

Operating statement Occupational pension provision

2017



Table of contents

Preface	3
Income statement	4
Balance sheet	6
Investment portfolio of the occupational pension funds	8
Information on the investments 2017	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 the operating profit	13
Explanations of the business processes	13
Surplus fund	14
Inflation fund	14
Further key figures	15

Preface



We are proud that over 150,000 insured persons in 15,000 affiliated companies continue to entrust us with their pension assets totalling more than CHF 11 billion. Almost 20,000 insured persons receive benefits from us in the form of a retirement, disability or survivor's pension. We provide pension solutions to our customers under the comprehensive insurance model or via semi-autonomous foundations. Regardless of the strategic decisions of our competitors, we will retain the comprehensive insurance model. Coupled with our long-standing expertise, we can thereby offer the right product for every customer.

We are concerned, however, about political developments in the area of occupational pension provision. On the basis of the current statutory framework, a reallocation is continuing from the active employees to the pension recipients. Intergenerational fairness is not being assured. A financially sustainable solution must be found in order to strengthen the future viability and, with it, public acceptance of the occupational pension system in Switzerland again. In 2017, the rejection of a pensions reform programme also showed that citizens are concerned. The current political discourse suggests that it is unlikely that a solution will be found soon.

For this reason, it is a matter of particular concern to us that we are able to offer our customers secure and reliable pension solutions. We aim to protect our portfolio of insured persons and make a profitable development possible by means of a selective underwriting policy and healthy growth. The premiums increased by 1.5% in 2017 to more than CHF 2.5 billion. In the prevailing low-interest-rate environment, Baloise generated a net return on book value of 2.1% on its investments. As a result, it was able to increase its provisions to safeguard current and future pensions by a further CHF 82 million.

The active insured persons benefited from an allocation to the surplus fund amounting to CHF 65 million. The surplus fund is

now endowed with CHF 122 million and thus enables a solid rate of interest on the pension assets of the insured persons in future. For 2017, the pension assets – including those in the non-compulsory scheme – accrued solid interest of 1.00%.

In total, we passed on 91.4% of the total income to our policyholders in the 2017 accounting year. In the share of income subject to the minimum quota, the distribution ratio amounted to 93.3%, which is well above the statutory minimum quota of 90%.

The success story of the semi-autonomous Perspectiva Collective Foundation continues. It is growing strongly and significantly outperforming the market. Currently, we have more than 1,000 affiliations and an investment volume of more than CHF 400 million. We view this as a strong indicator that, increasingly, companies of all size are won over by semi-autonomous pension solutions.

Thank you for placing your trust in us.

A blue ink signature of Patric Olivier Zbinden, consisting of a large, sweeping initial 'P' followed by a more detailed signature.

Patric Olivier Zbinden

Head of Product Management Corporate Clients
Member of the Executive Committee

A blue ink signature of Thomas Schöb, featuring a stylized 'T' and 'S'.

Thomas Schöb

Head of Product Management Group Life
Member of Senior Management

Income statement

In the income statement for the 2017 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	All figures are stated in CHF 000s	
	2016	2017
Premium income (gross premiums written)		
Savings premiums (incl. single premiums)	2,165,900	2,205,004
Risk premiums	228,605	228,384
Cost premiums	67,956	66,831
Total premiums	2,462,461	2,500,218
Investment income		
Direct investment income	432,304	422,436
Gains or losses on disposals	127,547	100,083
Gains or losses on currency exchange	-46,785	-44,431
Balance of write-downs and write-ups	-42,587	-31,167
Interest expenses	-1,594	542
Investment management costs	-63,341	-61,846
Total investment income (net)	405,544	385,616
Gains or losses from reinsurance	1,471	2,339
Other income (aggregated)	3,588	1,586
Total income	2,873,064	2,889,759

Expenses	All figures are stated in CHF 000s	
	2016	2017
Insurance benefit payments (gross)		
Benefit payments for retirement, death and disability	608,395	584,404
Portable benefits	1,107,936	1,147,582
Surrender values	434,948	664,479
Costs of processing benefit claims	14,174	15,195
Total benefit payments	2,165,453	2,411,660
Change in technical provisions (gross)		
Retirement assets	103,057	52,124
Actuarial reserves for current retirement and survivors' pensions	238,685	192,415
Actuarial reserves for current disability pensions	-16,965	-2,741
Actuarial reserves for portable benefits policies	5,249	-9,104
Provisions for incurred but not settled claims	-60,900	18,100
Other technical provisions	270,062	19,383
Total change in technical provisions	539,188	270,177
Acquisition and administrative costs (gross)	77,696	77,158
Other expenses (aggregated)	5,110	7,478
Surplus dividends allocated to the surplus fund	43,000	65,000
Operating profit	42,617	58,286
Total expenses	2,873,064	2,889,759

