

Operating statement Occupational pension provision

2016

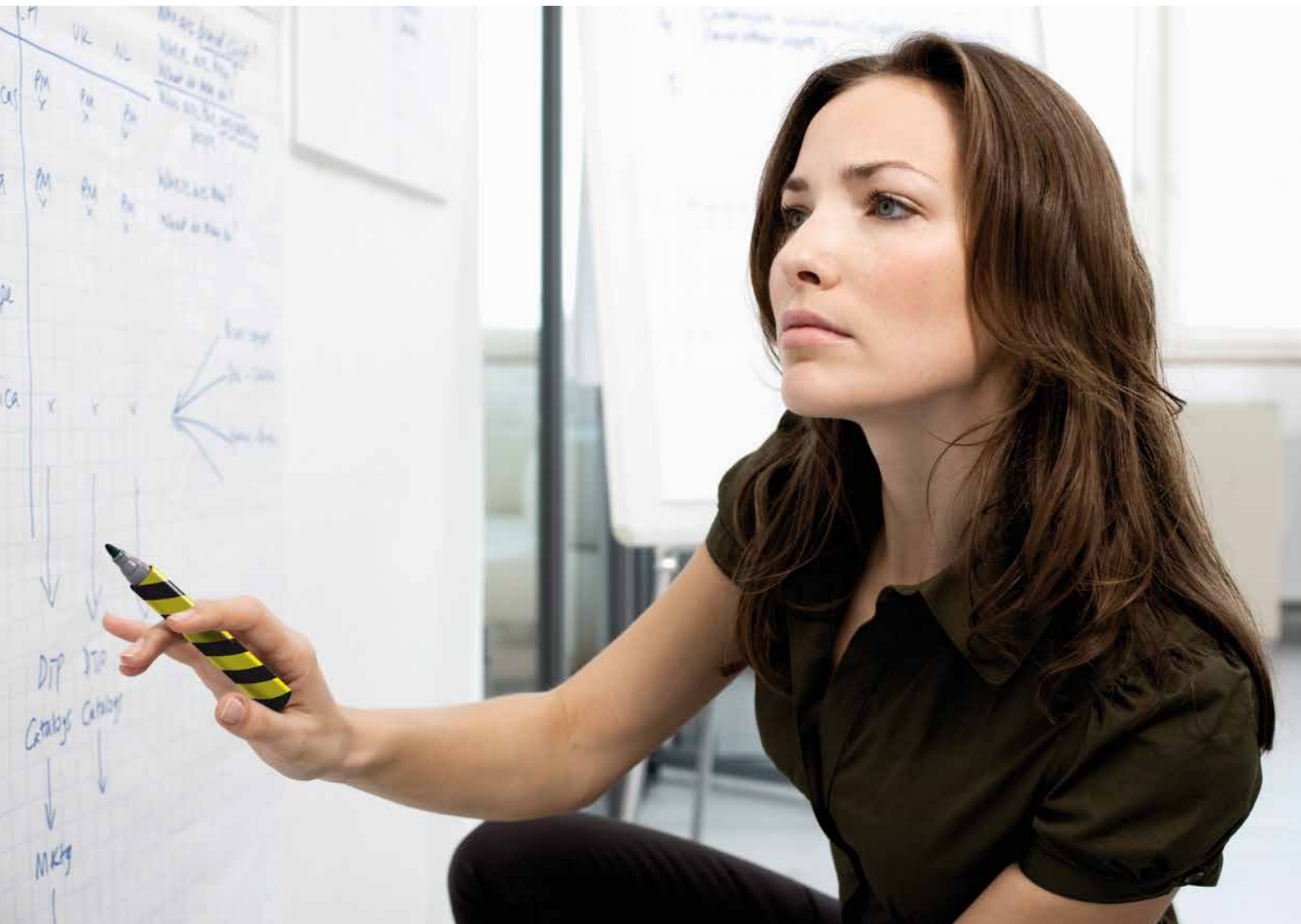


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Preface



Occupational pension providers are operating within a difficult market environment. Achieving sufficient returns on investments remains a challenge. Under the current statutory framework requirements, an ongoing reallocation, one that is alien to the system, is taking place from the active insured persons to the pension recipients, which is putting a strain on intergenerational fairness.

