

Operating statement Occupational pension provision 2015



Table of contents

Preface	3
Income statement	4
Balance sheet	6
Investment portfolio of the occupational pension funds	8
Information on the investments (2015)	8
Key figures on the investment income	9
Asset management costs	10
Proof of compliance with the minimum quota	11
Business subject to the minimum quota	11
Business not subject to the minimum quota	12
Recapitulation of operating profit	13
Explanations of the business processes	13
Surplus fund	14
Inflation fund	14
Further key figures	15

Preface



Switzerland's pension provision landscape is in motion. Baloise Life Ltd has also taken note of the needs of the market for new pension provision models and has further developed its range of occupational pension products. On 1 January 2015, we successfully launched the semi-autonomous *Perspectiva* Collective Foundation. Over 400 small and medium-sized enter-

prises had already joined the new pension foundation by the start of 2016.

The decision by the Swiss National Bank (SNB) to abandon the minimum euro exchange rate and introduce negative interest rates and the quantitative easing of the European Central Bank shaped 2015. The postponement of the interest rate turnaround by the US Federal Reserve and concerns about China's economy further unsettled investors and led to an equity market correction in the second half of the year. In this difficult environment, Baloise posted a net return of 2.30 % in 2015.

The long-term securing of its pension provision for customers and insured persons is a central obligation of Baloise. We therefore increased our technical reserves by a further CHF 75 million in 2015. These increases serve, in particular, to secure current and future pensions in a difficult capital markets environment.

The active insured persons also benefited from the income generated over the past year. The surplus fund was endowed with CHF 20 million and amounted to CHF 96 million at the end of 2015. The pension assets of the insured persons accrued interest of 1.75 % in 2015 as part of an ongoing participation in surpluses.

We passed on 92.7 % of the total income in 2015 to our policyholders. In the share of income subject to the minimum quota, the distribution ratio amounted to 95.1%, which is well above the statutory minimum quota of 90%.

Baloise aims to make occupational pension provision simple and easily understandable for its customers. In recent years, we have therefore revised various customer documents and aligned them more closely to the needs of our customers. In 2015, for instance, all our insured persons received the newly designed pension certificate containing a wide range of additional information. Alongside this, we have been continuously further developing our *Business Life Direct* online service since 2010. Today it is used by over 80 % of our customers around the clock to retrieve and transmit the most important information by means of just a few clicks. Baloise was rewarded for this in the last pension fund comparison by the *SonntagsZeitung* with a clear win in the "Online service" category.

Thank you for placing your trust in us.

A handwritten signature in blue ink, appearing to read 'C. Markstein'. The signature is fluid and cursive, written on a white background.

Clemens Markstein

Head of Product Management Corporate Clients
Member of the Executive Committee

Income statement

In the income statement for the 2015 financial year, Baloise reports the income and expenses arising from its occupational pension provision. It provides information about the type, amount and breakdown of the company success in this business segment.

Income	2014	All figures are stated in CHF 000s 2015
Premium income (gross premiums written)		
Savings premiums (incl. single premiums)	2,221,313	2,344,981
Risk premiums	229,086	231,676
Cost premiums	69,558	68,352
Total premiums	2,519,957	2,645,009
Investment income		
Direct investment income	437,157	431,437
Gains or losses on disposals	150,087	167,609
Gains or losses on currency exchange	-13,143	-80,098
Balance of write-downs and write-ups	5,737	-50,303
Interest expenses	-5,923	-4,304
Asset management costs	-57,625	-63,615
Total investment income (net)	516,290	400,726
Gains or losses from reinsurance	2,241	-6,333
Other income (aggregated)	4,069	4,133
Total income	3,042,557	3,043,535
Expenses	2014	All figures are stated in CHF 000s 2015
Insurance benefit payments (gross)		
Benefit payments for retirement, death and disability	523,051	553,824
Lump-sum benefits	245,389	261,088
Pension benefits	277,662	292,736
Portable benefits	1,013,609	1,093,247
Surrender values	235,100	256,246
Costs of processing benefit claims	13,465	13,332
Total benefit payments	1,785,225	1,916,649
Change in technical reserves (gross)		
Retirement assets	668,101	691,913
Actuarial reserves for current retirement and survivors' pensions	169,982	165,816
Actuarial reserves for current disability pensions	-21,082	-4,364
Actuarial reserves for portable benefits policies	-14,624	-11,411
Provisions for incurred but not settled claims	42,400	32,500
Other technical reserves	190,559	97,240
Total change in technical reserves	1,035,336	971,694
Acquisition and administrative costs (gross)	75,801	78,159
Other expenses (aggregated)	5,483	5,997
Surplus dividends allocated to the surplus fund	70,000	20,000
Operating profit	70,712	51,036
Total expenses	3,042,557	3,043,535