The operating profit for the 2017 financial year, after allocation to the surplus fund, amounted to CHF 58.3 million. A total of CHF 65.0 million was allocated to the surplus fund in 2017.

The following breakdowns show the detailed composition of the “Savings premiums” line item as well as the details of the benefit payments for retirement, death and disability from the income statement.

	All figures are stated in CHF 000s	
	2016	2017
Breakdown of savings premiums		
Contributions to the accumulation of retirement assets	881,943	889,400
Retirement assets transferred: individual transfers	1,011,358	954,627
Retirement assets transferred: contract acquisitions on new affiliations	168,722	274,504
Deposits for acquired retirement and survivors' pensions	38,363	34,872
Deposits for acquired disability pensions	4,775	8,902
Deposits for portable benefit policies	60,739	42,699
Total savings premiums	2,165,900	2,205,004

	All figures are stated in CHF 000s	
	2016	2017
Details of benefit payments for retirement, death and disability		
Of which lump-sum benefits	300,963	260,952
Of which pension annuity benefits	307,432	323,452
Total benefit payments for retirement, death and disability	608,395	584,404

	2016	2017
Breakdown of the benefit payments for retirement, death and disability		
Retirement	70%	73%
Death	13%	10%
Disability	17%	17%
Total	100%	100%



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	All figures are stated in CHF 000s	
	2016	2017
Investments		
Liquid assets and fixed-term deposits	399,456	368,278
Fixed-income securities in Swiss francs	7,545,591	6,992,191
Fixed-income securities in foreign currencies	3,363,155	3,556,168
Mortgages and other nominal value receivables	3,057,817	3,183,173
Swiss and foreign equities	526,093	553,172
Units in investment funds	321,614	651,335
Private equity and hedge funds	504,658	222,311
Assets held as derivative financial instruments	28,269	27,807
Long-term equity investments and investments in associated companies	0	244,466
Real estate	2,432,416	2,755,862
Other investments	126,189	192,497
Total investments	18,305,258	18,747,260
Other assets	285,014	297,379
Total assets	18,590,272	19,044,639

Liabilities	All figures are stated in CHF 000s	
	2016	2017
Technical provisions (gross)		
Retirement assets ¹⁾	11,289,429	11,341,553
Additional provision for future pension conversions ¹⁾	435,500	325,300
Actuarial reserves for current retirement and survivors' pensions ¹⁾	2,469,599	2,662,014
Actuarial reserves for current disability pensions ¹⁾	725,365	722,624
Increase in actuarial reserves for current pensions ¹⁾	622,500	743,200
Actuarial reserves for portable benefits policies	362,121	353,017
Provisions for incurred but not settled claims	477,300	495,400
Inflation fund	253,476	253,825
Credited surplus dividends	22,786	20,184
Other technical provisions	655,557	679,092
Total technical provisions (gross)	17,313,633	17,596,208
Surplus fund	105,035	122,041
Other accounts payable (including those to policyholders)	592,221	631,669
Other liabilities	579,383	694,721
Total liabilities	18,590,272	19,044,639

Insurance companies are required to establish adequate technical provisions to cover the expected liabilities. The provisions for future pension conversions and the provisions 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 provisions 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:

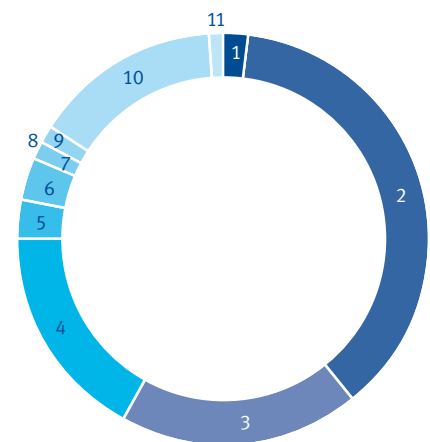
All figures are stated in CHF 000s
2017

Division of the marked line items	Compulsory scheme	Non-compulsory scheme	Total
Retirement assets	6,056,696	5,284,857	11,341,553
Additional provision for future pension conversions	299,404	25,896	325,300
Actuarial reserves for current retirement and survivors' pensions	1,275,322	1,386,692	2,662,014
Actuarial reserves for current disability pensions	427,263	295,361	722,624
Increase in actuarial reserves for current pensions	684,036	59,164	743,200



