

Annual Report 2006



Contents

Important dates

4 May 2007

Ordinary Shareholders' Meeting in St.Gallen

7 September 2007

Publication of half-year financial results for 2007

17 March 2008

Financial results for 2007:

analysts' and media conference

25 April 2008

Ordinary Shareholders' Meeting in St.Gallen

3 September 2008

Publication of half-year financial results for 2008

Part 1

At a glance	5
Chairman's statement	6
Group strategy	9
Group structure	14
Interview with Erich Walser	16
The Board of Directors	20
Executive Management	24
Corporate governance	28
Spotlight	42
Human resources management	47
Group results	51
Investment business	55
Market performance	58
The share	74
Our commitment to the environment	76
Corporate responsibility	77

Part 2

Financial statements	79
Glossary	180

Additional information

Important addresses	184
Historical overview	186

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The German version of the Annual Report is legally binding.

About the pictures

Helvetia Insurance accompanies its customers all their lives. This is the theme of the photos used in this year's Annual Report. All photos come from our corporate film, which was made in September 2006 on the occasion of the introduction of our single brand strategy.

Watch the enclosed DVD and enjoy this short film.



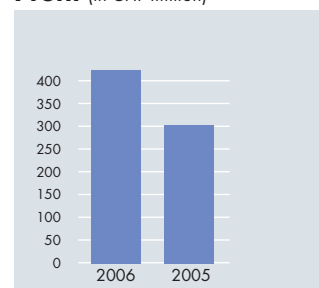
At a glance

Key share data Helvetia Holding

	2006	2005	Change
Group profit for the period per share in CHF	49.3	36.2	36.4%
Consolidated equity per share in CHF	319.1	290.0	10.0%
Year-end price of Helvetia registered share in CHF	401.5	278.0	44.4%
Market capitalisation at year-end price in CHF million	3 474.1	2 405.5	44.4%
Price/earnings ratio	8.1	7.7	
Dividend per share ¹ in CHF	13.50	9.00	50.0%
Number of shares issued	8 652 875	8 652 875	

¹ Based on the proposal made at the Shareholders' Meeting

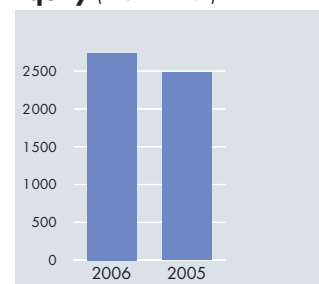
Profit (in CHF million)



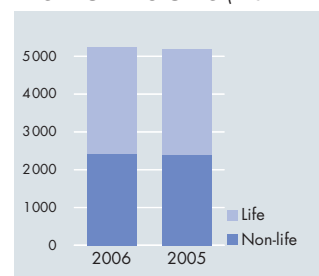
Key data

	2006	2005	Change
Income statement in CHF million			
Gross premiums written	5 255.7	5 176.8	1.5%
– of which non-life	2 423.3	2 386.6	1.5%
– of which life	2 832.4	2 790.2	1.5%
Investment income	1 109.3	1 301.5	–14.8%
Profit before tax	562.2	420.2	33.8%
– of which life	184.6	139.9	32.0%
– of which non-life	321.6	262.5	22.5%
– of which other	56.0	17.8	214.6%
Group profit for the period after tax	423.8	301.9	40.4%
Balance sheet in CHF million			
Investments	28 927.7	27 783.2	4.1%
Reserves for insurance and investment contracts (net)	25 094.6	23 969.9	4.7%
Consolidated equity	2 738.4	2 480.8	10.4%
Equity ratio (%)	16.2%	13.4%	

Equity (in CHF million)



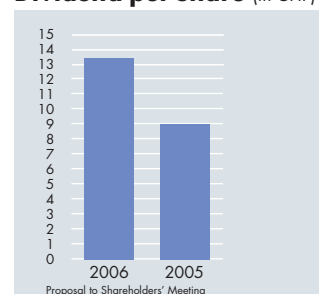
Premium volume (in CHF million)



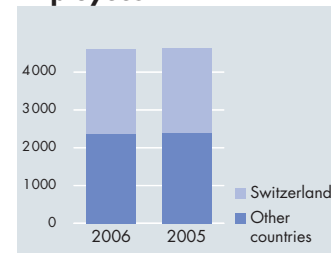
Key figures

	2006	2005	Change
Non-life (%)			
Funding ratio	154.6%	149.1%	
Combined ratio (gross)	93.2%	95.2%	
Combined ratio (net)	94.1%	94.0%	
Life in CHF million			
Embedded value total	1 881.7	1 673.6	12.4%
– of which value of new business	21.7	19.9	9.0%
Investments (%)			
Direct yield	3.1%	3.2%	
Investment performance	3.1%	5.5%	

Dividend per share (in CHF)



Employees



Employees

	2006	2005	Change
Helvetia Group total	4 595	4 619	–0.5%
– of which in Switzerland	2 239	2 236	0.1%

The financial year 2006



Ladies and Gentlemen,

2006 was another record year for Helvetia Group. Our business developed outstandingly well in the past year. Profit was up 40.4% on 2005, giving our best ever result of CHF 423.8 million. In both Switzerland and abroad, this success was primarily due to our own achievements. We are particularly pleased with the performance of our non-life business in Switzerland, our situation in Spain and the significant progress that has been made in the life business in Germany. Our assumed reinsurance also delivered an excellent result.

Important events in 2006

Since September 2006, we have been active in the market under the unified 'Helvetia' brand with the same logo throughout Europe. Our new corporate image has given us very positive momentum and has already brought us a large number of new customers. Our customers reacted positively to the change, as it allows us to better meet their high expectations.

In October 2006, the rating agency Standard & Poor's gave Helvetia Schweizerische Versicherungsgesellschaft AG and Helvetia Schweizerische Lebensversicherungsgesellschaft AG an 'A-' rating with stable outlook. This quality mark acknowledges our extremely solid performance over the last years and reflects our strong equity base and excellent earning power. The new rating improved our market prospects significantly.

Best result of all time

Last year saw us post a net profit after taxes of CHF 423.8 million, representing an increase of 40.4% and our best ever result by far. The profit before taxes for 2006 was up CHF 142 million on the previous year, with Switzerland contributing CHF 68.6 million and all other countries contributing a total of CHF 73.4 million. In the non-life business, the pre-tax result in the reporting period was up 22.5% year-on-year, while the life business improved by 32.0%. Broken down by country, contributions to the pre-tax result came from Switzerland (CHF 289.0 million or 51% of the

total), followed by Spain (CHF 110.1 million or 20%) and Germany (CHF 51.4 million or 9%).

Further growth in market shares

Last year we again stood out from our competitors and gained additional market shares. However, at 'only' 1.5%, premium growth was considerably more modest than in 2005 (+6.5%). This was partly due to significant premium erosion in assumed reinsurance, although we are only pursuing income targets, not volume, in this area. In addition, total direct life business suffered a dramatic slowdown in growth, in particular in Italy and Switzerland. On the other hand, at +3.5%, direct non-life business increased substantially compared to 2005. This is very pleasing, considering that motor vehicle insurance continued to suffer price erosion in many countries in 2006.

In terms of turnover, Switzerland continues to be our most important country with a 53.7% share of the premium total, followed by Germany (15.2%), Italy (9.9%) and Spain (9.4%).

Significant dividend increase

During the period under review, equity rose by CHF 257.6 million or 10.4% to CHF 2,738.4 million and the equity ratio increased 2.8 percentage points to an impressive 16.2%. In view of these pleasing results, the Shareholders' Meeting will be asked to approve a dividend increase of CHF 4.50 (50%), taking the dividend to CHF 13.50 per share. At 35%, the payout ratio will be well within the target range.

Forthcoming changes in Executive Management

At the end of August 2007, I will step down from my function as CEO of Helvetia Group and will concentrate on my position as Chairman of the Board of Directors. The Board of Directors has appointed Stefan Loacker, the present CEO of Helvetia Austria, to succeed me as CEO. Roland Geissmann, CFO and Deputy CEO, will resign from his post of his own accord in the middle of this year. This will mark the completion of a generation change that has been long in the planning.

Outlook

Helvetia Group has made a good start to 2007. We are extremely well equipped to take advantage of any market opportunities that may arise. Our strategic priorities will allow us to develop our business with considerably more speed in future. We want to add momentum to our already healthy growth rate, cut our costs and efficiently utilise the capital at our disposal. To this end, we will focus on products with an attractive return and continue to consolidate our presence in the existing markets.

The success of Helvetia Group is the result of our strategy and developments on the market. But without the hard work, commitment and enthusiasm of our employees we could not have come this far. The Helvetia Group is in such excellent shape because of their tireless dedication. I would therefore like to thank them for their desire to achieve, their customer focus and for standing by Helvetia's values on a daily basis. I should also like to thank our loyal customers and business partners, along with our faithful shareholders, for the trust they have placed in us.

Sincerely,



Erich Walser
Chairman of the Board of Directors
and Chief Executive Officer



Group strategy

As a capital-market-oriented company, the predominant aim of our business is to create value for our shareholders.

Definite financial objectives

The new Group strategy has definite financial objectives:

- Attractive return on capital
- Financial strength
- Profitable growth.

Our return and financial strength have increased significantly in the past few years and reached new all-time highs in 2006. At the same time, we achieved growth in different profitable segments and improved our market position. As a result, the value of the Helvetia share and its return rose significantly.

Attractive return on capital

The Helvetia Group aims at a sustainable return on capital employed of 15% after taxes. This target was exceeded in the outstanding financial year 2006. The ROE of the Group amounted to 16.2% compared to 13.4% in the previous year.

Sound financial strength

Overall, the Helvetia Group has a sound financial base, which is also demonstrated by a comfortable solvency margin of 219%. The strength of our capital base is confirmed by the 'A-' rating with stable outlook awarded by Standard & Poor's to Helvetia Schweizerische Versicherungsgesellschaft AG and Helvetia Schweizerische Lebensversicherungsgesellschaft AG in October 2006 after an interactive assessment examining the sustainability of our measures. This positive assessment increases our flexibility in the financial area by allowing us better access to the capital markets and to interesting financing instruments. It also makes it easier for us to secure adequate capital backing for operational risks and opens up strategic options.

Profitable growth

Helvetia has defined a clear growth path for the future. It is directed towards above-average organic growth in existing country markets and sectors as well as the consolidation of local positions through selective acquisitions based on definite quality and income criteria. We will aim for above-average organic growth with effective centralised and decentralised growth programmes.

Value for our shareholders

Our successful orientation and development with regards to return, financial strength and growth had very positive results for our shareholders. In the last three years, the price of our share has improved by 143%, far outstripping the performance of both the Swiss Performance Index (+74%) and the insurance stock index (+50%). Management has directed all its energies towards continuing this proof of performance in future. The attractiveness of the Helvetia share should rest not just on purely financial success, but also on the security and stability of our company, as it has done in the past.

Differentiated positioning

In future, Helvetia will remain focused on private and SME business and will concentrate its activities on the markets of Switzerland, Germany, Austria, Italy and Spain. In France and in our worldwide assumed reinsurance business we act as a niche supplier. Our success in these markets and business fields derives from our definite and differentiated market position. In Switzerland we are one of the leading suppliers in the customer and market segments important to us. Abroad, as a service and quality insurer with a Swiss identity, we occupy a market position that clearly stands out from the other suppliers.

The creation of added value for our customers is and will remain one of the guiding principles of our business activity. We want to further consolidate our excellent market position through innovative products and services geared towards the needs of our customers. Our new unified brand

will help us achieve this and strengthen Helvetia's image as a particularly trustworthy but also very progressive and dynamic insurance group.

Strategic aims and thrusts

To achieve our ambitious financial targets, Helvetia Group supports the current strategy with definite strategic thrusts and value programmes. In total, there are seven different strategic thrusts:

- Target-oriented management of the business portfolio
- Improvement of operating performance
- Intensification of profitable growth
- Effective asset & liability management
- Targeted risk management and effective financial management
- Effective management model
- Development of employees and management.

Target-oriented management of the business portfolio

The Helvetia Group uses a modern, integrated concept to manage the business portfolio. Our management tools allow capital to be efficiently allocated to the individual business units with a focus on quality, return and risks. They also facilitate the establishment of definite and realistic targets concerning return for each country market and business segment. Furthermore, we use portfolio management to effectively direct the Group's activities towards promising areas of operation with a view to the future.

As far as the strategic focus is concerned, we want to further consolidate our strong position in private customer and SME business in our home market of Switzerland and to systematically use the regional strengths in the foreign markets to achieve more aggressive growth over the coming years. The promotion of progressive unit-linked life products in all country markets is well under way. The targeted expansion of highly profitable niche segments, such as the transport business and assumed reinsurance, will make a further contribution to our success.

Improvement of operating performance

Over the last few years, Helvetia has achieved significant improvement in operating performance. For example, new business processing systems and platforms have been put into operation in various important segments as well as in administrative areas. Their purpose is to make business processing more cost effective and to manage the insurance portfolio more sustainably in terms of income. Partly as a result of this, the gross combined ratio in the non-life business could be reduced in 2006 for the third consecutive year by 2 percentage points to 93.2%. The earning power of the life business also increased considerably with respect to interest and risk gains.

The operating efficiency of a company does not just depend on its size. Speed, flexibility and well-defined quality standards in underwriting are factors that have contributed to Helvetia's impressive results. In the area of reinsurance, our own Group Reinsurance purchases reinsurance capacities for the best possible price and ensures that the retention structure at Group level is optimised. With these and further measures, we as a medium-sized and well-oriented company with a long history of success have laid the foundation for above-average performance that can also be sustained in the long term.

The expansion of operating efficiency is an important component of our strategy both at Group level and in the business units. A particular aim at Group level is to exploit synergies within the Group even more effectively. Plans are afoot to set up a cross-national competence centre designed to simplify the creation of value in unit-linked life insurance on the basis of common product and system platforms as well as the full use of largely centralised asset management controlling procedures. In the country markets, specific initiatives to improve efficiency even further have already been launched.

Intensification of profitable growth

The new strategy has set the course for the appropriate and profitable future growth of the Group. Our growth strategy includes the following components:

■ **Organic growth**

The orientation of the overall business portfolio will be focused even stronger towards fast-growing segments and regions. Particular emphasis is to be put on life business, where we have identified very good growth potential in the long term.

The most important factor supporting growth is probably the strengthening of sales strength. In this area, we want to continue our efforts in all markets by, for example, establishing new distribution channels and cooperation programmes. While we will continue to bet heavily on the advantages of historically close insurance-focused and partially exclusive distribution outlets supported by mutual trust in all markets, our multi-channel approach will ascribe added significance to independent agents and brokers and alternative distribution outlets in all markets.

In tandem with building up our sales strength, we will continue to systematise our market development measures by focusing on customer proximity. These include measures to improve our customer service, where we attach great importance to increasing customer loyalty in a bid to achieve our growth target.

On the product front, we plan to make our standard products less complex and to launch new products designed to consolidate our competitive advantages.

Our tried-and-tested differentiation strategy will be continued under the mottos 'Quality & Service' and 'Swissness', and will be intensified throughout the Group through the new single brand strategy.

■ **Strategic partnerships**

Helvetia Group establishes, uses and intensifies strategic partnerships to increase its sales strength. The cooperation programmes in Switzerland are of overriding importance: our cooperation with Raiffeisen, in particular, has been consolidated and expanded. In the country markets, the Helvetia Group upholds a number of selective partnerships in attractive business segments/sales channels, which will be intensified even more in the future.

■ **External growth**

An active acquisitions strategy will enable us to exploit strategic and financially favourable opportunities in a timely manner. The country markets of Germany, Italy and Spain in particular are the primary focus for acquisitions. Strengthening of life business is also a priority in all three markets.

Effective asset & liability management

Achieving profitability targets depends, to a considerable extent, on the effective management of assets: the investment result is one of the most significant value drivers of profit in life business. Asset management also helps us to achieve our growth targets. A good investment performance gives us the opportunity to launch attractive life products (competitive profit participation and attractive investment products in general).

The total investment portfolio of currently around CHF 28.9 billion is managed in close collaboration between the local units and our specialists in Switzerland in accordance with uniform Group-wide criteria. This ensures that the Group's asset management is effective, efficient and competitive.

The focus of the strategic measures is the development of Group-wide asset & liability management (ALM) procedure that allow investments to be managed in a way that protects equity and are oriented toward returns while maintaining a high level of security. This ALM approach favoured by our Group optimises the appreciation of value for

shareholders and policyholders without the inefficiency of mismatch risks in the case of fixed-interest investments. At the same time, we are also pressing ahead with measures that increase efficiency in the area of asset management.

Targeted risk management and effective financial management

Risk management is one of the Group's core competencies. It is another area in which we are committed to achieving top results for investors and policyholders. Our demands are correspondingly high. The need for up-to-date information relevant to management in the area of performance assessment and risk controlling is a top priority.

Our internal demands overlap with the increase in external requirements such as, for example, the new insurance supervision requirements (VAG/AVO) and guidelines, the requirements of the stock exchange supervisory authority concerning speed of financial reporting, and the specifications regarding its transparency under the IFRS.

Financial management is oriented towards optimally supporting the Group's achievement of goals, the business units and investments, by

- determining the risk capacity as the basis of the Group's risk strategy,
- providing information systems that give up-to-the-minute information on the economic efficiency of equity employed in terms of risk,
- maintaining efficient data systems that allow transparent communication with our stakeholders, such as shareholders, financial intermediaries, employees, customers, supervisory authorities and the public.

In 2006, we made further progress toward the development and systematic employment of dynamic, economically significant and risk-based financial management instruments. We should continue to exploit the momentum achieved in the last few years in the future.

Effective management model

Helvetia operates on the basis of a very lean and effective management model. In line with our principle of customer proximity, our strong local units see to business matters on site and are given the required autonomy, flexibility and responsibility. This decentralised structure is governed by the strategic and financial guidelines of the Group and clear core competencies subject to central control. In this way, the key interests of the group are safeguarded, without losing the necessary flexibility.

Core competencies include strategic management and financial controlling, risk management, asset and liability management as well as human resources management. They all safeguard synergies within the Group through central management and cross-national programmes. The new strategy attaches particular importance to the implementation of such measures and projects. Consequently, strategy controlling was further expanded to monitor strategy implementation.

Development of employees and management

The continuing development of our employees and management is a key element of our new strategy. In future, our success will continue to depend on the skills and capabilities of our employees. As a medium-sized company, we place particular emphasis on being able to attract new employees and promoting our employees in a practical context. Our human resources strategy has been in place successfully for years. In future, we want to continue investing in promoting our employees' skills and providing them with the tools that will attract new employees and develop the potential of existing employees. Particular attention is paid on an international level to sales employees, managers and the key functions in specialist areas. We will continue our current management development approach and expand our practice with a targeted exchange programme for managers and specialists within the Group, focusing on executive trainees.

Very well equipped for the future

Helvetia is very well equipped and is going forward with definite strategic targets and programmes. Our activities will continue to be guided by the demands of our key stakeholders. We are aware of our commitment to them. The strategy we have adopted will ensure that our success is continued in future.

Group structure

The structure of Helvetia Group



- | | |
|--|---|
| 1 Helvetia Holding AG | 5 Subsidiaries of Helvetia Beteiligungen |
| 2 Subsidiaries of Helvetia Holding | 6 Subsidiaries of Helvetia Europe |
| 3 National offices of Helvetia Versicherungen outside Switzerland | 7 Subsidiary of Helvetia Holding Suizo |
| 4 Subsidiaries of Helvetia Versicherungen | |

For minority interests, see page 172/173 (notes to the consolidated financial statements of the Helvetia Group).



'Helvetia in top form'

Interview with Erich Walser, Chairman of the Board of Directors and CEO

Mr Walser, what are your views on the business result achieved in 2006?

In 2006, we achieved our best ever result. Helvetia has had an outstanding year and is in excellent shape. It is true that we have benefited from the good performance of the financial markets and a very positive claims experience, but this success is primarily due to our own achievements.

How would you assess Helvetia's current situation and prospects?

Helvetia Group is in outstanding shape and will tackle the challenges of the coming years from a position of strength. All principal earnings indicators are at a very pleasing level. I am not just referring to the Group result, the return on equity or the combined ratio in the non-life business, but also to the embedded value, which is published in this Annual Report for the first time and confirms the profitability of our life portfolio.

Premium development is admittedly moderate, but we also stood out from our competitors in many ways in this respect and gained further shares of the market in the past year. However, we believe that we still have a long way to go and will focus considerably more attention on growth in the current year and in the future, without compromising our income targets.

To what extent will shareholders benefit from this excellent result?

Firstly, shareholders benefit from the extremely pleasing performance of our share. Secondly, the Board of Directors is proposing to the Shareholders' Meeting that the dividend be increased by 50% to CHF 13.50. This once again underlines the fact that we follow an income-focused and consistent distribution policy. The distribution quota this year is again within the target range.

Aside from the excellent results, what else stood out for you last year?

Two things: our new market image and the 'A-' quality mark given to us by the rating agency Standard & Poor's.

Since September 2006, we have appeared on the market under the unified 'Helvetia' brand with the same logo throughout Europe. I am convinced that our new market image gives us an unmistakable identity that will allow our Group to work even more effectively in future. The new single brand strategy releases new energy.

In October 2006, the rating agency Standard & Poor's awarded Helvetia Schweizerische Versicherungsgesellschaft AG and Helvetia Schweizerische Lebensversicherungsgesellschaft AG an 'A-' rating with stable outlook, thereby acknowledging our strong equity base and our excellent earning power. This quality mark has improved our prospects on the insurance and capital markets even further.

Helvetia has defined a 2010 growth strategy. What exactly does it involve?

Generating above-average growth, without compromising profitability, is our top priority for the next few years. We aim to concentrate on all the countries in which we are already operating. The main emphasis is placed on intensifying organic growth. In addition, we are also considering suitable acquisitions or rather additional portfolio purchases. As far as sales channels are concerned, our own sales force will continue to be our mainstay, but we will also open up new business channels and further optimise our co-operation programmes, particularly with the Raiffeisen Group. While doing so, we want to continue to concentrate on our current business lines and remain focused on private and commercial customers. On the product front, we will increase the focus of our products on the needs of our customers and push sales of products that require comparatively less capital backing. By this I am referring to unit-linked life insurance policies in particular. We are just starting to do this in all our markets.



Helvetia Group aims to consolidate its market position primarily on strong organic growth, yet acquisitions are also a recurrent topic. In the past, we have convincingly demonstrated that we can implement an extremely successful business policy single-handedly. When the time is right, we also look at external growth, but not at any price. We have very clear ideas about what we want.

What are your views on the course of business in the first quarter of 2007?

As far as premiums are concerned, the positive results of the new growth strategy are becoming increasingly noticeable. The claims experience in the first few months of the current year has also been very favourable, not least thanks to the unusually mild winter. This was also not affected by the January storm Cyril. Costs are under control, and the cost ratio should improve considerably in tandem with premium growth. All in all, actuarial gains and a combined ratio well below 100% are also currently expected for 2007. Of course, the financial result for 2007 will ultimately also depend on the development of the capital markets.

At the end of August 2007, you will step down from your position as CEO of Helvetia Group.

How would you sum up your time here?

Personally, I already look back on my approximately 16 years as CEO of Helvetia Group with a great deal of satisfaction and pleasure. It has been an extremely exciting and successful time. Helvetia is currently in excellent shape and is well equipped for the future. I will still play an active role in the company as Chairman of the Board of Directors and will remain committed to the lasting success and good image of Helvetia Group. In addition, I will attend to my other tasks in the industry and, if elected, will take over the chairmanship of the Swiss Insurance Association.

The appointment of Stefan Loacker means that an exceptional insurance professional and internal successor will take over the operational management of Helvetia Group. I know that he will drive forward the implementation of the 2010 Group strategy with the necessary vigour, while at the same time safeguarding the strength and continuity of the business.

This interview was conducted by Wolfgang Lohr, Head of Investor Relations Helvetia Group



The Board of Directors of Helvetia Holding AG

The Board of Directors of Helvetia Holding AG serves as the company's highest supervisory body. It is responsible for the overall management and strategic direction of the Group, and appoints and oversees the Executive Management. The Board of Directors currently consists of nine members. In a bid to exploit the specific expertise of the individual Board members and ensure that their know-how is brought into the decision-making process, various committees have been set up. With the Strategy and Governance Committee, the Nomination and Compensation Committee, the Audit Committee and the Investment and Risk Committee, Helvetia has four Board committees that guarantee effective corporate management and supervision.

Election

The terms of office of the individual Board members have been coordinated in a manner that ensures that one-third of the seats are up for election or re-election every year. The term of office of every individual member is determined on election and may not exceed three years, though re-election is permitted.

The terms of office of Erich Walser, Christoph Lechner and Urs Widmer will end at the Shareholders' Meeting 2007. They are available for a further three-year term of office. No new members of the Board of Directors will be proposed at the Shareholders' Meeting. Once the new CEO assumes office on 1.9.2007, the chairman of the Board of Directors and the chairman of the Executive Management will no longer be the same person. Consequently, the special supervisory function of the Lead Director will cease to apply from this date.

	Office	Joined ¹	Current term expires	Committee memberships			
				SGC	NCC	IRC	AC
Erich Walser	Chairman and CEO (CEO until end of August 2007)	2001	2007	••	+	•	+
Ueli Forster	Deputy Chairman and Lead Director (Lead Director until end of August 2007)	1984	2008	•	•	*	•
Silvio Borner	Deputy Chairman	1983	2008	•	••		
Hans-Jürg Bernet	Member	2006	2009				•
Christoph Lechner	Member	2006	2007			•	
John Martin Manser	Member	1993	2009		•	••	
Pierin Vincenz	Member	2000	2009	•		•	
Olivier Vodoz	Member	2001	2008		•		•
Urs Widmer	Member	2005	2007				••

- SGC = Strategy and Governance Committee
- NCC = Nomination and Compensation Committee
- IRC = Investment and Risk Committee
- AC = Audit Committee

◦◦ Chair

* May join meetings at own request and with decision-making power

+ May join meetings at own request and in advisory capacity

¹ Before 1996: date of joining the Board of former companies Helvetia or Patria

From left to right:
Pierin Vincenz,
Silvio Borner,
Christoph Lechner,
Erich Walser,
John Martin Manser,
Urs Widmer,
Ueli Forster,
Olivier Vodoz,
Hans-Jürg Bernet



The Board of Directors of Helvetia Holding AG

Erich Walser (1947)

- a Rehetobel, Swiss
- b lic. oec. HSG, lic. iur.
- c Chairman of the Board of Directors and Chief Executive Officer of Helvetia Group, Head of the national markets of Italy, Spain and Austria; until 1978 various positions at Swiss Bank Corporation (now UBS) and Schweizerische Volksbank; 1979 joined Helvetia: various management positions; 1991 Chief Executive Officer of Helvetia Versicherungen; 1994 Chief Executive Officer of the Helvetia Patria Group; 2001 Managing Director reporting to the Board of Directors; in current function since 12.12.2003 with various mandates at subsidiaries of the Helvetia Group outside Switzerland;
- d in particular Vice-Chairman of the Swiss Insurance Association, Zurich; Chairman of the Sponsoring Institution of the Institute of Insurance Economics at the University of St. Gallen; Vice-Chairman of the board of directors of Allreal Holding AG, Baar; Vice-Chairman of the board of directors of Huber + Suhner AG, Pfäffikon/Herisau, as well as four board mandates at non-listed companies and four board of trustee mandates.

Ueli Forster (1939)

- a St. Gallen, Swiss
- b lic. oec. HSG
- c Chairman of the board of directors of Forster Rohner AG, St. Gallen, Chairman of the Welfare Fund and Pension Fund of the Forster Rohner Group;
- d in particular member of the Bank Council, Swiss National Bank, Berne; member of the board of the Swiss Textile Federation, Zurich, and Chairman of the board of directors of two non-listed companies.

Silvio Borner (1941)

- a Basel, Swiss
- b Prof. Dr. oec.; Dean of the Faculty of Economics at the University of Basel
- c Professor of Macroeconomics at the University of Basel and Head of the Economics and Politics Department at the Centre of Economics and Business (Wirtschaftswissenschaftliches Zentrum), Basel;
- d in particular Chairman of the board of directors of Patria Genossenschaft, Basel; member of the executive committee of AVENIR-SUISSE, Zurich; Chairman of the board of trustees of Helvetia Patria Jeunesse.

Since the Shareholders' Meeting 2006
with assumption of office on 1.9.2006

Hans-Jürg Bernet (1949)

- a St. Gallen, Swiss
- b Dr. oec. HSG
- c 1977 joined Zürich Versicherungen, various management positions, including: 1993 member of the executive board of Zurich Switzerland, 2001 – 2005 CEO of Zurich Switzerland, 2001 – 2004 member of the executive board of ZFS Group; 2002 – 2005 Vice-Chairman of the Swiss Insurance Association, 2001 – 2005 member of the board of directors and Vice-Chairman of the Sponsoring Institution of the Institute of Insurance Economics;
- d in particular a board mandate for a non-listed company and two board of trustee mandates.

Since the Shareholders' Meeting 2006

Christoph Lechner (1967)

- a Hettlingen, German
- b Prof. Dr. oec.
- c 1987 – 1995 Deutsche Bank in various positions, including: Assistant to the Managing Director, Corporate Banking, Germany, Corporate Finance, Singapore; since 1995 business consultant for strategic interests; since 2004 Professor for Strategic Management at the University of St. Gallen, Director of the Institute for Business Management;
- d in particular member of the board of directors of Hügli Holding AG, Steinach.

Until the Shareholders' Meeting 2006

Marguerite Florio (1944)

For details see the Annual Report 2005.

John Martin Manser (1947)

- a Riehen, Swiss
- b MBA
- c Commercial banking in Switzerland, the UK and Brazil; 1981 treasurer at the Brazilian subsidiary of Ciba-Geigy; 1988 – 1990 CFO and 1990 – 1996 Treasurer at Ciba-Geigy AG, Basel (head office); since 1996 Head of Novartis Group Treasury: Novartis International AG, Basel;
- d in particular Chairman of the board of directors of Ciba Vision AG, Embrach; member of the board of trustees of CS Investment Foundation, Zurich; various board mandates for Novartis.

Pierin Vincenz (1956)

- a St. Gallen, Swiss
- b Dr. oec. HSG
- c 1979 – 1982 Schweizerische Treuhandgesellschaft, St. Gallen; 1986 – 1990 Swiss Bank Corporation Global Treasury at the head office in Zurich and Deputy Director Swiss Bank Corporation O'Conner Services L.P. Chicago; 1991 – 1996 Hunter Douglas, Lucerne, Vice-President and Treasurer; since 1996 Raiffeisen Group, St. Gallen: member of the executive board and Head of the Finance department; since 1999 CEO of Raiffeisen Group, St. Gallen;
- d in particular member of the board committee of the Swiss Bankers Association, Basel; Chairman of the board of directors of VISECA Card Services SA, Glattbrugg; member of the board of directors of Vontobel Holding AG, Zurich; member of the board of directors of the Mortgage Bond Bank of the Swiss Mortgage Institutions, Zurich; member of the board of directors of Telekurs Holding AG, Zurich; member of the board of directors of Plozza Vini SA, Brusio; member of the board of directors of Pflegekinder-Aktion Schweiz, and five board of trustee mandates.

Olivier Vodoz (1943)

- a Geneva, Swiss
- b lic. iur., lawyer
- c Member of the Government Council of the Canton of Geneva (1989 – 1997, 1994/95 as its President);
- d in particular Chairman of the Delegate Conference of Patria Genossenschaft, Basel; Vice-Chairman of the International Committee of the Red Cross, Geneva; member of the board of directors of Union Bancaire Privée UBP, Geneva; member of the board of directors of Heritage Bank, Geneva; three further board mandates in non-listed companies and 13 board of trustee mandates.

Urs Widmer (1941)

- a Küsnacht, Swiss
- b Dr. iur., lawyer (with own company)
- c Management positions at ATAG Ernst & Young AG; ATAG debis Informatik AG; ATAG Wirtschaftsinformation Holding AG; Ernst & Young Europe; Ernst & Young International and ATAG Ernst & Young Holding AG, where he was most recently Chairman of the board of directors until 2002;
- d in particular Chairman of the board of directors (since 2005) of Vontobel Holding AG and Bank Vontobel AG; member of the board of directors of Barry Callebaut AG; board of trustee mandate for Zurich Zoo Foundation and Technopark, Zurich.

Secretary of the Board of Directors: **Thomas Oesch**, Dr. iur., lawyer

- a Place of residence, nationality
- b Education, title
- c Professional background, executive responsibilities
- d Significant business relationships, mandates, official functions, political functions

Executive Management of Helvetia Group

The Executive Management is the highest executive body of the Helvetia Group and is responsible for implementing the strategy adopted by the Board of Directors. The organisational structure of the Executive Management is geared to the value chain and the management of the operating business units. Key functions such as the control of financial operations, investment business, Group reinsurance and elements of risk management are centralised, making it easier to pool knowledge and resources. This management structure – with international, functional responsibilities – is extremely effective, enables rapid decision-making, enhances transparency and avoids duplication.

Changes in Executive Management

After more than 32 years of service, Hans Peter Haller, member of the Executive Management Switzerland, went into well-earned retirement at the end of November 2006. Over the last 13 years, he carried out many and diverse tasks as a member of the Executive Management. In France, the Head of Finance, Mr Bernard Fournier, retired at the end of September 2006. In Italy, Paolo Beccaria, Head of Information Technology, left the Helvetia Group at the end of January 2007.

Forthcoming changes in the Group Executive Management in 2007

Erich Walser will step down from his position as CEO of Helvetia Group at the end of August 2007. The Board of Directors has appointed Stefan Loacker, the present CEO of Helvetia Austria, to succeed him. As Chairman of the Board of Directors, Erich Walser will continue to ensure that the successful strategy adopted by the Group is followed consistently.

Roland Geissmann, CFO and Deputy CEO of the Group, has decided to retire from his duties in mid-2007. He joined the former Patria in 1983. Since 1986, he has carried out the function of CFO, at first in the Executive Management of Patria and then in the present Helvetia Group, with specialist expertise, great personal dedication and much success. As Deputy Chairman of the Execu-

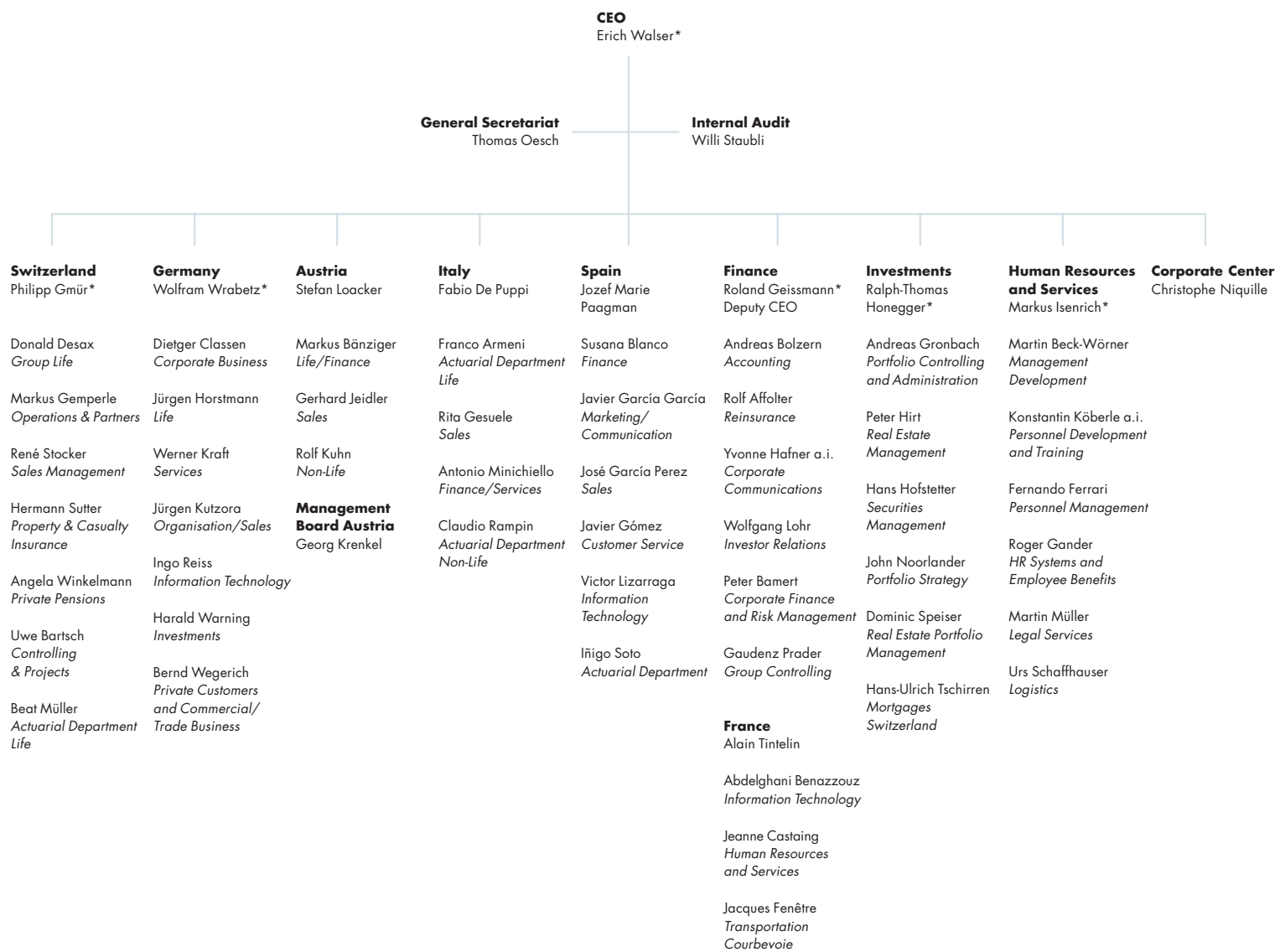
tive Management, Roland Geissmann made an eminent contribution to the development of our business since the merger between Helvetia and Patria, in the success of which he played a vital role. We would like to thank him very much indeed.