The operating profit for the 2015 financial year, after allocation to the surplus fund, amounted to CHF 51 million. A total of CHF 20 million was allocated to the surplus fund in 2015.

The following table shows the detailed composition of the “Savings premiums” line item in the income statement.

	2014	All figures are stated in CHF 000s 2015
Breakdown of savings premiums		
Contributions to the accumulation of retirement assets	816,607	867,202
Retirement assets transferred: individual transfers	902,132	980,711
Retirement assets transferred: contract acquisitions on new affiliations	421,310	414,298
Deposits for acquired retirement and survivors' pensions	22,395	23,974
Deposits for acquired disability pensions	16,286	15,929
Deposits for portable benefit policies	42,582	42,867
Total savings premiums	2,221,313	2,344,981



Balance sheet

In the balance sheet, Baloise reports the source of the funds allocated to occupational pension provision on the assets side and the appropriation of said assets on the liabilities side.

Assets	2014	All figures are stated in CHF 000s 2015
Investments		
Liquid assets and fixed-term deposits	390,617	441,613
Fixed-income securities in Swiss francs	7,544,022	7,924,375
Fixed-income securities in foreign currencies	2,672,836	3,037,479
Mortgages and other nominal value receivables	2,861,129	2,966,509
Swiss and foreign equities	444,628	546,641
Units in investment funds	333,122	540,837
Private equity and hedge funds	470,966	518,988
Assets held as derivative financial instruments	10,512	27,615
Long-term equity investments and investments in associated companies	0	0
Real estate	1,981,327	2,197,902
Other investments	0	40,691
Total investments	16,709,159	18,242,650
Other assets	247,014	233,745
Total assets	16,956,173	18,476,395

Liabilities	2014	All figures are stated in CHF 000s 2015
Technical reserves (gross)		
Retirement assets ¹⁾	10,494,460	11,186,372
Additional provision for future pension conversions ¹⁾	322,700	347,400
Actuarial reserves for current retirement and survivors' pensions ¹⁾	2,065,097	2,230,913
Actuarial reserves for current disability pensions ¹⁾	746,694	742,330
Increase in actuarial reserves for current pensions ¹⁾	398,200	450,200
Actuarial reserves for portable benefits policies	368,283	356,872
Provisions for incurred but not settled claims	505,700	538,200
Inflation fund	244,960	249,578
Credited surplus dividends	30,542	25,789
Other technical reserves	633,872	649,794
Total technical reserves (gross)	15,810,508	16,777,448
Surplus fund	130,959	95,743
Other accounts payable (including those to policyholders)	688,794	632,866
Other liabilities	325,912	970,338
Total liabilities	16,956,173	18,476,395

Insurance companies are required to establish adequate technical reserves to cover the expected liabilities. The provisions for future pension conversions and the reserves for current retirement, survivors' and disability pensions are reviewed regularly. Due to

the high statutory pension conversion rates in occupational pension plans and the persistently low interest rates, such reserves need to be strengthened on an ongoing basis.