With its reform “Altersvorsorge 2020” (Retirement Provision 2020), parliament has now made its decisions on the medium-term stabilisation of the pension system. The lowering of the conversion rate within the Pillar 2 provision is an important step towards pensions that take into account the general demographic requirements. The implications of the regulatory topics within the reform package will depend largely on the specific statutory codification.

In its efforts to offer customers comprehensive and efficient services, Baloise Life Ltd was able to reduce its operating expenses per active insured person to under CHF 500 in 2016. The decline in premium income of 6.9% compared to 2015 is mainly limited to the savings premium and is the result of the selective underwriting policy.

In order to secure the pension provision of our customers and insured persons on a sustainable basis, we increased the technical provisions by a further CHF 179 million in 2016. We were able to allocate CHF 43 million to the surplus fund. The surplus fund is now endowed with CHF 105 million and thus allows the continued participation of the active insured persons in the surplus generated. For 2016, the pension assets – including those in the non-compulsory scheme – accrued interest of 1.25%.

We passed on 93.9% of the total income to our policyholders in the accounting year. In the share of income subject to the minimum quota, the distribution ratio amounted to 97.0%, which is well above the statutory minimum quota of 90%.

For three years, we have been making excellent progress with the Perspectiva Collective Foundation. It is the fastest-growing new semi-autonomous collective foundation in the Swiss market. In the product line, Perspectiva Relax, almost 700 smaller companies are already participating in the opportunities for returns afforded by the innovative collective foundation. With the new Perspectiva Choice, we now also offer medium to large companies a high-yielding semi-autonomous pension solution, in which they can select the investment vehicles individually. The first contracts are being concluded for 2018.

Thank you for placing your trust in us.

A stylized, handwritten signature in blue ink, consisting of a large, sweeping horizontal stroke and a smaller, more intricate mark below it.

Patric Olivier Zbinden

Head of Product Management Corporate Clients
Member of the Executive Committee

Income statement

In the income statement for the 2016 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.

	All figures are stated in CHF 000s	
Income	2015	2016
Premium income (gross premiums written)		
Savings premiums (incl. single premiums)	2,344,981	2,165,900
Risk premiums	231,676	228,605
Cost premiums	68,352	67,956
Total premiums	2,645,009	2,462,461
Investment income		
Direct investment income	431,437	432,304
Gains or losses on disposals	167,609	127,547
Gains or losses on currency exchange	-80,098	-46,785
Balance of write-downs and write-ups	-50,303	-42,587
Interest expenses	-4,304	-1,594
Investment management costs	-63,615	-63,341
Total investment income (net)	400,726	405,544
Gains or losses from reinsurance	-6,333	1,471
Other income (aggregated)	4,133	3,588
Total income	3,043,535	2,873,064

	All figures are stated in CHF 000s	
Expenses	2015	2016
Insurance benefit payments (gross)		
Benefit payments for retirement, death and disability	553,824	608,395
Portable benefits	1,093,247	1,107,936
Surrender values	256,246	434,948
Costs of processing benefit claims	13,332	14,174
Total benefit payments	1,916,649	2,165,453
Change in technical provisions (gross)		
Retirement assets	691,913	103,057
Actuarial reserves for current retirement and survivors' pensions	165,816	238,685
Actuarial reserves for current disability pensions	-4,364	-16,965
Actuarial reserves for portable benefits policies	-11,411	5,249
Provisions for incurred but not settled claims	32,500	-60,900
Other technical provisions	97,240	270,062
Total change in technical provisions	971,694	539,188
Acquisition and administrative costs (gross)	78,159	77,696
Other expenses (aggregated)	5,997	5,110
Surplus dividends allocated to the surplus fund	20,000	43,000
Operating profit	51,036	42,617
Total expenses	3,043,535	2,873,064

The operating profit for the 2016 financial year, after allocation to the surplus fund, amounted to CHF 42.6 million. A total of CHF 43.0 million was allocated to the surplus fund in 2016.

