 million to the benefit of the participants in 2017. This equals a distribution rate of 90.6%.

The benefits paid to the active participants include the following components:
- benefits allocated directly to the savings, risk and cost processes (see table p. 13): CHF 421.0 million,
- increase in reserves: CHF 108.0 million,
- allocation to surplus fund: CHF 28.4 million.

The cost process also includes other expenses and income (income statement). Other expenses are higher in the year under review than in the prior year due to a one-time effect, resulting in a slightly negative result in the cost process.

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 at 31.12.2017, in TCHF	Savings	Risk	Costs	Total
Gross income	16 066	88 559	28 203	132 828
Allocated benefits	14 924	40 464	20 604	75 992
Gross result	**1 142**	**48 094**	**7 599**	**56 836**
Increase/decrease in reinforcement of reserves in the savings process				
Longevity risk				438
Deficits from pension conversion				–700
Interest guarantees				0
Increase/decrease in reinforcement of reserves in the risk process				
Strengthening of disability and survivors' pensions				2 022
Incurred, but not yet registered, insured events				0
Claims fluctuations				0
Increase/decrease in reinforcement of reserves				1 760
Allocation to surplus fund				45 947
Operative account result for business not subject to the legal quote				**9 128**
Distribution rate				**93.1%**

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 reinsured with Helvetia.

Recapitulation of operating result

Balance as at 31.12.2017, in TCHF	Subject to legal quote		Not subject to legal quote		Total
Savings	339 547		16 066		355 612
Risk	214 381		88 559		302 940
Costs	61 358		28 203		89 561
Gross income	**615 285**	**100%**	**132 828**	**100%**	**748 113**
Allocated benefits (Savings, Risk, Costs)	421 050		75 992		497 042
Increase/decrease in reinforcement of reserves	108 000		1 760		109 760
Allocation to surplus fund	28 396		45 947		74 343
Benefits paid to active participants[1]	**557 446**	**90.6%**	**123 700**	**93.1%**	**681 145**
Operating result	**57 839**	**9.4%**	**9 128**	**6.9%**	**66 968**

[1] The payout ratio is the ratio between “Benefits paid to active participants” and “Total gross income”.

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 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.

Development of the surplus fund

in TCHF	Subject to legal quote	Not subject to legal quote	Total
Balance as at 31.12.2016	**94 185**	**62 457**	**156 643**
Allocation from operative account	28 396	45 947	74 343
Distribution to pension plans	30 622	47 984	78 607
Balance as at 31.12.2017	**91 959**	**60 420**	**152 379**

Allocation from operative account

The surplus fund for collective life insurance business was allocated a total of CHF 74.3 million from the 2017 result. CHF 28.4 million of this is allocated to business subject to the legal quote.

Distribution to pension plans

For the business subject to the legal quote, surpluses amounting to CHF 30.6 million were paid out in 2017. This concerns the interest and risk surpluses for 2016 that were credited to the pension plans retroactively on 01.01.2017 as well as the surplus sharing of vested benefit policies for 2017.

Profit sharing

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 2017 allow adequate surplus sharing. As at 01.01.2018 the following surpluses will be credited retroactively for 2017:

Interest surplus and total interest for 2017[1]

	Guaranteed interest rate	Interest surplus	Total interest
LOB retirement savings capital	1.00%	0.00%	1.00%
Supplementary retirement savings capital	0.25%	0.50%	0.75%

[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 2017 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.

Operating expenses and cost premiums.

Operating expenses

in TCHF	2017	2016
Acquisition costs	21 679	20 434
Of which commissions to brokers and agents	6 386	6 412
Of which commissions to own sales representatives	3 725	3 369
Benefits processing costs	7 067	7 228
Marketing and advertising expenses	2 535	3 009
General administration expenses	73 735	67 063
Re-insurance share of administration costs	–5 297	–8 993
Total net operating expenses	**99 718**	**88 740**
According to cost units		
Operating expenses of active participants in absolute terms	91 504	80 464
Operating expenses of pensioners in absolute terms	7 067	7 228
Operating expenses of vested benefit policies in absolute terms	1 148	1 049
Operating expenses for other cost units	0	0
Total net operating expenses	**99 718**	**88 740**
Per head (in CHF)		
Operating expenses of active participants	479	428
Operating expenses of pensioners	273	296
Operating expenses of vested benefit policies	124	103

Cost premiums

in TCHF	2017	2016
According to cost units		
Cost premiums of active participants in absolute terms	88 465	86 856
Cost premiums of vested benefit policies in absolute terms	1 096	1 147
Other cost premiums	0	0
Total cost premiums	**89 561**	**88 003**
Per head (in CHF)		
Cost premiums of active participants	463	463
Cost premiums of vested benefit policies	119	113

Other key figures.

Portfolios

	2017	2016
Active participants	191 027	187 792
Pensioners	25 897	24 449
Vested benefit policies	9 244	10 135
Number of active participants	**226 168**	**222 376**
Number of collective contracts	**17 498**	**17 809**

Interest and conversion rates 2017

	Obligatorium	Überobligatorium
Rate of interest on retirement savings capital	1.000%	0.250%
Pension conversion rate men (age 65)	6.800%	5.356%
Pension conversion rate women (age 64)	6.800%	5.242%
Technical interest rate for assessing pension obligations	1.300%	1.300%

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 at 31.12.2016	**315 024**
Cost-of-living premiums received	1 956
Tariff interest	0
Cost of adjusting risk pensions to increase in price index	–181
Withdrawal for expenses	–391
Balance as at 31.12.2017	**316 409**

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%.

Helvetia has been a leading Swiss insurance company with customised insurance and pension solutions for companies and private customers since 1858. Helvetia supports social commitments.

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