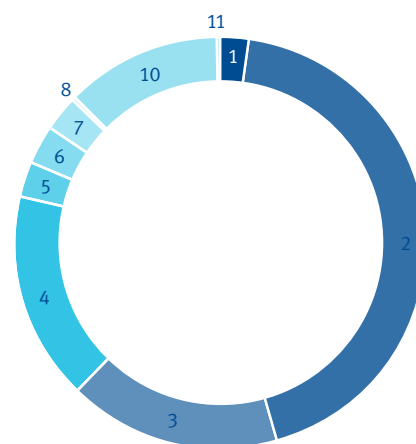
In the following table, the line items marked with ¹⁾ in the balance sheet under liabilities are divided into the compulsory and non-compulsory scheme:

All figures are stated in CHF 000s 2015			
Division of the marked line items	Compulsory scheme	Non-compulsory scheme	Total
Retirement assets	6,123,701	5,062,671	11,186,372
Additional provision for future pension conversions	316,595	30,805	347,400
Actuarial reserves for current retirement and survivors' pensions	1,221,258	1,009,655	2,230,913
Actuarial reserves for current disability pensions	406,370	335,960	742,330
Increase in actuarial reserves for current pensions	410,280	39,920	450,200



Investment portfolio of the occupational pension funds

Investments	2015
1. Liquid assets and fixed-term deposits	2.42%
2. Fixed-income securities in Swiss francs	43.44%
3. Fixed-income securities in foreign currencies	16.65%
4. Mortgages and other nominal value receivables	16.26%
5. Swiss and foreign equities	3.00%
6. Units in investment funds	2.96%
7. Private equity and hedge funds	2.85%
8. Assets held as derivative financial instruments	0.15%
9. Long-term equity investments and investments in associated companies	0.00%
10. Real estate	12.05%
11. Other investments	0.22%
Total investments	100.00%



Total investments: CHF 18.2 billion

Information on the investments (2015)

Significant events in 2015 were the abandonment of the minimum euro exchange rate by the Swiss National Bank on 15 January 2015 and the introduction of negative interest rates. In the eurozone as well, the European Central Bank (ECB) pushed interest rates down to new lows with its quantitative easing programme. The postponement of the interest rate turnaround by the US Federal Reserve in September and concerns about China's economy also unsettled investors and led to an equity market correction. The expansion of the quantitative easing programme by the ECB that fell short of investors' expectations led to increased volatility at the start of December before the markets recovered markedly following the interest rate turnaround in the US. One of the key challenges in the medium term for new investments and reinvestments remains the even lower interest rate level.

In this environment, new investments focused on more long-term bonds in Swiss francs and corporate bonds with shorter terms in US dollars. Foreign currency investments were hedged against currency fluctuations. There was also an expansion of investments in senior secured loans (reported under "Units in investment funds"). Investments were made in the real estate market whenever purchase opportunities arose that satisfied the return expectations and fitted the portfolio. There was also a slight increase in mortgage loans. There was no further expansion of equity investments and alternative investments in 2015. However, a shift was carried out away from emerging market equities towards Swiss and European equities. As the former were held as investment funds, the increase in the shareholdings in the above statement is attributable to this shift.

In the income statement, the shift resulted in a net return on investment of 2.30%, which represents a decline on the previous year. However, it should be pointed out here that the previous year was boosted by extraordinary gains from the disposal of a shareholding. The level of current income (coupon payments, rental income, dividends, interest payments) was maintained, albeit with a higher level of investment. This is due to, on the one hand, new investments and the reinvestment of maturing bonds in the prevailing low interest environment, and, on the other, income from foreign currency investments being converted into Swiss francs at a much lower exchange rate due to the abandonment of the euro rate cap.

The foreign currency result for 2015 is negative as a result of the increased costs of foreign currency hedging and the fact that not all foreign currency holdings were completely hedged given the risk-bearing capacity available at the start of the year. The disposal gains are largely attributable to bond management: bonds with negative current returns were sold, while positions were also actively disposed of on the basis of credit risk management considerations. Profits were also repatriated from our hedge fund and private equity vehicles. Alongside write-downs on equities and investment funds, the "write-downs" line item also contains write-downs attributable to a change in the accounting rules for real estate.

At 1.25%, performance lies below the return on investment reported in the income statement due to the negative change in valuation reserves.