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	
	2015	2016
Breakdown of savings premiums		
Contributions to the accumulation of retirement assets	867,202	881,943
Retirement assets transferred: individual transfers	980,711	1,011,358
Retirement assets transferred: contract acquisitions on new affiliations	414,298	168,722
Deposits for acquired retirement and survivors' pensions	23,974	38,363
Deposits for acquired disability pensions	15,929	4,775
Deposits for portable benefit policies	42,867	60,739
Total savings premiums	2,344,981	2,165,900

	All figures are stated in CHF 000s	
	2015	2016
Details of benefit payments for retirement, death and disability		
Of which lump-sum benefits	261,088	300,963
Of which pension annuity benefits	292,736	307,432
Total benefit payments for retirement, death and disability	553,824	608,395

	2015	2016
Breakdown of the benefit payments for retirement, death and disability		
Retirement	69%	70%
Death	13%	13%
Disability	18%	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.

All figures are stated in CHF 000s		
Assets	2015	2016
Investments		
Liquid assets and fixed-term deposits	441,613	399,456
Fixed-income securities in Swiss francs	7,924,375	7,545,591
Fixed-income securities in foreign currencies	3,037,479	3,363,155
Mortgages and other nominal value receivables	2,966,509	3,057,817
Swiss and foreign equities	546,641	526,093
Units in investment funds	540,837	321,614
Private equity and hedge funds	518,988	504,658
Assets held as derivative financial instruments	27,615	28,269
Long-term equity investments and investments in associated companies	0	0
Real estate	2,197,902	2,432,416
Other investments	40,691	126,189
Total investments	18,242,650	18,305,258
Other assets	233,745	285,014
Total assets	18,476,395	18,590,272

All figures are stated in CHF 000s		
Liabilities	2015	2016
Technical provisions (gross)		
Retirement assets ¹⁾	11,186,372	11,289,429
Additional provision for future pension conversions ¹⁾	347,400	435,500
Actuarial reserves for current retirement and survivors' pensions ¹⁾	2,230,913	2,469,599
Actuarial reserves for current disability pensions ¹⁾	742,330	725,365
Increase in actuarial reserves for current pensions ¹⁾	450,200	622,500
Actuarial reserves for portable benefits policies	356,872	362,121
Provisions for incurred but not settled claims	538,200	477,300
Inflation fund	249,578	253,476
Credited surplus dividends	25,789	22,786
Other technical provisions	649,794	655,557
Total technical provisions (gross)	16,777,448	17,313,633
Surplus fund	95,743	105,035
Other accounts payable (including those to policyholders)	632,866	592,221
Other liabilities	970,338	579,383
Total liabilities	18,476,395	18,590,272

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.

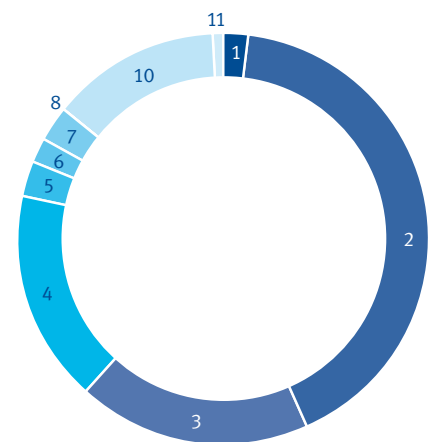
All figures are stated in CHF 000s
2016

Division of the marked line items	Obligatorium	Überobligatorium	Total
Retirement assets	6,128,020	5,161,409	11,289,429
Additional provision for future pension conversions	389,174	46,326	435,500
Actuarial reserves for current retirement and survivors' pensions	1,165,024	1,304,575	2,469,599
Actuarial reserves for current disability pensions	434,546	290,819	725,365
Increase in actuarial reserves for current pensions	556,282	66,218	622,500