The Board of Directors appointed Paul Norton as new Chief Financial Officer (CFO) of Helvetia Group. He will join Helvetia on 1.6.2007 and take up his function as CFO and member of the Executive Management on 1.7.2007.

Stefan Loacker, lic. oec. HSG, will take on the position of CEO of Helvetia Group on 1.9.2007. He joined the Planning, Controlling and Development department of the Helvetia Group in 1997, after working for many years at Swiss Life. He then went on to work on Group strategy as Head of the Business Development department and managed various M&A projects in Switzerland and abroad. In 2002, Stefan Loacker was appointed CFO and member of the Board of Directors of Helvetia Austria and, at the beginning of 2005, he was elected CEO Austria. He has made a significant contribution to the success of the company in all these positions. The appointment of Stefan Loacker means that an exceptional insurance professional will take over the operational management of Helvetia.

He will drive forward the implementation of the 2010 Group strategy vigorously, while at the same time safeguarding the strength and continuity of the business.

Management structure of Helvetia Group



* Member of Group Executive Management as at April 2007

The Members of the Executive Management of Helvetia Group



Erich Walser (1947)

- a Rehetobel, Swiss
- b lic. oec. HSG, lic. iur.
- c Chairman of the Board of Directors and Chief Executive Officer of Helvetia Group, Head of the national markets of Italy, Spain and Austria;
- d until 1978 various positions with Swiss Bank Corporation (now UBS) and Schweizerische Volksbank; 1979 joined Helvetia: various management positions; 1991 Chief Executive Officer of Helvetia Versicherungen; 1994 Chief Executive Officer of the Helvetia Patria Group; 2001 Member of the Board of Directors and Managing Director reporting to the Board of Directors; in current function since 12.12.2003 with various mandates at subsidiaries of the Helvetia Group outside Switzerland;
- e in particular Vice-Chairman of the Swiss Insurance Association, Zurich; Chairman of the Sponsoring Institution of the Institute of Insurance Economics at the University of St. Gallen; Vice-Chairman of the board of directors of Allreal Holding AG, Baar; Vice-Chairman of the board of directors of Huber + Suhner AG, Pfäffikon/Herisau; as well as four board mandates at non-listed companies and four board of trustee mandates.



Roland Geissmann (1948)

- a Binningen, Swiss
- b Postgraduate Professional Diploma in Business Economics, Swiss Certified Accountant
- c Deputy CEO of Helvetia Group, Head of Finance (CFO), responsible for the national market of France and for Reinsurance, Corporate Communications and Investor Relations;
- d various management positions at KPMG (formerly Fides) as an accountant and consultant; 1983 joined Patria: various management positions, including: Head of Staff Division of General Management, Member of the Management Committee, Head of Finance and Investments, Member of the Executive Management and later Deputy Chief Executive Officer of Patria; 1994 Member of Management and Deputy Chief Executive Officer of the Helvetia Patria Group: Head of Finance and Investments; from 1999 also responsible for Reinsurance; 2002 Spin-off and set-up of an independent investment division, restructuring of the CFO function as per section c with various mandates for subsidiaries of the Helvetia Group in Switzerland and abroad;
- e in particular member of the boards of trustees of the pension funds of Helvetia Versicherungen; member of the board of trustees of the Swisscanto Vested Benefits Foundation and the Swisscanto Supra Joint Foundation of the Cantonal Banks; member of the board of directors of Swisscanto Verwaltungs AG, Basel; member of the Economy and Finance Committee of the Swiss Insurance Association, Zurich.



Philipp Gmür (1963)

- a Lucerne, Swiss
- b Dr. iur., lawyer, LL.M.
- c Chief Executive Officer of Helvetia Switzerland;
- d 1988 – 1990 Positions at district courts, administration and legal practice; 1991 – 1993 Clerk at the High Court of Lucerne; 1993 joined Helvetia: general agent in Lucerne; 2000 Member of Executive Management Switzerland: Head of Sales; 2003 Member of Group Executive Management in current position with various mandates for subsidiaries of Helvetia Group in Switzerland;
- e in particular member of the boards of trustees of the pension funds of Helvetia Versicherungen, Vice-Chairman of the Helvetia Patria Jeunesse Foundation; Vice-Chairman of the Swisscanto Vested Benefits Foundation and the Swisscanto Supra Joint Foundation of the Cantonal Banks; member of the board of directors of Swisscanto Verwaltungs AG, Basel; member of the board of directors of Coop Rechtsschutz AG, Aarau; two board mandates at non-listed companies and three board of trustee mandates.


Ralph-Thomas Honegger (1959)

- a Aesch, Swiss
- b Dr. rer. pol.
- c Head of Investments (CIO);
- d 1987 joined Patria: various management positions, including: Head of Portfolio Strategy and Portfolio Management, 1997 Member of Executive Management Switzerland: initially Head of Investment Clients, then Head of Individual Life; 2002 Member of Group Executive Management in current position with various mandates at subsidiaries of the Helvetia Group outside Switzerland;
- e in particular Chairman of the board of trustees of Patria Investment Foundation; Honorary Consul General of Austria in Basel; member of the board of directors of Tertium AG, Berlingen.


Markus Isenrich (1953)

- a St. Gallen, Swiss
- b lic. oec. HSG, lic. iur.
- c Head of Human Resources and Services;
- d until 1984 Canton of St. Gallen Planning Department; 1985 joined Helvetia: various management positions, including: Head of Real Estate, Head of Staff, Secretary General; 2000 Member of Group Executive Management in current position with various mandates at subsidiaries of the Helvetia Group in Switzerland and abroad;
- e in particular chairman of the pension funds of Helvetia Versicherungen; Chairman of the board of directors of swissregiobank, Wil/SG; board mandate for a non-listed company and two mandates for housing co-operatives.


Wolfram Wrabetz (1950)

- a D-Bad Soden, German
- b Prof. Dr. iur., Certified Business Administrator
- c Chief Executive Officer of Helvetia Germany;
- d various positions with the Gerling Group; 1981 joined Helvetia Germany: various management positions; 1995 General Manager for Germany and Chairman of Helvetia Leben and Helvetia International, D-Frankfurt/Main; 1998 joined the Helvetia Patria Group in current position;
- e in particular member of the Chairman's and Professional Committee for Property Insurance and Chairman of the Legal Committee of the German Insurance Association, D-Berlin; member of the Insurance Advisory Council of the Federal Financial Supervisory Authority, D-Bonn; representative of the Hesse State Government for the insurance industry; Honorary Consul in Germany of the Republic of Ecuador in D-Frankfurt/Main.

- a Place of residence, nationality
- b Education, title
- c Function
- d Professional background: date of employment and former functions at Helvetia Versicherungen
- e Other significant activities and interests, including mandates, official functions, political functions

Corporate governance

Helvetia wants to meet the demanding legal and ethical expectations of all stakeholders by providing comprehensive and transparent reporting and responsible and value-oriented corporate governance, to the best of its knowledge and in good faith. The main aims here are to further strengthen confidence in the Helvetia Group, to safeguard the interests of our shareholders, and to sustainably enhance the value of the Group. We ensure that the principles of good corporate governance are consistently implemented and continually optimised throughout the Group.

For the Board of Directors, Executive Management and all employees of Helvetia, corporate governance is an ongoing process that is periodically reviewed and adapted in line with new developments, findings and requirements. Good corporate governance can only be truly effective if it is constantly oriented to the Group's strategy and positioning. For further information, please refer to pages 9 to 13.

With this strategic focus, Helvetia wants to comply with the applicable standards of the Swiss Code of Best Practice for Corporate Governance and the SWX Swiss Exchange Guidelines concerning Information on Corporate Governance dated 1.7.2002, including appendices. The comments concerning our corporate governance principles therefore follow the order of content of the above Guidelines. If relevant information is provided elsewhere in the Annual Report or in other documents, reference is made to the location or document concerned. Important documents such as the articles of incorporation (also available in English) and the by-laws, with appendices (in German only), may be viewed on our website (www.helvetia.com/gruppe/governance.htm), which also contains plenty of additional interesting and up-to-date information.

1. Group structure and shareholder base

1.1 Group structure

Helvetia is an internationally active Swiss all-lines insurance group that focuses primarily on central and southern Europe. The parent company,

Helvetia Holding AG, is organised in accordance with Swiss law. The management structure is shown on page 25. The organisational structure is intended to create the best possible legal, financial, fiscal and regulatory framework and to ensure smooth, efficient and flexible business operations.

The legal structure of the Helvetia Group (including investments in associates) is shown on page 14.

Helvetia Holding AG has its head office in St. Gallen and is listed on the SWX Swiss Exchange in Zurich: security no./ticker 1 227 168/HELN. Key data for investors are presented on page 74 under 'Investor information'.

Helvetia Holding AG is the only listed company within the Group. The Group's subsidiaries included in the scope of consolidation are listed on pages 172 and 173. Detailed reports on the main subsidiaries (Helvetia Schweizerische Versicherungsgesellschaft AG, St. Gallen [Helvetia Versicherungen], and Helvetia Schweizerische Lebensversicherungsgesellschaft AG, Basel [Helvetia Leben]) can be found on pages 58 to 60, and in the Notes on page 177.

1.2 Major shareholders

A controlled opening of the Helvetia Holding AG shareholder base was initiated in 2000. In 2002, the holdings of the shareholder pool were reduced in a regrouping process from 50.9% to 45%, in 2004 reduced to 40% under a share capital increase and, by the end of 2006, reduced to 37.8%. The aim behind these and other measures was (and remains) to underscore our policy of increasing the volume of tradeable shares so that other investors with a long-term investment horizon can hold a stake in Helvetia Holding AG. As of the reporting date, the following major or otherwise notable holdings were entered in the share register of Helvetia Holding AG:

- a) Shareholder pool (37.8%), comprising
 - Patria Genossenschaft, Basel (29.8%, with an additional 0.3% outside the pool),
 - Vontobel Beteiligungen AG, Zurich (4.0%), and
 - Raiffeisen Schweiz, St. Gallen (4.0%).

The pool agreement strengthens and promotes Helvetia's strategic focus on co-operation in areas outside its core business (insurance), and supports the activities of the Group in crucial areas such as sales. It unites the co-operation partners of the Helvetia Group in their capacity as long-term investors with a strategic focus who share a common interest in ensuring that Helvetia remains independent and self-sufficient in its relationships with third parties as well as pool members, and is able to continue to develop going into the future in accordance with its adopted strategy and without undesirable negative influences. Pool members may only sell their holdings of Helvetia shares with the consent of the other members, who also enjoy the right of first refusal at market conditions. Beyond the scope of normal co-operation activities relating to consulting and the sale of financial, insurance and asset management products and services – in each case at market conditions – there are no significant business relationships between pool members and the Helvetia Group.

b) In view of the sound and close business relationship we have maintained for many years (and wish to continue to maintain) with Münchener Rückversicherungs-Gesellschaft (Munich Re), Munich, a holding of 8.2% has been agreed with this company. If Munich Re should decide to sell any of these shares, Helvetia may, under certain conditions, acquire them itself at market conditions or nominate a third-party buyer.

c) The Pension Fund of Helvetia Versicherungen, St. Gallen, holds 2.4% of the shares of Helvetia Holding AG.

d) Helvetia Beteiligungen AG, St. Gallen, holds 0.8% of Helvetia shares that are classified as 'treasury shares'.

1.3 Cross-holdings

There are no cross-holdings that exceed 5% of the capital or voting rights.

2. Capital structure

2.1 Share capital

The share capital of Helvetia Holding AG amounts to CHF 86,528,750.

2.2 Approved capital

There is no approved capital.

2.3 Changes in capital

In 2001, the Group's share capital was reduced by CHF 16,492,980 to CHF 65,971,920 by a reduction in the nominal share value from CHF 50 to CHF 40 and a share split at the ratio of 1:4 to CHF 10 per share.

In 2002, the share capital was reduced by 4.61% to CHF 62,930,000 through a buyback programme and the cancellation of shares amounting to CHF 3,041,920.

In December 2004, an approved capital increase of CHF 23,598,750 was effected by issuing 2,359,875 registered shares with a nominal value of CHF 10 each, as a result of which the share capital rose from CHF 62,930,000 to CHF 86,528,750.

Changes in equity are presented on pages 84 and 85, those for the 2004 financial year are presented on page 90 of the Annual Report 2004, and those for 2005 are presented on page 140 et seq. of the Annual Report 2005.

2.4/2.5 Shares, participation certificates and dividend-right certificates

The share capital comprises 8,652,875 fully paid-up registered shares with voting and dividend rights with a nominal value of CHF 10 each. There are no preferential rights, participation certificates or dividend-right certificates. For further details concerning the Helvetia share, please refer to pages 74 and 75.

2.6 Restriction on transferability, nominee registration

The Board of Directors may refuse to approve registration with voting rights if an individual should own more than 5% of the voting rights of the entire share capital recorded with the Com-

mercial Register. Here the term 'individual' also includes buyers of shares who are connected to each other either by way of capital or votes, or by united management, or in any other form. This restriction also applies if, for example, shares were subscribed or acquired by means of convertible rights that are associated with value rights issued by the company or third parties.

In the year under review, no new exceptions were declared regarding the restriction of transferability (for major shareholders: see section 1.2).

Private individuals who do not declare in the application for registration that they have acquired the shares on their own behalf (= nominees) will only be entered in the share register for a maximum of 3% of the total share capital. The registration regulations are described in detail in art. 7 of the articles of incorporation: www.helvetia.com/gr-statuten.pdf.

Any amendment by the Shareholders' Meeting to the statutory restriction of transferability referred to above requires a two-thirds majority of represented votes.

2.7 Convertible bonds and options

a) Convertible bond:

The Helvetia Group issued a convertible bond via Helvetia Finance Ltd., Jersey, which was redeemed as of 6.6.2005 (conditions, see Annual Report 2004). No convertible bonds have been outstanding since this date.

b) Options:

The Helvetia Group has not issued any options.

c) Employee options:

The employee option programme was concluded as of the end of 2002, and expired at the end of October 2005.

3. Board of Directors

See also the diagram and information provided on pages 20 to 23.

3.1 Members of the Board of Directors

The Board of Directors of Helvetia Holding AG consists of nine members. It is identical to the boards of directors of the two subsidiaries, Helvetia Leben and Helvetia Versicherungen. Members of the Board of Directors are required to possess experience and know-how from a variety of sectors. They should hold the qualifications that ensure a clear business strategy in consultation with the Executive Management. Since the Helvetia Group conducts a significant proportion of its business abroad, the Board of Directors also includes members who have extensive international experience. Members of the Board of Directors should possess strong personal values (including integrity), specialised business and insurance knowledge, experience in strategic and executive management, the ability to think in a visionary manner, and social skills. They must also have the necessary amount of time at their disposal for the efficient and proper performance of a director's mandate. Each year the Board of Directors assesses the level of compliance with these requirements and the quality of the services it has performed, both in its entirety and within each committee, and – where necessary – identifies any improvements that may be required.

The composition of the Board of Directors is given on pages 20 to 23.

Apart from Erich Walser, Chairman of the Board of Directors and Chief Executive Officer of the Helvetia Group (who will hand over the function of CEO to Stefan Loacker on 1.9.2007), all other members are non-executive, and in the financial years prior to the year under review did not belong to the Executive Management of Helvetia or any of its consolidated companies. None of the members of the Board of Directors have any significant business relationships with Helvetia other than as policyholders at normal conditions.

3.2 Other activities and interests

The following business relationships exist with companies represented by members of the Board of Directors:

- In the shareholder pool, Silvio Borner, Marguerite Florio (until the 2006 Shareholders'

Meeting) and Olivier Vodoz represent Patria Genossenschaft, Pierin Vincenz represents the Raiffeisen Group, and Urs Widmer represents the Vontobel Group, as he is also Chairman of the board of directors of Vontobel Holding AG.

- Silvio Borner and Marguerite Florio are also members of the Board of Directors, and Olivier Vodoz is President of the Delegate Conference, of Patria Genossenschaft, Basel, the statutory objectives of which are to promote the conclusion and execution of life insurance contracts with Helvetia in the interests of its members, and to secure and promote its independence and development through financial participation in Helvetia.
- Helvetia, the Vontobel Group and the Raiffeisen Group are co-operation partners in the areas of consulting and the sale of financial services. Both groups are therefore members of the shareholder pool together with Patria Genossenschaft.

3.3 Cross directorships

See section 3.2.

Urs Widmer and Pierin Vincenz are members of the boards of directors of Vontobel Holding AG and Helvetia Holding AG. The company is unaware of any other cross ties with the boards of directors of listed companies.

3.4 Election and term of office

The normal term of office for members of the Board of Directors is three years. Members of the Board of Directors are required to step down for reasons of age at the Shareholders' Meeting that is held in the year in which they turn 70. New members complete the term of office of the retiring members. Terms of office are co-ordinated in such a way as to ensure that, every year, one-third of the members of the Board of Directors are available for election or re-election. Re-election is possible. Every member of the Board of Directors has to be elected by the shareholders.

For information concerning the first-time election and the remaining term of office of the members of the Board of Directors, please refer to the table on page 20.

3.5 Internal organisation

Good governance at Helvetia is based on the relevant legal provisions (in particular, company law and stock market legislation) and on internal directives and regulations. The various functions defined by the Board of Directors and the allocation of duties are presented on page 20. The Board of Directors appoints the Chairman, Vice-Chairmen, Lead Director, chairpersons and members of the various committees, and the secretary of the Board of Directors.

Committees appointed by the Board of Directors

In order to use the broad business experience of its individual members in its decision-making processes and to meet its supervisory reporting obligations, the Board of Directors has formed special committees from among its own members to assist the Board and the Executive Management in its management and control activities: Strategy and Governance Committee, Nomination and Compensation Committee, Investment and Risk Committee, and Audit Committee. The duties and powers of these committees are described in detail in the by-laws, and the composition of each committee is presented on page 20.

a) The **Strategy and Governance Committee** prepares the resolutions to be made by the Board of Directors in the event of a change or redefinition of strategy, and deals with mergers, takeovers and disposals of companies or major portfolios, including the preparation of the required resolutions for the Board of Directors. It also secures good corporate governance within the Helvetia Group, assumes duties and powers that have been assigned to the Committee by the Board of Directors, deals with issues entrusted to it by the Chairman and CEO that are not reserved for the Board of Directors in accordance with the law, the articles of incorporation or the Group regulations, and discusses important and urgent issues. It convenes as often as business requires. In order to deal with specific issues, it may call on internal or external specialists to attend its meetings, which

is regularly the case. In 2006, the Strategy and Governance Committee held four meetings, all of which were attended by all its members. Most of these meetings lasted approximately half a day.

b) The **Nomination and Compensation Committee** prepares the resolutions to be dealt with by the Shareholders' Meeting regarding the appointment and dismissal of members of the Board of Directors. It puts forward proposals regarding personnel decisions to be taken by the Board of Directors, e.g. human resources planning, appointment, dismissal and method of remuneration of members of the Board of Directors, as well as salaries and remuneration of members of the Executive Management, and the nomination and dismissal of the heads and other members of the management boards of all national markets. It also specifies the level of fixed and variable salaries and remuneration of management personnel, periodically reviews the plans and measures aimed at supporting top management personnel, and approves the concept and strategy of employee benefit schemes in Switzerland (which are required to submit their annual accounts to the Committee) on the employer side. The Chairman and CEO cannot be a member, but may attend meetings in an advisory capacity at his own request. The Nomination and Compensation Committee convenes as often as business requires. In 2006, it held five meetings, all of which were attended by all its members, and most of these meetings lasted approximately half a day. In order to deal with specific issues, it may call on internal or external specialists to attend its meetings, which is regularly the case.

c) The **Investment and Risk Committee** formulates the investment concept, basic guidelines and investment strategy, proposes the strategic bandwidths of asset allocation, approves the investment strategy and supervises the investment activities of the Helvetia Group. It also makes investment decisions insofar as the Board of Directors has entrusted it with the corresponding powers, and supervises operational aspects of risk

management, including reporting. It convenes as often as business requires. The heads of the Finance and Investment divisions attend its meetings in an advisory capacity and were present at all meetings. In order to deal with specific issues, it may call on internal or external specialists to attend its meetings, which is regularly the case. In 2006, the Investment and Risk Committee held three meetings, all of which were attended by all members (except for one reported absence). Most of these meetings lasted approximately half a day.

d) The **Audit Committee** assists the Board of Directors in its duties within the scope of its overall supervision and financial control. It examines the accounts from the points of view of completeness, integrity and transparency, verifies their compliance with applicable accounting standards and external reporting requirements (including the Group's environmental report), and monitors the functional capacity and effectiveness of external and internal control systems, including risk management and compliance, insofar as tasks and powers have not been delegated to another executive body of the company. It also verifies the independence and quality of the audits by the internal and external auditors. It ensures optimal co-operation between internal and external control units, the Audit Committee, the Chairman and CEO, Lead Director and Executive Management. The Audit Committee approves the internal audit plan and assists with the compilation of external audit plans, examines the results of audits, comments on them for the attention of the Board of Directors, and may if necessary award special audit mandates. It also prepares the election of the statutory and Group auditors, and submits the necessary proposals to the Board of Directors. It verifies the consistency of auditing activities with any existing consulting mandates and examines the overall fee structure. The Chairman and CEO, CFO, representatives of the external auditors and the head of Internal Auditing attend its meetings in an advisory capacity. The attendance rate was one hundred per cent at closing meetings. In order to deal with

specific issues, it may call on internal or external specialists to attend its meetings, which is regularly the case. In 2005, the Audit Committee held three meetings, and one member was absent from one of them. The meeting at which the annual accounts are discussed usually lasts a full day, while other meetings normally last half a day.

Chairman of the Board and CEO

On 12.12.2003, the CEO of the Helvetia Group at that time, Erich Walser, was elected Chairman of the Board of Directors. He will continue exercising the joint function of Chairman of the Board and CEO of Helvetia Group until the function of CEO is taken over by Stefan Loacker on 1.9.2007. Since the executive management of both the Helvetia Group and Helvetia Switzerland had been restructured in 2003 and partially re-staffed, this temporary measure was regarded as the best solution in view of the special constellation of available senior management personnel. In keeping with the principles of good corporate governance and the provisions of the Swiss Code of Best Practice for Corporate Governance, the Board of Directors introduced a variety of adequate control mechanisms, including the function of Lead Director (see below).

Lead Director

(in function from 20.2.2004 to 31.8.2007)

The main duty of the Lead Director in relation to good governance is to secure balanced leadership and control at the highest level of management. If required due to circumstances relating to balanced leadership and control, he may convene a meeting of the Board of Directors, specify the agenda and chair the meeting, and decide on the attendance of the Chairman and CEO and other persons at the meeting. If required due to specific interests, control or supervisory duties, he may in his own right add specific items to the agenda of meetings of the Board of Directors, monitor communication, information flow and the co-ordination of activities within the Board of Directors and between the latter and the Executive Management, and may at any time inspect any company records

and accounts and request members of the Executive Management to provide him with any information he may deem necessary. He may at his own request attend and participate in decisions of meetings of Board Committees of which he himself is not a member.

Full Board of Directors

The Board of Directors convenes as often as business requires, though as a rule at least six times a year. Most of its half-day meetings are held at Group head office in St. Gallen, one is held at the head office of Helvetia Switzerland in Basel, while the executive seminar, which usually lasts two days, is generally held at the premises of a subsidiary abroad. A quorum is constituted if the majority of the members of the Board of Directors are present. Its resolutions are carried with a majority of the votes of the members in attendance. Resolutions may also be made by circular letter. As a rule, all members of the Board of Directors and (in an advisory capacity) all members of the Executive Management attend its meetings. In the year under review, six meetings were held, with the absence of one member of the Board of Directors at two meetings, while the attendance rate for members of the Executive Management was one hundred per cent. In order to deal with specific issues, it may call on specialists to attend its meetings, which is regularly the case. Members of the Board of Directors and all executive bodies are obliged to abstain if business is being dealt with that involves their own interests or the interests of associates (natural persons or legal entities).

3.6 Delineation of powers

The Board of Directors possesses the following powers based on the inalienable and non-transferable duties stipulated in the provisions of Swiss company law, the articles of incorporation and the internal by-laws of the Helvetia Group:

- Overall management of the Group,
- Definition of the organisational principles,
- Definition of the structure and principles of accounting, financial control and financial planning,





- Appointment and dismissal of members of the Group Executive Management,
- Overall supervision of the management of the Group's business activities,
- Preparation of the Annual Report,
- Preparation of the Shareholders' Meeting and the implementation of its resolutions,
- Approval of major legal transactions.

Appendix I of the by-laws (available in German only) contains a detailed description of the division of powers between the Board of Directors, the Board Committees and the Executive Management (www.helvetia.com/gruppe/governance.htm).

3.7 Information and control tools

The Board of Directors is kept up to date in a variety of ways concerning the activities of Helvetia, its course of business and trends on the market.

At its meetings, it requests information concerning:

- Content and outcome of matters dealt with by the various Board Committees, including all resolutions and proposals – all committees are required to submit copies of their minutes without delay,
- Course of business and market trends, to be provided by individual national managers and division heads, as well as main projects, to be provided by the persons responsible, as necessary,
- Status of compliance with budget and other annual objectives as well as strategic plan values for several years,
- Results and findings of external and internal auditors, which are discussed in the Audit Committee and recorded in its minutes,
- The most important risks, any changes to them and risk management measures that have been taken or are planned (also see pages 150 et seq.),
- Compliance with legal and regulatory provisions and internal regulations,
- Significant developments and events that could influence the interests of stakeholders, spontaneously on the occurrence of special events, otherwise in a detailed annual report and a condensed interim report.

Every month, the members of the Board of Directors receive key data concerning the course of business. As a rule, they also receive monthly information on current issues relating to governance as well as selected analyses and situation reports concerning market trends, market players and noteworthy occurrences. The regular reports submitted to the Board of Directors and its committees are listed in detail in Appendix II of the by-laws (available in German only) (www.helvetia.com/gruppe/governance.htm).

At every meeting, every member of the Board of Directors may ask other members and members of the Executive Management for information concerning all matters pertaining to the Group. Outside of meetings, every member of the Board of Directors may ask the Executive Management to provide information about the general course of business or the course of specific business cases, and/or may inspect any business documents as required.

The Board of Directors also has the Internal Audit unit at its disposal as an auditing and supervisory body that monitors compliance with legal and regulatory provisions, internal guidelines and directives systematically, purposefully and in a risk-oriented manner.

It also receives reports concerning the general development and specific activities of Helvetia in the areas of corporate governance, risk management, compliance and the environment.

4. Executive Management

See also pages 25 to 27.

4.1 Members of the Executive Management

The composition of the Executive Management is presented on pages 26 and 27. The Executive Management of the Helvetia Group has been presided over by Erich Walser (CEO and simultaneously Chairman of the Board of Directors) since the establishment of Helvetia Holding. On 1.9.2007, he will hand over the function of CEO to Stefan Loacker. Together with division heads at Group level and the management boards of the

national markets, he is responsible for the operational management of the Group.

For further details, please refer to pages 26 and 27.

4.2 Other activities and interests

See pages 26 and 27.

4.3 Management contracts

There are no management contracts.

5. Remuneration, employee share purchase plans, loans

5.1 Calculation procedures and content of remuneration and employee share purchase plans

The remuneration of members of the Board of Directors is determined annually by the overall Board on the basis of proposals submitted by the Nomination and Compensation Committee. The latter directly specifies the remuneration of members of the Executive Management. In 2005, an employee share purchase plan was introduced in Switzerland to allow employees to participate in the performance of Helvetia and thus to strengthen their personal ties to the company. Employees can now purchase registered shares of Helvetia at reduced prices. The number of available shares is specified by the Board of Directors, taking account of the financial results and the functions of the employees concerned. The purchase price is calculated on the basis of the average stock market price during the five trading days following the publication of the financial results. Participation in this scheme is voluntary. Purchased shares are blocked for a period of three years. The Board of Directors does not participate in this scheme.

- For the Board of Directors (i.e. for the Chairman, Vice-Chairmen, members of the Board, the Lead Director and the chairpersons of the Board Committees), annual fixed amounts are specified in the remuneration regulations, together with the procedure for determining variable remuneration, fees for attending meetings, and remuneration of expenses. The

variable remuneration which depends on the financial results and share performance takes the form of shares (without voting rights) at market value. These shares are blocked for a period of three years. The remuneration regulations also stipulate that the remuneration of the Chairman and CEO is to be calculated as follows: for his activities as Chairman of the Board of Directors, on the basis of the cited regulations; for his activities as CEO, on the basis of his employment contract. He is not entitled to receive variable Board of Directors remuneration, payments for attending meetings, or remuneration for his chairmanship of the Strategy and Governance Committee.

- In the event of departure from the Board of Directors, remuneration is paid on a pro rata basis up to the end of the month in which the person concerned leaves the Board of Directors. Departing members of the Executive Management are not entitled to severance payments.
- Members of the Executive Management receive a fixed salary as determined by the Nomination and Compensation Committee, plus a variable component. The amount of the variable component, which (depending on the financial results) is usually limited to 50% of the fixed component, is based on the financial results (30%) and the degree of achievement of the personal objectives agreed with the employee's immediate superior (20%). They can contain quantitative and/or qualitative components. The fixed and variable remuneration are specified by the Nomination and Compensation Committee: the first as a general figure, and the second for every individual employee. The Nomination and Compensation Committee can also award a special bonus if very good financial results are achieved. Departing members of the Executive Management are not entitled to severance payments. The Nomination and Compensation Committee, on which Erich Walser (Chairman and CEO) is not permitted to serve, also determines his salary and remuneration. Members of the Executive Management may voluntarily take part in the share purchase plan referred to

above to a specified maximum extent. If members of the Executive Management drive company cars, a corresponding deduction is made from the basic salary. Other employer's cash value benefits in kind are not paid.

5.2 Remuneration of members of executive bodies

In 2006, the total amount of remuneration paid to members of the Group Executive Management (including the Chairman and CEO) was as follows:

- Fixed component (including agreed expenses, child/education allowance and jubilee bonus) CHF 2,961,214,
- Variable component for 2006 CHF 1,633,013
- A special bonus amounting to 700 shares at the market price of CHF 528 on 27.3.2007, which are blocked for three years. This bonus was granted in view of the good performance in 2006.
- In addition, the company contributed a total amount of CHF 507,571 as contributions toward pension plans.

In the year under review, the eight serving (non-executive) members of the Board of Directors (excluding the Chairman and CEO, including M. Florio until the 2006 Shareholders' Meeting) received remuneration amounting to CHF 1,682,577 (gross) including payments for attending meetings, consisting of fixed remuneration of CHF 1,238,001 and variable remuneration for the year in the form of 842 shares at the market price of CHF 528 on 27.3.2007 (CHF 444,576). These shares are blocked for a period of three years.

Members of executive bodies are not entitled to severance pay upon termination of their term of office. In the year under review, Marguerite Florio (member of the Board of Directors) stepped down from her function and – in accordance with the policy referred to above – did not receive any form of severance compensation.

5.3 Remuneration of former members of executive bodies

In the year under review, a total of CHF 33,494 was paid to former members of executive bodies for supervisory board mandates and special duties.

5.4 Allocation of shares

Within the scope of the employee share purchase plan (cf. section 5.1), members of the Group Executive Management (including the Chairman and CEO) received a total of 925 shares in the year under review. See section 5.2 for details of share allocations in 2007 for the 2006 financial year.

No shares were allocated to related parties.

5.5 Shareholdings

As of the reporting date

- members of the Group Executive Management (including the Chairman and CEO) and persons close to them held a total of 4,464 shares
- while non-executive members of the Board of Directors and persons close to them held a total of 3,155 shares.

5.6 Options

The option programme was discontinued at the end of 2002. No further options are outstanding.

5.7 Additional fees and remuneration

In the year under review, no members of an executive body or persons close to them billed the company for fees or remuneration relating to the provision of additional services.

5.8 Loans to executive personnel

As of the reporting date, mortgages granted to five members of the Executive Management and secured by real estate liens amounted to CHF 4,339,023. In the year under review, interest rates for loans granted in the form of fixed or variable mortgages at normal conditions ranged from 2.05% to 4.65%.

No loans were granted to non-executive members of the Board of Directors or to associates of members of the Board of Directors or Executive Management.

5.9 Highest overall remuneration

In the year under review, the Chairman and CEO received remuneration amounting to CHF 250,000 for the function of Chairman of the Board of Directors. As CEO, he is entitled to the salary specified in his employment contract. In the year under review, he received a fixed and a variable component amounting to a total of CHF 940,138 as well as a special bonus as a result of the company's good performance in 2006. This bonus amounted to 200 shares at the market rate of CHF 528 on 27.3.2007, which are blocked for three years. In addition, the company contributed an amount of CHF 112,262 toward pension plans.

6. Co-determination rights of shareholders

Helvetia observes the principle of equal treatment of shareholders.

6.1 Voting right restrictions, proxy voting

Certain restrictions on voting rights that are identical to restrictions relating to the transferability of registered shares of Helvetia Holding AG are described in section 2 above.

The Board of Directors specifies the necessary regulations governing participation at the Shareholders' Meeting and the determination of voting rights. For representatives of executive bodies, independent voting rights and custody proxies (who do not necessarily have to be shareholders themselves), it may stipulate regulations that deviate from the restriction of proxy voting to 10% of the share capital.

At the 2006 Shareholders' Meeting, no shareholder with voting rights represented more than 10% of the voting rights, other than Patria Genossenschaft. No specific exceptions with respect to voting right restrictions or proxy voting were granted in the year under review.

Shareholders who possess voting rights but who do not attend the Shareholders' Meeting may assign their voting rights to a third party (who do

not necessarily have to be a shareholder) by means of a written power of attorney. However, he or she may only represent the voting rights of third parties if, together with his or her own shares, they do not exceed 10% of the total share capital. Here, too, shareholders who are connected to each other by way of capital or votes or by united management or in any other form count as one shareholder.

6.2 Statutory quorum

A quorum is constituted at the Shareholders' Meeting regardless of the number of shareholders in attendance and votes represented by proxy. Unless stipulated to the contrary by legal provisions or the articles of incorporation, the Shareholders' Meeting passes resolutions by an absolute majority of submitted votes. In addition to the resolutions cited in Art. 704 par. 1 of the Swiss Code of Obligations, a two-thirds majority of represented votes is also required for amendments to the articles of incorporation, the premature termination of office of more than one member of the Board of Directors, and the liquidation of the company.

6.3 Convening the Shareholders' Meeting

The Shareholders' Meeting is convened by the Board of Directors, or if necessary by the auditors. This right also applies to liquidators and representatives of creditors.

As a rule, the Ordinary Shareholders' Meeting is held in May, but at the latest within six months after the end of the financial year. Extraordinary Shareholders' Meetings are convened as necessary.