Key figures on the investment income

	2014		All figures are stated in CHF 000s 2015	
Investment income	Gross	Net	Gross	Net
Investment income	573,915	516,290	464,341	400,726
Investment portfolio	Book value	Market value	Book value	Market value
Investment portfolio at the start of the accounting year	15,477,281	16,545,399	16,679,056	18,665,562
Investment portfolio at the end of the accounting year	16,679,056	18,665,562	18,200,068	20,027,988
Proportion arising from collective investments		4.64 %		5.32 %
Proportion arising from non-cost-transparent investments		0 %		0 %

The valuation reserves correspond to the difference between the book values and market values of the investments:

	2014	All figures are stated in CHF 000s 2015
Valuation reserves		
Valuation reserves at the start of the accounting year	1,068,118	1,986,506
Valuation reserves at the end of the accounting year	1,986,506	1,827,920
Change in valuation reserves	918,388	-158,586

The return on book value is measured as the ratio of investment income to the investments. The average value of the investments during the accounting year serves as the basis. Performance additionally takes into account changes in the market value of the investment assets that are not included in the income statement.

	2014		2015	
Rate of return and performance	Gross	Net	Gross	Net
Return on book value	3.57 %	3.21 %	2.66 %	2.30 %
Performance as at market value	8.48 %	8.15 %	1.58 %	1.25 %

Asset management costs

All figures are stated in CHF 000s 2015	
Asset management	
Costs of asset management excluding real estate maintenance	63,615
As a percentage of the investments at market value	0.33%
Costs of real estate maintenance and upkeep	23,632
As a percentage of the investments at market value	0.12%
Costs of asset management including real estate maintenance	87,247
As a percentage of the investments at market value	0.45%

All figures are stated in CHF 000s 2015					
Table of asset management costs	Market value	Costs incurred			Total
		TER	TTC	SC	
Direct investments	18,961,866	56,808	2,941		59,749
Single-tier collective investments	543,380	3,026			3,026
Multi-tier collective investments	522,742	24,694			24,694
Non-cost-transparent investments	0				
Total	20,027,988	84,528	2,941	1,058	88,527
Capitalised costs		0	-1,280	0	-1,280
Total costs recognised in income		84,528	1,661	1,058	87,247

TER: Total Expense Ratio
TTC: Transaction and Tax Cost
SC: Supplementary Cost

The asset management costs include all internal costs associated with the investment activity as well as all external fees (custodian and other fees, costs of alternative investments, etc.).

All investments are reported in a cost-transparent manner. A distinction is drawn in terms of asset management costs between costs for direct, single-tier collective and multi-tier collective investments. The costs are calculated and reported for the accounting period.

The costs for the investment management, e.g. of individual securities and directly held investment properties, are reported under direct investments.

Single-tier collective investments primarily comprise real estate funds and senior secured loans. The most recent cost data submitted and reported by the funds is used for reporting the costs.

Multi-tier collective investments comprise fund of funds structures. These are deployed for private equity and hedge fund investments. The costs include the fees at fund of funds level and those of the underlying funds. The costs are certified by the Group Auditor.

Proof of compliance with the minimum quota

The legal requirements of the minimum quota stipulate that at least 90% of the income from the three business processes (the savings, risk and cost process) must benefit the policyholders in order to ensure that they participate adequately in the profits of the insurer. This income is accrued by the policyholders in the form of insurance benefits, strengthening of reserves and allocations to the surplus fund. What is known as the distribution ratio must therefore amount to no less than 90% in the business subject to the minimum quota.

Insurance contracts for which separate income and expenditure accounts have been agreed are excluded from the minimum quota. Participation in profits in the form of surpluses is based on the claims experience of each individual contract. Typically, this relates to insurance solutions for semi-autonomous pension funds and contracts that form part of international insurance programmes.