Investment portfolio of the occupational pension funds

Investments	2016
1. Liquid assets and fixed-term deposits	2.18 %
2. Fixed-income securities in Swiss francs	41.22 %
3. Fixed-income securities in foreign currencies	18.37 %
4. Mortgages and other nominal value receivables	16.71 %
5. Swiss and foreign equities	2.87 %
6. Units in investment funds	1.76 %
7. Private equity and hedge funds	2.76 %
8. Assets held as derivative financial instruments	0.15 %
9. Long-term equity investments and investments in associated companies	0.00 %
10. Real estate	13.29 %
11. Other investments	0.69 %
Total investments	100.00 %



Total Investments: CHF 18.3 billion

Information on the investments (2016)

After a strong correction to the equity markets at the start of the year, the increase in the expansive monetary policy of the European Central Bank, in particular, led to a trend reversal at the end of February. Despite political uncertainties, such as the Brexit referendum, equity markets subsequently developed positively. The combination of expansive monetary policy and political uncertainty factors, however, pushed interest rates to new record levels worldwide midway through the year. The increase in inflation expectations following the unexpected result of the US presidential election led to moderately higher interest levels and a rally in the equity markets. Viewed over the year as a whole, the Swiss equity market declined significantly compared to markets worldwide; interest levels in Switzerland and in Europe fell despite the increase towards the end of the year.

New investments in Swiss franc-denominated bonds generated hardly any returns in 2016. Positive returns could only be achieved, if at all, with investments with very long maturities. We reacted to this situation by continuing to convert Swiss franc-denominated bonds into US dollar investments. Investments in the dollar currency area, especially in corporate bonds, continue to remain in clearly positive territory, even after deducting the costs for systematic hedging of the currency risk taken. As real estate continues to be characterised by value stability and attractive revenues, this asset class was strengthened by the purchase of properties. In this asset class, the opportunities afforded need to be exploited systematically without neglecting the return expectations and the balanced composition of the portfolio. The mortgage portfolio was likewise further expanded. The decline in “Units in investment funds” is due to the restructuring of our investments in senior secured loans, which, at the end of the year,

led to a lower investment allocation. We continue to view senior secured loans as attractive and will increase our position in them within a new investment vehicle.

In the current volatile and highly challenging market environment, we achieved a return on book value of 2.23%, which is slightly below that of the previous year. This result was supported by the aforementioned changes to the allocation, which allowed for the increase in direct investment income (coupon payments, rental income, dividends and interest payments) compared to the previous year. Gains on disposal were achieved through bond transactions in particular. Write-downs, in contrast, are primarily attributable to equity investments, mainly within the Swiss equity portfolio. Compared to the previous year, a significant better result was achieved for gains and losses on currency exchanges. The loss of around CHF 47 million is approximately equal to the costs of the currency hedging. The asset management costs declined in comparison to the previous year.

At 2.55%, the performance as at market value lies above the return on book value. This can be explained by the increase in the valuation reserves.

Key figures on the investment income

All figures are stated in CHF 000s

Investment income	2015		2016	
	Gross	Net	Gross	Net
Investment income	464,341	400,726	468,885	405,544

Investment portfolio	Book value	Market value	Book value	Market value
Investment portfolio at the start of the accounting year	16,679,056	18,665,562	18,200,068	20,027,988
Investment portfolio at the end of the accounting year	18,200,068	20,027,988	18,238,198	20,172,392

Proportion arising from collective investments	5.32 %	5.34 %
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

Valuation reserves	2015	2016
	Valuation reserves at the start of the accounting year	1,986,506
Valuation reserves at the end of the accounting year	1,827,920	1,934,194
Change in valuation reserves	- 158,586	106,274

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.