Shareholders with voting rights who together represent at least 10% of the share capital may request a Shareholders' Meeting in writing, stating the items on the agenda and the motions to be put forward. Every shareholder receives a personal invitation not later than 20 days before the meeting, including a detailed agenda, a brief explanation of the motions to be put forward, plus other explanations concerning significant occurrences in the year under review. The items on the agenda also have to be published in various Swiss newspapers and in the electronic media.

6.4 Addition of items to the agenda

Shareholders with voting rights who together represent shares to the nominal value of at least CHF 200,000 may request the addition of items to the agenda in writing no later than 45 days before the Shareholders' Meeting, and stating the motions to be put forward.

6.5 Registration of shares

The right to attend the Shareholders' Meeting (4.5.2007) and exercise voting rights is reserved for persons who were registered in the share register as shareholders with voting rights as of the cut-off date (20.4.2007) specified by the Board of Directors and announced in the Swiss Commercial Gazette and various other newspapers. In the period between the above cut-off date and a few days (1.5.2007) prior to the Shareholders' Meeting, shares will still be registered in the register but no additional invitations to the Shareholders' Meeting will be issued. The share register is only blocked for a few days (2.5.2007 to 10.5.2007). In exceptional cases, guest tickets may be issued, but holders of such tickets do not have any voting rights. Every share registered in the register entitles the holder to cast one vote.

7. Change in control, protection measures

7.1 Obligation to announce takeover bids

Art. 30 of the articles of incorporation states that the obligation to announce a takeover bid in accordance with Art. 32 of the Stock Market Act only applies if the acquisition of shares results in the possession of more than 40% of the voting rights.

7.2 Clauses regulating a change of control

Employment contracts of Helvetia do not contain any clauses regulating a change of control. The practice of 'golden parachutes' does not apply at Helvetia. Normal periods of notice apply, during which contractual salary and bonus arrangements remain applicable.

8. Auditors

8.1 Duration of mandate, term of office of auditor in charge

Since 2005, the accounts of Helvetia Holding AG and its consolidated subsidiaries have been examined by the independent auditors KPMG Ltd, Zurich, whose mandate has to be renewed every year by the Shareholders' Meeting.

For the 2006 financial year, the composition of the audit team was as follows:

- Hieronymus T. Dormann, Swiss Certified Accountant, partner, auditor in charge;
- Bill Schiller, Chartered Accountant, partner.

8.2 Audit fees

In the year under review, the fees charged by the auditors amounted to

- CHF 1,919,037.

8.3 Fees for additional services

- CHF 55,140.

These fees primarily concern services associated with the implementation of new software and tax consulting services.

8.4 Supervision and control of audit

External audit

The Audit Committee prepares the election of company and Group auditors, which, as a rule, is scheduled to rotate approximately every seven years. It supervises and assesses their activities, predominantly through the external auditors' reports on audit results, the reporting process, decisions (e.g. on IFRS issues) and statements in the local audits. Important findings are summarised in a management letter.

Internal audit

In addition to an external auditor, the Helvetia Group has an internal auditing section that reports directly to the Audit Committee and the Chairman of the Board of Directors and Chief Executive Officer. The contents of the employment contract of the Head of Internal Audit (e.g. appointment, dismissal, salary, bonus) must be approved by the

Chairman of the Audit Committee, and this enhances the degree of Internal Audit's independence.

External and Internal Audit

Representatives of the external auditors and the head of Internal Audit attend meetings of the Audit Committee in an advisory capacity. The minutes of the Audit Committee are submitted to all members of the Board of Directors and during meetings of the Board of Directors it reports on its activities. In the year under review, three meetings were held, whereby the external auditors attended the meetings on the annual and interim accounts. The third Audit Committee meeting was held outside Switzerland without the external auditors. Discussions between the external auditors, the Chairman of the Board of Directors and CEO, the Chairman of the Audit Committee and the Head of Finance (CFO) are held annually. Meetings or an exchange of experiences with specialists from areas such as accounting, risk management, law and compliance are held periodically. The External and Internal Audit teams are also frequently in contact regarding issues such as audit planning, audits and results as well as current problems.

alert, investor and media contacts as well as further publications, media releases, interviews, and important dates. Helvetia periodically meets with institutional investors and presents the published financial results at special road shows. These presentations may also be called up on our website.

Our Investor Relations team will be pleased to assist with any personal enquiries (contact details are indicated at the end of this report as well as on our homepage). Helvetia – Just ask us!

9. Information policy

As a rule, Helvetia provides its shareholders with information twice a year in the form of a detailed letter to shareholders included in the annual and interim reports. In its address to shareholders, it deals with a variety of current issues, including vision, strategy, market positioning and business policy. Copies of our sustainability report and the brief portrait of Helvetia Switzerland are available to anyone who may be interested. Furthermore, our website (www.helvetia.com) contains a great deal of current and archived information about the Helvetia Group, including strategy, organisation, Group structure, facts and figures, corporate governance, sustainability, the insurance markets in which Helvetia is involved, investor interests, e.g. rating, analysts' reports, annual and interim reports, share including share price trends, news

Spotlight I: Embedded value of the life insurance portfolio

For the first time, Helvetia has published the embedded value for its life insurance business in this Annual Report, thereby bringing even more transparency to its financial reporting.

Embedded value measures the shareholder value of the life insurance portfolio and is made up of

- the adjusted equity
- plus the value of the insurance portfolio
- less the solvency costs.

The adjusted equity includes the statutory equity and the shareholders' interest in the valuation reserves. The value of the insurance portfolio corresponds to the present value of all expected future statutory earnings after tax from the life insurance portfolio as of the reporting date. Solvency costs, i.e. the costs of solvency capital provided by the shareholder, are deducted from the embedded value.

In order to calculate embedded value, different assumptions based on reality are made, notably concerning return on capital, costs, claims experience and policyholder participation in profit. The key assumptions are listed in a table on the following page. The embedded value depends on these assumptions, while the dependency is shown in the table 'Sensitivities'.

Since the embedded value depends, as mentioned, on many assumptions and there are no general standards regarding the calculation methods, the published embedded values of different companies can only be compared up to a point.

The embedded value that Helvetia has published here was calculated in accordance with the traditional method. In contrast, the European embedded value incorporates other variables, such as guarantees and options included in the business. Both embedded value variants are closely connected to shareholder value and are useful to company management. Future new business is not taken into consideration in either of the variants.

Deloitte & Touche LLP has examined the calculation method chosen by Helvetia Group and the assumptions applied to the calculation of the embedded value as at 31.12.2006. Deloitte considers the calculation method used by Helvetia Group and the assumptions applied to be appropriate and reasonable and the disclosures on embedded value shown below and based on the selected calculation method and corresponding assumptions to be in proper form. For the purpose of this report, Deloitte audited some of the data provided by Helvetia on a test basis, relying, however, on the financial information published in the financial report.

The embedded value was determined in full for all Helvetia Group companies that handle life business. In addition to the life business in Switzerland, the life business in the EU countries Germany, Austria, Spain and Italy was also considered.

At the end of 2006, the embedded value of Helvetia Group amounted to CHF 1,881.7 million, which represents an increase of CHF 208.1 million or 12.4% year-on-year. This sizeable increase is mostly due to very favourable developments in investment income and the claims experience. The value of underwritten new business also rose, in particular influenced by the higher share of equity-protecting products and increased yield from new funds in the area of interest-bearing securities. This is, however, offset by higher customer participation in profit.

Embedded value after tax on 31.12. in CHF million

	2006	2005
Switzerland	1 519.4	1 373.1
of which value of insurance portfolio	801.0	753.5
of which adjusted equity	1 089.0	986.5
of which solvency costs	-370.6	-366.9
EU	362.3	300.5
of which value of insurance portfolio	225.5	186.7
of which adjusted equity	224.8	198.6
of which solvency costs	-88.0	-84.8
Total	1 881.7	1 673.6
of which value of insurance portfolio	1 026.5	940.2
of which adjusted equity	1 313.8	1 185.1
of which solvency costs	-458.6	-451.7

Assumptions

	2006	2005
Switzerland		
Risk discount rate	7.0%	7.0%
Yield on bonds	2.8%	2.3% – 2.9%
Yield on equities	6.5%	6.5%
Yield on real estate	4.5%	4.5%
EU		
Risk discount rate	8.0%	8.0%
Yield on bonds	4.0% – 4.2%	3.7% – 4.1%
Yield on equities	7.5%	7.5%
Yield on real estate	5.1%	5.2%

Development of embedded value after tax in CHF million

	2006
Embedded value as at 1 January	1 673.6
Operating profit from insurance portfolio and adjusted equity	138.2
Value of new business 2006	21.7
Economic changes, including changes to unrealised gains and losses on investments (equities and real estate)	64.9
Dividends and movement of capital	-27.3
Foreign currency translation differences	10.6
Embedded value on 31 December	1 881.7

Sensitivities (%)

	2006
+1% change to risk discount rate	-7.1%
-1% change to risk discount rate	+8.7%
-10% change to fair value of equities	-3.1%
-10% change to fair value of real estate	-8.3%
+1% change to new money rate	+7.3%
-1% change to new money rate	-9.6%

New business

	2006	2005
Switzerland		
Value of new business in CHF million	17.1	13.8
Annual premium equivalent (APE) in CHF million	117.0	129.9
Value of new business (APE) in %	14.6%	10.6%
Present value of new business premiums (PVNBP) in CHF million	1 183.0	1 286.2
Value of new business (PVNBP) in %	1.4%	1.1%
EU		
Value of new business in CHF million	4.6	6.1
Annual premium equivalent (APE) in CHF million	62.1	62.3
Value of new business (APE) in %	7.4%	9.8%
Present value of new business premiums (PVNBP) in CHF million	441.9	465.1
Value of new business (PVNBP) in %	1.0%	1.3%
Total		
Value of new business in CHF million	21.7	19.9
Annual premium equivalent (APE) in CHF million	179.1	192.2
Value of new business (APE) in %	12.1%	10.4%
Present value of new business premiums (PVNBP) in CHF million	1 624.9	1 751.3
Value of new business (PVNBP) in %	1.3%	1.1%

Annual premium equivalent (APE): 100% annual new business premium + 10% single premium
 PVNBP: present value of new business premiums

Spotlight II: Standard & Poor's rating 'A–' with stable outlook

In 2006, Helvetia was assessed for the first time on financial strength and counterparty credit risk in an interactive rating process by the leading international rating agency Standard & Poor's.

As a result,

- Helvetia Schweizerische Versicherungs-
gesellschaft AG
 - and
 - Helvetia Schweizerische Lebensversicherungs-
gesellschaft AG
- were given an 'A–' rating with stable outlook.

This quality mark pays tribute to the excellent shape in which Helvetia finds itself, and reflects

- the strong equity base,
- the outstanding operational earning power over the last few years, and
- the good competitive position in Switzerland and abroad (one of the leaders in Switzerland; a well-diversified niche strategy in the other European countries).

The 'A–' quality mark considerably improved our future market prospects in numerous product and customer segments.



Human resources management

“Our activities revolve around employees and managers.” The Human Resources (HR) Strategy to 2010 of the Helvetia Group has set the following specific objectives:

- Employees throughout the group shall have the unified brand values of trust, dynamism, and enthusiasm firmly fixed in their minds, attitudes and behaviours and practise them in everyday business operations.
- Thanks to optimised staff recruiting and overall staff care and development, Helvetia shall always have employees, skilled staff and managers in sufficient numbers and with sufficient skills in all business units.
- All business units shall have professional HR management and HR controlling units.
- The balanced diversity of staff in respect of age and gender shall be promoted and shall encourage innovation.
- The HR structures and management shall be state of the art.

The HR managers at Helvetia are guided in their actions by a standard HR process model that sets down rules on their powers and responsibilities. This basic approach to HR serves as a guideline for HR management in the various business units. In operational terms, HR Management helps the company to optimise its deployment of human resources and skills. Staff with HR responsibilities have confidential relationships with managers as well as employees and assist both sides as consultants, partners or service providers, depending on the situation. A further aim is to continue developing the HR process model through constant improvement as part of quality management.

Management development firmly reinstated

The Advanced Leadership Programme successfully implemented in recent years for Executive Management members and senior executives and for key staff for Group functions or from the business units will be further developed. These efforts will pursue the objectives already in place, namely to promote unified strategic management and a mutual exchange of knowledge and experience,

and to strengthen personal performance capabilities and the Group network. Unified Group-wide HR and succession planning will maintain the practice of filling open positions with in-house staff at least at its current high level: presently, two thirds of all vacancies in the first two levels of management.

The management development team has joined with two research institutes at the University of St. Gallen to organise new strategy modules in the International Executive Programme (IEP). The focus is on achieving profitable growth and on strengthening the Helvetia brand and values. In the 30 four-day IEP modules staged thus far, seven as follow-up seminars, nearly 150 members of Executive Management and senior executives from the various business units applied strategic models of thinking and deepened their knowledge of issues relevant to the insurance market by examining practical examples. The General Management Navigator (GMN) is a tried-and-tested method of strategic development and has given rise to successful strategic initiatives. Most managers also gave top ratings to the extensive transfer of knowledge at these events, to their concrete practical benefits and to the management network these events helped to forge. A good third of all participants said their expectations were exceeded.

Continuing training tailored to national needs

The business units are responsible for the continuing development of management and staff. An array of different continuing training activities reflects the pertinent market situation. In German-speaking markets, Helvetia makes a big contribution to the occupational future of young people by providing over 200 trainee positions. Along with numerous specialised training events staged internally and externally, special priority is given to management development to meet specific national needs. Helvetia Austria launched a management development programme designed and implemented in cooperation with the Group's Management Development. About 90 managers and skilled staff attended a further module covering key

Number of employees

	CH	AT	DE	FR	IT	ES	Total
As at 31.12.2005	2 236	636	812	86	284	565	4 619
Departures	212	74	44	7	3	62	402
Entries	215	72	21	7	19	44	378
As at 31.12.2006	2 239	634	789	86	300	547	4 595

management instruments such as management by objectives, situational management, team-building and personal work organisation. In Switzerland, a new Helvetia Leadership Programme is being put together with an eye to supporting managers in implementing the new corporate strategy and goals.

Mission statement featuring three new core values

At the launch of the new single brand strategy for the entire Group and the redesigned Helvetia logo, the mission statement was revised and a set of values selected. The three pivotal core values are trust, dynamism and enthusiasm and apply to all Group employees. On the first day of the new logo, all employees in Switzerland discussed and found out how these values were to apply at the workplace. Helvetia Austria used the logo change-over as an opportunity for a comprehensive make-over of its corporate culture. In the course of the project, all employees gathered in Vienna shortly before the name change for a joint event entitled 'Welcome Helvetia'. There they found out more about the company's repositioning and explored in small group discussions the possible contributions they might make to the process. As the result of a satisfaction survey, a joint 'Helvetia Day' attended by all employees was staged in France as the final event to activities and meetings. Helvetia Italy launched a campaign called 'Conosciamoci tutti' to strengthen communications and cooperation and staged its first ever New Staff Day, where the focus was on the Helvetia brand and the values associated with it.

Slight decrease in staff numbers

The total number of employees in our Group in the various national markets declined marginally against the previous year. Staff numbers in Germany and Spain were reduced slightly in the course of redesigning business processes or as a result of various organisational adjustments, whereas the total number of employees in Italy was increased somewhat at year-end in response to business developments. This partially explains the low rate for termination of employment in our Italian unit (1.0%) while the slight reduction in personnel in Spain contributed to the higher rate for termination of employment (11.3%). The number of employees remained more or less constant in all other business units, thanks in part to improvements made during this same period in business processes.

With its specially designed and farsighted generational policy, Helvetia is countering demographic changes and positioning itself as an appealing employer for young and old. The company actively promotes respect and equality for employees of different generations. No matter what the gender or age, the company practices and supports equality in what it demands of employees and in the effort it puts into developing them.

Women constitute about one-third of total staff at all business units except in France (55%) and Italy (45%).

To increase its rate of success in recruiting customer advisors, Helvetia Austria adopted 'AC online', an electronic interview instrument successfully used in Switzerland, and adapted it to its needs. The system integrates the criteria of its own successful customer advisors and the latest knowledge about candidates' potential success in sales.



The German operations recently began using a similar electronic tool for recruiting.

Health promotion at the workplace

A comparison of the number of days of illness-related absences per employee showed a marked difference between Spain (3.6) and Austria (9.3). This figure ranges from 6 to 7 days for other business units. Illness or accident is the main reason for absences in all countries. In Switzerland, HR Management launched a health promotion programme called 'Fit+Wohl' ('Fitness+Well-being') several years ago. It covers, inter alia, ergonomic tips, relaxation exercises, training units, diet information and active health programmes for various target groups. HR staff have also drawn up a checklist on how employees returning to their jobs after a prolonged absence due to illness can be helped more effectively to reintegrate into the workplace. In Germany, Helvetia stages company sports activities as well as regular health campaigns. At Helvetia Austria, the works doctor increasingly examines health issues and advises the management on how employees can cope with stress on the job. In Italy, Helvetia employees can have

a free health check. With the new laws in Italy and Spain, employees are no longer permitted to smoke on the business premises in those countries. Finally, every larger company in Spain must train a manager in all issues relating to work risks.

A special health project is currently running for employees 40 and older in Switzerland. One hundred and seventy employees are involved on a volunteer basis in this joint project with the University of Karlsruhe.

Consistently high level of employee satisfaction

Helvetia emerged once again in 2006 as the best insurance company in the CASH Employer Award. Among the 70 leading employers in Switzerland that participated, Helvetia ranked number 21. HR also had this same research institute conduct an employee survey on all staff working in Switzerland. The main focus was on employee identification with and level of dedication to the company. Helvetia garnered 82 points, a top score compared with the rest of the market. The participation rate was extremely high, too, at 76%. The company received high marks for management conduct, the employee goal agreement process, job content and customer-oriented conduct. Surveys of employees in Germany and France yielded similarly high satisfaction figures. For instance, four out of five Helvetia employees in Germany said they would apply to Helvetia if they had to do it all over again. They expressed particular satisfaction about their employment and said they were highly confident of Helvetia's business policy and its ability to succeed in the future. Finally, a number of steps were taken in Spain and Italy to further increase employee satisfaction and personal identification with the company.



Group results

In 2006, we increased our profit by 40.4% year-on-year, achieving our best ever result of CHF 423.8 million. Equity rose in the reporting period by 10.4% to CHF 2,738.4 million. The equity ratio increased by 2.8 percentage points to an outstanding 16.2%. On the premium front, we stood out from our competitors in many areas

and were able to gain further market shares in 2006. Direct non-life business deserves particular mention. This segment saw a significant premium increase of 3.5% in the past year compared with 2005, while the gross combined ratio improved 2 full percentage points to 93.2%.

Further gains of market shares in several markets

	Consolidated gross premiums (CHF million)		Growth in CHF (%)	
	2006	2005	2006	2005
Direct business total	5 062.5	4 947.6	2.3%	6.5%
– non-life	2 234.6	2 159.5	3.5%	–0.1%
– life	2 827.9	2 788.1	1.4%	12.1%
Assumed reinsurance total	193.2	229.2	–15.7%	6.4%
Helvetia Group	5 255.7	5 176.8	1.5%	6.5%

All in all, Helvetia Group recorded growth of 1.5% in 2006, 5 percentage points down on 2005 (6.5%). This is partly due to dramatic premium erosion in assumed reinsurance, where the focus falls on income rather than volume.

In total direct business, the 2.3% increase in 2006 was also substantially lower than in the previous year (6.5%), although this can be attributed to the very distinct slowdown in growth in the life segment. On the other hand, non-life business registered a considerable increase of 3.5% on the previous year. This is very pleasing, considering that motor vehicle insurance continued to suffer price erosion during the past year in most European countries. The greatest growth in direct non-life business in 2006 was seen in Italy (4.4% in local currency) and Switzerland (4.2%), followed by Spain at 3.2% in local currency. We were able to significantly increase our shares of the market in both Italy and Switzerland. In the other markets, development was more or less in line with the trend in each country and we maintained our positions.

In terms of business lines, property insurance posted growth of 3.5% in 2006 after adjusting for foreign currency differences, followed by liability insurance with an increase of 2.9%.

In the direct life business in 2006, we again achieved double-digit increases of 12.7% and 11.2% in Germany and Spain respectively. On the other hand, our most important market, Switzerland, reported a marked slowdown in growth compared to the previous year (8.8%) due to the capital market environment and relatively low interest rates. However, at +2.0%, we outperformed the sector average (–2%) and were able to increase our market share. In the Italian life business, we identified a need for some consolidation in the reporting year after the enormous growth recorded in the past few years (2004: 42.5%, 2005: 67.5%). For considerations of income, we were particularly cautious when concluding policies with high single premiums, which ultimately led to a fall in premiums of around 24%. All in all, the growth of the Group's total direct life business slowed dramatically to 1.4% (previous year: 12.1%) due to the abovementioned developments in Italy and Switzerland.

In terms of business lines, capital-protecting unit-linked products saw the largest increase by far (14.5%) after adjusting for foreign currency differences. Group insurance grew by 3.1% after adjusting for exchange rate effects.

Last year saw the Helvetia Group increase its net profit after taxes by CHF 121.9 million or 40.4% to CHF 423.8 million – by far our best ever result. Once again, the largest contribution to profits came from the non-life business, which posted a pre-tax profit of CHF 321.6 million in 2006, a year-on-year improvement of 22.5%. Total life business shot up by 32.0% in the reporting year to CHF 184.6 million. In the segment 'Other', pre-tax profit more than tripled compared to 2005.

Best ever result (CHF million)

	2006	2005	%
Pre-tax profit, total	562.2	420.2	33.8%
– non-life	321.6	262.5	22.5%
– life	184.6	139.9	32.0%
– other	56.0	17.8	214.6%
Taxes	138.4	118.3	17.0%
Profit for period (after taxes)	423.8	301.9	40.4%

All business units once again generated profits in 2006. Switzerland contributed CHF 289.0 million (or 51%) to the total pre-tax profit of CHF 562.2 million. Excellent development in non-life business gave a year-on-year improvement of CHF 68.6 million or 31.1%. In Spain, the pre-tax profit shot up to CHF 110.1 million, up on 2005 by 76.1%. This dramatic increase is not only due to operational progress, but also to various special effects. The revaluation of the real estate portfolio had a particularly positive impact. In addition, profit in the previous year suffered because of the considerable reinforcement of technical reserves for the life business. In Germany, the result improved by 62.0% to CHF 51.4 million in the past year, whereas in Italy, the 2006 result slipped just 1.5% below the very good level of the previous year. While non-life business continued to impress, our expectations of the life business were not com-

Pre-tax profit (CHF million)

	2006	2005	%
Switzerland	289.0	220.4	31.1%
Germany	51.4	31.7	62.0%
Italy	27.7	28.1	-1.5%
Spain	110.1	62.6	76.1%
Other total ¹	84.0	77.4	8.6%
Helvetia Group	562.2	420.2	33.8%

¹ Austria, France and assumed reinsurance

pletely met. In the segment 'Other', both assumed reinsurance and France and Austria delivered double-digit CHF million results. This represents a dramatic year-on-year increase for assumed reinsurance. Austria and France dropped slightly below the previous year due to the negative claims experience.

Improved equity ratio

Equity increased in the reporting period by CHF 257.6 million or 10.4% to CHF 2,738.4 million, mostly due to the record results. The equity ratio rose by 2.8 percentage points to an outstanding 16.2%. Total investments grew in 2006 by 4.1% to CHF 28.9 billion. At 3.1%, investment performance fell short of the excellent performance of the previous year (5.5%): while the non-life financial result improved, the life result fell compared to the extraordinarily good result of the previous year.

The net technical reserves increased by 4.7% to CHF 25.1 billion and the funding ratio improved by 5.5 percentage points to 154.6%.

Profit contribution from non-life remains high

In non-life, profit before tax in the reporting year improved against 2005 by a further 22.5% to CHF 321.6 million. Once again, all countries delivered positive results in the double-digit CHF million range. In Switzerland, a significant profit increase was posted thanks to the very favourable claims experience. Assumed reinsurance shone, as did Spain, where the already excellent result of the previous year was again surpassed in 2006, also under the influence of the special effects mentioned above. In the other areas, the pre-tax profit slipped compared to 2005, particularly due to the negative claims experience. In Germany, two major hail storms and several fires had a negative effect. In Italy and France, claims ratios were also slightly higher than the extraordinarily good ratios for the previous year. Austria suffered considerably from the consequences of heavy winter snowfalls.

Helvetia's gross combined ratio improved in 2006 by 2 full percentage points to 93.2%, mostly thanks to the dramatic improvement in the claims ratio (3.1 percentage points to 61.2%). On the other hand, the cost ratio climbed to 32.0%, partly due to the costs incurred with the implementation of the new unified market image. At 94.1%, the net combined ratio was practically on a par with the previous year's outstanding ratio (94.0%). In contrast to the development of the gross ratio, the net ratio saw only a marginal increase, because the reinsurance balance burdened the accounts by approximately CHF 36 million in 2006, while in the previous year it was in our favour. Nevertheless, reinsurance costs remained at a pleasingly low level.

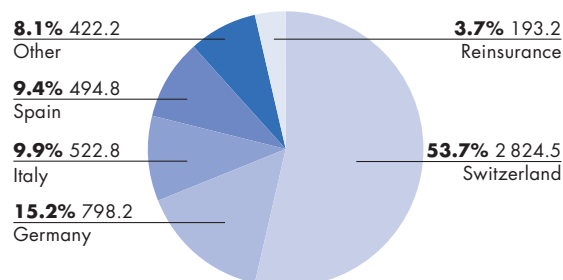
Combined ratio gross	Helvetia Group	CH	DE	IT	ES
2006	93.2%	82.9%	95.2%	97.0%	89.4%
2005	95.2%	105.7%	90.1%	94.6%	87.2%
2004	95.5%	106.0%	88.5%	96.9%	95.9%

Distinctive increase in life profit

Total life earnings increased in the year under review by 32.0% to CHF 184.6 million, in particular due to a clear improvement in the risk experience for death and disability. Falling gains/losses on investments were absorbed by correspondingly reduced expenses for future profit participation. The substantial reinforcement of provisions for future profit participation made in the previous year in the wake of the excellent investment performance allows the seamless continuation of the budgeted distributions.

Switzerland accounted for the major share of total pre-tax profit in the life segment. Spain and Germany also delivered results in the double-digit CHF million range in 2006.

Gross premiums written 2006 in CHF million



Technical account**Gross** in CHF million

	Non-life		Life	
	2006	2005	2006	2005
Gross premiums written	2 423.3	2 386.7	2 832.4	2 790.2
Change in unearned premiums	-27.7	1.8	-1.1	3.3
Earned premiums	2 395.6	2 388.5	2 831.3	2 793.5
Insurance benefits paid	-1 412.2	-1 380.6	-2 219.9	-2 224.1
Change in loss reserves/actuarial reserves	-53.6	-156.0	-749.1	-876.1
Insurance benefits/cost of investment contracts	-1 465.8	-1 536.6	-2 969.0	-3 100.2
Cost of policyholders' dividend	-2.7	-3.0	-164.0	-288.9
Interest insurance business	0.1	0.1	-33.8	-33.8
Technical costs	-764.0	-734.3	-284.7	-274.5
Total actuarial profit/loss (gross)	163.2	114.7	-620.2	-903.9

Ceded to reinsurers in CHF million

	Non-life		Life	
	2006	2005	2006	2005
Earned premiums	-226.2	-269.9	-41.5	-36.4
Insurance benefits	135.0	223.8	25.8	20.7
Technical costs	55.6	57.8	6.7	7.8
Total actuarial profit/loss of ceded business	-35.6	11.7	-9.0	-7.9

Net in CHF million

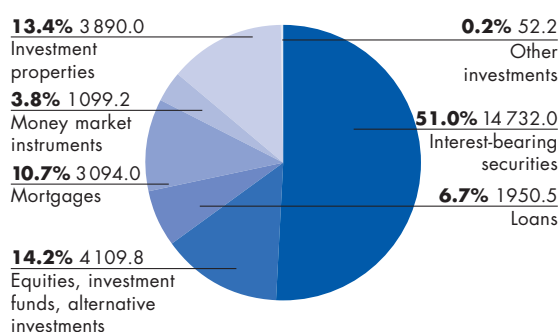
	Non-life		Life	
	2006	2005	2006	2005
Earned premiums	2 169.4	2 118.6	2 789.8	2 757.1
Insurance benefits/cost of investment contracts	-1 330.8	-1 312.8	-2 943.2	-3 079.5
Cost of policyholders' dividend	-2.7	-3.0	-164.0	-288.9
Interest insurance business	0.1	0.1	-33.8	-33.8
Technical costs	-708.4	-676.5	-278.0	-266.7
Total net actuarial profit	127.6	126.4	-629.2	-911.8
Current income on investments	139.6	136.3	714.3	689.4
Gains and losses on investments	70.4	53.6	135.6	410.8
Other income and expenses	-16.0	-53.8	-36.1	-48.5
Profit of non-technical account	194.0	136.1	813.8	1 051.7
Pre-tax profit	321.6	262.5	184.6	139.9

Investment business

The investment policy was thoroughly reviewed at the same time as the business strategy with the aim of earning sustainably attractive and secure returns for our customers and shareholders. The strategy should protect capital, without restricting future income potential. Investment risks are only taken on board if compensation in the form of higher income can be expected. In our judgement, this is largely the case with our mix of real estate, equities and alternative investments. On the other hand, additional income cannot be earned systematically with mismatch risks, which arise from the differences between the maturities of liabilities and assets. In line with our risk capacity, equity commitments should therefore be expanded gradually, while the maturities mismatch between the interest-bearing assets and interest-sensitive liabilities from the insurance business should be minimised step by step. Currency risks should be reduced further, while the portfolio weighting of real estate and mortgages should be maintained.

The first steps in this direction were taken during the past financial year. In particular, equities, investment funds and alternative investments were increased slightly from 13.3% to 14.2%, while bonds were kept at the same level as in the previous year (51%), also due to falling interest rates. Rising interest rates in the first half of the year were used to increase the maturities of the interest-bearing instruments. The maturities mismatch with liabilities was reduced significantly. The share of mortgages and real estate dropped slightly compared to the previous year by 0.2 and 0.6 percentage points respectively. In total, asset volume increased year-on-year by CHF 1,144.5 million (4.1%) to CHF 28,927.7 million.

Investments 2006 in CHF million



Equities perform well again

The continued and broadly supported economic upturn coupled with pleasing corporate profits pushed equity markets to new heights, despite slight increases in interest rates. With a few exceptions, performance reached double digits. On the other hand, bond markets tended to be weak due to the slight increase in interest rates, which was to be expected, and encumbered the performance of the investment portfolio. The resulting performance of 3.1% was well below the previous year's performance of 5.5%.

Interest and dividend income, which is of particular significance to the insurance business, increased by almost CHF 30 million (4.2%) on 2005, while direct returns registered 3.1%, slightly less than the previous year (3.2%).

Comprehensive risk management

In order to protect the balance sheet and secure income targets, comprehensive hedging measures were required again. These measures focused on currency and equity positions. The euro and dollar commitments were heavily hedged during the entire year, while the hedging of equities could be relaxed in line with the progressively positive performance of the equity markets. Interest-bearing instruments were not hedged. The good quality of the portfolio is highlighted by the number of securities with at least an 'A' rating. Less than 1% of all rated securities have a lower rating. The quality of the mortgage portfolio is also very good: compared to the total portfolio value of CHF 3.1 billion, capital and interest rate losses are practically negligible. The marketability of the real estate portfolio is maintained through continuous investment. The vacancy rate fluctuates between 2% and 3%.

Hedging costs totalled CHF 63 million. Currency hedges became considerably more expensive due to interest differences in short maturities, accounting for CHF 48 million or 76% of total costs. The remaining costs can be attributed to the equity investments. These costs are offset by extraordinary gains of CHF 291 million.

Gains and losses on investments (net) in CHF million

	2006	2005
Interest-bearing securities	63.4	113.9
Shares	228.6	164.0
Investment funds	71.8	139.4
Alternative investments	29.6	107.1
Loans	0.4	3.1
Mortgages	0.1	0.2
Derivative financial instruments	-102.9	-22.0
Other investments	2.6	0.8
Impairment of financial assets of the period	-4.6	-3.3
Reversal of impairment losses on financial assets	1.9	3.7
Total gains and losses on investments (net)	290.9	506.9

Outlook

Although the growth curve will probably flatten somewhat in comparison to the dynamic development in the past year, we are expecting the economic climate to remain favourable. Despite current high levels, equity markets do not seem to be overvalued. Interest rates will probably rise moderately. In line with our investment policy, we want to use this situation to align the maturity of our bond portfolio with the maturity of liabilities and to moderately expand the equity portfolio.

Interest and dividend income in CHF million

	2006	2005
Interest on interest-bearing securities	453.3	430.3
Dividends on shares, unit certificates and alternative investments	56.0	52.9
Loans	176.0	177.1
Money market instruments	19.0	15.4
Other	0.1	0.0
Interest and dividend income	704.4	675.7



Switzerland

The Swiss economy benefited last year from the still robust economic upswing that also improved consumer sentiment. The gross domestic product is estimated to have grown by 2.7% in 2006. The good economic climate significantly reduced the number of unemployed.

Insurance market

After the record-setting bad weather of the year before, the entire industry profited in 2006 from a year with less claims. The financial markets were shaped by continuing low interest rates and booming share prices. For the non-life market, the Swiss Insurance Association expects premium growth of 1.8% in 2006 (based on projections) and a decline of 2% in the same period for the volume of premiums in individual and group life business. The debate continues on the desired features of occupational benefits to employees on retirement. The Swiss Federal Council was heavily criticised by some when it released its statement on reducing the pension conversion rate to 6.4% effective 1.1.2011. The revision of legislation on storm and tempest claims following the worst weather in a century in 2005 led to corresponding adaptations in obligatory premiums and deductibles that were implemented by the majority of insurance companies in 2006.

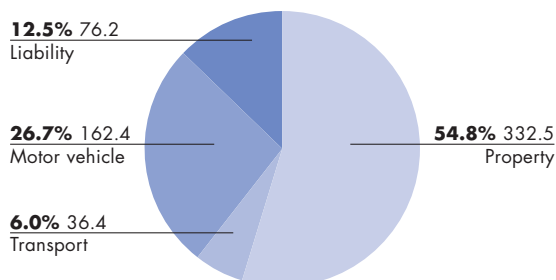
Excellent result and improved market position

Helvetia Switzerland concentrated on the successful implementation of its 'Results before growth' strategy for 2004 to 2006. In retrospect, all the goals that were set in 2003 have been achieved. These goals involved restoring profitability in life business, pushing for quality and service orientation, and engaging in strict cost management. In addition, we increased our market shares in both the life and non-life segments.

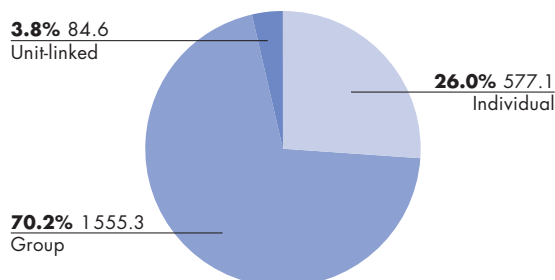
Over the past year, we also changed our brand name from Helvetia Patria to Helvetia in order to differentiate ourselves more strongly in insurance market communication. This includes the company's activities as a skiing sponsor.

Earnings before tax improved in 2006 against the year before by about 31%, rising to a superb CHF 289.0 million. The life result was just slightly below the excellent performance posted the year before. Net non-life profit surged upward by nearly 80%. This increase can be attributed mostly to the company's solid position in lucrative segments and to above-average growth of 4.8% in property insurance.

Gross premiums in 2006 from direct non-life business in Switzerland in CHF million



Gross premiums in 2006 from direct life business in Switzerland in CHF million



Gross premiums from direct business in Switzerland in CHF million

	2006	2005	Change
Non-life			
Property	332.5	317.3	4.8%
Transport	36.4	37.9	-3.9%
Motor vehicle	162.4	154.6	5.0%
Liability	76.2	73.1	4.3%
Total	607.5	582.9	4.2%
Life			
Individual	577.1	556.0	3.8%
Group	1 555.3	1 524.6	2.0%
Unit-linked	84.6	93.8	-9.8%
Total	2 217.0	2 174.4	2.0%

Encouraging trend for life insurance

The year under review saw a turnaround to growth in the individual life business following a decline in premiums in 2005. Premium income increased in 2006, contrary to the negative trend in the market. In this regard, we profited particularly from the effectiveness of our own sales force and from innovative products. For example, we launched a single-premium SMI-linked life insurance product, which was heavily oversubscribed. The company's full range of fund products was also well-accepted in the market. In regular-premium life insurance, one out of every four new policies is now unit-linked. The sales trend for straight fund investments was quite encouraging, as was the resounding approval given to our new product providing disability and death cover.