Investment portfolio of the occupational pension funds

Investments	2017
1. Liquid assets and fixed-term deposits	1.96 %
2. Fixed-income securities in Swiss francs	37.30 %
3. Fixed-income securities in foreign currencies	18.97 %
4. Mortgages and other nominal value receivables	16.98 %
5. Swiss and foreign equities	2.95 %
6. Units in investment funds	3.47 %
7. Private equity and hedge funds	1.19 %
8. Assets held as derivative financial instruments	0.15 %
9. Long-term equity investments and investments in associated companies	1.30 %
10. Real estate	14.70 %
11. Other investments	1.03 %
Total investments	100.00 %



Total investments: CHF 18.7 billion

Information on the investments 2017

Broad-based growth and the support from the continued expansionary monetary policy of many central banks provided fertile conditions for a good year in the capital markets. The elections in France and the Netherlands, the Brexit negotiations and the tensions between North Korea and the USA only led to a short-term heightened nervousness in the markets. With the exception of these short periods, the whole of 2017 was characterised by historically low levels of stock market volatility. Low inflationary pressure, as price rises and wage inflation in the USA failed to materialise, led to growth indicators reaching all-time highs, which, coupled with the global growth in corporate profits resulted in an exceptional year for equities. The Swiss equity market, as measured by the Swiss Market Index, enjoyed a pleasing performance of just under 18 %. Three key interest rate hikes by the US Federal Reserve led to a widening of the interest spread at the short end compared with Switzerland and the eurozone, whereas long-term interest rates mainly remained within a narrow range.

The prevailing low interest rate environment meant there was only limited appeal in the reinvestment of maturing bonds denominated in Swiss francs. We therefore avoided reinvestment for the most part and, instead, opted for reallocations into euro-denominated bonds and senior secured loans, which, even after currency hedging costs, present more attractive returns than Swiss bonds. Through the acquisition of a stake in a real estate investment company and targeted purchases of investment property, the expansion of real estate and also of mortgages was further driven forward with stable revenues.

In the current relatively quiet market environment, we achieved a solid return on book value of 2.09 % (net), which is slightly below that of the previous year.

The excellent development of the equities markets was used to realise a portion of the gains accrued. In contrast, fewer gains were realised on bonds compared to the previous year. As a result of the good market conditions, impairment losses fell by approx. CHF 11 million year on year. The losses on currency exchange were similar to 2016 and contributed a negative amount of CHF –44 million, which is essentially equal to the currency hedging costs. As a result of the decline in hedge fund investments, the costs for investment management were reduced by approx. CHF 1.5 million.

At 1.73 %, the performance on market value lies below the return on book value. This can be explained by the decline in the valuation reserves.

Key figures on the investment income

All figures are stated in CHF 000s

	2016		2017	
Investment income	Gross	Net	Gross	Net
Investment income	468,885	405,544	447,462	385,616
Investment portfolio	Book value	Market value	Book value	Market value
Investment portfolio at the start of the accounting year	18,200,068	20,027,988	18,238,198	20,172,392
Investment portfolio at the end of the accounting year	18,238,198	20,172,392	18,720,410	20,622,149
Proportion arising from collective investments		5.34 %		4.43 %
Proportion arising from non-cost-transparent investments		0.00 %		0.00 %

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

All figures are stated in CHF 000s

	2016	2017
Valuation reserves		
Valuation reserves at the start of the accounting year	1,827,920	1,934,194
Valuation reserves at the end of the accounting year	1,934,194	1,901,739
Change in valuation reserves	106,274	-32,455

The return on book value measures the ratio of investment income to the amount of 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.