Business subject to the minimum quota

	2014	All figures are stated in CHF 000s 2015
Total income components		
Savings process (investment income)	428,819	341,334
Risk process (risk premiums)	168,126	174,619
Cost process (cost premiums)	62,235	61,753
Total income (base value for the distribution ratio)	659,180	577,706
Total expenses		
Savings process (primarily technical interest accrual)	266,436	281,327
Risk process (primarily death and disability benefits)	85,290	106,458
Cost process (primarily administrative costs)	60,977	66,511
Total expenses	412,703	454,296
Gross operating profit	246,477	123,410
Accumulation (+) or dissolution (-) of technical reserves		
In the savings process		
Longevity risk	41,700	51,400
Shortfall arising from pension conversions	103,650	31,600
Interest rate guarantees	32,000	0
Fluctuations in investments	0	0
In the risk process		
Reported but not settled claims	0	0
Incurred but not reported claims	3,800	-3,000
Claims fluctuations	0	0
Tariff changes and tariff restructuring	0	0
Total change in reserves	181,150	80,000
Costs of additional risk capital acquired	0	0
Allocation to the surplus fund	20,000	15,000
Operating profit	45,327	28,410
Total benefit payments to insured persons	613,853	549,296
Distribution ratio	93.1%	95.1%

Business not subject to the minimum quota

	2014	All figures are stated in CHF 000s 2015
Total income components		
Savings process (investment income)	87,472	59,393
Risk process (risk premiums)	60,960	57,057
Cost process (cost premiums)	7,323	6,599
Total income (base value for the distribution ratio)	155,755	123,049
Total expenses		
Savings process (primarily technical interest accrual)	47,926	46,210
Risk process (primarily death and disability benefits)	38,112	40,688
Cost process (primarily administrative costs)	11,882	13,325
Total expenses	97,920	100,223
Gross operating profit	57,835	22,826
Accumulation (+) or dissolution (-) of technical reserves		
In the savings process		
Longevity risk	6,000	600
Shortfall arising from pension conversions	-62,650	-6,900
Interest rate guarantees	30,000	0
Fluctuations in investments	7,000	0
In the risk process		
Reported but not settled claims	0	0
Incurred but not reported claims	2,100	1,500
Claims fluctuations	0	0
Tariff changes and tariff restructuring	0	0
Total change in reserves	-17,550	-4,800
Allocation to the surplus fund	50,000	5,000
Operating profit	25,385	22,626
Total benefit payments to insured persons	130,370	100,423
Distribution ratio	83.7%	81.6%

Recapitulation of operating profit

All figures are stated in CHF 000s 2015			
	Subject to the minimum quota	Not subject to the minimum quota	Total
Gross operating profit in the processes			
Savings process	60,007	13,183	73,190
Risk process	68,161	16,369	84,530
Cost process	-4,758	-6,726	-11,484
Gross operating profit	123,410	22,826	146,236

All figures are stated in CHF 000s 2015			
	Subject to the minimum quota	Not subject to the minimum quota	Total
Summary			
Gross income	577,706	123,049	700,755
Benefit payments to insured persons			
Total expenses	454,296	100,223	554,519
Change in technical reserves	80,000	-4,800	75,200
Allocation to the surplus fund	15,000	5,000	20,000
Total benefit payments to insured persons	549,296	100,423	649,719
Distribution ratio	95.1%	81.6%	92.7%
Operating profit	28,410	22,626	51,036
Share of total income (gross)	4.9%	18.4%	7.3%

Explanations of the business processes

The **savings process** comprises the accumulation of retirement assets, the conversion of retirement assets into retirement pensions and the settlement of the related retirement pensions. Here, the (net) investment income is offset against the expenses relating to the technical interest accrual (guaranteed interest rates) and the costs of settling current retirement and pensioner's children's pensions. The costs for asset management are shown with the investments.

The **risk process** comprises the payment and settlement of death and disability benefits (in the form of lump-sum and pension pay-

ments) and of anticipated entitlements associated with current retirement pensions giving rise to survivors' pensions. Here, the risk premiums paid are offset against the costs for insurance benefits, in particular for the formation of the actuarial reserves for new disability and survivors' pensions. The costs for the processing of benefits are mainly assigned to the risk process.

The **cost process** comprises the costs for administration and sales relating to the provision of insurance in the form of occupational pensions. Here, the collected cost premiums are offset against the administrative costs incurred.