In group life business, we gained market share against fierce competition by taking full advantage of our excellent reputation, our own sales power and our ready access to brokers as well as our strategic partnership with the Cantonal Banks. Regular premiums grew by 4.3% in 2006. One innovative product we launched was BVG Invest, featuring attractive investment vehicles for yield-oriented customers wishing to bear the investor risk themselves.

The excellent result in life business can be traced in part to a friendly capital market but is mostly the result of the company's yield-oriented product strategy, a selective subscription policy and another year of higher results for disability insurance.

Excellent non-life results

The performance in the non-life segment was encouraging all around in 2006. Premiums grew by a total of 4.2%, while property and motor vehicle insurance rose by 4.8% and 5%, respectively. The company thus substantially improved its market position in both the private and the corporate customer segments.

Private customer business was dominated in the year under review by the conversion to the new range of house products. Customers benefit from modern cover concepts designed to meet their specific needs and by new insurance components covering assistance and legal expenses. Our compelling expertise in product design was demonstrated in other areas, too. In cooperation with Raiffeisen, Helvetia developed a unique product concept for building and construction insurance policies and integrated it into the Raiffeisen advisors' mortgage consulting process. This innovation was impartially singled out for the 2006 innovation award of Schweizer Assekuranz.

In keeping with above-average growth and a lack of large claims, our combined ratio declined to the outstanding level of 82.9%, gross (88.9%, net).

Awards for excellent service quality

We are convinced that a high standard of quality is indispensable for differentiation in the market. Our successful efforts to achieve quality and service also garnered praise from impartial quarters. The Esprix Foundation selected Helvetia as a finalist for the Swiss Quality Award in recognition of its many efforts to promote quality orientation. Comparis, a company that issues product comparisons, confirmed the quality of our services in a survey on the handling of motor vehicle claims. The high customer satisfaction ratings show that our customers also recognise and appreciate our efforts.

Strategy 2010: first in growth, profitability and customer loyalty

At the start of 2007, we began a new strategy period with the launch of our 'Strategy 2010'. The vision of being 'First in growth, profitability and customer loyalty' expresses the ambitious goals we have set for Switzerland. Based on the Group strategy, we have defined concrete strategic thrusts and value programmes for this vision.

Efficient management of the business portfolio

We employ capital efficiently and continue to focus on lucrative segments. Private customers and SMEs are the central customer groups. The goal is to expand property insurance in the property and casualty segment and to introduce products with minimum impact on equity and corresponding innovative force in the life segment.

Stepping up efforts to achieve profitable growth

We strive to achieve above-average growth. The thrust of these sustained efforts are two-prong: to be the leader in terms of sales strength and access to customers, and to apply best practices in product innovation.

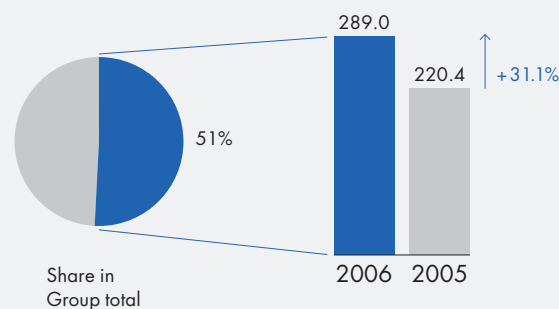
- To be the leader in terms of sales strength and access to customers: We have a unique distribution network. In addition to the full market coverage of our sales force and our market access through brokers, we rely in particular on our cooperation with the Raiffeisen Group in the private customer business. In the basic occupational benefits business, our decades of sales cooperation with the Cantonal Banks open up particularly attractive customer segments. Above and beyond that, we continuously establish new distribution partnerships and channels for defined products and implement programmes for specific customer groups, for example customers aged 50+.
- To apply best practices in product innovation: Our strategic product programmes are based on outstanding expertise in innovation in our three market segments: private pensions, com-

pany pension plans, and property and casualty insurance. These programmes take account of the fact that cover concepts must keep up with constantly changing customer needs.

Improved actuarial performance

Finally, we seek to improve our actuarial results. To this end, we are taking concrete actions to move toward greater efficiency, shorter processing times and better service quality. In further developing our business model, we emphasise product simplification and the optimisation of business processes, the continued development of e-business solutions and continuous improvements in the quality and service mentality.

Pre-tax profit in CHF million



Germany

In 2006, the German economy developed more dynamically than experts originally predicted. This is due on the one hand to exports, and on the other by the fact that domestic demand fortunately regained momentum after years of stagnation. The growth in the gross domestic product of around 2.5% was driven by investments as well as recovering private consumption.

The upswing also affected the labour market, with the result that employment figures improved slightly. At the same time, wages increased nominally by approximately 1.4%, but if inflation of 1.7% is taken into account, wages actually suffered a slight downswing.

Differentiated growth in the insurance industry

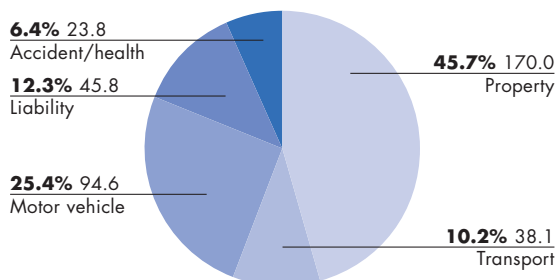
Premiums in the German insurance market increased by approximately 2.2% in the last financial year, with the growth more or less restricted to the personal insurance segment. With an extrapolated premium income increase of 3.0%, German insurance companies can look back on a rather successful 2006. This is partly due to the fact that the willingness to assume individual responsibility for pension provision increased in the wake of the government's pension reforms, but the economic boom mentioned before also had a positive impact.

The economic upswing, however, did not support growth in the non-life segment. Rather, growing competition led to further premium erosion, with the result that premium income in the market probably fell by 1.5%, as indicated by the latest extrapolation. The concept of expanded cover led to an increase in claims expenditure, and actuarial sector results fell year-on-year.

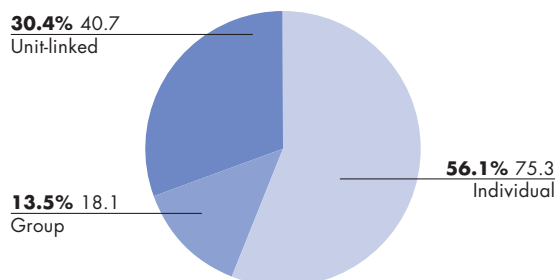
Helvetia Germany very profitable again

The 2006 profit before tax improved 59.1% year-on-year to an excellent EUR 32.6 million. This achievement was made possible by the significantly improved results for the life business, where our market share increased substantially. Compared to the good performance in the previous year, non-life profits fell slightly under the influence of a negative claims experience. Nonetheless, the non-life segment still accounted for around two-thirds of the total pre-tax profit in 2006.

Gross premiums in 2006 from direct non-life business in Germany in EUR million



Gross premiums in 2006 from direct life business in Germany in EUR million



Gross premiums from direct business**in Germany** in EUR million

	2006	2005	Change
Non-life			
Property	170.0	168.5	0.9%
Transport	38.1	43.1	-11.6%
Motor vehicle	94.6	96.8	-2.3%
Liability	45.8	45.5	0.6%
Accident/health	23.8	23.9	-0.4%
Total	372.3	377.8	-1.5%
Life			
Individual	75.3	76.8	-2.0%
Group	18.1	16.9	7.4%
Unit-linked	40.7	25.3	60.8%
Total	134.1	119.0	12.7%

Excellent non-life result

In tune with developments on the market, non-life gross premiums fell slightly by 1.5% in 2006. Our consistent pursuit of our strategic income targets also led to some premium erosion. For example, we consciously refrained from taking part in the price war in the motor vehicle segment. In the transport and industrial business, we selectively underwrote only risks in specific fields, thereby foregoing significant volumes of business. At 95.2%, the 2006 gross combined ratio was very good, even though the year-on-year increase was around 5 percentage points. This is due to the negative effects of two hail storms and several big fires. The cost ratio was also affected slightly by premium erosion.

As part of a new sales offensive, new and innovative products were introduced in parallel to our ongoing business activities, for example photovoltaic insurance, the VitalPlus accident insurance products for senior citizens (with comprehensive assistance benefits), and variable premium rates for building insurance cover. The new products received a positive reception, and strengthen Helvetia's foothold in the market as an innovative insurance provider.

Life business set on a growth path

In 2006, we again outperformed the sector trend with double-digit growth (+12.7%) and increased our market share even further. This outstanding growth is owed primarily to the CleVesto product family, which received a number of awards from independent sources, and the new, exclusive asset management product Helvetia PrimeInvest. We were also able to expand our business with independent brokers and to reinforce our own sales team. The road is clear for us to successfully position ourselves in the German life insurance market.

Investing in the future

A new IT application system was introduced with a view to optimising our business processes in the private insurance segment. The Porta sales force system was developed further for use by our own sales force and adapted to the new EU agent guidelines. The profil.as system was implemented in a bid to provide better customer care and support to our free agents.

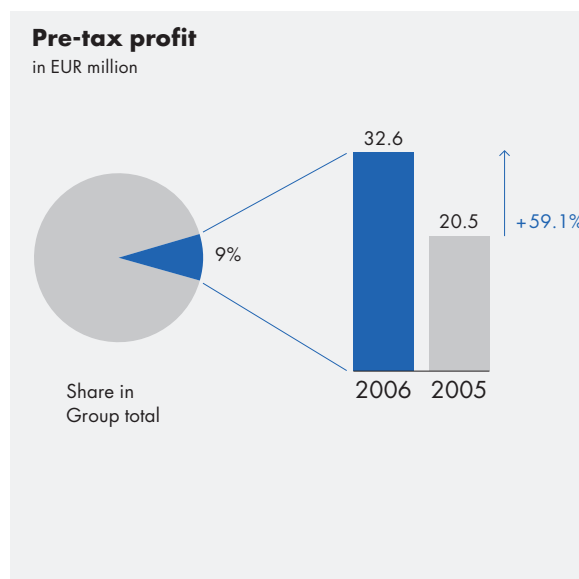
As part of our quality management system (EFQM), we intensified our efforts to improve our customer service, product design and claims management procedures.

In compliance with Group guidelines, our strategy to ensure sustainable and profitable growth is supported by additional investments in the development of products and sales and tighter cost management.

The following strategic measures are planned:

- Transferring successful product solutions to new customer segments and developing special target group-specific concepts
- Improving the efficiency of our sales force (achieving growth by adding new, experienced general agents), establishing new broker/multiple agent relationships and developing new sales channels
- Achieving portfolio growth by continuing the quality and service campaign and implementing targeted marketing measures (such as up-selling/cross-selling measures, measures designed to improve broker loyalty)
- Improving operations by process optimisation and continuing automation as well as adapting the management structure.

In spite of the fact that competition in the insurance industry can be expected to remain fierce, we are confident that we will be successful in holding our own in the German market and substantially expanding our market position. With the 'A-' rating received from Standard & Poor's and our new, uniform market presence, our opportunities have improved significantly in certain profitable customer and product segments.



Italy

The Italian economy experienced a marked recovery last year. The growth in gross domestic product is expected to be around 1.7%. This growth was mainly driven by private consumption, whereas a clear slowing in investments could be observed. As in the previous year, consumer prices are expected to have increased by approximately 2% in 2006. At the same time, unemployment decreased, reaching its lowest level for many years with an estimated 7.8% in 2006. The political will to institute reform provides hope that the Italian national budget will stabilise positively, which in turn might encourage a medium-term growth spurt in economic development. At the same time, it must be noted that the discrepancy between the economically strong north of the country and the south, which continues to develop slowly, will probably remain unchanged. We consider this significant for our strategic planning.

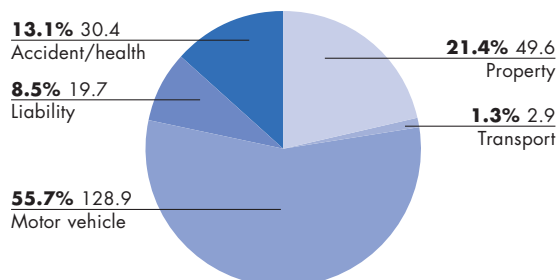
Clear growth slowdown in the insurance market

Despite the overall economic recovery outlined above, decreasing growth rates were recorded on the Italian insurance market last year. This applies to the life segment in particular, where new contract conclusions decreased by approximately 9% in the first nine months compared to the same period in the previous year, and premiums were reduced by approximately 4%. The banking channel remained the leader as far as life products are concerned, but lost some clout to the agent channel. It is interesting to note that approximately 94% of the premium total still goes to life policies with single premiums across the entire market.

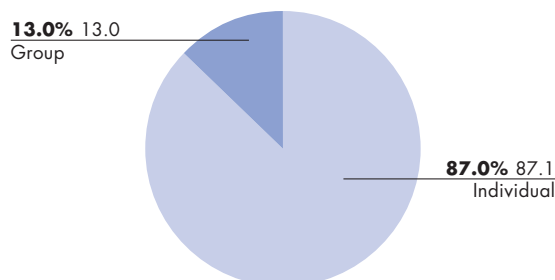
Last year, a growth slowdown to below 2% was posted in the non-life business. In particular, this can be attributed to the ongoing aggressive price war in the motor vehicle liability business, by far the most important segment.

With the entry into force of the new private insurance law and the introduction of the new direct claim system as of 1.2.2007, consumer and investor confidence should be further strengthened and service quality continuously improved.

Gross premiums in 2006 from direct non-life business in Italy in EUR million



Gross premiums in 2006 from direct life business in Italy in EUR million



Gross premiums from direct business

in Italy in EUR million

	2006	2005	Change
Non-life			
Property	49.6	46.2	7.3%
Transport	2.9	2.9	1.0%
Motor vehicle	128.9	126.9	1.6%
Liability	19.7	17.3	13.9%
Accident/health	30.4	28.6	6.3%
Total	231.5	221.9	4.4%
Life			
Individual	87.1	126.4	-31.1%
Group	13.0	4.9	164.3%
Total	100.1	131.3	-23.8%

Successful Helvetia

In 2006, Helvetia Italy once again achieved non-life premium growth of 4.4%, which was clearly above the market average. With an increase of 7.3%, the property insurance segment was the driver for this growth. We still consider the business mix between motor vehicle insurance on the one hand and the other non-life segments on the other as sensible and promising.

To a certain extent in 2006, Helvetia Vita experienced a consolidation phase in the life business, following the enormous increases of the past two years (2004: +42.5%, 2005: +67.5%), whereby premiums decreased by approximately 24%. This was also due in part to income considerations, as we were very cautious in concluding policies with high single premiums. In addition, as outlined above, the entire life business was clearly in the doldrums. However, in 2006, Helvetia Vita continued to show very satisfying trends in the area of traditional risk and savings/investment products.

In 2006, Helvetia Italy also expanded its agency network to strengthen sales. At present, approximately 300 non-exclusive agencies work for us in the non-life business. In addition, we have relationships with about 125 brokers. Approximately 350 representatives are currently working for Helvetia Vita. Moreover, there are approximately 10 sales agreements with banks. Geographically, the focus of our business activities remains on the economically interesting northern provinces of the country.

Continued high earning power

In 2006, in terms of earnings, the non-life business was in very good shape. In the year under review, the gross combined ratio is 2.4 percentage points above the extraordinarily good ratio of the previous year at 97.0% and thus once more exceeds our ambitious expectations as well as the market value. Although the risk results continue to be very good in the life business, our high expectations were not quite met.

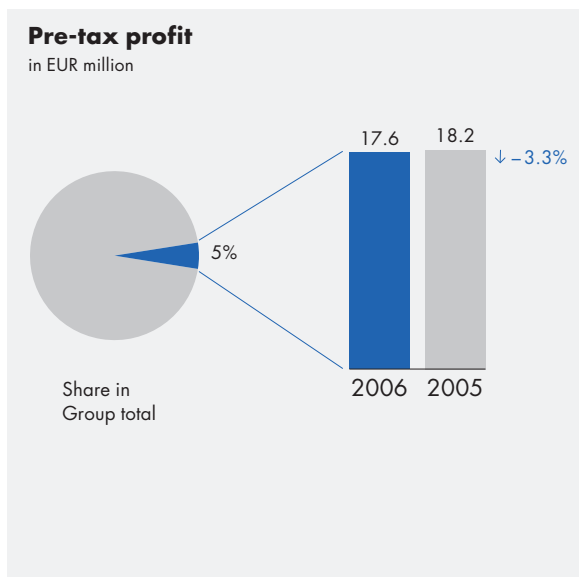
At EUR 17.6 million, the overall pre-tax result is approximately EUR 0.6 million lower than in the previous year, whilst in the non-life business a slight decrease and in the life business an improvement in results were posted.

In the future: focus on growth

With the new strategic orientation the signs clearly point to profitable growth. Helvetia Italy plans the following strategic initiatives:

- Continuing expansion of the sales network in the regions and the cities in the north of the country that are of interest to us.
- Stronger focus on the single person/family target groups and SMEs and developing particularly attractive overall solutions for these groups.
- Launching new unit-linked life/investment products that exploit the Group's synergies.
- Increasing operational efficiency, especially in sales, by designing a uniform IT-supported process model.
- Targeted marketing campaigns: promotion of target group competence, exploitation of 'Swissness', etc.

Helvetia Italy is convinced that, as a focused player and specialised provider in the private client and SME segments, it will continue to operate successfully in the future and continue to grow profitably. This confidence is clearly justified in the light of the performance that we have achieved in the recent past.



Spain

Last year the Spanish economy continued its dynamic trend; according to the latest projection, the increase in the gross domestic product was 3.8%. This growth was driven both by private consumption and by investments. With an estimated 2.7%, inflation was above the European Union mean. The employment situation is thought to have improved considerably in 2006. However, the foreign trade deficit, low productivity in comparison with the EU and the restructuring of the state pension system continue to cause problems for the country.

Continuing momentum in the insurance market

According to initial estimates, market growth in life insurance in 2006 was around 9%. In the near future, possibly a somewhat more modest development is to be expected, following the abolition of tax privileges for life insurance as part of the tax reforms.

In non-life business, sector growth last year is expected to be around 6%. The multi-risk and health insurance business showed particularly satisfactory developments. In contrast, the motor vehicle segment continued to suffer price pressures. Growth in this segment was below 5%, whereby average premiums – in spite of the generally high extent of insurance coverage – decreased by approximately 2% on average.

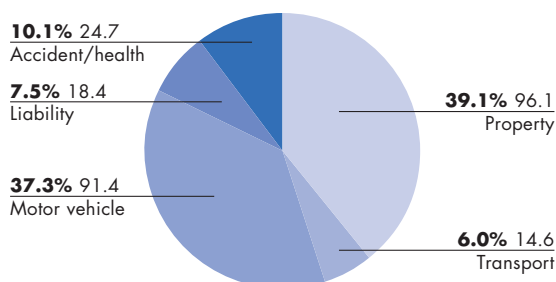
In the life business the Spanish insurance market continues to hold enormous growth potential – the premiums per capita and insurance penetration (percentage of premiums in gross domestic product) continue to be significantly beneath the pan-European mean.

Insurance sales continue to be divided: whilst in the non-life segment the traditional sales channels (agents and brokers) still clearly dominate overall new business with a share of just under 70%, almost 70% of the new business in the life segment is generated by bank sales.

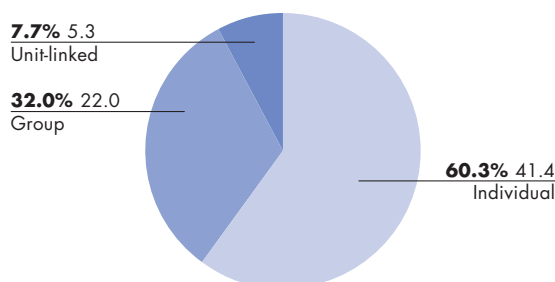
Excellent business development in 2006

Last year, Helvetia achieved double-digit premium growth of 11.2% in life insurance, which is slightly above the sector mean. Traditional risk insurance and family financial provision showed particularly satisfactory development. The newly introduced unit-linked life products also posted a highly successful start.

Gross premiums in 2006 from direct non-life business in Spain in EUR million



Gross premiums in 2006 from direct life business in Spain in EUR million



However, in non-life business our growth was 'only' 3.2% because, amongst other things, we once again did not participate in the price war in the motor vehicle segment in 2006 due to income considerations. In the meantime, the situation here has clearly improved – after the strong premium erosion in 2005 (–5.5%), only a slight volume decrease (–0.1%) was recorded last year. The number of motor vehicle policies has increased again slightly for the first time. In addition, Helvetia Spain achieved satisfactory growth rates in the multi-risk, transport and accident insurance segments last year. In the overall property business the increase was 4.8%.

Nationally, Helvetia is among the 30 leading insurance groups in Spain. In Andalusia and Navarre, which are the focus of our business activities, we are among the top market players. About 44% of our entire premium income, totalling approximately EUR 314 million, is allocated to southern Spain and about 28% to the north and centre of the country respectively. Overall, Helvetia's sales network includes 54 subsidiaries throughout Spain. The extensive product range is aimed at private individuals as well as small and

medium-sized businesses. At the end of 2006, Helvetia had 547 employees, a good 25% of whom worked in sales.

Excellent earnings trends

In 2006, pre-tax earnings rose by approximately 73% to an outstanding EUR 69.9 million. This massive increase is not only due to operational developments but also to various exceptional influences. One of the positives was the revaluation of our property holdings. In addition, it should be borne in mind that profit in the previous year suffered because of the considerable reinforcement of technical reserves in the life segment.

In the non-life business, not only the excellent investment results, but also the ongoing favourable claims experience and the clear progress regarding the administrative cost ratio made a positive contribution. At 89.4%, the gross combined ratio is still at an extremely good level, whereby a very favourable trend is noted across all segments.

Strategic focus

In the next few years, growth is to be explicitly emphasised and the market share of Helvetia Spain consolidated with lasting effect – without endangering the currently excellent level of earnings. Furthermore, additional obvious progress must be achieved with regard to the cost ratio – also via appropriate volume increases.

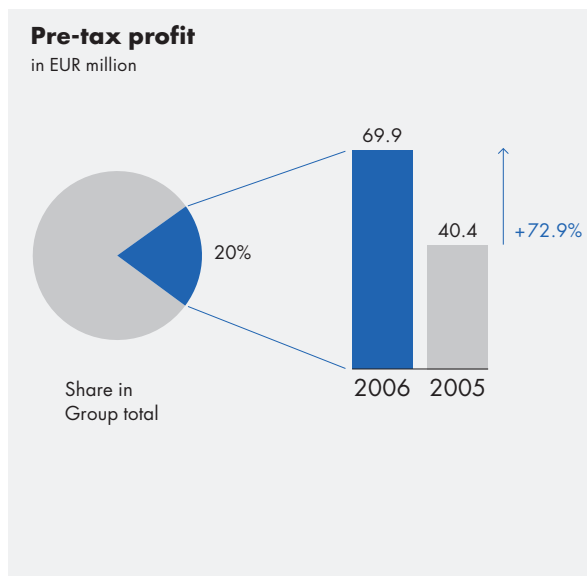
Gross premiums from direct business in Spain in EUR million

	2006	2005	Change
Non-life			
Property	96.1	91.7	4.8%
Transport	14.6	13.3	9.3%
Motor vehicle	91.4	91.5	–0.1%
Liability	18.4	18.9	–2.9%
Accident/health	24.7	22.1	11.7%
Total	245.2	237.5	3.2%
Life			
Individual	41.4	41.1	0.6%
Group	22.0	19.1	15.2%
Unit-linked	5.3	1.5	246.2%
Total	68.7	61.7	11.2%

The strategic focus of Helvetia Spain supports these ambitions as follows:

- Targeted strengthening of cross-selling activities
- Special loyalty programmes for brokers and agents
- Improved sales efficiency and effectiveness measures within the company
- Greater focus on life with regard to products and sales
- Launching target-group-specific product innovations
- Continuation of the proven quality and service orientation

We are convinced that we can positively exploit the growth opportunities in the Spanish insurance market to our benefit through these actions. The growth forecast of the Spanish economy, which can still be assessed as very favourable, and the 'backlog' in the life segment overall paint a very positive picture of the basic conditions.



Austria

In 2006, the Austrian economy also saw a revival. With export momentum on the rise, stimulated by the economic upswing in the neighbouring countries of Eastern Europe, gross domestic product increased in real terms by 3.2%.

Moderate market growth

In 2006, the insurance industry saw below-average volume growth of 1.9%, with the growth mostly driven by the non-life segment (+2.8%). With growth of just 0.8%, the life segment fell far short of expectations, in particular because single premiums lagged 12.2% behind the previous year's volumes. Regular-premium products, however, reported an increase of 6.4%.

On the claims side, the winter with its high volumes of snow stood out as the event with the greatest impact. In Upper Austria and parts of Salzburg, many roofs caved in under the weight of the snow. Claims exceeding CHF 0.5 billion were submitted for damage caused by snow pressure in Austria.

Helvetia Austria – successful start under a new company name

The year 2006 was characterised by the introduction of the new brand in Austria and the repositioning of our operations under the motto 'Helvetia, individual insurance from individual Switzerland'. This brand promise is just as relevant for our customers as it is believable, and builds on the company's existing strengths.

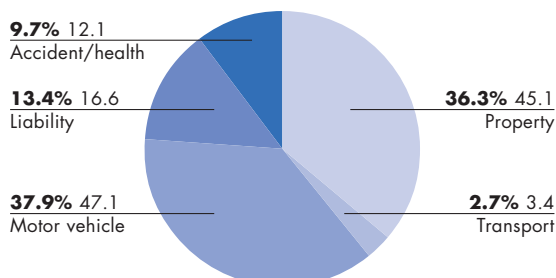
Among the employees, the brand change and related market offensive triggered positive momentum. It became clear soon after the launch of the advertising campaign on 2.10.2006 that the new image was well received by the public. The company lost hardly any customers as a result of the name change from ANKER to Helvetia, and has already won many new customers.

Other important milestones in the reporting year included the successful finalisation of the upgrading of all actuarial IT systems, the improvement of the risk management process and the launch of a programme to optimise the business processes in compliance with the guidelines of the European Foundation for Quality Management (EFQM). In spring 2006, Helvetia Austria was the first Austrian provider of financial services to be awarded the distinction 'Committed to Excellence' by the Austrian Foundation for Quality Management, the local EFQM subsidiary.

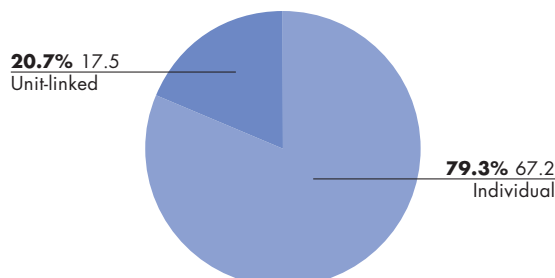
Operating performance in 2006

In spite of the strict focus on earnings, the reporting year saw a further increase in premium volume: regular premiums financing the core life segment grew by almost 4.2% to EUR 81.3 million, but single premiums, by definition subject to large annual fluctuations, fell by almost half year-on-year. Overall, premium volume in the life business rose by 0.2% to EUR 85 million, while the increase for unit-linked policies was just more than 11%.

Gross premiums in 2006 from direct non-life business in Austria in EUR million



Gross premiums in 2006 from direct life business in Austria in EUR million



Gross premiums from direct business in Austria in EUR million

	2006	2005	Change
Non-life			
Property	45.1	44.6	1.0%
Transport	3.4	3.5	-4.2%
Motor vehicle	47.1	45.7	3.1%
Liability	16.6	16.6	0.2%
Accident/health	12.1	12.4	-2.2%
Total	124.3	122.8	1.2%
Life			
Individual	67.2	68.8	-2.3%
Unit-linked	17.5	15.8	11.1%
Total	84.7	84.6	0.2%

The non-life segment saw total growth of 1.2% across all segments, achieving a premium volume of EUR 124.3 million. The motor vehicle business reported particularly dynamic growth with an extrapolated increase in premiums of 3.1%, thereby outperforming the sector average of 0.8%.

Due to the negative claims experience, the non-life segment did not quite match the previous year's outstanding results. The gross claims ratio was approximately 5 percentage points above the previous year's extraordinarily good ratio due to claims related to the snow pressure suffered in late winter 2006. This underlines the fact that the quality of the company's portfolio is still very good.

Despite the extraordinary claims burden, the gross combined ratio fell well short of the 100% mark. The non-life financial result was on a par with the good performance of the previous year.

The life result was slightly less good year-on-year, due to a smaller financial profit and a rather unfavourable mortality risk experience.

All in all, Helvetia Austria successfully generated a gratifying annual profit in spite of the fact that the claims experience was not favourable.

Transport insurance as a strong niche business

The Helvetia head office for Austria specialises in transport insurance and once again achieved very good results for the reporting year. Existing sales cooperation programmes were successfully strengthened and the traditional good actuarial quality of the business portfolio remained at a high level.

Positive outlook

The conditions for profitable growth in Austria remain good. With the new name 'Helvetia', well-designed new products and many measures to improve the efficiency of the sales force, Helvetia Austria is well equipped to improve its growth and earning power this year.

Helvetia Austria has set itself ambitious growth targets for the strategy period 2007 to 2010. The foundation for its future success has already been laid in part and comprises:

- Strengthening its position in the life business with new unit-linked products
- Developing new broker relationships and professionalising the broker management system
- Repositioning itself in the commercial segment with new marketing and product concepts
- Implementing additional measures to improve the productivity of the in-house sales force
- Continuing to implement measures designed to improve process quality.

Taking into account the fact that prospects for the Austrian economy continue to be good, we are convinced that these measures will allow Helvetia Austria to continue on this successful path to healthy growth in 2007.

France

In France, last year's growth in gross domestic product is expected to have been about 2%. In 2006, consumer prices are expected to have increased by approximately 2%, as in the previous year. At the same time, unemployment decreased slightly to around 9%. In 2006, the transport segment, which is important for our business, stagnated at the previous year's level.

Successful Helvetia

For about 15 years, Helvetia France has concentrated exclusively on transport insurance. In the past, we strengthened our position through acquisitions (buyout of the Royal and Sun Alliance transport portfolio in 2002 as well as the British & Foreign transport and marine insurance portfolios in 2004).

Our head office in France is located at Courbevoie, which is close to the industrial and financial centre of Paris – la Défense. The transport department there creates approximately half the total turnover within its assigned region, which includes Paris, the north, the west and the southwest of France. The other geographic zones are covered by representative offices in Lyon, Marseille and Colmar.

Our products are sold via a network of about 1,700 brokers and agents, who contact industrial and commercial enterprises, importers and exporters and the most important transport specialists directly. A large number of renowned major enterprises are among our customers.

With gross premium income of EUR 58.9 million in 2006, and a market share of approximately 6%, Helvetia remains the fifth largest transport insurer in France. In 2006, premium volume remained virtually unchanged in comparison with the previous year. This is primarily due to the fact, as mentioned above, that the entire transport

business stagnated to a large extent, as a result of development in the carriage of goods by road. Another factor was the fierce competition in the transport insurance market.

Approximately 49% of overall total premiums are allocated to cargo insurance and approximately 40% to shipper's liability insurance. The remaining transport segments receive a share of approximately 11% of the grand total.

In 2006, the transport business again presented excellent results. Pre-tax earnings in Swiss francs are once more in the double-digit million range. Compared with the extraordinary results of the previous year, the gross combined ratio increased, but it is still below the 80% mark in 2006. This is thanks to the ongoing extremely good claims experience.

Forecast for the 2007–2010 strategy period

In the medium term, we see improvement potential in the area of cost ratios. We want to make further progress through process optimisation in administration and sales. The thrust initiated by the new strategy comprises the optimisation and upgrading of the sales organisation in order to achieve additional market penetration. It also includes the development of new products that are even more specifically adapted to customer and sales requirements, as well as the enhancement of our expertise as a transport insurance specialist and further targeted marketing.

Helvetia France is convinced that it will continue to operate successfully in the highly competitive transport insurance market and generate the profitable growth required in the future.

Gross premiums from direct business

in France in EUR million

	2006	2005	Change
Transport	58.9	58.5	0.6%
Total	58.9	58.5	0.6%

Assumed reinsurance

The 2006 renewal season was heavily influenced by the natural disasters of 2005. The reinsurance market thus remained tough and market conditions remained attractive for us. Technically speaking, prices and conditions were at a very respectable level.

Outstanding annual profit for 2006

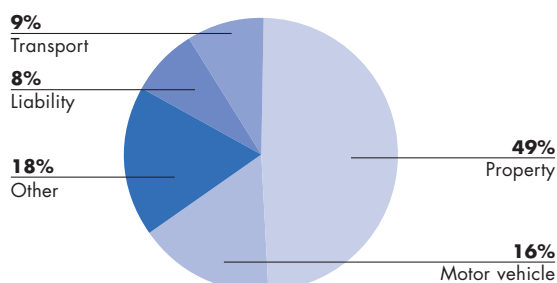
Assumed reinsurance at Helvetia had an excellent year. The 2006 result again outstripped the previous year's already excellent results. The positive claims experience supported our performance. Europe, in particular, was more or less spared from expensive natural disasters and major claims, with the result that the claims ratio for 2006 was the lowest reported this decade. In addition, as a niche player our cost ratio was very low compared to the rest of the market and therefore extremely competitive. Thanks to last year's good claims and cost experience, the combined ratio was less than 100% and served as the basis for the outstanding Swiss franc result in the double-digit million range.

Premium development

At around CHF 193 million, total premium income for 2006 was down on the previous year by approximately 16%. However, it should be noted that our assumed reinsurance business focuses on income rather than volumes.

In the past year, our reinsurance book remained well proportioned. The property segment had the highest weighting, accounting for almost half of total premiums.

Gross premium split 2006 in %



Outlook remains attractive

We were also extremely satisfied with the 2007 renewal season, as the good terms and conditions could be maintained in many areas. Although we have opted out of the North American disaster business, we are expecting premium volume to reach approximately CHF 210 million this year, not least thanks to our new, interactive 'A-' rating which is bearing fruit. In terms of profit, we are expecting another very good result in 2007, provided that the claims experience is normal. The January storm Cyril is not likely to change this situation.

Investor information

2006 was the fourth consecutive good year for equity markets. The environment was almost ideal and the mood was better than it has been for a long time. Inflation stayed within limits and interest rates remained low. Brief concerns about burgeoning inflation and the doldrums on the US real estate market caused a temporary slump in May and June, but the wars and crises in Iraq, North Korea and Lebanon did not manage to upset the capital markets. Good corporate profits and brisk acquisition and merger activities also considerably boosted investor confidence.

Seen overall, the European and US equity markets recorded significant growth in the past year. Only Japan, which was still at the top of the table in 2005, lagged behind. The SPI was up 20.7% in 2006, ensuring that the Swiss stock exchange did very well compared to the other European exchanges.

Outstanding performance of our share

Helvetia's share improved by 44.4% last year, making it one of the best performers on the Swiss stock exchange. It outperformed both the insurance stock index (17.7%) and the Swiss Performance Index (20.7%). This impressive performance was principally due to the consistent implementation of our strategy and the resulting excellent business result. Very good recommendations from numerous financial analysts and notable banking institutions also had a positive impact.