	2016		2017	
Rate of return and performance	Gross	Net	Gross	Net
Return on book value	2.57 %	2.23 %	2.42 %	2.09 %
Performance as at market value	2.86 %	2.55 %	2.03 %	1.73 %

Asset management costs

All figures are stated in CHF 000s

	2016	2017
Investment management		
Costs of investment management excluding real estate maintenance	63,341	61,846
As a percentage of the investments at market value	0.32%	0.30%
Costs of real estate maintenance and upkeep	28,341	28,989
As a percentage of the investments at market value	0.14%	0.14%
Costs of asset management including real estate maintenance	91,682	90,835
As a percentage of the investments at market value	0.46%	0.45%

All figures are stated in CHF 000s

Table of asset management costs	Market value	Costs incurred			Total
		TER costs	TTC costs	Suppl. costs	
Direct investments	19,707,996	63,757	2,109		65,866
Single-tier collective investments	656,281	2,959			2,959
Multi-tier collective investments	257,871	22,209			22,209
Non-cost-transparent investments	0				
Total	20,622,148	88,925	2,109	1,080	92,114
Capitalised costs			-1,279		-1,279
Total costs recognised in income		88,925	830	1,080	90,835

TER costs: Costs of administration and management

TTC costs: Transaction costs

Suppl. costs: Supplementary costs not attributable to individual investments

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. Senior secured loans are secured loans, issued by a bank consortium as credit to companies, which are tradable in the secondary market and treated as senior to other claims. 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

	All figures are stated in CHF 000s	
	2016	2017
Total income components		
Savings process (investment income)	339,918	323,439
Risk process (risk premiums)	172,042	169,365
Cost process (cost premiums)	60,933	59,655
Total income (base value for the distribution ratio)	572,893	552,459
Total expenses		
Savings process (primarily technical interest accrual)	222,167	217,471
Risk process (primarily death and disability benefits)	70,370	103,346
Cost process (primarily administrative costs)	62,251	64,096
Total expenses	354,788	384,913
Gross operating profit	218,105	167,546
Accumulation (+) or dissolution (-) of technical provisions		
In the savings process		
Longevity risk ¹⁾	153,700	115,500
Shortfall arising from pension conversions ¹⁾	79,400	-98,600
Interest rate guarantees	-14,000	76,600
Fluctuations in investments	0	0
In the risk process		
Reported but not settled claims	0	0
Incurred but not reported claims	-36,200	-2,800
Claims fluctuations	0	0
Tariff changes and tariff restructuring	0	0
Total change in provisions	182,900	90,700
Costs of additional risk capital acquired	0	0
Allocation to the surplus fund	18,000	40,000
Operating result	17,205	36,846
Total benefit payments to insured persons	555,688	515,613
Distribution ratio	97.0 %	93.3 %

¹⁾As of the 2017 reporting year, the strengthening of provisions for anticipated survivors' pensions is no longer reported under "Shortfall arising from pension conversions" but under "Longevity risk".

Business not subject to the minimum quota

All figures are stated in CHF 000s

	2016	2017
Total income components		
Savings process (investment income)	65,626	62,177
Risk process (risk premiums)	56,563	59,018
Cost process (cost premiums)	7,023	7,176
Total income (base value for the distribution ratio)	129,212	128,371
Total expenses		
Savings process (primarily technical interest accrual)	39,384	42,654
Risk process (primarily death and disability benefits)	30,177	32,469
Cost process (primarily administrative costs)	12,739	15,308
Total expenses	82,300	90,431
Gross operating profit	46,912	37,940
Accumulation (+) or dissolution (-) of technical provisions		
In the savings process		
Longevity risk ¹⁾	18,600	5,200
Shortfall arising from pension conversions ¹⁾	8,700	-11,600
Interest rate guarantees	-22,000	100
Fluctuations in investments	0	0
In the risk process		
Reported but not settled claims	0	0
Incurred but not reported claims	-8,800	-2,200
Claims fluctuations	0	0
Tariff changes and tariff restructuring	0	0
Total change in provisions	-3,500	-8,500
Allocation to the surplus fund	25,000	25,000
Operating profit	25,412	21,440
Total benefit payments to insured persons	103,800	106,931
Distribution ratio	80.3%	83.3%

¹⁾ As of the 2017 reporting year, the strengthening of provisions for anticipated survivors' pensions is no longer reported under "Shortfall arising from pension conversions" but under "Longevity risk".