Rate of return and performance	2015		2016	
	Gross	Net	Gross	Net
Return on book value	2.66 %	2.30 %	2.57 %	2.23 %
Performance as at market value	1.58 %	1.25 %	2.86 %	2.55 %

Asset management costs

All figures are stated in CHF 000s
2016

Investment management	
Costs of investment management excluding real estate maintenance	63,341
As a percentage of the investments at market value	0.32 %
Costs of real estate maintenance and upkeep	28,341
As a percentage of the investments at market value	0.14 %
Costs of asset management including real estate maintenance	91,682
As a percentage of the investments at market value	0.46 %

All figures are stated in CHF 000s
2016

Table of asset management costs	Market value	Costs incurred			Total
		TER costs	TTC costs	Suppl. costs	
Direct investments	19,095,049	63,089	779		63,868
Single-tier collective investments	557,657	3,027			3,027
Multi-tier collective investments	519,686	23,600			23,600
Non-cost-transparent investments	0				
Total	20,172,392	89,716	779	1,322	91,817
Capitalised costs		0	-135	0	-135
Total costs recognised in income		89,716	644	1,322	91,682

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

	2015	2016
Total income components		
Savings process (investment income)	341,334	339,918
Risk process (risk premiums)	174,619	172,042
Cost process (cost premiums)	61,753	60,933
Total income (base value for the distribution ratio)	577,706	572,893
Total expenses		
Savings process (primarily technical interest accrual)	281,327	222,167
Risk process (primarily death and disability benefits)	106,458	70,370
Cost process (primarily administrative costs)	66,511	62,251
Total expenses	454,296	354,788
Gross operating profit	123,410	218,105
Accumulation (+) or dissolution (-) of technical provisions		
In the savings process		
Longevity risk	51,400	153,700
Shortfall arising from pension conversions	31,600	79,400
Interest rate guarantees	0	-14,000
Fluctuations in investments	0	0
In the risk process		
Reported but not settled claims	0	0
Incurred but not reported claims	-3,000	-36,200
Claims fluctuations	0	0
Tariff changes and tariff restructuring	0	0
Total change in provisions	80,000	182,900
Costs of additional risk capital acquired	0	0
Allocation to the surplus fund	15,000	18,000
Operating result	28,410	17,205
Total benefit payments to insured persons	549,296	555,688
Distribution ratio	95.1 %	97.0 %

Business not subject to the minimum quota

All figures are stated in CHF 000s

	2015	2016
Total income components		
Savings process (investment income)	59,393	65,626
Risk process (risk premiums)	57,057	56,563
Cost process (cost premiums)	6,599	7,023
Total income (base value for the distribution ratio)	123,049	129,212
Total expenses		
Savings process (primarily technical interest accrual)	46,210	39,384
Risk process (primarily death and disability benefits)	40,688	30,177
Cost process (primarily administrative costs)	13,325	12,739
Total expenses	100,223	82,300
Gross operating profit	22,826	46,912
Accumulation (+) or dissolution (–) of technical provisions		
In the savings process		
Longevity risk	600	18,600
Shortfall arising from pension conversions	–6,900	8,700
Interest rate guarantees	0	–22,000
Fluctuations in investments	0	0
In the risk process		
Reported but not settled claims	0	0
Incurred but not reported claims	1,500	–8,800
Claims fluctuations	0	0
Tariff changes and tariff restructuring	0	0
Total change in provisions	–4,800	–3,500
Allocation to the surplus fund	5,000	25,000
Operating profit	22,626	25,412
Total benefit payments to insured persons	100,423	103,800
Distribution ratio	81.6 %	80.3 %