Stable shareholder structure and strong shareholder loyalty

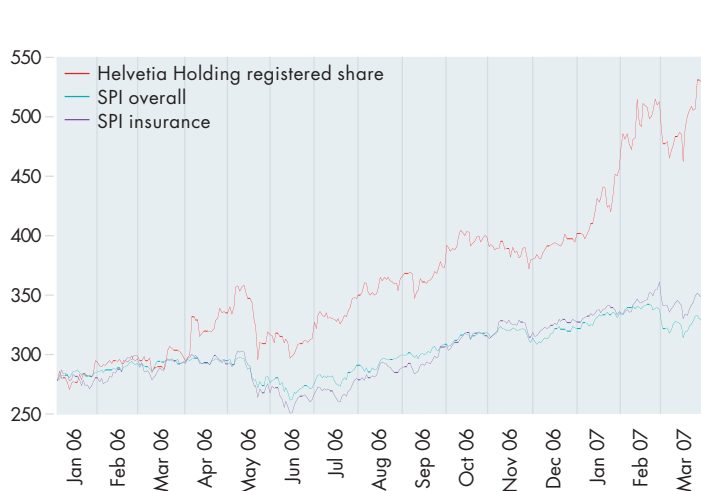
Our shareholder structure changed only slightly in the past year, which means that our ownership base remained very stable. As of 31.12.2006, a total of 4,366 registered shareholders were entered in the share register. The investor groups comprise:

Key figures for investors

	2006	2005
Helvetia Group		
Consolidated equity (in CHF million)	2 738.4	2 480.8
Consolidated equity per share (in CHF)	319.1	290.0
Group profit for the period per share (in CHF)	49.3	36.2
Return on equity (ROE)	16.2%	13.4%
Helvetia Holding registered share		
Stock exchange price		
■ Year-end (in CHF)	401.5	278.0
■ High for the year (in CHF)	404.5	278.0
■ Low for the year (in CHF)	271.0	169.0
Market capitalisation (in CHF million) at year-end price	3 474.1	2 405.5
Ratio market capitalisation/consolidated equity	127%	97%
Ratio market capitalisation/gross premiums	66%	46%
Number of shareholders as of reporting date	4 366	4 129
Annual dividend per share (in CHF)	13.50 ¹	9.00
Dividend yield ²	3.4%	3.2%
P/E ratio ²	8.1	7.7
Payout ratio	35%	34%
Securities number/ticker	1 227 168 / HELN	
Trading exchange	SWX Swiss Exchange	

¹ Proposal to the Shareholders' Meeting

² Based on year-end price

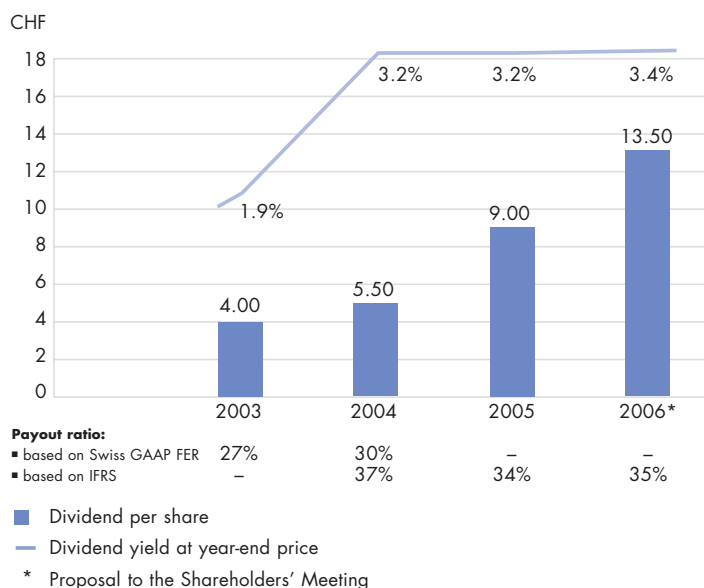
Share price trend 1.1.2006 to 30.3.2007 in CHF**Shares of investor groups**

	31.12.2006	31.12.2005
Private individuals	12.8%	13.9%
Banks and insurance companies	24.8%	24.8%
Other institutional investors	62.4%	61.3%

At the balance sheet date of 31.12.2006, 91.5% of investors were based in Switzerland, while 8.5% lived abroad. The free float stood at 53.7% at the end of 2006 (end 2005: 51.8%).

Shareholder structure

	31.12.2006	31.12.2005
Patria Genossenschaft	30.1%	33.3%
Vontobel	4.0%	4.0%
Raiffeisen	4.0%	2.7%
Munich Re	8.2%	8.2%
Free float	53.7%	51.8%

Sustained dividend policy

The purchase of registered Helvetia shares is not subject to any restrictions. Shareholders who purchase the shares in their own name and on their own behalf will be entered in the share register for up to a maximum of 5% of the total number of issued registered shares with voting rights.

Outstanding bond

- Amount: CHF 200 million
- Interest rate: 3% p.a.
- Term: 5.5.2004 – 5.5.2010
- Securities number: 1 839 765

Sustained dividend policy

Helvetia has been pursuing an income-oriented, continuous distribution policy for many years. The Group's excellent operating performance and good earning power allow the Board of Directors to request the Shareholders' Meeting of 4.5.2007 to approve the distribution of a dividend of CHF 13.50 per share for the 2006 financial year. Compared to the dividend for the 2005 financial year of CHF 9.00, this represents an increase of 50%.

Our commitment to the environment

Helvetia views sustainable behaviour as an important investment in its future. The idea of sustainability influences the daily work of all our employees. For years, Helvetia has been exerting great effort to lower its energy consumption and has been quite successful. The goal of our in-house ecological campaign was to inform employees about their consumption of water, electricity and paper, and to make them more aware of the need to conserve these resources.

Activities at our business units

The sections below describe the major ecological activities conducted this past year in the national markets of Switzerland and Germany.

Environmental activities in Switzerland

Helvetia has supported the WWF Eastern Switzerland environmental award ('Der Grüne Zweig' [The Green Branch]) for four years. This prize honours families, school classes, groups or private individuals who have displayed great commitment to preserving the environment in which we live. In 2006, this award was granted to the Gartenhag team, which earned this honour for the great work it has done on behalf of the environment. The Gartenhag team intends to invest the cash prize in future ecological projects.

Environmental activities in Germany

Energy-conserving housing

Helvetia Germany began its largest construction project in Hamburg in 2006. A total of 156 rental flats are being thoroughly refurbished or newly built. The 'Altenhagener Weg' residential district is located in a spacious park-like area complete with landscaping and trees. The sunny flats from the post-WW II era have always attracted enthusiastic tenants, but no longer meet contemporary requirements. Their floor plans have therefore been altered to create more open space. The result is large, comfortable and modern flats that meet all requirements and offer larger family-friendly living spaces.

Helvetia attaches special importance to applying the latest energy-conserving standards. The high quality brick façade and the effective thermal insulation ensure low operating costs, as do the ultra-modern building installations. All flats have large windows at the front and feature modern baths and electrical installations.

With its use of classic brick to retain the typical Hamburg architectural style, Helvetia shows how superbly tradition and innovation can complement each other.

Products suited to the market and the environment

Helvetia Germany also offers insurance protection for photovoltaic systems that far exceeds concepts usually available in the market. In the short time since the product launch, insurance has been taken out on systems worth some EUR 100 million. The production of electricity using solar cells is steadily gaining in importance. The product is designed for private individuals and companies and for their environmentally friendly systems of electricity production.

Environmental protection combined with health

A major German health insurance institution and the German cyclists club ADFC launched a campaign to promote commuting to work by bicycle ('Mit dem Rad zur Arbeit'), which was supported by the German Federal Ministry of Transport, Building and Urban Affairs. Helvetia took part in this national programme, and Helvetia employees at five different business locations cycled to work on at least 20 workdays during this period.

Corporate responsibility

Aware of its corporate responsibility, Helvetia supports numerous non-profit projects and organisations promoting the public welfare. It is especially involved in funding charitable and social organisations, but also supports youth and the arts. In addition, Helvetia is an important source of revenue for the public authorities, having paid CHF 81.2 million in direct taxes last year alone.

Foundation for promoting Swiss youth

Helvetia Patria Jeunesse is a foundation that promotes Swiss youth groups, clubs and youth projects in keeping with the foundation's purpose. It donated some CHF 184,000 to 41 institutions in the year under review. Of particular note is the annual donation of CHF 25,000 to support the youth programme of the Congress of the Swiss Abroad.

As part of its efforts to support the youth in Eastern Switzerland, Helvetia awards the annual Helvetia Prize for outstanding individual and group achievements in academics, the arts or community and civic work. 'Jugendliches Theater 2000' is also allotted CHF 30,000 a year. The aim of this initiative of the Helvetia Patria-Paul Bürgi fund is to interest young people aged 16 to 20 in taking advantage of the cultural offerings of the city theatre in St. Gallen.

Sponsoring activities

The partnership entered into in 2005 with Swiss Ski continued successfully in the year under review. Helvetia believes in Switzerland as a ski nation and views this commitment as an investment in the next generation of Swiss skiers. We expect this commitment to help us gain more visibility and a better position in the market.

The year under review marked the eighth time that Helvetia sponsored the Blue Balls Festival in Lucerne. This festival is the ideal forum for communicating with our customers, featuring famous stars, the world-famous backdrop of the lake, and no end of musical delights.

We again supported the Robinson Children Circus financially in the year under review. Over 1,200 Helvetia customers enjoyed the programmes created and staged by children.

Helvetia was a chief sponsor, financially and logistically, in staging the second international World Ageing and Generations Congress at the University of St. Gallen in autumn 2006. Business leaders from around the globe gather together at this forum to engage in high-level talks on possible solutions to demographic trends.

As a Swiss company, Helvetia acted as a main sponsor for the open-air production of Carl Orff's 'Carmina Burana' set against the historical backdrop of the St. Gallen Klosterhof. This newly created cultural arena served as the venue for two exclusive customer events.

Helvetia also promoted research on multiple sclerosis by sponsoring benefit concerts organised in four major Swiss cities by the MS Society.

Group-wide corporate responsibility

Helvetia Italy continued its support of a research centre for psychoanalysis for new symptoms (Jonas Onlus) in the year under review. This organisation researches the interconnections between the demands of modern life, the associated symptoms and the social situation. Another project that was supported involves a foundation that promotes classical music by staging concerts of the United Europe Chamber Orchestra and the Associazione Gruppo Betania Onlus. Its purpose is to assist and help young people from difficult family backgrounds and social settings.

In Spain, Helvetia sponsors the Spanish Basketball Federation, whose national team won the FIBA World Championships in Japan in 2006. The company also sponsors a number of other sports.



Financial statements

Consolidated financial statements of Helvetia Group		Financial statements of Helvetia Holding AG	
Consolidated income statement	81	Financial statements	176
Consolidated balance sheet	82	Notes to the annual financial statements	177
Consolidated statement of equity	84	Report of the Statutory Auditors	178
Consolidated cash flow statement	86		
Notes to the consolidated financial statements	89		
Report of the Group Auditors	174		

Consolidated income statement

Income in CHF million

	Notes	2006	2005
Gross premiums written	3	5 255.7	5 176.8
Reinsurance premiums ceded		-272.0	-303.1
Net premiums written		4 983.7	4 873.7
Net change in unearned premium reserve		-24.6	2.0
Net earned premiums		4 959.1	4 875.7
Interest and dividend income	7.1.1	704.4	675.7
Gains and losses on investments (net)	7.1.3	290.9	506.9
Income on investment property	7.1.4	186.4	189.1
Other income		89.4	98.8
Total operating income		6 230.2	6 346.2

Expenses in CHF million

Claims incurred including claims handling costs (non-life)		-1 465.8	-1 536.6
Claims and benefits paid (life)		-2 226.3	-2 234.6
Change in actuarial reserve		-738.0	-849.8
Policyholder dividends and bonuses		-166.7	-291.9
Reinsurers' share of benefits and claims		160.8	244.5
Net insurance benefits and claims		-4 436.0	-4 668.4
Acquisition costs		-647.4	-625.2
Operating and administrative expenses		-509.3	-476.4
Interest payable		-41.6	-51.0
Other expenses		-29.5	-88.6
Total operating expenses		-5 663.8	-5 909.6

Profit or loss from operating activities		566.4	436.6
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Finance costs	8.1.1	-6.0	-9.3
Share of profit or loss of associates		1.8	-7.1
Profit or loss before tax		562.2	420.2
Income taxes	10	-138.4	-118.3

Profit or loss for the period		423.8	301.9
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Attributable to:

Shareholders of Helvetia Holding AG ¹		423.0	301.4
Minority interests		0.8	0.5

Earnings per share:

Basic earnings per share (in CHF)	11.4	49.35	36.18
Diluted earnings per share (in CHF)	11.4	49.35	36.18

¹ Details on this item can be found under 'Consolidated statement of equity'

Consolidated balance sheet

Assets in CHF million

as of 31.12.	Notes	2006	2005
Property and equipment	5	526.2	426.1
Goodwill and other intangible assets	6	68.6	62.4
Investments in associates	7.2	46.2	45.2
Investment property	7.3	3 890.0	3 883.8
Loans (LAR) incl. money market instruments	7.4	6 743.2	6 379.0
Held-to-maturity investments (HTM)	7.5	3 469.7	2 781.0
Available-for-sale investments (AFS)	7.6	11 863.7	11 832.2
Financial assets at fair value through profit or loss	7.7	2 914.9	2 862.0
Receivables from insurance business	9.5	638.1	600.7
Deferred acquisition costs (life)	9.4.1	219.8	221.6
Reinsurance assets	9.1	782.4	902.6
Deferred tax assets	10.4	49.6	39.0
Current income tax assets		1.5	2.9
Other assets		151.7	127.7
Accrued investment income		323.3	306.8
Cash and cash equivalents		121.2	172.4
Total assets		31 810.1	30 645.4

Liabilities and equity in CHF million

as of 31.12.	Notes	2006	2005
Share capital	11.1	86.5	86.5
Capital reserves		636.1	628.1
Treasury shares		-17.1	-24.4
Unrealised gains and losses (net)	11.2.4	127.9	182.3
Foreign currency translation differences		15.6	0.1
Retained earnings		1 277.2	1 016.5
Valuation reserves for contracts with participation features	11.2.5	608.8	588.6
Equity of Helvetia Holding AG shareholders		2 735.0	2 477.7
Minority interests		3.4	3.1
Total equity		2 738.4	2 480.8
Actuarial reserve (gross)	9	21 019.0	20 146.3
Provision for future policyholder participation	9	742.2	688.3
Loss reserves (gross)	9	2 886.1	2 792.0
Unearned premium reserve (gross)	9	890.5	844.7
Financial liabilities from financing activities	8.1	199.1	198.8
Financial liabilities from insurance business	8.2	1 489.5	1 719.8
Other financial liabilities	8.3	37.2	32.1
Liabilities from insurance business	9.5	703.5	754.4
Non-actuarial provisions	12.1	64.1	61.2
Employee benefit obligations	13.2	272.1	245.7
Deferred tax liabilities	10.4	465.7	457.7
Current income tax liabilities		115.9	97.0
Other liabilities and accruals		186.8	126.6
Total liabilities		29 071.7	28 164.6
Total liabilities and equity		31 810.1	30 645.4

Consolidated statement of equity

in CHF million	Notes	Equity attributable to shareholders of Helvetia Holding AG			
		Share capital	Capital reserves	Treasury shares	Unrealised gains and losses (net)
		11.1			11.2.4
Balance as of 1.1.2005		86.5	613.7	-79.5	137.7
Fair value revaluation of investments		-	-	-	112.3
Change in liabilities for contracts with participation features		-	-	-	-47.2
Foreign currency translation differences		-	-	-	-
Deferred taxes		-	-	-	-20.6
Gains/losses recognised directly in equity (net)		-	-	-	44.5
Profit for the year		-	-	-	-
Total recognised income		-	-	-	44.5
Transfer from/to retained earnings		-	-	-	0.0
Change in minority interests		-	-	-	0.1
Treasury share transactions		-	14.3	55.1	-
Employee share purchase plan		-	0.1	-	-
Dividends		-	-	-	-
Balance as of 31.12.2005		86.5	628.1	-24.4	182.3
Balance as of 1.1.2006		86.5	628.1	-24.4	182.3
Fair value revaluation of investments		-	-	-	-125.5
Change in liabilities for contracts with participation features		-	-	-	48.3
Foreign currency translation differences		-	-	-	-
Deferred taxes		-	-	-	22.4
Gains/losses recognised directly in equity (net)		-	-	-	-54.8
Profit for the year		-	-	-	-
Total recognised income		-	-	-	-54.8
Transfer from/to retained earnings		-	-	-	0.4
Change in minority interests		-	-	-	0.0
Treasury share transactions		-	2.3	7.3	-
Employee share purchase plan		-	0.7	-	-
Dividends		-	-	-	-
Shareholders' contribution		-	5.0	-	-
Balance as of 31.12.2006		86.5	636.1	-17.1	127.9

	Foreign currency translation differences	Retained earnings	Valuation reserves for contracts with participation features	Total before minority interests	Minority interests	Total equity
			11.2.5			
	-1.9	830.5	450.7	2 037.7	3.0	2 040.7
	-	-	88.6	200.9	0.0	200.9
	-	-	-	-47.2	-	-47.2
	2.0	0.0	-	2.0	0.0	2.0
	-	-	-20.5	-41.1	0.0	-41.1
	2.0	0.0	68.1	114.6	0.0	114.6
	-	231.1	70.3	301.4	0.5	301.9
	2.0	231.1	138.4	416.0	0.5	416.5
	-	0.5	-0.5	0.0	-	0.0
	0.0	-0.2	-	-0.1	-0.3	-0.4
	-	-	-	69.4	-	69.4
	-	-	-	0.1	-	0.1
	-	-45.4	-	-45.4	-0.1	-45.5
	0.1	1 016.5	588.6	2 477.7	3.1	2 480.8
	0.1	1 016.5	588.6	2 477.7	3.1	2 480.8
	-	-	-84.5	-210.0	-0.2	-210.2
	-	-	-	48.3	-	48.3
	15.5	-	-	15.5	0.1	15.6
	-	-	20.0	42.4	0.1	42.5
	15.5	-	-64.5	-103.8	0.0	-103.8
	-	338.5	84.5	423.0	0.8	423.8
	15.5	338.5	20.0	319.2	0.8	320.0
	-	-0.6	0.2	0.0	-	0.0
	0.0	0.0	-	0.0	-0.1	-0.1
	-	-	-	9.6	-	9.6
	-	-	-	0.7	-	0.7
	-	-77.2	-	-77.2	-0.4	-77.6
	-	-	-	5.0	-	5.0
	15.6	1 277.2	608.8	2 735.0	3.4	2 738.4

Consolidated cash flow statement

Cash flow from operating activities in CHF million

	2006	2005
Profit before tax	562.2	420.2
Reclassifications to investing and financing activities (affecting cash):		
Realised gains and losses on property, equipment and intangible assets	0.2	-1.2
Realised gains and losses on sale of associates	0.0	-0.2
Dividends from associates	-0.6	-0.6
Adjustments:		
Depreciation/amortisation of property, equipment and intangible assets	31.8	45.4
Realised gains and losses on financial instruments and investment property	-182.0	-192.5
Unrealised gains and losses on investments in associates	-0.9	7.9
Unrealised gains and losses on investment property	47.2	29.9
Unrealised gains and losses on financial instruments	-77.2	-321.0
Share-based payments for employees	0.8	0.1
Foreign currency gains and losses	-87.4	-24.6
Other income and expenses not affecting cash	13.9	-24.1
Change in operating assets and liabilities:		
Deferred acquisition costs (life)	2.4	12.7
Reinsurance assets	128.0	-347.1
Actuarial reserve	738.8	867.1
Provisions for future policyholder participation	98.7	194.6
Loss reserves	44.8	173.2
Unearned premium reserve	27.5	-0.5
Financial liabilities from insurance business	-256.7	213.6
Changes in other operating assets and liabilities	-54.0	307.7
Purchase of investment property	-81.9	-70.1
Sale of investment property	30.8	60.5
Origination of loans (LAR) and money market instruments	-55 758.8	-58 061.0
Repayment of loans (LAR) and money market instruments	55 464.2	58 096.8
Purchase of held-to-maturity investments (HTM)	-978.9	-680.1
Repayment of held-to-maturity investments (HTM)	309.9	345.7
Purchase of available-for-sale investments (AFS)	-4 781.8	-5 155.9
Sale of available-for-sale investments (AFS)	4 775.8	4 549.5
Purchase of financial assets at fair value through profit or loss	-698.6	-656.6
Sale of financial assets at fair value through profit or loss	876.5	518.1
Cash flow from operating activities (gross)	194.7	307.5
Income taxes paid	-81.2	-52.8
Cash flow from operating activities (net)	113.5	254.7

Cash flow from investing activities in CHF million

	2006	2005
Purchase of property and equipment	-86.1	-62.8
Sale of property and equipment	1.4	3.8
Purchase of intangible assets	-20.4	-16.4
Sale of intangible assets	0.0	0.3
Purchase of investments in associates	-	-51.0
Sale of investments in associates	-	0.6
Purchase of investments in subsidiaries, net of cash and cash equivalents	0.0	-0.3
Sale of investments in subsidiaries, net of cash and cash equivalents	-	-
Dividends from associates	0.6	0.6
Cash flow from investing activities (net)	-104.5	-125.2

Cash flow from financing activities in CHF million

Increase of share capital	-	-
Decrease of share capital	-	-
Sale of treasury shares	9.6	69.7
Purchase of treasury shares	-	-0.3
Shareholders' contribution	5.0	-
Issuance of debt instruments	-	-
Repayment of debt	-	-150.0
Dividends paid	-77.6	-45.5
Lease payments under finance lease	0.0	0.0
Cash flow from financing activities (net)	-63.0	-126.1
Effect of exchange rate differences on cash and cash equivalents	2.8	0.5
Total change in cash and cash equivalents	-51.2	3.9

Cash and cash equivalents in CHF million

	2006	2005
Cash and cash equivalents as of 1 January	172.4	168.5
Change in cash and cash equivalents	-51.2	3.9
Cash and cash equivalents as of 31 December	121.2	172.4

Composition of cash and cash equivalents in CHF million

	2006	2005
Cash	1.6	2.7
Due from banks	119.4	169.7
Other cash equivalents with a maturity of less than three months	0.2	0.0
Balance as of 31 December	121.2	172.4

Other disclosures on cash flow from operating activities:

Interest received	694.0	667.1
Dividends received	54.8	51.9
Interest paid	10.4	11.5

The other income and expenses affecting cash primarily contain the change to interest-accruing profit participation of owners of contracts with participation features.

Notes to the consolidated financial statements of Helvetia Group 2006

1. General information	90	11. Equity	136
2. Summary of significant accounting policies	91	12. Provisions, contingent liabilities and other commitments	141
3. Segment information	105	13. Employee benefits	142
4. Foreign currency translation	112	14. Share-based payments	147
5. Property and equipment	113	15. Related party transactions	148
6. Goodwill and other intangible assets	114	16. Risk management	150
7. Investments	115	17. Events after the reporting date	171
8. Financial liabilities	126	18. Scope of consolidation	172
9. Insurance business	129		
10. Income taxes	134		

1. General information

Helvetia Group is an all-lines insurance group which operates in many life and non-life business segments as well as in reinsurance. The holding company, Helvetia Holding AG with headquarters in St. Gallen, is a Swiss public company listed on the Swiss Stock Exchange (SWX). The Group operates through its branch offices and subsidiaries in the insurance markets of Switzerland, Germany, Austria, Spain, Italy and France, and worldwide in assumed reinsurance business. Parts of its invest-

ment and financing activities are managed through subsidiaries and fund companies in Luxembourg and Jersey (UK).

The Board of Directors approved the consolidated financial statements and authorised them for issue on 27.3.2007. The financial statements will be submitted to the shareholders for approval at the Shareholders' Meeting on 4.5.2007.

2. Summary of significant accounting policies

The consolidated financial statements of Helvetia Group were prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention with the exception of adjustments resulting from the IFRS requirement to record investments at fair value. The fair value valuation methods are explained in Note 2.4 (page 93).

The balance sheet is now broken down according to liquidity. As a result, adjustments had to be made to some balance sheet positions for the 2005 reporting year. Some components were simply reclassified. The positions 'Financial assets held for trading' and 'Money market instruments' were transferred in total to the positions 'Financial assets at fair value through profit or loss' (CHF 253.3 million) and 'Loans (LAR) including money market instruments' (CHF 1,002.1 million). The share of short-term liabilities due to employees was reclassified from the position 'Other liabilities and accruals' to the position 'Employee benefit obligations' (CHF 44.7 million). The offsetting of deferred tax assets and liabilities and the separate disclosure of current income tax assets and liabilities led to a reduction of assets and liabilities of CHF 284.9 million as at 31.12.2005. The effects of the offsetting of the deferred taxes are disclosed in Note 10.4 (page 135). Further insignificant reclassifications in the balance sheet resulted in an additional reduction in the balance sheet total of CHF 4.3 million.

2.1 Changes in accounting policies

2.1.1 Standards applied for the first time in the reporting year

In the 2006 reporting year, the following sector-relevant interpretations (IFRIC) and amendments to standards came into force:

- Amendment to IAS 19 – Actuarial gains and losses, group plans and disclosures

- Amendment to IAS 21 – Net investment in a foreign operation
- Amendment to IAS 39 – The fair value option
- Amendment to IAS 39 – Intragroup cash flow hedge accounting
- Amendment to IAS 39/IFRS 4 – Financial guarantees contracts
- IFRIC 4 – Determining whether an arrangement contains a lease

Adoption of the standards did not lead to any significant adjustments to accounting policies. The amendments that are relevant to the Helvetia Group are explained below:

Amendment to IAS 19 – Actuarial gains and losses, group plans and disclosures

When recognising pension liabilities, IAS 19 now introduces an option for an entity to recognise actuarial gains and losses in full as they arise, outside profit or loss, in the statement of equity. Helvetia Group does not make use of this option. Actuarial gains and losses will continue to be recognised in profit or loss in accordance with the corridor method. Other amendments concern the expanded disclosure requirements (see Note 13, beginning on page 142).

Amendment to IAS 21 – Net investment in a foreign operation

In accordance with IAS 21, the exchange differences that arise on translating a monetary item that constitutes part of a net investment in a foreign operation must be classified as a separate component of equity not affecting profit or loss. This provision applies regardless of the functional currency of the monetary item and the Group company involved. At Helvetia Group, there are currently no items with the character of a net investment to which this amendment should be applied.

Amendment to IAS 39 – The fair value option

Classification as 'Financial assets designated as at fair value through profit or loss' is now only possible if one of the following conditions is met:

- Recognition at fair value eliminates or significantly reduces a measurement inconsistency.
- A group of financial assets, financial liabilities or both is managed and its performance measured on a fair value basis in accordance with a documented risk management or investment strategy.
- The contract has an embedded derivative, provided that the derivative does not lead to a significant change to the cash flow of the contract or it is evident that it would be permissible to recognise the derivative separately.

All financial instruments classified at the Helvetia Group as 'designated as at fair value through profit or loss' meet one of the above conditions. As a result, no financial instruments were reclassified.

2.1.2 Standards not yet applied in the reporting year

Due to the effective dates on which they enter into force, the following published sector-relevant standards, interpretations and amendments to standards were not applied to the 2006 consolidated financial statements:

	Effective date: to be applied for annual periods beginning after
■ IFRS 7 – Financial instruments: disclosures	1.1.2007
■ IFRS 8 – Operating segments	1.1.2009
■ Amendment to IAS 1 – Capital disclosures	1.1.2007
■ IFRIC 8 – Scope of IFRS 2	1.5.2006
■ IFRIC 9 – Reassessment of embedded derivatives	1.6.2006
■ IFRIC 10 – Interim financial reporting and impairment	1.11.2006
■ IFRIC 11 – Group and treasury share transactions	1.3.2007
■ IFRIC 12 – Service concession arrangements	1.1.2008

Helvetia Group does not expect the first-time application of the new standards to have a significant impact on the consolidated financial statements, as they will primarily affect the type and extent of disclosure. The new interpretations that were published are also not expected to have material repercussions on the financial statements.

acquired during the course of the financial year are included in the consolidated financial statements from the date on which the Helvetia Group took effective control. Acquisitions of companies are recorded using the purchase method. Intercompany transactions and balance sheet items are completely eliminated.

2.2 Consolidation principles*Subsidiaries*

The consolidated financial statements include the financial statements of Helvetia Holding AG and its subsidiaries as well as of special purpose entities. Consolidation occurs when Helvetia Holding AG exercises indirect or direct control over the company's operations. Subsidiaries

Associates and joint ventures

Associates of the Helvetia Group are accounted for using the equity method if significant control is exercised by the Helvetia Group. Significant control is assumed when the Group exercises 20% to 50% of the voting rights. The goodwill resulting from equity valuation is recorded within 'Investments in associates'. The carrying value of all investments is tested for impairment if there is

objective and substantial evidence for impairment at the balance sheet date.

Associates of the Helvetia Group are listed together with the fully consolidated subsidiaries in Note 18 (beginning on page 172).

Joint ventures are also recorded using the equity method if the entity is jointly controlled. Joint control is the contractually agreed sharing of control over an economic activity. The Helvetia Group is not currently involved in any joint ventures.

All of the main financial statements included in the scope of consolidation have the same reporting periods. Smaller Group companies with different financial years prepare interim financial statements as of the reporting date of 31.12.

2.3 Foreign currency translation

The reporting currency of the Helvetia Group is the Swiss franc (CHF).

Foreign currency translation

Items included in the financial statements of those entities that do not have the Swiss franc as their reporting currency were translated using the applicable closing rate. Items in the income statement are translated at the average exchange rates for the reporting period. The resulting translation differences are recorded in 'Foreign currency translation differences' in equity, not affecting profit or loss. Upon disposal of a subsidiary, these differences, attributable to the subsidiary in question and accumulated in equity, are released through income. The rates applied in these financial statements are listed in Note 4.1 (page 112).

Foreign currency transactions

Foreign currency transactions in the individual entities are accounted for using the exchange rate on the date of the transaction.

The individual entities translate balance sheet items denominated in foreign currencies as follows: monetary and non-monetary balance sheet items, which are recorded at fair value, at closing rates, and non-monetary items, which are recorded at cost, at historical rates. 'Monetary items' include cash and cash equivalents, assets and liabilities for which the Helvetia Group either receives or pays a fixed or determinable amount of money.

For non-monetary items classified as available-for-sale investments, such as shares and shares in investment funds, the unrealised foreign exchange gain is recognised in equity without affecting the income statement until the financial instrument is sold. However, for monetary items such as bonds and loans, the unrealised foreign exchange difference is immediately recognised in the income statement. For financial assets recorded at fair value through profit or loss, the foreign exchange gain is not recorded separately.

2.4 Accounting estimates and key assumptions

Preparing the financial statements in accordance with IFRS requires Group management to make assumptions and estimates that affect the reported amounts of assets and liabilities for the ongoing business year. All estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual figures and estimates may differ as a result. The assumptions to be made that are relevant to preparing the financial statements are as follows:

Fair value of financial assets and liabilities

The fair value of financial instruments is the quoted market price for which an asset could be exchanged in an active market between knowledgeable, willing parties in an arm's length transaction.

'In an active market' means that the prices are made available regularly, either by a stock exchange, a broker or a pricing service, and that those prices represent current and regular market transactions.

For financial assets, the fair value is the quoted bid price, and for financial liabilities it is the quoted ask price.

If no market value in an active market is available, fair value is estimated using valuation methods, such as the discounted cash flow (DCF) method, comparison with current transactions in the market, or with reference to similar instruments and option pricing models. Such methods are considerably influenced by assumptions that have to be made, which can lead to varying fair value estimates. This affects the following positions in particular:

- *Alternative investments:* The fair value of private equity investments is calculated using the DCF method and applying the internal rate of return (IRR). Hedge funds are valued on the basis of the fair values of the listed securities contained in the fund in question.
- *Mortgages and loans:* The fair value of mortgages and borrower's note loans is determined on the basis of discounted cash flows. Mortgages are measured by applying the current interest rates of Helvetia Group for comparable mortgages that have been granted. The Swiss franc swap curve is used to measure borrower's note loans.
- *Derivative financial instruments:* The fair value of equity and currency options is determined using option price models (Black-Scholes option pricing), while the fair value of forward exchange rate agreements is determined on the basis of the forward exchange rate on the reporting date. The fair value of interest rate swaps is calculated using the present value of future payments.

If the range of possible fair values is very large and reliable estimates cannot be made, the financial instrument is valued at cost, less any impairment losses.

Impairment of available-for-sale investments

The judgement as to whether an equity instrument classified as available-for-sale is subject to impairment depends on the existence of objective indications. One decisive criterion is the constant or considerable decrease in value of an instrument: at Helvetia Group, instruments are considered impaired if their fair value remains below cost for longer than nine months or falls 20% or more below cost irrespective of the period of time. In addition, ratings and analysts' reports can serve as an indication that a company's circumstances have changed with respect to technology, the market, economy or law, to such an extent that the cost can probably no longer be recovered. In these cases, the assets are examined for impairment.

Fair value of investment property

The fair value of investment properties is calculated in Switzerland using a model-supported valuation method (see Note 2.10.1, page 97). In order to determine the fair value, different capitalisation rates are used, which are subject to assessment by Group management. The capitalisation rates applied in the reporting period are set out in Note 7.3 (page 120). The portfolio is regularly reviewed and appraisal reports prepared by independent experts. All other countries use independent experts to determine market estimates at intervals of three years, at the most.

Accounting estimates specific to insurance

The estimate uncertainties in the area of actuarial practise are explained in Note 2.13 (beginning on page 99). Any significant change to the parameters used for reserve calculation is documented in Notes 9.3 (non-life business) and 9.4 (life business).

Impairment of goodwill

Capitalised goodwill is tested annually for impairment. The procedure is described in Note 2.9 (page 96). The recoverable amount is calculated on the basis of several assumptions, which are documented in Note 6 (page 114).

2.5 The current, non-current distinction

Assets and liabilities are classified as current if they are expected to be realised or settled within twelve months after the reporting date. All other assets are considered to be non-current.

The following items are fundamentally classified as non-current: 'Property and equipment', 'Goodwill and other intangible assets', 'Investments in associates', 'Investment property' and 'Deferred tax assets and liabilities'.

The following items are fundamentally classified as current: 'Current income tax assets and liabilities', 'Accrued investment income', 'Cash and cash equivalents' and 'Other liabilities and accruals'.

All other positions are of a mixed nature. The differentiation between current and non-current balances of relevant positions is set out in the notes. The maturity schedule of financial assets, financial liabilities from insurance business and reserves for insurance and investment contracts is described in Note 16.4 (beginning on page 160) as part of the risk assessment process.

2.6 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accrued impairment. Depreciation is normally calculated using the straight-line method over the estimated useful life as follows:

■ Furniture	4–15 years
■ Technical equipment	4–10 years
■ Motor vehicles	4–6 years
■ Computer hardware	2–5 years

The following rates of depreciation apply to owner-occupied property:

■ Supporting structure	1.5%–3.5%
■ Interior completion	2.0%–8.0%

Land is not depreciated.

Useful life is adjusted if the pattern of consumption of the economic benefit has changed. Investments are offset against the current carrying value in the period and are depreciated over the entire term if an increase in the economic benefit is expected from the investment and reliable estimates exist for the cost. Depreciation is recognised in the income statement under 'Operating and administrative expenses'. Repairs and maintenance are charged to the income statement as incurred. Tangible assets are regularly tested for impairment (see Note 2.9, page 96).

2.7 Leasing

If the lease agreements transfer all risks and rewards incidental to the ownership to Helvetia Group, the leases are classified and treated as finance leases. The finance lease agreements of the Helvetia Group are limited to lessee agreements. At inception of the lease agreement, recognition occurs at the lower of the present value of the minimum lease payments and the fair value of the lease object. A finance lease obligation of the same amount is recorded as a liability. Lease payments are apportioned between the finance charge and reduction of the outstanding liability so as to achieve a constant rate of interest on the remaining balance of the liability. The depreciation of the asset follows the rules for depreciating tangible assets.

All other lease agreements are classified as operating leases. Payments – less any reductions – made under operating lease agreements are charged to the income statement on a straight-line basis over the term of the lease.

2.8 Goodwill and other intangible assets

Acquired intangible assets are recognised at cost and amortised over their useful life, normally three to ten years. Other intangible assets also include intangible assets developed by the company, principally internally developed software that is recorded at cost and amortised from the date on which it enters service. Amortisation is recognised in the income statement in the position 'Operating and administrative expenses'. Intangible assets with an indefinite useful life are not amortised, but are reviewed annually for impairment (see Note 2.9).

Goodwill is the difference between the costs of a business combination and the fair value at the acquisition date of the acquired entity's identifiable assets, liabilities and contingent liabilities. A positive balance is accounted for as goodwill. If the value of the acquired entity's net assets exceeds the acquisition cost at the purchase date, this surplus is immediately recognised in the income statement. Goodwill acquired in a business combination is recognised as an intangible asset, net of accumulated impairment loss, and is tested annually for impairment. It is carried as an asset in the local currency of the acquired entity and translated at the applicable closing rate on each balance sheet date.