Recapitulation of the operating profit

All figures are stated in CHF 000s
2017

	Subject to the minimum quota	Not subject to the minimum quota	Total
Gross operating profit in the processes			
Savings process	105,968	19,523	125,492
Risk process	66,019	26,549	92,568
Cost process	-4,441	-8,132	-12,574
Gross operating profit	167,546	37,940	205,486

All figures are stated in CHF 000s
2017

	Subject to the minimum quota	Not subject to the minimum quota	Total
Summary			
Gross income	552,459	128,371	680,830
Benefit payments to insured persons			
Total expenses	384,913	90,431	475,345
Change in technical provisions	90,700	-8,500	82,200
Allocation to the surplus fund	40,000	25,000	65,000
Total benefit payments to insured persons	515,613	106,931	622,545
Distribution ratio	93.3 %	83.3 %	91.4 %
Operating profit	36,846	21,440	58,286
Share of total income (gross)	6.7 %	16.7 %	8.6 %

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 investment 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 payments) and of anticipated entitlements associat-

ed 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 surplus fund. The surplus dividends are withdrawn

from this in the following year and distributed to the policyholders.

	All figures are stated in CHF 000s	
	2016	2017
Surplus fund		
Balance at end of the previous year	95,743	105,035
Allocation from the operating statement	43,000	65,000
Allocated to pension fund	-33,708	-47,994
Balance at the end of the accounting year	105,035	122,041

Inflation fund

The inflation fund is a technical provision. 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 2017 relate to the funding of life-long inflation adjustment entitlements of persons incapacitated for work who have been receiving a retirement pension as of 2017.

The pensions were not adjusted on 1 January 2017, as the price indices of the previous years to be taken into account were higher than the applicable current consumer price index.

	All figures are stated in CHF 000s	
	2016	2017
Inflation fund		
Balance at end of the previous year	249,578	253,476
Income		
Combined inflation premiums (risk and cost components)	5,192	1,837
Tariff interest	0	0
Total income	5,192	1,837
Expenses		
Expenses for inflation-related increases of risk pensions	-255	-264
Withdrawal for expenses	-1,039	-1,225
Total expenses	-1,294	-1,488
Balance at the end of the accounting year	253,476	253,825

Further key figures

Parameter used	2016		2017	
	Compulsory scheme	Non-compulsory scheme	Compulsory scheme	Non-compulsory scheme
Pension conversion rate for men at retirement age of 65	6.80%	5.602%	6.80%	5.355%
Pension conversion rate for women at retirement age of 64	6.80%	5.428%	6.80%	5.206%
Interest rate for the interest on retirement assets	1.25%	0.75%	1.00%	0.50%
Additional interest on surplus (as at 1 January of following year)	0.00%	0.50%	0.00%	0.50%
Average overall interest ¹⁾ on the retirement assets		1.25%		1.00%

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

	2016	2017
Technical interest		
Technical interest rate for the valuation of the pension obligations	1.42%	1.30%

	2016	2017
Number of insured persons at the end of the accounting year		
Number of active insured persons	154,438	153,347
Number of pension recipients	20,892	21,215
Number of portable benefits policies	23,482	22,768
Total number of insured persons	198,812	197,330

	All figures are stated in CHF 000s	
	2016	2017
Breakdown of cost premiums by cost unit		
Cost premiums of active insured persons (absolute)	65,275	64,157
Per capita in CHF	423	418
Cost premiums for portable benefits policies (absolute)	1,150	1,144
Per policy in CHF	49	50
Other cost premiums	1,531	1,530
Total cost premiums	67,956	66,831
Breakdown of operating expenses by cost centre		
Acquisition costs	17,328	17,240
Commission to brokers / agents	13,936	13,105
Commission to own field sales staff	3,340	4,092
Other acquisition costs	52	43
Costs of processing benefit claims	14,174	15,195
Costs for marketing and advertising	3,608	3,697
Other expenses for general administration	56,760	56,221
Reinsurers' share of operating expenses	-4,229	-1,336
Total operating expenses (net)	87,641	91,017
Breakdown of operating expenses by cost unit		
Operating expenses for active insured persons (absolute)	76,041	78,767
Per capita in CHF	492	514
Operating expenses for pension recipients (absolute)	9,350	10,000
Per capita in CHF	448	471
Operating expenses for portable benefits policies (absolute)	2,250	2,250
Per capita in CHF	96	99
Operating expenses for other cost units	0	0
Total operating expenses (net)	87,641	91,017

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