Surplus fund

The surplus fund is a technical balance sheet item that shows the surplus dividends to which policyholders are entitled. If the operating statement result permits, funds can be allocated to the sur-

plus fund. The surplus dividends are withdrawn from this in the following year and distributed to the policyholders.

	2014	All figures are stated in CHF 000s 2015
Surplus fund		
Balance at end of the previous year	128,589	130,956
Allocation from the operating statement	70,000	20,000
Allocated to pension fund	-67,633	-55,213
Balance at the end of the accounting year	130,956	95,743

Inflation fund

The inflation fund is a technical reserve item. It is used to finance the statutory adjustment that must be applied to current occupational disability and survivors' pensions to take account of price inflation.

Withdrawals from the inflation fund reported for 2015 relate to the funding of life-long inflation adjustment entitlements of persons incapacitated for work who have been receiving a retirement pension as of 2015.

The pensions were not adjusted on 1 January 2015 as the price indices of the previous years to be taken into account were higher than the applicable current consumer price index.

	2014	All figures are stated in CHF 000s 2015
Inflation fund		
Balance at end of the previous year	240,346	244,960
Income		
Combined inflation premiums (risk and cost components) ¹⁾	4,108	5,258
Tariff interest	1,202	613
Total income	5,310	5,871
Expenses		
Expenses for inflation-related increases of risk pensions	-696	-201
Withdrawal for expenses ¹⁾		-1,052
Total expenses	-696	-1,253
Balance at the end of the accounting year	244,960	249,578

¹⁾ The level of information disclosed with regards to the inflation fund was expanded in 2015. The collected inflation premiums are now reported gross (i.e. including the cost component) and expenses are listed separately. The inflation premiums were disclosed in net terms (i.e. excluding the cost component) in 2014.

Further key figures

Parameter used	2014		2015	
	Compulsory scheme	Non-compulsory scheme	Compulsory scheme	Non-compulsory scheme
Pension conversion rate for men at retirement age of 65	6.80%	5.835%	6.80%	5.835%
Pension conversion rate for women at retirement age of 64	6.80%	5.574%	6.80%	5.574%
Guaranteed interest rate on retirement assets	1.75%	1.50%	1.75%	1.50%
Additional interest on surplus (as at 1 Jan. of following year)	0.00%	0.75%	0.00%	0.25%
Average overall interest ¹⁾ on the retirement assets		1.95%		1.75%

	2014	2015
Number of insured persons at the end of the accounting year		
Number of active insured persons	153,034	156,879
Number of pension recipients	19,823	20,236
Number of portable benefits policies	25,074	24,266
Total number of insured persons	197,931	201,381

Breakdown of cost premiums by cost unit	2014		2015	
	All figures are stated in CHF 000s			
Cost premiums of active insured persons (absolute)		66,838		65,636
Per capita in CHF	437		418	
Cost premiums for portable benefits policies (absolute)		1,261		1,181
Per policy in CHF	50		49	
Other cost premiums		1,459		1,535
Total cost premiums		69,558		68,352

Breakdown of operating expenses by cost centre				
Acquisition costs		13,955		16,590
Commission to brokers/agents	10,982		12,837	
Commission to own field sales staff	2,933		3,676	
Other acquisition costs	40		77	
Costs of processing benefit claims		13,465		13,331
Costs for marketing and advertising		3,486		3,364
Other expenses for general administration		58,360		58,205
Reinsurers' share of operating expenses		-3,282		-187
Total operating expenses (net)		85,984		91,303

Breakdown of operating expenses by cost unit				
Operating expenses for active insured persons (absolute)		74,684		79,553
Per capita in CHF	488		507	
Operating expenses for pension recipients (absolute)		8,900		9,350
Per capita in CHF	449		462	
Operating expenses for portable benefits policies (absolute)		2,400		2,400
Per capita in CHF	96		99	
Operating expenses for other cost units		0		0
Total operating expenses (net)		85,984		91,303

¹⁾ Average ratio of compulsory to non-compulsory scheme retirement assets: 60:40

Making you safer.
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