2.9 Impairment of tangible assets, goodwill and other intangible assets

The carrying value of tangible assets or an intangible asset amortised using the straight-line method is tested for impairment if there is evidence for impairment. Goodwill and intangible assets with an indefinite useful life are reviewed for impairment annually in the second half of the year.

An intangible asset is impaired if its carrying value exceeds its recoverable amount. The recoverable amount is measured as the higher of fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an

asset at current market conditions after deducting any direct disposal costs. Value in use is the present value of estimated future cash flows expected to be generated from the continuing use of an asset and from its disposal at the end of its useful life. For the purpose of impairment testing, the value in use is measured under realistic conditions, with consideration given to planned activities and their resulting cash in- and outflows. If the carrying value exceeds the recoverable amount, the difference is recognised in the income statement as an impairment loss and reported under 'Other expenses'.

A reversal of the impairment loss is recognised if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was accounted for. If the new circumstances result in a decreased impairment loss, the reversal impairment is reported up to the maximum of the historical cost and recorded in the income statement in 'Other expenses'.

For the purpose of impairment testing, goodwill is allocated at the time of acquisition to those cash generating units (CGU) that are expected to benefit from the business combination. These are in general identical to the legal entities of the Helvetia Group. If there is no intention to sell, the value in use of the CGU is determined and compared to the carrying value for the purpose of calculating any impairment loss. The value in use is calculated applying the discounted cash flow method (DCF), with future operating cash flows less necessary operating investments (free cash flows) being included. If there is an intention to sell, the fair value less cost to sell is used for impairment testing. If an impairment loss arises, the goodwill is adjusted accordingly. An impairment loss for goodwill cannot be reversed.

2.10 Investments

2.10.1 Investment property

The aim of the investment property portfolio is to earn rentals or achieve long-term capital appreciation. Property held for investment purposes includes both land and buildings and is carried at fair value. Changes in fair value are recognised in the income statement. Companies in Switzerland calculate fair value using a model-supported valuation method, whereas all other countries use independent experts to determine market estimates at least every three years. These estimates are updated between valuation dates.

The model-supported valuation method considers various factors: building type, extent of renovations, loss in value due to age, expected rental income as well as location, desirability, rents for comparable objects, maintenance needs, operating costs and future expectations with regard to the environment. The portfolio is regularly reviewed and appraisal reports prepared by independent experts.

The Helvetia Group does not capitalise properties where it acts as tenant in an operating lease relationship. Rental income is recognised on a straight-line basis over the lease term.

2.10.2 Financial assets

Helvetia Group recognises the following categories of financial investments: 'Loans' (Loans and receivables, LAR), 'Held-to-maturity' (HTM), 'Available-for-sale' (AFS) and 'At fair value through profit or loss'.

Financial assets are initially recognised at fair value. Directly attributable transaction costs are recognised as assets, except for financial assets at fair value through profit or loss which are recorded in the income statement. The Helvetia Group records all acquisitions and disposals of financial instruments at trade date. Derecognising a financial investment occurs on expiration of the contract or at disposal if all risks and control have

been transferred and if no rights to cash flows from the investment are retained. Through its securities lending activities, the Group lends out certain securities to other companies for a certain period of time and against payment. The securities lent to third parties remain under the control and in the portfolio of the Helvetia Group. Revenues from securities lending are recorded in the income statement under 'Interest and dividend income'.

Loans (LAR) and financial assets that the Group has the intention and ability to hold to maturity (HTM) are carried at amortised cost (AC). LAR claims are not traded on an active market. The Helvetia Group usually generates them by directly providing funds to a debtor.

Financial assets held for an undetermined period and classified as available-for-sale (AFS) are carried at fair value. Unrealised gains and losses are recognised directly in equity with no impact on profit or loss.

'Financial assets at fair value through profit or loss' comprise 'financial assets held for trading' and 'financial assets designated as at fair value through profit or loss'. An instrument is classified as 'held for trading' if it is held with the aim of making short-term gains from market price fluctuations and dealer margins. Upon initial recognition, financial investments are irrevocably classified as 'designated as at fair value' only if they are a component of a particular group of financial assets that, according to a documented investment strategy, are managed on a fair value basis, or their recognition as at fair value serves to compensate for market value fluctuations of liabilities due to policyholders. The value fluctuations that result from the fair value valuation are directly recognised in the income statement and reported separately from 'Interest and dividend income' in the position 'Gains and losses on investments'.

Interest income is recognised on an accruals basis and subject to the asset's effective rate of interest

(including 'Financial assets at fair value through profit or loss'). Dividends are recorded when a legal claim arises. Depreciation and appreciation resulting from the amortised cost method are offset against interest income in the income statement.

2.10.3 Impairment of financial assets

The carrying values of financial assets that are not classified as 'At fair value through profit or loss' (LAR, HTM, AFS) are regularly reviewed for impairment. If objective and substantial evidence indicates permanent impairment at the reporting date, the difference between cost and the recoverable amount is recognised as an impairment through profit or loss. An equity instrument is considered impaired if its fair value falls below cost considerably or constantly. Debt instruments are considered impaired if it is probable that not all amounts due under the contractual terms will be collectible.

For LAR and HTM financial investments, the recoverable amount at the reporting date is equivalent to the present value of estimated future cash flows discounted at the original interest rate. The impairment is reversed through profit or loss if a subsequent event causes a decrease in the impairment loss.

For AFS financial assets, the recoverable amount at the reporting date equals the fair value. For non-monetary AFS financial assets, such as shares and shares in investment funds, any additional impairment loss after the initial impairment is immediately recognised in the income statement. The impairment is not reversed, even if the circumstances causing the impairment cease to apply. Valuation gains are recognised in equity until disposal. For monetary AFS financial assets, such as bonds, the impairment is reversed through profit or loss if the circumstances causing the impairment cease to apply.

2.11 Financial derivatives

Derivative financial instruments are classified as 'Financial assets held for trading' and are shown in the position 'Financial assets at fair value through profit or loss'. The Helvetia Group currently does not use hedge accounting as defined by IAS 39. The hedging strategies used by Helvetia Group for risk management purposes are described in Note 16 (beginning on page 150).

Derivatives may also be embedded in financial instruments, insurance contracts or other contracts. They are valued either together with their host contract or separately at fair value. The underlying security and derivative are valued and recognised separately if the risk characteristics of the embedded derivative are not closely related to those of the host contract. Changes in the fair value of derivatives are recognised in the income statement.

2.12 Financial liabilities

Financial liabilities are initially recognised at fair value. Directly attributable transaction costs are offset, except in the case of financial liabilities at fair value through profit or loss. After initial recognition, financial liabilities are carried at fair value or amortised cost (AC). The financial liability is derecognised when the obligation has been discharged.

Those financial liabilities that are either held for trading or irrevocably classified upon initial recognition as 'designated as at fair value through profit or loss' are recognised at fair value. The latter classification is given to deposits if they are associated with the growth of investment funds or are made for products of which the policyholder benefit is mostly identical to the benefit from the investment. For these deposits for investment contracts without a discretionary participation feature (see Note 2.13), only the withdrawals and allocations that are part of the operating result are recorded in the income statement. The risk and cost portions

of premiums from policyholders are recognised in the income statement and recorded in the position 'Other income'. The policyholder's deposit is directly credited or debited with the investment portion of the premium.

Those financial liabilities not held for trading and also not designated as at fair value through profit or loss are recognised at amortised cost. Interest expenses for financial liabilities that are used for financing purposes are recognised in the income statement as 'Finance costs'. Depreciation and appreciation resulting from the amortised cost method are offset against interest expenses in the income statement.

2.13 Insurance operations

Direct business includes assumed primary business and business ceded to reinsurers. Indirect business consists of assumed reinsurance business and business retroceded to reinsurers. The actuarial items are described as 'gross' before deduction of ceded business and as 'net' after the deduction.

Insurance contracts as defined by IFRS comprise all products containing a significant insurance risk. The significance is assessed at product level.

Contracts that are considered insurance products in the formal sense of the law and mainly carry financial risk rather than any significant insurance risk are treated as financial instruments unless they carry a discretionary participation feature (DPF), in which case they are classified as insurance contracts. Under IFRS, discretionary participation features are contractual benefits where, in addition to the guaranteed benefit, the policyholder has a claim to the realised or unrealised investment returns on certain assets or to a share of the insurance company's profit or loss. This additional benefit must form a significant proportion of the overall contractual benefit, and its amount or timing must be at the insurance company's discretion.

2.13.1 Non-life business

The actuarial items in non-life business are established Group-wide on the same principles. All non-life insurance products of Helvetia Group contain significant insurance risk and are reported in the balance sheet as insurance contracts.

Loss reserves are set aside for all claims incurred by the end of the accounting period. The reserves also include provisions for claims incurred but not yet reported. Actuarial methods that take account of uncertainties are applied to determine the amount of reserves. These are included in the reserve calculation on the basis of assumptions that have to be made using available statistics and the overall expected extent of the claims (including claims handling and processing costs). Reserves are not discounted, except for those provisions for claims for which there are payment arrangements.

Reserve estimates and the assumptions on which they are based are reviewed continuously. Valuation changes are taken to profit or loss at the time of the change.

A Liability Adequacy Test (LAT) is carried out on every reporting date to determine whether, taking into consideration expected future cash flows, the existing liabilities of each business line (property, motor vehicle, liability, transport and accident/health insurance) at all Group companies are sufficiently covered up to the reporting date in order to ensure a loss-free valuation. Expected future premium income is compared to expected claims expenses, expected administration and acquisition costs and expected policyholder dividends. If the expected costs exceed the expected premium income, the loss reserves are increased.

Premiums are booked at the beginning of the contract period. Earned premiums are calculated pro rata per individual contract and recorded as income for the relevant risk periods. Premium proportions relating to future business periods are

accounted for as unearned premium reserves. The cost of claims is assigned to the relevant period.

The Helvetia Group does not defer acquisition costs in non-life business.

2.13.2 Life business

The Helvetia Group classifies all life insurance products containing significant insurance risk as insurance contracts.

The valuation and accounting principles applied locally by the life companies determine the actuarial items in life business. The assumptions made in setting the reserves are based on best estimate principles that, firstly, take account of the business-specific situation, such as existing capital investments and the market situation as well as, for example, possible yields from reinvestments, and secondly, local actuarial bases of calculation (e.g. interest rates, mortality). The assumptions vary according to country, product and year of acceptance, and take account of country-specific experiences.

Unearned premium reserves and actuarial reserves are calculated using local methods. Zillmering is not applied to actuarial reserves in any country market apart from Germany and Austria.

All Group companies defer acquisition costs under local accounting rules. Depending on the country, either the effectively incurred acquisition costs or acquisition cost surcharges included in the premium are deferred in part.

A Liability Adequacy Test is applied at each reporting date to examine whether existing reserves are sufficient to cover expected future needs. The reserve increases that are shown by the LAT to be necessary are calculated Group-wide according to standard principles. The LAT is based on actuarial principles using best estimate assumptions. The estimate of expected needs is calculated by using the difference between the present value of the benefits (including expected administration

costs and expected policyholder dividends) and the present value of expected gross premiums. If expected needs exceed existing reserves (less deferred acquisition costs not included in the actuarial reserve), the actuarial reserve is increased to the required level through profit or loss.

Policyholders with contracts containing discretionary participation features may have the right to participate in local investment returns on capital or local company results under statutory or contractual regulations. Provisions set up for that purpose in accordance with local accounting principles are not changed under IFRS rules and are included under 'Provision for future policyholder participation' in the balance sheet.

Portions of the valuation differences in relation to local accounting principles allocated to contracts containing discretionary participation features which affect either the result or unrealised gains in equity are also reserved under the aforementioned balance sheet item. The portion is equal to the percentage rate which sets the minimum participation level of policyholders in the respective revenues under local statutory or contractual regulations. This participation is credited or debited to the position 'Provision for future policyholder participation' through profit or loss. Similarly, the portion of unrealised gains or losses is recognised in the provisions without affecting profit or loss.

The remaining gains – either through profit or loss or with no impact on the results – that relate to contracts with a discretionary participation feature (i.e. every share for which no legal or contractual obligations exist) are recorded under 'Valuation reserves for contracts with participation features' within equity.

Bonuses already assigned which accrue interest are allocated to the deposits of policyholders and are contained in the balance sheet as 'Financial liabilities from insurance business'.

If insurance contracts contain both an insurance and a deposit component, unbundling is carried out if the rights and obligations resulting from the deposit component cannot be fully assessed. In this case, the deposit component is subject to separate valuation.

Financial derivatives embedded in insurance contracts that are not closely related to the host contract are recognised at fair value. Option pricing techniques are used to assess embedded derivatives. Such embedded derivatives are accounted for under 'Other financial liabilities', separate from the actuarial reserve under 'Other financial liabilities'.

Premiums, insurance benefits and costs arising from life insurance contracts are booked at maturity. These income and expenses are accrued or deferred so that profit from the contracts is recognised in the appropriate period.

2.13.3 Reinsurance

Reinsurance contracts are contracts between insurance companies. As in primary insurance business, there must be sufficient risk transfer for a transaction to be booked as a reinsurance contract, otherwise the contract is considered a financial instrument.

The direct business conveyed to reinsurance companies is called ceded reinsurance and contains cessions from direct life and non-life business. Premiums, unearned premium reserves and premium adjustments for ceded business are recognised and shown separately from primary business in the financial statements. The accounting rules used for primary insurance business apply to ceded business.

Assets from ceded reinsurance business are regularly reviewed for potential impairment and uncollectibility. If there is objective and substantial evidence of permanent impairment at the balance sheet date, the difference between the carrying

value and estimated recoverable amount is recognised in the income statement as an impairment loss.

Indirect business accepted by another insurance company is called assumed reinsurance. As in primary insurance business, technical reserves are included in the respective actuarial items on the liabilities side, and are similarly estimated using mathematical-statistical models and the most up-to-date information available. They also reflect uncertainties. Non-traditional insurance contracts are treated as financial instruments and are reported under 'Reinsurance assets' or 'Financial liabilities from insurance business' if no significant insurance risks have been transferred. Net commission is carried directly to the income statement.

Indirect business ceded to insurance companies outside the Group is called retrocession. The principles of ceded business apply in this instance.

2.14 Income taxes

Deferred tax assets and liabilities are calculated using the tax rate changes enacted or substantively enacted as of the balance sheet date. Deferred taxes are recognised for all temporary differences between the carrying values of assets and liabilities and the tax bases of these assets and liabilities, using the liability method. Deferred tax assets from losses carried forward are recorded only to the extent that it is probable that future taxable profit can be offset against the relevant losses. Deferred tax assets and liabilities are offset when an enforceable legal right was granted by the tax authorities in question to set off actual tax assets and liabilities.

2.15 Receivables

Receivables from insurance business and other receivables are carried at amortised cost which is, in general, the nominal value of the receivables. Permanent impairment is recognised in the income statement.

2.16 Accrued investment income

Interest income on interest-bearing financial investments and loans that are to be allocated to the reporting year is accrued or deferred under financial assets.

2.17 Cash and cash equivalents

Cash amounts consist of cash on hand, demand deposits and short-term liquid investments with a maturity of 90 days or less from the date of acquisition.

2.18 Treasury shares

Treasury shares are recorded at cost, including transaction costs, and reported as a deduction item in equity. The difference between cost and sale price is recorded as a change in capital reserves, with no impact on profit or loss. Treasury shares are exclusively shares of Helvetia Holding AG, St. Gallen.

2.19 Non-actuarial provisions and contingent liabilities

Non-actuarial provisions contain current obligations that will probably require an outflow of assets, but the extent of such obligations and the time they will be called on are difficult to determine. Provisions are created if, on the balance sheet date and on the basis of a past event, a current obligation exists, the probability of an outflow of assets is high and the extent of the outflow can be reliably estimated.

Any current liabilities with a low probability of an outflow of assets or the extent of which cannot be reliably estimated are reported under contingent liabilities.

2.20 Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits.

Short-term employee benefits are due in full within 12 months after the end of the reporting period. They include salaries, social security contributions, holiday and sickness pay, bonuses and non-monetary benefits for active employees. Expected expenses for entitlements which can be accumulated, such as accrued holiday and overtime entitlements, are recognised as short-term liabilities at the balance sheet date.

Post-employment benefits pertain to defined contribution plans and defined benefit plans. The amount of the employers' contributions for defined contribution plans depends on the employee services rendered during the reporting period and is charged directly to the income statement. For defined benefit plans, pension obligations and related expenses are calculated at each balance sheet date by a qualified actuary, using the projected unit credit method. The actuarial assumptions applied to the calculations consider the regulations of the respective countries and Group companies. Changes in the assumptions or differences between the expected and actual return from the plan's assets are actuarial gains and losses. Actuarial gains and losses to be depreciated in the income statement are recorded for each individual plan using the 'corridor method', under which recognition is only required if the balance of the accumulated, unrecognised actuarial gains and losses exceeds the greater of ten per cent of the present value of the defined benefit obligations and ten per cent of the fair value of plan assets at the end of the previous reporting period. The portion of actuarial gains and losses outside the ten per cent corridor is recognised in the income statement over the expected average remaining working lives of the employees participating in the plans.

For funded benefit plans, a surplus in the plan may arise if the fair value of the plan assets exceeds the present value of the defined benefit obligations. Portions of this surplus are only recognised and recorded as an asset if an economic benefit in the form of future reductions in contributions or refunds to the employer arises. Detailed examination must ensure that newly arising actuarial gains or losses do not lead to an increase or decrease in the assets on record.

Other long-term employee benefits are benefits that fall due 12 months or more after the balance sheet date. At the Helvetia Group, these consist mainly of long-service awards and are calculated using actuarial principles. The amount recognised in the balance sheet is equal to the present value of the defined benefit obligation less any plan assets.

Termination benefits consist, for example, of severance pay and benefits from social schemes for redundancies. Such benefits are immediately recognised as expenses in the income statement at the time the employment relationship is terminated.

2.21 Share-based payments

Share-based payment transactions include all compensation agreements under which employees receive shares, options or similar equity instruments or the granting Group company assumes obligations that depend on the price of its shares. All share-based payment transactions with employees are recognised at fair value.

Equity instruments granted to employees through employee share purchase plans represent compensation for services already rendered for which compensation expenses arise in the granting company. The amount of the compensation expenses is based on the fair value of the equity instruments at the grant date and is expensed over the vesting period.

2.22 Other liabilities

Other liabilities are carried at amortised cost, which is generally equal to the nominal value.

2.23 Offsetting of assets and liabilities

Assets and liabilities are offset in the balance sheet when there is a legal right to set off the recognised amounts and only the net position has actually been reported.

3. Segment information

The management structure of Helvetia Group is primarily based on country markets. Each country has its own management which is in charge of the operational management of all local business units. This has created the following reporting segments:

Primary segmentation at Helvetia Group is structured by geographical areas and follows the management responsibility: Switzerland, Germany, Italy, Spain and others. The segment 'Others' covers the country markets of Austria and France, the financing companies in the UK and Luxembourg, as well as the Group's assumed and ceded re-insurance business. Special purpose entities are assigned to the individual countries in proportion to their ownership structure. With the exception of the reinsurance business, the geographical segmentation is based on the location of the legal entity where all service-rendering activities occur. This segmentation also reflects the locations where customers of Helvetia Group reside.

Secondary segmentation is based on business segments of Helvetia Group: life and non-life business and other activities. In the life segment, Helvetia Group offers various product lines, such as life insurance, pension plans and annuities. The non-life segment offers property, motor vehicle, liability and transport insurance policies as well as health and accident insurance coverage. Other activities refer to the reporting of the non-underwriting activities of the Group's service, distribution and real estate companies. Special purpose entities are proportionally assigned to the life and non-life segments. Reinsurance contracts are reported in the life or non-life segment depending on the type of contract.

The accounting policies that apply to the segment reporting are the same as those described in the summary of significant accounting policies. Inter-segmental services and transfers of assets and liabilities are made on an arm's length basis. Investments and investment and interest income from subsidiaries between the segments are eliminated within the respective segment. All other inter-segmental relations and revenues within the Group are eliminated in full. Current and deferred income taxes are not components of segment result or segment assets or liabilities, and are therefore not allocated to the individual segments.

The assignment of individual Group entities to the various business and geographical segments is explained in Note 18 (beginning on page 172).

3.1 Segment information by geographical segment in CHF million

Income	Switzerland		Germany	
	2006	2005	2006	2005
Gross premiums written	2 824.5	2 757.3	798.2	768.9
Reinsurance premiums ceded	-88.1	-104.3	-84.2	-97.1
Net premiums written	2 736.4	2 653.0	714.0	671.8
Net change in unearned premium reserve	-7.8	0.9	-0.2	10.2
Net earned premiums	2 728.6	2 653.9	713.8	682.0
Interest and dividend income	464.5	447.6	95.0	93.0
Gains and losses on investments (net)	234.0	438.3	30.3	10.3
Income on investment property	123.7	170.4	7.3	-1.4
Other income	32.7	32.9	22.1	25.1
Total operating income	3 583.5	3 743.1	868.5	809.0
of which transactions between geographical segments	39.1	48.5	51.6	56.0
Expenses				
Claims incurred including claims handling costs (non-life)	-325.3	-452.7	-355.6	-337.0
Claims and benefits paid (life)	-1 862.1	-1 925.7	-120.0	-109.9
Change in actuarial reserve	-480.8	-495.9	-85.6	-71.4
Policyholder dividends and bonuses	-142.8	-251.0	-29.4	-21.1
Reinsurers' share of benefits and claims	19.8	138.2	43.9	40.3
Net insurance benefits and claims	-2 791.2	-2 987.1	-546.7	-499.1
Acquisition costs	-192.2	-183.3	-168.0	-172.9
Operating and administrative expenses	-271.9	-254.9	-85.2	-83.1
Interest payable	-34.1	-40.6	-3.9	-6.4
Other expenses	0.0	-42.8	-13.3	-16.0
Total operating expenses	-3 289.4	-3 508.7	-817.1	-777.5
Profit or loss from operating activities	294.1	234.4	51.4	31.5
Finance costs	-6.0	-5.9	-	-
Share of profit or loss of associates	0.9	-8.1	-	0.2
Profit or loss before tax	289.0	220.4	51.4	31.7
Income taxes	-	-	-	-
Profit or loss for the period	-	-	-	-
Other disclosures:				
Assets by geographical segment as of 31.12.	23 383.4	22 870.5	2 787.7	2 619.4
of which investments	22 011.5	21 365.8	2 381.7	2 208.6
of which investments in associates	43.6	43.0	-	-
Liabilities by geographical segment as of 31.12.	21 271.1	20 986.4	2 422.6	2 275.5
of which technical provisions (gross)	18 764.6	18 224.8	2 025.6	1 833.4
Cash flow from operating activities (net)	29.6	82.1	59.9	3.1
Cash flow from investing activities (net)	-69.8	-96.1	-59.9	-2.4
Cash flow from financing activities (net)	-10.1	23.9	-1.3	-0.7
Acquisition of owner-occupied property, equipment and intangible assets	81.3	47.1	7.5	3.8
Depreciation and amortisation of tangible and intangible assets	-15.6	-16.0	-3.9	-4.1
Impairment of tangible and intangible assets affecting income	-	-1.3	-	-2.6
Reversal of impairment losses on tangible and intangible assets affecting income	-	-	-	-
Share-based payment transaction costs	-0.8	-0.1	-	-

3. Segment information 107

Italy	Spain		Other		Elimination and non-allocated items		Total		2005
	2006	2005	2006	2005	2006	2005	2006	2005	
	522.8	546.6	494.8	463.3	830.6	871.3	-215.2	-230.6	5 255.7
	-68.9	-65.8	-60.5	-64.9	-184.5	-201.6	214.2	230.6	-272.0
	453.9	480.8	434.3	398.4	646.1	669.7	-1.0	0.0	4 983.7
	-11.1	-5.0	-11.2	-5.2	4.7	1.1	1.0	0.0	-24.6
	442.8	475.8	423.1	393.2	650.8	670.8	0.0	0.0	4 959.1
	51.6	44.5	30.2	25.8	63.1	64.8	-	-	704.4
	9.0	18.8	22.7	21.9	-5.1	17.6	-	-	290.9
	0.8	3.6	33.3	5.2	21.3	11.3	-	-	186.4
	18.4	18.2	16.6	18.5	53.0	55.0	-53.4	-50.9	89.4
	522.6	560.9	525.9	464.6	783.1	819.5	-53.4	-50.9	6 230.2
	32.9	37.1	36.2	40.6	-213.2	-233.1	53.4	50.9	
	-234.5	-220.1	-225.1	-202.3	-421.6	-495.3	96.3	170.8	-1 465.8
	-74.4	-52.6	-67.3	-57.5	-111.0	-94.6	8.5	5.7	-2 226.3
	-93.0	-160.5	-18.5	-50.8	-59.4	-74.8	-0.7	3.6	-738.0
	4.3	-4.2	-	-	1.2	-15.6	-	-	-166.7
	45.5	40.5	35.3	43.4	120.4	162.2	-104.1	-180.1	160.8
	-352.1	-396.9	-275.6	-267.2	-470.4	-518.1	-	-	-4 436.0
	-80.8	-77.1	-75.4	-72.1	-182.8	-168.7	51.8	48.9	-647.4
	-49.2	-43.9	-63.1	-58.7	-39.5	-35.8	-0.4	0.0	-509.3
	-2.9	-3.1	0.0	-0.1	-0.7	-0.8	-	-	-41.6
	-9.9	-11.8	-2.6	-4.7	-5.7	-15.3	2.0	2.0	-29.5
	-494.9	-532.8	-416.7	-402.8	-699.1	-738.7	53.4	50.9	-5 663.8
	27.7	28.1	109.2	61.8	84.0	80.8	0.0	0.0	566.4
	-	-	-	-	-	-3.4	-	-	-6.0
	-	-	0.9	0.8	0.0	0.0	-	-	1.8
	27.7	28.1	110.1	62.6	84.0	77.4	0.0	0.0	562.2
							-138.4	-118.3	-138.4
								423.8	301.9
	1 893.5	1 758.9	1 513.8	1 389.6	2 567.4	2 252.2	-335.7	-245.2	31 810.1
	1 498.5	1 398.4	1 224.8	1 099.3	1 811.2	1 711.1	0.0	-	28 927.7
	-	-	2.6	2.2	0.0	0.0	-	-	46.2
	1 907.9	1 749.6	1 207.5	1 132.2	2 067.7	1 753.2	194.9	267.7	29 071.7
	1 518.3	1 356.6	1 105.8	1 036.3	2 362.0	2 269.5	-238.5	-249.3	25 537.8
	-34.8	142.4	34.8	7.5	33.7	26.5	-9.7	-6.9	113.5
	26.2	-139.0	-5.2	-2.4	-3.9	-3.7	8.1	118.4	-104.5
	0.0	-10.6	-26.7	-0.1	-26.5	-25.3	1.6	-113.3	-63.0
	7.3	7.8	5.8	2.7	4.6	17.8			106.5
	-2.5	-2.3	-2.3	-2.1	-7.5	-16.9			-31.8
	-	-	-	-	-	-0.1			-
	-	-	-	-	-	-			-
	-	-	-	-	-	-			-0.8

3.2 Segment information by business segment in CHF million

Income	Life		Non-life	
	2006	2005	2006	2005
Gross premiums written	2 832.4	2 790.2	2 423.3	2 386.7
Reinsurance premiums ceded	-41.6	-37.5	-230.4	-265.7
Net premiums written	2 790.8	2 752.7	2 192.9	2 121.0
Net change in unearned premium reserve	-0.9	4.4	-23.7	-2.4
Net earned premiums	2 789.9	2 757.1	2 169.2	2 118.6
Interest and dividend income	568.0	541.3	124.0	120.3
Gains and losses on investments (net)	214.3	440.5	33.0	53.0
Income on investment property	123.4	166.8	59.9	22.1
Other income	17.7	29.8	71.6	69.1
Total operating income	3 713.3	3 935.5	2 457.7	2 383.1
of which transactions between business segments	0.5	0.0	-0.8	-0.2
Expenses				
Claims incurred including claims handling costs (non-life)	-	-	-1 465.8	-1 536.6
Claims and benefits paid (life)	-2 226.3	-2 234.6	-	-
Change in actuarial reserve	-738.0	-849.8	-	-
Policyholder dividends and bonuses	-164.0	-288.9	-2.7	-3.0
Reinsurers' share of benefits and claims	25.8	20.7	135.0	223.8
Net insurance benefits and claims	-3 102.5	-3 352.6	-1 333.5	-1 315.8
Acquisition costs	-156.7	-158.3	-490.7	-466.9
Operating and administrative expenses	-214.9	-195.6	-292.0	-280.1
Interest payable	-39.8	-50.2	-1.5	-0.5
Other expenses	-15.7	-30.9	-19.3	-58.2
Total operating expenses	-3 529.6	-3 787.6	-2 137.0	-2 121.5
Profit or loss from operating activities	183.7	147.9	320.7	261.6
Finance costs	-	-	-	-
Share of profit or loss of associates	0.9	-8.0	0.9	0.9
Profit or loss before tax	184.6	139.9	321.6	262.5
Income taxes	-	-	-	-
Profit or loss for the period	-	-	-	-
Other disclosures:				
Assets by business segment as of 31.12.	25 423.7	24 244.7	5 833.7	5 724.0
Liabilities by business segment as of 31.12.	23 956.6	23 093.0	4 346.9	4 514.4
Acquisition of owner-occupied property, equipment and intangible assets	61.7	50.7	28.3	24.9
Depreciation and amortisation on tangible and intangible assets	-10.0	-14.5	-18.5	-24.9
Impairment of tangible and intangible assets affecting income	-	-1.3	-	-2.7
Reversal of impairment losses on tangible and intangible assets affecting income	-	-	-	-

3. Segment information 109

Other	Elimination and non-allocated items		Total			
	2006	2005	2006	2005	2006	2005
	–	–	–	–0.1	5 255.7	5 176.8
	–	–	–	0.1	–272.0	–303.1
	–	–	–	–	4 983.7	4 873.7
	–	–	–	–	–24.6	2.0
	–	–	–	–	4 959.1	4 875.7
	12.4	14.1	–	–	704.4	675.7
	43.6	13.4	–	–	290.9	506.9
	3.1	0.2	–	–	186.4	189.1
	0.4	0.1	–0.3	–0.2	89.4	98.8
	59.5	27.8	–0.3	–0.2	6 230.2	6 346.2
	–	0.0	0.3	0.2		
	–	–	–	0.0	–1 465.8	–1 536.6
	–	–	–	–	–2 226.3	–2 234.6
	–	–	–	–	–738.0	–849.8
	–	–	–	–	–166.7	–291.9
	–	–	–	0.0	160.8	244.5
	–	–	–	–	–4 436.0	–4 668.4
	–	–	–	0.0	–647.4	–625.2
	–2.4	–0.7	0.0	0.0	–509.3	–476.4
	–0.3	–0.3	–	–	–41.6	–51.0
	5.2	0.3	0.3	0.2	–29.5	–88.6
	2.5	–0.7	0.3	0.2	–5 663.8	–5 909.6
	62.0	27.1	0.0	0.0	566.4	436.6
	–6.0	–9.3	–	–	–6.0	–9.3
	–	–	–	–	1.8	–7.1
	56.0	17.8	0.0	0.0	562.2	420.2
			–138.4	–118.3	–138.4	–118.3
					423.8	301.9
	546.3	674.7	6.4	2.0	31 810.1	30 645.4
	231.3	42.4	536.9	514.8	29 071.7	28 164.6
	16.5	3.6			106.5	79.2
	–3.3	–2.0			–31.8	–41.4
	–	–			–	–4.0
	–	–			–	–

3.3 Gross premiums by geographical and business segment in CHF million

	Gross premiums		Elimination		Total consolidated		Change in %	Change in % (FX-adjusted)
	2006	2005	2006	2005	2006	2005		
Switzerland non-life	607.5	582.9	–	–	607.5	582.9	4.2	4.2
Switzerland life	2 217.0	2 174.4	–	–	2 217.0	2 174.4	2.0	2.0
Total Switzerland	2 824.5	2 757.3	–	–	2 824.5	2 757.3	2.4	2.4
Germany non-life	586.9	584.8	–	–	586.9	584.8	0.4	–1.5
Germany life	211.3	184.1	–	–	211.3	184.1	14.8	12.7
Total Germany	798.2	768.9	–	–	798.2	768.9	3.8	1.9
Italy non-life	365.0	343.4	–	–	365.0	343.4	6.3	4.4
Italy life	157.8	203.2	–	–	157.8	203.2	–22.3	–23.8
Total Italy	522.8	546.6	–	–	522.8	546.6	–4.3	–6.1
Spain non-life	386.5	367.7	–	–	386.5	367.7	5.1	3.2
Spain life	108.3	95.6	–	–	108.3	95.6	13.3	11.2
Total Spain	494.8	463.3	–	–	494.8	463.3	6.8	4.9
Other non-life:								
Other countries	288.7	280.7	–	–	288.7	280.7	2.8	1.0
Reinsurance	391.2	444.8	–202.5	–217.7	188.7	227.1	–16.9	–16.9
Other life:								
Other countries	133.5	130.8	–	–	133.5	130.8	2.1	0.2
Reinsurance	17.2	15.0	–12.7	–12.9	4.5	2.1	108.7	108.7
Total other	830.6	871.3	–215.2	–230.6	615.4	640.7	–4.0	–5.2
Total gross premiums	5 470.9	5 407.4	–215.2	–230.6	5 255.7	5 176.8	1.5	0.7

3.4 Gross premiums by business line in CHF million

	Gross premiums		Change in %	Change in % (FX-adjusted)
	2006	2005		
Individual insurance	1 004.3	1 040.6	-3.5	-4.2
Group insurance	1 638.9	1 587.8	3.2	3.1
Unit-linked life insurance	184.7	159.7	15.6	14.5
Reinsurance life	4.5	2.1	108.7	108.7
Gross premiums life	2 832.4	2 790.2	1.5	1.1
Property	901.2	860.6	4.7	3.5
Transport	222.1	225.7	-1.6	-3.1
Motor vehicle	733.2	713.3	2.8	1.3
Liability	234.6	225.2	4.2	2.9
Accident/health	143.5	134.7	6.5	4.6
Reinsurance non-life	188.7	227.1	-16.9	-16.9
Gross premiums non-life	2 423.3	2 386.6	1.5	0.3
Total gross premiums	5 255.7	5 176.8	1.5	0.7

4. Foreign currency translation

4.1 Exchange rates

The euro, Swiss franc, British pound and US dollar are the functional currencies in the individual business units of Helvetia Group. The following exchange rates apply to the translation of these financial statements and foreign currency transactions:

Exchange rate at reporting date	31.12.2006	31.12.2005
1 EUR	1.6097	1.5546
1 USD	1.2207	1.3180
1 GBP	2.3891	2.2626

Annual average	2006 Jan–Dec	2005 Jan–Dec
1 EUR	1.5765	1.5479
1 USD	1.2470	1.2510
1 GBP	2.3121	2.2661

4.2 Foreign exchange gains and losses

The foreign exchange results in the consolidated income statement show a profit of CHF 97.7 million in 2006 (previous year: CHF 5.2 million). The foreign exchange gains and losses from financial investments are included in 'Gains and losses on investments' in the consolidated income statement and amount to CHF 80.0 million (previous year: CHF 19.9 million) excluding foreign currency translation differences from investments at fair value through profit or loss. Other foreign exchange results are reported under 'Other income' and 'Other expenses'.