Recapitulation of operating profit

All figures are stated in CHF 000s
2016

	Subject to the minimum quota	Not subject to the minimum quota	Total
Gross operating profit in the processes			
Savings process	117,751	26,242	143,993
Risk process	101,672	26,386	128,058
Cost process	-1,318	-5,716	-7,034
Gross operating profit	218,105	46,912	265,017

All figures are stated in CHF 000s
2016

	Subject to the minimum quota	Not subject to the minimum quota	Total
Summary			
Gross income	572,893	129,212	702,105
Benefit payments to insured persons			
Total expenses	354,788	82,300	437,088
Change in technical provisions	182,900	-3,500	179,400
Allocation to the surplus fund	18,000	25,000	43,000
Total benefit payments to insured persons	555,688	103,800	659,488
Distribution ratio	97.0 %	80.3 %	93.9 %
Operating profit	17,205	25,412	42,617
Share of total income (gross)	3.0 %	19.7 %	6.1 %

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 allocat-

ed 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	
	2015	2016
Surplus fund		
Balance at end of the previous year	130,956	95,743
Allocation from the operating statement	20,000	43,000
Allocated to pension fund	- 55,213	- 33,708
Balance at the end of the accounting year	95,743	105,035

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 2016 relate to the funding of life-long inflation adjustment entitlements of persons incapacitated for work who have been receiving a retirement pension as of 2016.

The pensions were not adjusted on 1 January 2016 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	
	2015	2016
Inflation fund		
Balance at end of the previous year	244,960	249,578
Income		
Combined inflation premiums (risk and cost components)	5,258	5,192
Tariff interest	613	0
Total income	5,871	5,192
Expenses		
Expenses for inflation-related increases of risk pensions	- 201	- 255
Withdrawal for expenses	- 1,052	- 1,039
Total expenses	- 1,253	- 1,294
Balance at the end of the accounting year	249,578	253,476

Further key figures

Parameter used	2015		2016	
	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%	5.602%
Pension conversion rate for women at retirement age of 64	6.80%	5.574%	6.80%	5.428%
Interest rate for the interest on retirement assets	1.75%	1.50%	1.25%	0.75%
Additional interest on surplus (as at 1 January of following year)	0.00%	0.25%	0.00%	0.50%
Average overall interest ¹⁾ on the retirement assets		1.75%		1.25%

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

	2015	2016
Technical interest		
Technical interest rate for the valuation of the pension obligations	1.66%	1.42%

	2015	2016
Number of insured persons at the end of the accounting year		
Number of active insured persons	156,879	154,438
Number of pension recipients	20,236	20,892
Number of portable benefits policies	24,266	23,482
Total number of insured persons	201,381	198,812

	All figures are stated in CHF 000s	
	2015	2016
Breakdown of cost premiums by cost unit		
Cost premiums of active insured persons (absolute)	65,636	65,275
Per capita in CHF	418	423
Cost premiums for portable benefits policies (absolute)	1,181	1,150
Per policy in CHF	49	49
Other cost premiums	1,535	1,531
Total cost premiums	68,352	67,956
Breakdown of operating expenses by cost centre		
Acquisition costs	16,590	17,328
Commission to brokers / agents	12,837	13,936
Commission to own field sales staff	3,676	3,340
Other acquisition costs	77	52
Costs of processing benefit claims	13,331	14,174
Costs for marketing and advertising	3,364	3,608
Other expenses for general administration	58,205	56,760
Reinsurers' share of operating expenses	-187	-4,229
Total operating expenses (net)	91,303	87,641
Breakdown of operating expenses by cost unit		
Operating expenses for active insured persons (absolute)	79,553	76,041
Per capita in CHF	507	492
Operating expenses for pension recipients (absolute)	9,350	9,350
Per capita in CHF	462	448
Operating expenses for portable benefits policies (absolute)	2,400	2,250
Per capita in CHF	99	96
Operating expenses for other cost units	0	0
Total operating expenses (net)	91,303	87,641

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