5. Property and equipment

	Undeveloped land		Owner- occupied property		Equipment		Property under construction		Total	
in CHF million	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Acquisition costs:										
Balance as of 1 January	5.4	5.4	510.6	490.3	96.0	118.9	22.9	23.7	634.9	638.3
Change in the scope of consolidation	–	–	–	–	–	–	–	–	–	–
Additions	–	–	1.4	17.3	7.7	11.1	77.0	34.4	86.1	62.8
Disposals	–	–	–1.4	–2.0	–2.8	–34.5	–0.1	–	–4.3	–36.5
Revaluation gains on transfers to investment property	–	–	5.6	1.9	–	–	–	–	5.6	1.9
Transfer	–	–	–10.4	1.8	–	–	28.6	–35.2	18.2	–33.4
Foreign currency translation differences	–	–	8.5	1.3	2.8	0.5	0.6	0.0	11.9	1.8
Other changes	–	–	0.0	–	0.0	0.0	–	–	0.0	0.0
Balance as of 31 December	5.4	5.4	514.3	510.6	103.7	96.0	129.0	22.9	752.4	634.9
Accumulated depreciation/ impairment:										
Balance as of 1 January	–	–	133.9	117.6	74.9	98.7	0.0	–	208.8	216.3
Change in the scope of consolidation	–	–	–	–	–	–	–	–	–	–
Depreciation	–	–	7.9	12.0	8.3	9.6	–	–	16.2	21.6
Impairment	–	–	–	3.9	–	–	–	–	–	3.9
Reversal of impairment losses	–	–	–	–	–	–	–	–	–	–
Disposals depreciation/impairment	–	–	–0.6	0.0	–2.1	–33.8	–	–	–2.7	–33.8
Transfer	–	–	–2.6	0.0	–	–	1.7	–	–0.9	0.0
Foreign currency translation differences	–	–	2.7	0.4	2.2	0.4	–0.1	0.0	4.8	0.8
Other changes	–	–	0.0	–	0.0	–	–	–	–	–
Balance as of 31 December	–	–	141.3	133.9	83.3	74.9	1.6	0.0	226.2	208.8
Book value as of 31 December	5.4	5.4	373.0	376.7	20.4	21.1	127.4	22.9	526.2	426.1
of which assets under finance lease	–	–	–	–	–	–	–	–	–	–
Book value as of 1 January	5.4	5.4	376.7	372.7	21.1	20.2	22.9	23.7	426.1	422.0

6. Goodwill and other intangible assets

in CHF million	Goodwill		Other intangible assets		Total	
	2006	2005	2006	2005	2006	2005
Acquisition costs:						
Balance as of 1 January	23.4	22.3	127.2	118.1	150.6	140.4
Change in the scope of consolidation	–	–	–	–	–	–
Additions	–	1.0	20.4	15.4	20.4	16.4
Disposals	–	–	–0.1	–6.7	–0.1	–6.7
Foreign currency translation differences	0.9	0.1	2.9	0.4	3.8	0.5
Balance as of 31 December	24.3	23.4	150.4	127.2	174.7	150.6
Accumulated amortisation/impairment:						
Balance as of 1 January	0.1	0.0	88.2	74.7	88.3	74.7
Change in the scope of consolidation	–	–	–	–	–	–
Amortisation	–	–	15.6	19.8	15.6	19.8
Impairment	–	0.1	–	–	–	0.1
Reversal of impairment losses	–	–	–	–	–	–
Disposals amortisation/impairment	–	–	–0.1	–6.7	–0.1	–6.7
Foreign currency translation differences	0.0	0.0	2.3	0.3	2.3	0.3
Balance as of 31 December	0.1	0.1	106.0	88.1	106.1	88.2
Book value as of 31 December	24.2	23.3	44.4	39.1	68.6	62.4
Book value as of 1 January	23.3	22.3	39.1	43.4	62.4	65.7

'Other intangible assets' of Helvetia Group largely consist of purchased and internally developed software. Helvetia Group has currently not deferred any intangible assets with an indefinite useful life.

'Goodwill' comprises the goodwill resulting from the acquisition of Helvetia Compañía Suiza S.A. (formerly: Previsión Española S.A.), Seville, in 2000. The book value of the resulting goodwill stood at CHF 24.2 million on the balance sheet date (previous year: CHF 23.3 million). The change compared to the previous year results exclusively from monetary influences. For the purpose of impairment testing, goodwill is fully assigned to the cash generating unit (CGU) Helvetia Compañía Suiza, which is part of the geographical segment Spain. Goodwill is tested annually for impairment in accordance with Note 2.9 (page 96).

The impairment test carried out in 2006 did not result in an impairment loss for the cash generating unit. The recoverable amount was determined by calculating the value in use. This calculation required management to make estimates on expected return. These free cash flows are usually considered for a period of two to five years and are based on the budget approved by management and the strategic planning. The calculations are based on the following growth and discount rates, assuming cash flows in perpetuity:

Assumptions:

Growth rate	1%
Risk-adjusted interest rate after taxes	8.06%

The growth rate was set by management and is based on past experience and future expectations. The risk-free capital market interest rate plus a risk premium were used to determine the discount rate.

7. Investments

7.1 Investment income

7.1.1 Interest and dividend income in CHF million

	2006	2005
Interest on bonds	453.3	430.3
Dividends from shares, investment funds and alternative investments	56.0	52.9
Loans	176.0	177.1
Money market instruments	19.0	15.4
Other	0.1	0.0
Interest and dividend income	704.4	675.7

Investment management expenses in the reporting period amounted to CHF 10.3 million (previous year: CHF 8.5 million) and are reported under 'Operating and administrative expenses' in the income statement. Interest and dividend income from investments at fair value through profit or loss stood at CHF 35.0 million (previous year: CHF 36.2 million).

7.1.2 Direct yield of interest-rate-sensitive financial assets in %

	2006	2005
Bonds	3.1	3.1
Mortgages, loans and money market instruments	3.2	3.2
Total interest-rate-sensitive financial assets	3.2	3.2

7.1.3 Gains and losses on investments (net) in CHF million

	2006	2005
Realised gains and losses on disposals of loans (LAR) including foreign currency gains and losses:		
Bonds	–	–
Mortgages	0.1	0.2
Loans	0.4	3.1
Money market instruments	0.5	0.5
Realised gains and losses on loans (LAR) incl. money market instruments	1.0	3.8
Realised gains and losses on disposals of held-to-maturity investments (HTM) including foreign currency gains and losses:		
Bonds	15.3	2.7
Loans	–	–
Realised gains and losses on HTM investments	15.3	2.7
Realised gains and losses on disposals of available-for-sale investments (AFS) including foreign currency gains and losses:		
Bonds	40.4	89.3
Shares	143.0	72.4
Investment funds	0.7	3.2
Alternative investments	0.0	–
Loans	–	–
Realised gains and losses on AFS investments	184.1	164.9
Realised and book gains and losses on financial assets held for trading including foreign currency gains and losses:		
Bonds	–	–
Shares	3.6	2.1
Investment funds	16.2	16.9
Alternative investments	–	–
Derivative financial instruments	–102.9	–22.0
Realised and book gains and losses on financial assets held for trading	–83.1	–3.0
Realised and book gains and losses on financial assets designated as at fair value through profit or loss including foreign currency gains and losses:		
Bonds	7.7	21.9
Shares	82.0	89.5
Investment funds ¹	54.9	119.3
Alternative investments	29.6	107.1
Realised and book gains and losses on financial assets designated as at fair value through profit or loss	174.2	337.8
Other	2.1	0.3
Impairment of financial assets of the period	–4.6	–3.3
Reversal of impairment losses on financial assets of the period	1.9	3.7
Total gains and losses on investments (net)	290.9	506.9

¹ These include CHF 51.9 million (previous year: CHF 81.2 million) of gains and losses relating to financial assets for the account and risk of life policyholders.

Reported gains and losses on investments classified as held-to-maturity are book gains and losses resulting from foreign currency translation. The change to impairment on financial assets includes impairments on receivables from investments.

7.1.4 Income on investment property in CHF million

	2006	2005
Rental income	226.6	220.2
Realised and book gains and losses	-40.2	-31.1
Total income on investment property	186.4	189.1

Real estate held as investment properties generated CHF 61.2 million (previous year: CHF 54.8 million) in investment management expenses for the reporting period. This amount includes all maintenance and repair costs and is reported in the income statement under 'Operating and administrative expenses'. Operating expenses for investment property that did not generate rental income during the period stood at CHF 2.8 million (pre-

vious year: CHF 1.1 million). Based on notice periods, the tenancies generated operating lease receivables for Helvetia Group of CHF 55.6 million (previous year: CHF 77.4 million) with a maturity of less than one year, CHF 138.9 million (previous year: CHF 127.5 million) with a maturity between one and five years, and CHF 50.8 million (previous year: CHF 82.0 million) with a maturity of more than five years.

7.2 Investments in associates

There was no change to the investments in associates in the reporting year. A loan contract exists between Helvetia Schweizerische Lebensversicherungsgesellschaft AG, Basel, and Tertianum AG (debtor) for CHF 7.8 million, which attracts interest at usual market conditions.

Dividend income from associates totalled CHF 0.6 million (previous year: CHF 0.6 million). Income and expenses in respect of associates are reported in the income statement under 'Share of profit or loss of associates'.

Investments in associates accounted for under the equity method are listed in the table in Note 18 (beginning on page 172).

7.2.1 Development of investments in associates in CHF million

	2006	2005
Balance as of 1 January	45.2	3.1
Change in the scope of consolidation	–	–
Additions	–	51.0
Disposals	–	–0.6
Unrealised gains and losses in equity	0.0	0.0
Share of profits for the year	1.5	0.4
Dividends paid	–0.6	–0.6
Impairment (net)	–	–7.7
Foreign currency translation differences	0.1	0.0
Other changes	–	–0.4
Book value as of 31 December	46.2	45.2
Impairment losses:		
Accumulated impairment losses as of 1 January	7.7	0.5
Impairment losses of the period	–	7.7
Reversal of impairment losses of the period	–	–
Disposals	–	–
Foreign currency translation differences	–	0.0
Other changes	–	–0.5
Accumulated impairment losses as of 31 December	7.7	7.7

7.2.2 Aggregated financial data on associates

The table below shows an aggregated balance sheet and income statement for the investments that are accounted for under the equity method.

Assets in CHF million

as of 31.12.	2006	2005
Non-current assets	297.9	286.1
Current assets	21.2	21.2
Total assets	319.1	307.3

Profit for the year in CHF million

	2006	2005
Income	132.2	78.1
Expenses	-126.5	-77.7
Profit for the year	5.7	0.4

All associates of Helvetia Group have the same reporting period as the entity holding the investment.

Liabilities and equity in CHF million

as of 31.12.	2006	2005
Equity	190.0	192.4
Long-term liabilities	103.7	96.6
Short-term liabilities	25.4	18.3
Total liabilities	129.1	114.9
Total liabilities and equity	319.1	307.3

Helvetia Group's share in the liabilities of associates amounted to CHF 30.1 million. Associates have overall contingent liabilities of CHF 14.9 million.

7.3 Investment property in CHF million

	2006	2005
Balance as of 1 January	3 883.8	3 869.6
Change in the scope of consolidation	–	–
Additions	44.1	22.2
Capitalised subsequent expenditure	37.8	48.0
Disposals	–30.8	–60.5
Realised and book gains and losses	–40.2	–31.1
Transfer from/to property and equipment	–19.1	33.4
Foreign currency translation differences	14.4	2.2
Balance as of 31 December	3 890.0	3 883.8

The fair value valuation of investment properties in the portfolio of the Group companies in Switzerland is calculated using a model-supported valuation method. In the year under review, this was

based on capitalisation rates ranging from 4.83% to 7.62% (previous year: 4.78% to 7.54%). For all other portfolios, the valuation is determined using reports by independent experts.

7.4 Loans (LAR) incl. money market instruments in CHF million

as of 31.12.	Amortised cost		Fair value	
	2006	2005	2006	2005
Bonds	661.9	478.6	667.6	498.1
Mortgages	3 094.0	3 036.3	3 093.4	3 067.3
Policy loans	141.1	144.5	140.0	144.6
Other loans	1 747.0	1 717.5	1 757.3	1 785.1
Money market instruments	1 099.2	1 002.1	1 099.2	1 002.1
Total loans (LAR) incl. money market instruments	6 743.2	6 379.0	6 757.5	6 497.2

Impairments of CHF 4.6 million (previous year: CHF 5.0 million) were recognised for loans and

mortgages up to the balance sheet date, whereas no impairment of bonds was recorded.

7.5 Held-to-maturity investments (HTM) in CHF million

as of 31.12.	Amortised cost		Fair value	
	2006	2005	2006	2005
Bonds	3 469.7	2 781.0	3 500.4	2 909.1
Total held-to-maturity investments (HTM)	3 469.7	2 781.0	3 500.4	2 909.1

There was no impairment of bonds up to the reporting date.

7.6 Available-for-sale investments (AFS) in CHF million

	Acquisition cost after impairment/ amortised cost		Unrealised gains/ losses net		Fair value	
as of 31.12.	2006	2005	2006	2005	2006	2005
Bonds	10 144.0	10 173.5	25.0	323.1	10 169.0	10 496.6
Shares	918.9	814.6	467.0	389.7	1 385.9	1 204.3
Investment funds – bonds	0.8	3.4	0.1	0.1	0.9	3.5
Investment funds – equities	10.2	14.4	8.9	4.6	19.1	19.0
Investment funds – mixed	0.8	0.8	0.0	0.0	0.8	0.8
Alternative investments	221.6	32.9	4.0	0.5	225.6	33.4
Loans	61.4	71.1	1.0	3.5	62.4	74.6
Total AFS investments after impairment	11 357.7	11 110.7	506.0	721.5	11 863.7	11 832.2
Impairment losses:						
Impairment of the reporting period	2.6	1.2				
Reversal of impairment losses of the reporting period	–	–				
Total impairment losses as of 31 December	2.6	1.2				

7.7 Financial assets at fair value through profit or loss in CHF million

as of 31.12.	Note	Acquisition cost/ amortised cost		Fair value	
		2006	2005	2006	2005
Financial assets held for trading:					
Bonds		–	–	–	–
Shares		11.2	11.9	13.7	13.3
Investment funds – bonds		–	–	–	–
Investment funds – equities		–	–	–	–
Investment funds – mixed		224.2	210.5	263.8	239.4
Alternative investments		–	–	–	–
Derivatives	7.7.1	28.0	5.3	6.0	0.6
Total financial assets held for trading		263.4	227.7	283.5	253.3
Financial assets designated as at fair value through profit or loss:					
Bonds		422.5	398.7	431.4	411.7
Shares		564.6	522.8	649.9	556.1
Investment funds – bonds		33.4	6.9	33.5	7.9
Investment funds – equities		87.9	81.3	125.9	110.7
Investment funds – mixed		227.8	223.9	239.4	220.2
Alternative investments		224.0	416.3	263.3	426.1
Investment funds for account and risk of life policyholders		770.0	795.0	888.0	876.0
Total financial assets designated as at fair value through profit or loss		2 330.2	2 444.9	2 631.4	2 608.7
Total financial assets at fair value through profit or loss		2 593.6	2 672.6	2 914.9	2 862.0

The position 'Investment funds for account and risk of life policyholders' includes the value of units held by owners of unit-linked products.

The majority of the private equity investments held under the position 'Alternative investments' was sold during the year. As the transfer agreement does not meet the criteria for derecognition of these investments before the balance sheet date,

they were included in the financial statements at fair value. The fair value as of 31.12. reflects the agreed transfer price, adjusted by distributions received and contributions made by the Group between the date of valuation and the accounting date. The buyer will assume future rights and obligations in respect of the investments on completion of the sale.

7.7.1 Derivative financial assets in CHF million

as of 31.12.	Maturity profile of contract values			Contract value		Fair value	
	<1 year	1–5 years	>5 years	2006	2005	2006	2005
Interest rate instruments:							
Forward rate agreements	–	–	–	–	–	–	–
Swaps	–	–	–	–	–	–	–
Options (over-the-counter)	0.3	0.0	–	0.3	0.4	0.0	0.0
Options (exchange-traded)	–	–	–	–	–	–	–
Futures (exchange-traded)	–	–	–	–	–	–	–
Total interest rate instruments	0.3	0.0	–	0.3	0.4	0.0	0.0
Equity and equity-index instruments:							
Forwards	–	–	–	–	–	–	–
Options (over-the-counter)	828.5	82.5	–	911.0	922.7	2.7	0.4
Options (exchange-traded)	6.9	–	–	6.9	–	0.0	–
Futures (exchange-traded)	–	–	–	–	–	–	–
Total equity and equity-index instruments	835.4	82.5	–	917.9	922.7	2.7	0.4
Currency instruments:							
Forwards	138.4	–	–	138.4	–	3.2	–
Swaps	–	–	–	–	–	–	–
Options (over-the-counter)	212.5	–	–	212.5	221.4	0.1	0.2
Options (exchange-traded)	–	–	–	–	–	–	–
Futures (exchange-traded)	–	–	–	–	–	–	–
Total currency instruments	350.9	–	–	350.9	221.4	3.3	0.2
Total derivative financial assets	1 186.6	82.5	–	1 269.1	1 144.5	6.0	0.6

7.8 Investments by business segment in CHF million

as of 31.12.	Life		Non-life		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Bonds	11 926.3	11 308.6	2 568.4	2 471.0	237.3	388.3	14 732.0	14 167.9
Shares	1 571.1	1 382.4	255.9	226.9	222.5	164.4	2 049.5	1 773.7
Investment funds	1 550.0	1 459.0	20.9	17.4	0.5	1.1	1 571.4	1 477.5
Alternative investments	436.0	408.6	52.9	50.9	–	–	488.9	459.5
Loans	1 613.9	1 585.3	336.6	351.3	–	–	1 950.5	1 936.6
Mortgages	2 950.0	2 894.4	144.0	141.9	–	–	3 094.0	3 036.3
Derivative financial instruments	6.0	0.6	–	–	–	–	6.0	0.6
Money market instruments	765.0	683.8	329.0	267.5	5.2	50.8	1 099.2	1 002.1
Investments in associates	43.6	43.0	2.6	2.2	–	–	46.2	45.2
Investment property	3 392.0	3 419.6	458.5	422.7	39.5	41.5	3 890.0	3 883.8
Total investments	24 253.9	23 185.3	4 168.8	3 951.8	505.0	646.1	28 927.7	27 783.2

7.9 Assets in securities lending

At the reporting date, securities with a fair value of CHF 1,528.7 million (previous year: CHF 2,053.5 million) were committed to securities lending by the Group.

8. Financial liabilities

8.1 Financial liabilities from financing activities in CHF million

as of 31.12.	Acquisition cost/ amortised cost	Fair value	
	2006	2005	2006
Bonds	199.1	198.8	201.4
Liabilities from finance leases	–	0.0	–
Total financial liabilities from financing activities	199.1	198.8	201.4

8.1.1. Bonds

Helvetia Holding AG, St. Gallen, issued the 3% bond 2004–2010 in the 2004 financial year. It has a nominal value of CHF 200 million and pays interest at 3% over the bond's maturity of six years. The effective interest rate used for the valuation is 3.14%. Repayment at nominal value is scheduled for 5.5.2010. The bond is measured at amortised

cost. At the reporting date, the bond's book value stood at CHF 199.1 million. Interest expenses of CHF 6.0 million for the bond were recognised in the income statement under 'Finance costs'. The bonds do not include financial covenants that will significantly change the conditions of the contract (e.g. maturity, interest rate, securities and currency).

8.2 Financial liabilities from insurance business in CHF million

as of 31.12.	Book value		Acquisition cost/ amortised cost		Fair value	
	2006	2005	2006	2005	2006	2005
Financial liabilities at amortised cost:						
Deposit liabilities for credited policyholder profit participation	883.7	944.3	883.7	944.3	883.7	944.3
Deposit liabilities from reinsurance contracts	405.7	483.9	405.7	483.9	405.7	483.9
Total financial liabilities at amortised cost	1 289.4	1 428.2	1 289.4	1 428.2	1 289.4	1 428.2
Financial liabilities at fair value:						
Deposits for investment contracts	200.1	291.6	203.0	287.2	200.1	291.6
Total financial liabilities at fair value	200.1	291.6	203.0	287.2	200.1	291.6
Total financial liabilities from insurance business	1 489.5	1 719.8	1 492.4	1 715.4	1 489.5	1 719.8

Financial liabilities at fair value equal the amount repayable on the due date. Financial liabilities from the insurance business of Helvetia Group do not include any financial covenants that will significantly change the conditions of the contract (e.g. maturity, interest rate, securities and currency).

Deposit liabilities for credited policyholder profit participation include interest-bearing credit balances already contractually allocated to the holders of individual life insurance policies and policyholder dividends from the group life insurance business that are either available early or only when the insurance benefits fall due, depending on the applicable insurance terms and conditions.

Deposit liabilities from reinsurance contracts consist of reserves for unearned premiums, future loss payments and actuarial reserves for direct (ceded) and indirect (retroceded) business as well as deposits of future cash flows from non-traditional reinsurance business.

Deposits for investment contracts contain deposits of policyholders owning investment contracts without discretionary participation features, predominantly from index and unit-linked products, without significant insurance risk, allowing the policyholder to directly participate in the development of an external fund or external index. Premiums paid into or from these deposits do not affect revenues and are not entered in the income statement, but are offset against the deposit. The features of these products are very similar to those of insurance contracts, apart from the fact that there is hardly any insurance risk. Insurance conditions and risks are described in Note 16 (beginning on page 150).

A maturity analysis of financial liabilities from insurance business is given in Note 16.4.1.

8.3 Other financial liabilities in CHF million

		Acquisition cost/ amortised cost		Fair value	
as of 31.12.	Notes	2006	2005	2006	2005
Derivative financial instruments	8.3.1	0.7	1.4	26.6	21.1
Other		10.6	11.0	10.6	11.0
Total other financial liabilities		11.3	12.4	37.2	32.1

The position 'Other financial liabilities' consists primarily of current liabilities.

8.3.1 Derivative financial liabilities in CHF million

as of 31.12.	Maturity profile of contract values			Contract value	Fair value		
	<1 year	1–5 years	>5 years	2006	2005	2006	2005
Interest rate instruments:							
Forward rate agreements	–	–	–	–	–	–	–
Swaps	–	–	110.0	110.0	–	0.0	–
Options (over-the-counter)	–	–	–	–	–	–	–
Options (exchange-traded)	–	–	–	–	–	–	–
Futures (exchange-traded)	–	–	–	–	–	–	–
Total interest rate instruments	–	–	110.0	110.0	–	0.0	–
Equity and equity-index instruments:							
Forwards	–	–	–	–	–	–	–
Options (over-the-counter)	42.0	82.5	–	124.5	80.3	0.7	1.5
Options (exchange-traded)	–	–	–	–	–	–	–
Futures (exchange-traded)	–	–	–	–	–	–	–
Total equity and equity-index instruments	42.0	82.5	–	124.5	80.3	0.7	1.5
Currency instruments:							
Forwards	1 542.4	–	–	1 542.4	1 977.7	25.9	19.6
Swaps	–	–	–	–	–	–	–
Options (over-the-counter)	–	–	–	–	–	–	–
Options (exchange-traded)	–	–	–	–	–	–	–
Futures (exchange-traded)	–	–	–	–	–	–	–
Total currency instruments	1 542.4	–	–	1 542.4	1 977.7	25.9	19.6
Total derivative financial liabilities	1 584.4	82.5	110.0	1 776.9	2 058.0	26.6	21.1

9. Insurance business

9.1 Reserves for insurance contracts and investment contracts with discretionary participation features in CHF million

as of 31.12.	Notes	Gross		Reinsurance assets		Net	
		2006	2005	2006	2005	2006	2005
Actuarial reserve for insurance contracts life		20 396.7	19 615.1	149.0	149.3	20 247.7	19 465.8
Actuarial reserve for investment contracts		622.3	531.2	–	–	622.3	531.2
Total actuarial reserve		21 019.0	20 146.3	149.0	149.3	20 870.0	19 997.0
Provision for policyholder participation – non-life contracts		26.0	25.6	–	–	26.0	25.6
Provision for policyholder participation – life contracts		710.0	646.0	–	–	710.0	646.0
Provision for policyholder participation – investment contracts		6.2	16.7	–	–	6.2	16.7
Total provision for future policyholder participation		742.2	688.3	–	–	742.2	688.3
Loss reserves for insurance contracts non-life	9.3.1	2 886.1	2 792.0	264.9	326.2	2 621.2	2 465.8
Total loss reserves		2 886.1	2 792.0	264.9	326.2	2 621.2	2 465.8
Unearned premium reserve for insurance contracts non-life		726.2	682.5	19.1	16.0	707.1	666.5
Unearned premium reserve for insurance contracts life		164.3	162.2	10.2	9.9	154.1	152.3
Unearned premium reserve for investment contracts		–	–	–	–	–	–
Total unearned premium reserve		890.5	844.7	29.3	25.9	861.2	818.8
Total reserves for insurance and investment contracts		25 537.8	24 471.3	443.2	501.4	25 094.6	23 969.9
Reinsurance deposit receivables				339.2	401.2		
Reinsurance assets				782.4	902.6		

Reinsurance deposit receivables include deposits with the ceding direct insurer for unearned premiums, future loss payments and actuarial reserves for assumed indirect business.

This item also contains receivables from non-traditional reinsurance for which a corresponding liability exists on the liabilities side of the balance sheet.

Further details on actuarial reserves for life and non-life business can be found in the following tables. A maturity analysis of the reserves for insurance contracts and investment contracts is given in Note 16.4.1 (page 160).

9.2 Change in the reserves for insurance contracts and investment contracts with discretionary participation

Reserves for insurance contracts non-life (gross)	Actuarial reserve		Provision for future policyholder participation	
	2006	2005	2006	2005
Balance as of 1 January			25.6	23.3
Change in the scope of consolidation			–	–
Allocation			24.5	25.5
Release			–23.2	–22.4
Used amounts			–1.0	–0.8
Foreign currency translation differences			0.1	0.0
Balance as of 31 December			26.0	25.6

Reserves for insurance contracts life (gross)	Actuarial reserve		Provision for future policyholder participation	
	2006	2005	2006	2005
Balance as of 1 January	19 615.1	18 881.1	646.0	411.1
Change in the scope of consolidation	–	–	–	–
Allocation	2 897.2	2 963.2	148.8	327.0
Release	–53.6	–35.6	–25.4	–
Used amounts	–2 177.8	–2 210.6	–64.1	–92.8
Foreign currency translation differences	115.8	17.0	4.7	0.7
Balance as of 31 December	20 396.7	19 615.1	710.0	646.0

Reserves for investment contracts (gross)	Actuarial reserve		Provision for future policyholder participation	
	2006	2005	2006	2005
Balance as of 1 January	531.2	378.7	16.7	11.6
Change in the scope of consolidation	–	–	–	–
Allocation	133.7	186.7	2.2	8.9
Release	–2.9	–6.4	–11.6	–
Used amounts	–57.8	–30.2	–1.4	–3.9
Foreign currency translation differences	18.1	2.4	0.3	0.1
Balance as of 31 December	622.3	531.2	6.2	16.7

Reinsurers' share in reserves for insurance contracts	Actuarial reserve		Provision for future policyholder participation	
	2006	2005	2006	2005
Balance as of 1 January	149.3	148.5		
Change in the scope of consolidation	–	–		
Allocation	29.4	25.0		
Release	–3.3	–0.7		
Used amounts	–31.4	–24.2		
Impairment	–	–		
Foreign currency translation differences	5.0	0.7		
Balance as of 31 December	149.0	149.3		

features in CHF million

Loss reserves		Unearned premium reserve		Total	
2006	2005	2006	2005	2006	2005
2 792.0	2 609.2	682.5	677.1	3 500.1	3 309.6
–	–	–	–	–	–
998.3	1 067.7	715.8	680.5	1 738.6	1 773.7
–277.2	–300.5	–688.9	–677.7	–989.3	–1 000.6
–676.3	–594.1	–	–	–677.3	–594.9
49.3	9.7	16.8	2.6	66.2	12.3
2 886.1	2 792.0	726.2	682.5	3 638.3	3 500.1

2006	2005	2006	2005	2006	2005
		162.2	165.3	20 423.3	19 457.5
		–	–	–	–
		163.4	162.9	3 209.4	3 453.1
		–162.8	–166.2	–241.8	–201.8
		–	–	–2 241.9	–2 303.4
		1.5	0.2	122.0	17.9
		164.3	162.2	21 271.0	20 423.3

2006	2005	2006	2005	2006	2005
		–	–	547.9	390.3
		–	–	–	–
		–	–	135.9	195.6
		–	–	–14.5	–6.4
		–	–	–59.2	–34.1
		–	–	18.4	2.5
		–	–	628.5	547.9

2006	2005	2006	2005	2006	2005
326.2	273.2	25.9	27.7	501.4	449.4
–	–	–	–	–	–
65.9	116.3	29.1	27.2	124.4	168.5
–13.6	–13.7	–26.0	–29.1	–42.9	–43.5
–116.1	–49.8	–	–	–147.5	–74.0
–	–	–	–	–	–
2.5	0.2	0.3	0.1	7.8	1.0
264.9	326.2	29.3	25.9	443.2	501.4

9.3 Non-life business

Actuarial methods derived from many years of claims experience that take account of uncertainties associated with claims estimates are applied to determine the required loss reserves. The assumptions applied to determine the required loss reserves did not change substantially in the reporting year. No acquisition costs are deferred in non-life business.

The Liability Adequacy Test (LAT) for non-life business resulted in an additional increase of CHF 15.0 million (previous year: CHF 17.2 million) in loss reserves as of 31.12.2006.

Insurance conditions and risks in non-life business are described in Note 16.2 (beginning on page 152). The following table details the development of loss reserves for the previous five years.

9.3.1 Claims development in CHF million

Year of loss occurrence	before 2002	2002	2003	2004	2005	2006	Total
Run-off year 1		1 806.8	1 680.2	1 740.8	1 870.0	1 708.6	
Run-off year 2		1 713.4	1 595.0	1 699.8	1 815.7		
Run-off year 3		1 682.5	1 536.5	1 631.1			
Run-off year 4		1 660.0	1 518.8				
Run-off year 5		1 650.5					
Estimated claims after year of loss occurrence		1 650.5	1 518.8	1 631.1	1 815.7	1 708.6	
Accumulated claims paid as of 31 December		-1 444.5	-1 265.0	-1 203.9	-1 321.2	-726.0	
Estimated loss reserves as of 31 December	558.8	206.0	253.8	427.2	494.4	982.6	2 922.8
Increase of loss reserves based on LAT							15.0
Claims handling costs							124.1
Other technical reserves non-life							4.4
Loss reserves as of 31 December							3 066.3
Group reinsurance share							-180.2
Loss reserves as of 31 December							2 886.1

The table above on claims development of non-life business shows:

- Claims development is very stable.
- All existing actuarial liabilities are covered at an early stage by sufficient reserves.

- The fluctuation of the annual claims incurred is small overall for the well-diversified portfolio even before reinsurance.

9.4 Life business

The actuarial reserve is normally calculated in a three-step process. In a first step, the actuarial reserve is computed based on local standards. These include applicable local parameters such as interest rates, mortality, surrender rates, expenses and additional biometric parameters which are usually set at the time of contract conclusion and vary by country, year of issuance and product. In the reporting year, no substantial adjustments to the parameters used for the calculation were made that would have had a material impact on the calculation of the actuarial reserve.

If the reserves prove to be insufficient, they have to be increased in most countries in a second step in their local financial statements. A reserve increase recognised as necessary may be spread

over several years depending on local accounting principles and circumstances.

In a third step, the Liability Adequacy Test finally applies Group-wide uniform standards to test whether the actuarial reserves included in the local financial statements (including additional reserve increases but excluding deferred acquisition costs) are sufficient. Across the Group the Liability Adequacy Test required an allocation of additional actuarial reserves of CHF 26.7 million as of 31.12.2006 (previous year: CHF 28.1 million).

Insurance conditions and risks in life business are described in Note 16.3 (beginning on page 155). Sensitivities of actuarial reserves are outlined in Note 16.3.3 (beginning on page 158).

9.4.1 Deferred acquisition costs (life) in CHF million

	2006	2005
Balance as of 1 January	221.6	234.2
Change in the scope of consolidation	–	–
Capitalised in the period	21.4	5.8
Amortised in the period	–23.8	–18.5
Impairment in the period	–	–
Foreign currency translation differences	0.6	0.1
Balance as of 31 December	219.8	221.6

Helvetia Group defers acquisition costs only in individual life business and such deferrals follow local accounting regulations. Impairment of deferred acquisition costs is checked as part of the

Liability Adequacy Test. The share of 'Deferred acquisition costs' classified as short-term is CHF 34.6 million (previous year: CHF 35.5 million).

9.5 Receivables and liabilities from insurance business in CHF million

as of 31.12.	Receivables		Liabilities	
	2006	2005	2006	2005
Due from/due to policyholders	289.8	231.5	626.9	666.2
Due from/due to agents and brokers	77.4	80.2	46.1	39.8
Due from/due to insurance companies	270.9	289.0	30.5	48.4
Total receivables/liabilities	638.1	600.7	703.5	754.4

The receivables and liabilities from insurance business are primarily short-term.

10. Income taxes

10.1 Current and deferred income taxes in CHF million

	2006	2005
Current tax	99.1	96.7
Deferred tax	39.3	21.6
Total income taxes	138.4	118.3

10.2 Change in deferred tax assets and liabilities (net) in CHF million

	2006	2005
Balance as of 1 January	418.7	355.9
Change in the scope of consolidation	–	–
Deferred taxes recognised in equity	–43.9	40.8
Deferred taxes recognised in the income statement	39.3	21.6
Foreign currency translation differences	2.6	0.4
Reclassifications	–0.6	–
Balance as of 31 December	416.1	418.7

10.3 Expected and actual income taxes in CHF million

	2006	2005
Expected income taxes	138.7	115.2
Increase/reduction in taxes resulting from:		
– tax-exempt interest and dividends	–0.6	–1.2
– tax-exempt gains from shares and investments	–3.9	–8.5
– non-deductible expenses	24.4	30.9
Back taxes	0.9	–3.3
Change in tax rates	–10.8	–13.4
Tax elements related to other periods	–10.4	0.4
Disposal of subsidiaries	–	–
Use of previously unrecognised losses carried forward	0.1	–2.2
Other	0.0	0.4
Actual income taxes	138.4	118.3

The expected tax rate applicable to Helvetia Group was 25% for 2006 (previous year: 27%). The change compared to the previous year largely originates from Switzerland and is based on a known reduction in income taxes in the Canton of

St. Gallen for 2007. The expected tax rate is derived from the weighted average of expected tax rates in the individual countries where the Group operates.

10.4 Deferred tax assets and liabilities in CHF million

as of 31.12.		Tax assets		Tax liabilities	
	Notes	2006	2005	2006	2005
Composition of deferred taxes in the balance sheet:					
Unearned premium reserve		19.6	18.1	–	0.0
Loss reserves		39.2	25.9	147.0	149.7
Actuarial reserve		9.0	10.6	3.6	53.0
Investments		44.1	83.4	437.9	428.4
Deferred acquisition costs (life)		2.1	2.6	–	–
Property and equipment		8.9	12.0	5.4	4.9
Intangible assets		0.1	0.2	4.6	5.4
Non-actuarial provisions		0.1	0.1	15.1	30.0
Employee benefits		19.2	18.9	1.0	1.1
Tax assets from losses carried forward	10.5.1	1.0	1.7	–	–
Other		130.7	153.3	75.5	73.0
Deferred taxes (gross)		274.0	326.8	690.1	745.5
Offset		–224.4	–287.8	–224.4	–287.8
Deferred taxes (net)		49.6	39.0	465.7	457.7

No deferred tax liabilities were recognised for withholding tax and other taxes that would

be payable on the unremitted income from certain subsidiaries, as these amounts are retained.

10.5 Losses carried forward*10.5.1 Net tax assets from losses carried forward* in CHF million

as of 31.12.	2006	2005
Expire within 1 year	0.1	2.6
Expire between 2 and 3 years	1.9	–
Expire between 4 and 7 years	–	3.3
Without expiration	1.0	1.3
Total recognised losses carried forward	3.0	7.2
Resulting tax assets	1.0	1.7
Net tax assets from losses carried forward	1.0	1.7

As of 31.12.2006, no tax assets were recognised for losses carried forward of CHF 22.3 million (previous year: CHF 22.8 million). Of this amount,

CHF 0.3 million will expire after two to three years, CHF 10.2 million after four or more years, and CHF 11.8 million will not expire.

11. Equity

11.1 Share capital and treasury shares

The fully paid up registered shares of Helvetia Holding AG have a nominal value of CHF 10 each (previous year: CHF 10). The purchase of registered shares of Helvetia Holding AG is not subject to any restrictions. Shareholders who purchase the shares in their own name and on their own behalf are entered in the share register with voting rights for a maximum of 5% of the issued registered shares. Individuals who do not explicitly certify in the registration application that they acquired the shares on their own behalf are entered in the share register for a maximum of 3%.

In the reporting year, 30,000 shares from the company's own stock were sold. The number of treasury shares thus fell to 70,312 shares. The CHF 2.9 million gain arising from the sale was credited to capital reserves without affecting profit or loss.

The granting of shares to Helvetia Group employees at favourable terms as part of the Helvetia employee share purchase plan resulted in a loss of CHF 0.6 million, which was charged to the capital reserve without affecting profit or loss. This amount represents the difference between the purchase price at market price and the reduced sale's price granted to employees.

in CHF million	Number of shares	Share capital
Share capital:		
As of 1.1.2005	8 652 875	86.5
As of 31.12.2005	8 652 875	86.5
As of 31.12.2006	8 652 875	86.5
Treasury shares:		
As of 1.1.2005	400 312	4.0
Purchase/sale of treasury shares	-300 000	-3.0
As of 31.12.2005	100 312	1.0
Purchase/sale of treasury shares	-30 000	-0.3
As of 31.12.2006	70 312	0.7
Shares outstanding:		
As of 1.1.2005	8 252 563	82.5
As of 31.12.2005	8 552 563	85.5
As of 31.12.2006	8 582 563	85.8

11.2 Reserves

11.2.1 Capital reserves

Capital reserves consist of assets paid in by third parties. Capital reserves primarily comprise the share premium of shares issued by Helvetia Holding AG and the result from treasury share transactions.

11.2.2 Retained earnings

Accumulated non-distributed earnings of the Helvetia Group are recognised in the balance sheet item 'Retained earnings'. Besides freely disposable funds, they also comprise statutory reserves and reserves bound by the articles of association which are sustained by the net profit for the year and subject to restrictions on distributions.

11.2.3 Reserve for 'Foreign currency translation differences'

The reserve for 'Foreign currency translation differences' results from the translation of financial statements prepared in foreign currency into the Group's reporting currency (Swiss franc).

11.2.4 Reserve for 'Unrealised gains and losses'

The reserve for 'Unrealised gains and losses' includes fair value changes of available-for-sale investments (AFS), the portion of unrealised gains and losses of associates, as well as value changes resulting from the transfer of owner-occupied

property. These gains are only recognised in the income statement when the asset is sold.

The position is adjusted at the balance sheet date by the portion relating to contracts with discretionary participation features. The portion reserved for the owners of contracts with participation features is transferred to 'Liabilities', while the remaining portion regarding contracts with participation features is allocated to the 'Valuation reserves for contracts with participation features in equity' (see Note 11.2.5).

Unrealised gains and losses in equity in CHF million

	Available-for-sale investments		Associates		Transfer of owner-occupied property		Total unrealised gains and losses	
	2006	2005	2006	2005	2006	2005	2006	2005
Balance as of 1 January	721.5	522.6	0.1	0.1	8.6	6.6	730.2	529.3
Fair value revaluation	-74.8	291.2	0.1	0.0	-	-	-74.7	291.2
Revaluation gains on transfer of owner-occupied property	-	-	-	-	5.6	1.9	5.6	1.9
Gains reclassified to the income statement due to disposals	-159.7	-96.2	-	-	-	-	-159.7	-96.2
Losses reclassified to the income statement due to disposals	11.4	2.6	-	-	-	-	11.4	2.6
Impairment losses reclassified to the income statement	0.7	0.1	-	-	-	-	0.7	0.1
Foreign currency translation differences	6.2	1.2	0.0	0.0	0.3	0.1	6.5	1.3
Reclassification	0.7	0.0	-	-	-	-	0.7	0.0
Balance as of 31 December	506.0	721.5	0.2	0.1	14.5	8.6	520.7	730.2
less:	Notes							
Obligations for contracts with participation features in 'Liabilities'							-152.0	-200.3
Valuation reserves for contracts with discretionary participation features in 'Equity' (gross)	11.2.5						-193.5	-278.0
Minority interests							-0.4	-0.6
Deferred taxes on remaining portion							-46.9	-69.0
Unrealised gains and losses (net) as of 31 December							127.9	182.3

11.2.5 Valuation reserves for contracts with participation features

The valuation reserves for contracts with participation features are set up for bonuses from insurance and investment contracts that arise from IFRS-related adjustments, impact either on the result or unrealised gains, and are not considered a liability for policyholders under country-defined 'legal quo-

tas'. The reserves comprise portions from unrealised gains and losses on investments relating to contracts with profit participation recognised directly in equity, and portions from retained earnings arising from valuation differences relating to the same contracts. The use of the reserves is at the insurer's discretion (see Note 2.13.2, page 100).

Valuation reserves for contracts with participation features in CHF million

	2006	2005
Unrealised gains and losses on contracts with participation features:		
Balance as of 1 January	278.0	189.4
Change in unrealised gains and losses	-85.0	88.5
Foreign currency translation differences	0.5	0.1
Balance as of 31 December	193.5	278.0
less:		
Deferred taxes	-48.4	-68.4
Unrealised gains and losses as of 31 December	145.1	209.6
Retained earnings on contracts with participation features:		
Balance as of 1 January	379.0	309.2
Change in the scope of consolidation	-	-
Share of profit for the year	84.5	70.3
Reclassifications	0.2	-0.5
Retained earnings as of 31 December	463.7	379.0
Valuation reserves for contracts with participation features as of 31 December	608.8	588.6

Reclassification of the retained earnings on contracts with discretionary participation features is required under local regulations for the appropia-

tion of profit in Italy. The amounts are transferred to retained earnings.

11.3 Deferred taxes recognised directly in equity

Deferred taxes recognised directly in equity arise from valuation differences that primarily result from the fair value valuation of AFS financial assets and value changes related to the transfer of property. On the reporting date, they amounted to a total of CHF 95.3 million (previous year: CHF 137.4 million).

11.4 Earnings per share

Basic earnings per share (EPS) are calculated on the weighted average number of shares outstanding of Helvetia Holding AG and the portion of the Group's net profit for the year attributable to shareholders. Diluted earnings for both reporting periods correspond to the basic earnings, as no convertible instruments or options that could have a dilutive effect are outstanding.

Earnings per share in CHF

	2006	2005
Profit for the year less minority interests	423 024 441	301 364 150
Weighted average number of shares outstanding	8 572 021	8 330 341
Earnings per share	49.35	36.18

11.5 Dividends

The Board of Directors will submit a proposal to the Shareholders' Meeting of 4.5.2007 to pay a dividend per share of CHF 13.50 (previous year: CHF 9.00) with the total payout amounting to CHF 116.8 million (previous year: CHF 77.9 million). The proposed dividend will not be distributed before approved by the ordinary Shareholders' Meeting. The dividend distribution is only recognised when approved by the Shareholders' Meeting.

Dividend restrictions and solvency requirements

The Swiss subsidiaries are subject to the restrictions of the Swiss Code of Obligations with regard to the dividends that may be distributed to the parent company. The Code requires 5% of profit to be allocated to the statutory reserve fund until its amount equals 20% of the paid-in share capital. Other countries where subsidiaries of Helvetia Group operate have similar rules, and company law restricts the dividend payment to the parent company.

In addition to the aforementioned regulations, the payment of dividends by subsidiaries of the Helvetia Group may be restricted by minimum capital or solvency requirements imposed by supervisory authorities.

All insurance units of the Helvetia Group must meet minimum solvency margins (so-called Solvency I), calculated in accordance with Article 24 et seq. of the Swiss Supervision Ordinance (AVO) for life insurance and Article 27 et seq. AVO for non-life insurance.

Helvetia Group is required to report to the Federal Office of Private Insurance (BPV) in Switzerland and the Rome-based 'Istituto per la Vigilanza delle Assicurazioni Private' (ISVAP) in its function as the European Supervisory Office. At the end of 2006, the ISVAP delegated this function to the BPV, which is now also responsible for Helvetia Group in its supervisory function as Lead Supervisor.

12. Provisions, contingent liabilities and other commitments

12.1 Non-actuarial provisions in CHF million

	2006	2005
Balance as of 1 January	61.2	59.4
Change in the scope of consolidation	–	–
Allocation	28.4	29.2
Release	–16.4	–5.0
Used amounts	–9.9	–22.9
Foreign currency translation differences	0.8	0.1
Other changes	0.0	0.4
Balance as of 31 December	64.1	61.2

No significant new provisions were set up in the reporting year. At the balance sheet date, there were no provisions for restructuring expenses. The 'Non-actuarial provisions' position primarily consists of provisions for liabilities due to authori-

ties arising from other tax obligations and liabilities due to agents. The share of provisions classified as current is CHF 48.9 million (previous year: CHF 45.9 million).

12.2 Contingent liabilities and other commitments

12.2.1 Capital commitments

At the balance sheet date, financial commitments amounted to CHF 34.4 million (previous year: CHF 63.4 million) for the future acquisition of investments.

12.2.2 Assets pledged or assigned

Helvetia Group has pledged assets of CHF 30.5 million (previous year: CHF 30.2 million) as security for liabilities. They all relate to financial assets pledged to cover liabilities arising from the underwriting business.

12.2.3 Operating lease liabilities

Helvetia Group is a lessee under a number of different operating leases. As a result, future leasing liabilities expiring in less than one year amount to CHF 1.8 million (previous year: CHF 2.4 million), in one to five years CHF 5.5 million (previous year: CHF 8.6 million), and in more than five years CHF 0.2 million (previous year: CHF 0.2 million).

12.2.4 Legal proceedings

The Group is involved in various legal proceedings, claims and litigation that are mostly related to its insurance operations. However, Group management is not aware of any case that could significantly impact the Group's financial position.

12.2.5 Other contingent liabilities

Helvetia Group has issued letters of credit for CHF 80.1 million (previous year: CHF 59.3 million) to third-party insurance companies as security for reinsurance business. Under the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans, Helvetia Schweizerische Lebensversicherungsgesellschaft AG, Basel, has given a guarantee agreement towards collective foundations for CHF 0.5 million. Contingent liabilities amounted to CHF 15.7 million as of the balance sheet date.

13. Employee benefits

Helvetia Group had 4,595 employees as of 31.12.2006 (previous year: 4,619).

Total personnel costs are shown in the table below.

13.1 Personnel costs in CHF million

	Notes	2006	2005
Commissions		195.4	191.4
Salaries		321.5	310.3
Social security costs		61.0	61.7
Pension costs – defined contribution plans		2.4	1.9
Pension costs – defined benefit plans	13.3.4	47.9	40.2
Other long-term employee benefit expenses		1.4	1.0
Termination benefits		1.2	6.1
Share-based payment transaction costs		0.8	0.1
Other personnel costs		30.6	25.4
Total personnel costs		662.2	638.1

13.2 Employee benefit receivables and obligations in CHF million

as of 31.12.	Notes	Employee benefit receivables		Employee benefit obligations	
		2006	2005	2006	2005
Kind of benefit:					
Defined benefit plans	13.3.1	1.4	1.4	204.5	187.7
Other long-term employee benefits		–	–	14.2	13.3
Short-term employee benefits		1.4	1.3	53.4	44.7
Total employee benefit receivables and obligations		2.8	2.7	272.1	245.7

'Other long-term employee benefits' principally contain liabilities for service awards. There were

no employee contingent obligations or employee contingent receivables.

13.3 Defined benefit plans

The employees of Helvetia Group are covered under several pension plans in Switzerland and abroad.

In Switzerland, employees are covered by the 'Pensionskasse der Helvetia Versicherungen' foundation (Pension Fund of Helvetia Versicherungen) with registered office in St. Gallen. It was founded with the purpose of providing occupational benefits to employees on retirement and disability as well as after their death to their surviving dependants in accordance with the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). The benefits provided by the pension fund meet at least the statutory minimum required by the BVG. Contributions to the pension

fund are set as a percentage of the employee's pensionable annual salary, deducted from the salary by the employer and transferred every month to the pension fund, together with the employer's contributions.

Unfunded defined benefit plans are in place in Germany, Austria, Italy and Spain. The accumulated pension obligations are recorded as pension liabilities in the balance sheet of the employer. These pension plans cover benefits for retirement, death, disability or termination of the employment contract with consideration given to local labour laws and social legislation in the individual countries. The benefits are fully financed by the employer.

13.3.1 Reconciliation of balance sheet in CHF million

as of 31.12.

	2006	2005
Present value of funded obligations (+)	1 269.0	1 255.1
Fair value of plan assets (–)	– 1 402.4	– 1 274.0
	– 133.4	– 18.9
Present value of unfunded obligations (+)	126.7	123.8
Unrecognised actuarial gains (+) or losses (–)	– 28.2	– 35.9
Unrecognised past service cost (–)	–	–
Amounts not recognised as assets	238.0	117.3
Net liability for defined benefit plans	203.1	186.3
The net liability consists of:		
Gross defined benefit liabilities	204.5	187.7
Gross defined benefit assets	1.4	1.4

The 'Net liabilities' position does not contain any reimbursement rights.

13.3.2 Movement in the present value of the defined benefit obligation in CHF million

	2006	2005
Present value of the defined benefit obligation as of 1 January	1 379.0	1 290.2
Service cost	47.0	43.0
Interest cost	43.4	42.0
Actuarial gains (–) or losses (+)	–25.2	46.6
Benefits paid	–75.3	–68.0
Past service cost	–	–51.6
Change in the scope of consolidation	–	–
Other amounts	21.1	75.3
Curtailments and settlements	–	0.0
Foreign currency translation differences	5.7	1.5
Present value of the defined benefit obligation as of 31 December	1 395.7	1 379.0

13.3.3 Movement in the fair value of plan assets in CHF million

	2006	2005
Fair value of plan assets as of 1 January	1 274.0	1 154.2
Expected return on plan assets	42.4	41.0
Actuarial gains (+) or losses (–)	91.0	17.5
Employer contributions	27.6	26.6
Employee contributions	13.4	12.2
Benefits paid	–67.6	–61.9
Change in the scope of consolidation	–	–
Other amounts	21.1	84.2
Settlements	–	–
Foreign currency translation differences	0.5	0.2
Fair value of plan assets as of 31 December	1 402.4	1 274.0

The position 'Other amounts' contains vested benefits brought into the pension fund of CHF 21.1 million (previous year: CHF 19.8 million). In Switzerland, expected pension liabilities of CHF 55.5 million and plan assets of

CHF 26.4 million were additionally recognised in this position in the 2005 reporting year on the basis of the integration of benefit plans now classified as 'defined'.

13.3.4 Net pension costs in CHF million

	2006	2005
Current service cost	47.0	43.0
Interest cost	43.4	42.0
Expected return on plan assets	-42.4	-41.0
Actuarial gains and losses	-107.4	-0.6
Employee contributions	-13.4	-12.2
Change in amounts not recognised as assets	120.7	60.6
Past service cost	-	-51.6
Total net pension costs	47.9	40.2
Actual return on plan assets	133.5	58.5

Net pension costs for defined benefit plans are recognised in the income statement under 'Operating and administrative expenses'. Expected

employer contributions toward defined benefit plans for the next year amount to CHF 33.1 million.

13.3.5 Principal actuarial assumptions (weighted averages) in %

	Switzerland		Abroad	
	2006	2005	2006	2005
Discount rate	3.0	3.0	4.3	4.0
Expected rate of return on plan assets	3.9	3.4	4.0	4.4
Expected salary increases	1.5	2.2	2.8	2.8
Expected pension increases	0.6	0.8	1.9	1.8

13.3.6 Actual plan asset allocation (weighted averages) in %

	2006	2005
Equity instruments	26	24
Debt instruments	54	39
Real estate	19	20
Deposit administration contract	0	15
Other	1	2
Total	100	100

Plan assets include shares issued by Helvetia Holding AG with a fair value of CHF 83.9 million as of 31.12.2006 (previous year: CHF 61.4 million). Plan assets do not include any of the Group's owner-occupied properties.

The deposit administration contract concluded between the Swiss companies and the pension fund of Helvetia Versicherungen, St. Gallen, as part of the capital management activities was discharged in full in the 2006 reporting year. Interest of CHF 4.7 million was paid in the reporting year on capital transferred up until repayment.

13.3.7 Long-term target plan asset allocation (weighted averages) in %

2006	from	to
Equity instruments	17	39
Debt instruments	41	62
Real estate	19	24

As far as investment policy and strategy are concerned, occupational benefit plans in Switzerland focus on total returns. The strategic goal is to optimise rates of return on plan assets, benefit costs and the cover ratio of benefit plans with a diversified mix of shares, bonds, real estate and other investments.

Expected long-term rates of return on plan assets are based on the long-term expected interest rates and risk premiums and on the target plan asset allocation. These estimates are based on historic rates of return for individual asset classes and are made by specialists in the field and pension actuaries.

Actual plan asset allocation depends on the current economic and market situation and fluctuates within pre-determined ranges. Alternative investments, such as hedge funds, are used to improve long-term rates of return and portfolio diversification.

The investment risk is monitored through the periodic review of the assets and liabilities as well as quarterly reviews of the investment portfolio.

13.3.8 Multi-year overview of defined benefit plans in CHF million

as of 31.12.

	2006	2005
Present value of defined benefit obligation (–)	–1 395.7	–1 379.0
Fair value of plan assets (+)	1 402.4	1 274.0
Surplus (+) / deficit (–)	6.7	–105.0
Experience adjustments on plan liabilities	0.9	–46.2
Experience adjustments on plan assets	91.0	19.7

14. Share-based payments

Share purchase plan

The Helvetia employee share purchase plan enables the privileged acquisition of registered Helvetia Holding AG shares. The plan allows employees to directly participate in the Group's success at favourable terms. All employees of Helvetia Group in Switzerland are eligible if they are in regular employment (not on notice) and entitled to variable compensation. The Board of

Directors sets the number of shares offered to eligible employees, which is dependent on the individual's respective function. All acquired shares are blocked for a period of three years. The shares are vested immediately at the grant date, so that the associated personnel costs for share-based payments of CHF 0.8 million were recognised in the income statement.

15. Related party transactions

In the course of its ordinary business, the Helvetia Group effects various transactions with related parties. With the exception of Patria Genossenschaft (the Patria cooperative society), these transactions are not material for Helvetia Group either as a single transaction or overall.

Apart from Patria Genossenschaft, related parties of Helvetia Group include the other members of the shareholder pool, pension funds and all associates of the Group. The latter two are described in Note 13.3 'Defined benefit plans' (page 143) and Note 7.2 'Investments in associates' (page 118).

Patria Genossenschaft is the largest shareholder and owns 30.1% of Helvetia Holding AG. Its purpose is to strengthen the Helvetia Group's development and economic independence and to safeguard the interests of its members who take out life insurance policies from Helvetia Schweizerische Lebensversicherungsgesellschaft AG, Basel. On the balance sheet date, Patria Genossenschaft owned 2,603,894 shares of Helvetia Holding AG. The dividend payment of CHF 26.0 million (previous year: CHF 15.9 million) to Patria Genossenschaft and the contribution of CHF 5.0 million (no contribution was made in the previous year) by Patria Genossenschaft to the surplus fund of Helvetia Schweizerische Lebensversicherungsgesellschaft AG were the only significant transactions in the reporting period. Patria Genossenschaft is represented in the shareholder pool of Helvetia Holding AG, St. Gallen, with 29.8%. The other members of the pool, Vontobel Beteiligungen AG, Zurich, and Raiffeisen Schweiz, St. Gallen, are both entered in the share register with a holding of 4%. The shareholder pool thus owns a total of 37.8% of Helvetia Holding AG.

Members of the Board of Directors and Executive Management of Helvetia Group as well as their close family members (domestic partners and financially dependent children) are also regarded as related parties. No member of the Board of Directors and the Group Executive Management

or their close family members personally have significant business relations with Helvetia Group. There are, however, business relations with companies represented by them, such as the Vontobel and Raiffeisen Groups as well as Patria Genossenschaft. Apart from ordinary cooperation in respect of advice and the sale of financial and insurance products and services and asset management services, no substantial business relations exist between them and the Helvetia Group. All transactions that take place as part of this cooperation are carried out on an arm's length basis. With the exception of two common Board members with Vontobel Holding AG, there are no other cross-directorships with listed companies. Other functions and mandates with third-party companies held by members of the Board and Executive Management are listed in the Corporate Governance section on pages 30, 31 and 37 of the Annual Report.

Members of the Executive Management may take out insurance contracts, loans and services on the terms and conditions currently in effect for employees. At the reporting date, mortgage loans to five members of the Executive Management to the amount of CHF 4,339,023 (previous year: CHF 7,225,406) were outstanding. The change compared to the previous year arose from the repayment of CHF 2,886,383. During the reporting period, loans granted as variable or fixed-rate mortgages at regular interest rates bore interest at rates between 2.05% and 4.65%. No loans were granted to non-executive members of the Board of Directors or to close family members.

At the reporting date, members of the Group's Executive Management (including the Chairman and CEO) and their close family members held a total of 4,464 shares (previous year: 3,114). In the reporting year, these persons acquired 1,625 shares, of which 925 were acquired under the employee share purchase plan (see Note 14, page 147). Non-executive members of the Board of Directors and their close family members owned

a total of 3,155 shares (previous year: 2,297), of which the incumbent directors received 540 shares as variable compensation for the 2005 financial year.

Total compensation for the reporting period paid to members of the Group Executive Management (including the Chairman and CEO) is summarised in the table below:

in CHF	2006	2005
Salaries and other short-term employee benefits	4 594 227	4 559 478
Post-employment benefits	507 571	538 757
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	417 793	241 473
Total benefits	5 519 591	5 339 708

Persons whose corporate function ceases do not normally receive severance pay. The share-based payments to members of the Executive Management included a discount of 16.038%, which was granted to all employees who obtained shares as part of the employee share purchase plan during the year under review (amounting to CHF 48,193), as well as a special bonus totalling 700 shares at a market price of CHF 528 on 27.3.2007 amounting to CHF 369,600 (previous year: CHF 217,998) granted as a result of the good 2006 results. Shares are blocked for a period of three years.

In the year under review, the Chairman and CEO received CHF 250,000 in his function as Chairman of the Board of Directors. As CEO, he is entitled to the salary specified in his employment contract. In the year under review, he received fixed and variable components amounting to a total of CHF 940,138 as well as a special bonus totalling 200 shares at the market price of CHF 528. In addition, the employer contributed a total amount of CHF 112,262 toward pension plans.

The eight serving non-executive members of the Board of Directors (without the Chairman and CEO including M. Florio until the 2006 Shareholders' Meeting) received fixed salaries for the reporting year of CHF 1,238,001 plus a variable component dependent on the operating results of the 2006 business year and the share performance in the form of 842 shares at a market price of CHF 528 with a minimum holding period of three years.

In the year under review, no members of an executive body or persons close to them billed the company for fees or remuneration relating to the provision of additional services. In the year under review, a total of CHF 33,494 was paid to former members of executive bodies for supervisory board mandates and special duties.

16. Risk management

16.1 Objectives of risk management

The immediate objective of Helvetia Group's risk management is to systematically identify, analyse and monitor all significant risks as well as manage them efficiently through risk management procedures and hedging policy. The risk transparency required for this is created by integrating risk reporting into the management process.

Risk management helps to ensure that the fundamental company objectives are obtained and contributes to the effective protection of the equity base of Helvetia Group and its subsidiaries.

The risk transparency created through risk management also enables the risk-appropriate allocation of capital, thus supporting financial management.

16.1.1 Risk management organisation

The Board of Directors of Helvetia Holding AG and the Executive Management are the supreme risk owners of Helvetia Group. The Board of Directors of Helvetia Holding AG is responsible for establishing and maintaining appropriate internal controls and the risk management organisation of Helvetia Group. It is the Board's responsibility in particular to:

- Set risk policy principles that support the development of risk awareness and a risk and control culture in the company;
- Ensure appropriate control of the effectiveness of internal control systems through the Executive Management;
- Ensure the implementation of comprehensive risk management procedures that allow for the efficient allocation of risk capital and the systematic control of risks through the Executive Management;
- Set a risk strategy/partial risk strategy that encompasses the risk management objectives of all fundamental business activities;
- Set risk tolerance limits and monitor the risk profile of the Group and every individual company.

Within the stipulated framework, the Board of Directors delegates operational aspects of risk management (e.g. monitoring the risk profile of the Group) to the Investment and Risk Committee (IRC) and governance aspects of risk management (e.g. structure of the risk management organisation) to the Audit Committee.

The Executive Management is responsible for implementation and compliance with the strategies, business principles and risk limits determined by the Board of Directors. The Risk Committee supports the Executive Management in an advisory capacity. It coordinates, monitors and assesses risk decisions and financing and hedging measures. The Risk Committee meets at least twice a year and is headed by the Chief Financial Officer (CFO). Other permanent members are the Heads of Investments (CIO), Corporate Finance & Risk Management, Group Reinsurance as well as the Group's life and non-life actuaries. Other specialists can be invited to attend the meeting when required and depending on the topic. The Corporate Finance & Risk Management department, which reports to the CFO and exercises the Group's risk monitoring function, ensures the necessary risk transparency:

- The Risk Map informs the Executive Management and Board of Directors of the most important risks, any changes to them and the strategies used to manage these risks.
- The Risk Report supports the Risk Committee and Risk Owners by providing them with detailed information.

The internal audit unit, an independent in-house team reporting directly to the Board of Directors (specifically to the Chairman and CEO), monitors the course of operations and business, the internal control system and the efficiency of the Group's risk management system. While the risk controlling functions are responsible for the ongoing monitoring of the Group's risk management system, the internal audit unit monitors the effectiveness,

appropriateness and efficiency of the risk management measures at irregular intervals and identifies weaknesses.

16.1.2 Risk management process

Helvetia Group distinguishes between the following types of risk: financial market risks (including financial market risks of liabilities, liquidity risks), counterparty risks, insurance risks (life and non-life), operational risks (including reputational risks as an impacting dimension) and strategic risks.

(a) Financial market, counterparty and insurance risks

Financial market, counterparty and insurance risks			
Financial market risks	Counterparty risks	Insurance risks (non-life)	Insurance risks (life)
Stock market Interest rates Real estate Currencies Liquidity	Reinsurance Investments Other	Natural hazards Major damage Basic volatility Reserve risk	Mortality Disability Biometrics Customer behaviour Costs

Financial market, counterparty and insurance risks tie up risk capital in the operational context and can be influenced through hedging instruments, product design and other risk management measures. Helvetia Group categorises these risks according to the above graph. Such risks affect risk-bearing capital and thus the entire balance sheet. Risk is defined as an adverse financial deviation from what is expected. Risks that arise from insufficient liquidity of assets are partially taken into consideration, where appropriate, in market price models. In addition to the analysis of the liquidity risk, probabilistic methods are also applied.

Life and non-life risks are the traditional insurance risks of an insurance company, with reinsurance protection playing a significant role in managing these risks (see Notes 16.2 and 16.3). Financial

market risk also includes the interest rate and foreign exchange risks associated with liabilities.

The Asset & Liability Management (ALM) process manages the influences of financial market risks in an integrated way and defines both investment strategy and hedging policy. The ALM process has two purposes:

- Firstly, it ensures compliance with statutory solvency requirements and loss limits at all times. To this end, investment strategy is basically determined at business unit level and then aggregated by applying 'bottom-up' planning (tactical ALM).
- Secondly, it aims to comply with the risk budget, which is economically determined and allocated 'top-down' to the investment function, and to optimally utilise it. This approach controls and manages the level of asset and liability mismatch (strategic ALM; see Note 16.4). The related procedures are constantly being checked against the requirements of the Swiss Solvency Test (Solvency II).

Counterparty risks are treated separately from financial market risks (see Note 16.5).

(b) Operational risks

Helvetia Group defines operational risks as the risk of losses resulting from the inappropriateness or failure of internal procedures, people and systems, or from external events. Reputational risks are included in this term as an impacting dimension. Management of operational risks is carried out primarily on a decentralised basis, but is becoming increasingly centralised where necessary. As part of a project initiated in autumn 2006, uniform standards for the identification, analysis, management and monitoring of operational risks at Group level were established. The management of compliance risks has already been centralised: the central Group Compliance unit directly reports to the Board of Directors and its committees.

An information platform known as ITC (IT coordination) is used to increase IT efficiency and quality, which is largely managed on a decentralised basis in each business unit. Its purpose is to coordinate IT activities between business units. The Group's ability to conduct its business depends on the efficient operation of its data management and information systems. These could be affected by fire, flood, power failure, hardware or software breakdown or similar events. The Helvetia Group has therefore introduced measures to protect its process management systems and infrastructure, such as maintaining geographically separated dual systems and developing disaster plans.

(c) Strategic risks

Strategic risks include the risk that the company's business activities are not adjusted to the changes in the insurance industry and on the insurance market and that fundamental business decisions may jeopardise the long-term success of the Group. This risk is countered by constant observation of developments on the market and among the competitors. The management of strategic risks is carried out as part of the annually repeated strategy check and is an integral component of the strategy process.

16.2 Insurance risks (non-life)

The random occurrence of an insured event and uncertainty about the amount of the resulting liability create insurance risks in non-life business. The most important non-life segments of the Helvetia Group are property, transport and casualty insurance (liability, accident, collision). The latter consists largely of motor insurance and, to a lesser extent, liability, health and accident insurance. In 2006, 72.8% (previous year: 73.0%) of the Helvetia Group's direct non-life business was generated outside of Switzerland. The business segments accounted for the following percentages of gross premiums written: Switzerland 25.1% (previous year: 24.4%), Germany 24.2% (previous year: 24.5%), Italy 15.1% (previous year: 14.4%), Spain 15.9% (previous year: 15.4%), Austria 8.1% (previous year: 8.0%), France 3.8% (previous year: 3.8%) and assumed reinsurance 7.8% (previous year: 9.5%) (see also Note 9 'Insurance business').

Gross premiums by business line and region in the non-life business in CHF million

2006	Switzerland	Germany	Italy	Spain	Other	Total
Property	332.6	268.0	78.1	151.5	71.0	901.2
Transport	36.3	60.1	4.6	23.0	98.1	222.1
Motor vehicle	162.4	149.1	203.3	144.1	74.3	733.2
Liability	76.2	72.2	31.0	29.0	26.2	234.6
Accident/health	0.0	37.5	48.0	38.9	19.1	143.5
Reinsurance	–	–	–	–	188.7	188.7
Gross premiums non-life	607.5	586.9	365.0	386.5	477.4	2 423.3

2005	Switzerland	Germany	Italy	Spain	Other	Total
Property	317.3	260.9	71.4	142.0	69.0	860.6
Transport	37.9	66.7	4.4	20.6	96.1	225.7
Motor vehicle	154.6	149.8	196.5	141.6	70.8	713.3
Liability	73.1	70.4	26.8	29.3	25.6	225.2
Accident/health	0.0	37.0	44.3	34.2	19.2	134.7
Reinsurance	–	–	–	–	227.1	227.1
Gross premiums non-life	582.9	584.8	343.4	367.7	507.8	2 386.6

These tables were prepared in accordance with the principles of segment reporting described in Note 3.

Helvetia Group's consistent focus on a geographically well-diversified portfolio of mainly small risks (private customers and SMEs) encourages risk equalisation and reduces the risk that the cost of claims that are covered by existing contracts but have not yet occurred will be higher than expected (prospective risks). For example, a change in the net claims ratio by ± 5 percentage points would result in a decrease or increase of CHF 108.5 million in the income statement. Insured events that have already occurred harbour the risk that the amount of existing liabilities might exceed expectations and that the reserves set aside will be insufficient to cover future claim payments (retrospective risks). The Group responds to prospective and retrospective risks with actuarial control measures, by setting up reserves designed to meet requirements, and by diversification. Risk balancing through diversification, however, does not totally

eliminate the occurrence of isolated risk clusters (for example in the form of individual large risks) or cumulative risks (such as those resulting from multi-portfolio exposure to natural disasters). This risk potential is monitored Group-wide and hedged through reinsurance in a coordinated way.

The Group Reinsurance central unit protects each business unit from such risks through a customised reinsurance programme and purchases the necessary Group-wide protection on the reinsurance market while ensuring diversification. This kind of hedging policy provides a high level of protection at moderate cost. From a Group-wide perspective, the insurance risks in the non-life business are dominated by natural hazards. Reinsurance cover reduces the residual claims from a natural disaster or individual risk at Group level to less than CHF 30 million in most cases. Further information

on the quality of the reinsurance cover and the claims development over the last five years can be found in Notes 16.5 (Counterparty risks) and 9 (Insurance business). Together with the optional reinsurance business, 9.5% (previous year: 11.1%) of the premiums written in non-life business were ceded to reinsurers in 2006.

16.2.1 Casualty insurance

The Helvetia Group underwrites liability cover for individual customers, motor vehicles and companies. Liability claims result from action or neglect leading to bodily injury and/or property damage to third parties. Collision cover is also underwritten within the motor insurance sector. The volume of accident insurance business at Group level is small.

(a) Terms of the contract, guarantees and underwriting practices

The Helvetia Group controls the insurance risks to which it is exposed through risk-appropriate rates, selective underwriting, pro-active claims settlement and a prudent reinsurance policy. The underwriting process ensures that the assumed risks in terms of type, exposure, customer segment and location meet the necessary quality criteria. One example is the decrease in employer's liability claims as a result of the Group's stricter underwriting policy since 1999.

(b) Risks arising from clusters, accumulations and trend changes

In Europe, the portfolio is well-diversified with a higher weighting in Switzerland and Germany. Large risks are usually hedged through non-proportional treaty reinsurance.

(c) Uncertainties in estimating future loss payments

In the liability business in particular, quite some time can pass between the occurrence and the reporting of a claim. In order to cover existing liabilities not yet asserted by policyholders, Helvetia Group sets up incurred but not reported reserves, which are determined with actuarial methods on

the basis of many years of claims experience and with consideration to current developments and given uncertainties.

16.2.2 Property insurance

Property insurance contracts cover damage to or the loss of the property of the insured through insured events or damage to or loss of third-party property as a result of negligent actions or neglect by policyholders. From a risk perspective, Helvetia Group differentiates between the frequency and amounts of claims.

(a) Terms of the contract, guarantees and underwriting practices

The property insurance portfolios are largely reinsured by Group Reinsurance. The reinsurance contracts set out the general conditions under which the newly underwritten risks will be covered by the specific reinsurance contract. Individual large risks which are not covered by the corresponding treaty reinsurance are reinsured on an optional basis. Large risks are generally not underwritten unless appropriate reinsurance cover can be purchased. This approach allows for comprehensive risk control. Risk-oriented underwriting of large risks provides additional risk control.

(b) Risks arising from clusters, accumulations and trend changes

Apart from assumed reinsurance, property insurance is limited to Europe. The insurance risks are geographically well-diversified and there is a good balance between commercial and private property in the total portfolio. The geographical distribution of risks has not changed significantly compared to the previous year.

By definition, the property insurance portfolio is exposed to natural disasters, such as flooding, wind storms and earthquakes. Major claims and man-made disasters, such as explosions, fire and oil spills, may result in large claims. The number and extent of disasters that may occur in a certain period are by definition unforeseeable. Helvetia Group effectively guards against catastrophe losses through a multi-level reinsurance programme and its selective underwriting policy.

(c) Uncertainties in estimating future loss payments
Property insurance claims are usually settled in the year of the claim.

16.2.3 Transport insurance

Helvetia Group operates transport insurance business as a niche market in France and to a lesser extent in Switzerland, Germany and Austria. Helvetia Group mainly focuses on cargo/hull insurance, which carries a comparatively low level of risk. Risk exposure is managed by the application of local underwriting guidelines and through the close relationship – made possible by the small volume – with the insurance broker and the customer.

16.2.4 Assumed reinsurance

By tradition, Helvetia Group owns a small assumed reinsurance portfolio which is limited in size in compliance with the business strategy. Assumed reinsurance is run by Helvetia Schweizerische Versicherungsgesellschaft AG, based in St. Gallen. The portfolio was dominated by property reinsurance until the mid-1990s, but has diversified in recent years. The business philosophy positions assumed reinsurance as a 'follower' with typically only small shares in individual reinsurance contracts. This policy of small shares, combined with broad diversification by geographical and business segment, creates a well-diversified reinsurance portfolio without major risk clusters.

(a) Terms of the contract, guarantees and underwriting practices

The small size of the assumed reinsurance portfolio allows for detailed tracking of customer relations and the strict control of risks and commitments from new business written. An actuarial department specialising in reinsurance handles price and reserve calculations.

(b) Risks arising from clusters, accumulations and trend changes

The business is geographically dominated by companies located in the OECD area. A management information system has been set up to manage major claims. Besides managing risk exposure, cumulative risks arising from natural disasters are monitored and quantified using actuarial methods.

16.3 Insurance risk (life)

Helvetia Group offers a comprehensive range of life insurance products. These include risk and pension solutions and are aimed at private individuals (individual life insurance) and companies (group life insurance). The risks associated with these products are explained in detail in the following notes. There is also a small assumed reinsurance portfolio that is no longer included in the following description due to its lack of size. Life insurance is mostly operated from Switzerland, where 78.3% (previous year: 77.9%) of the Group's gross premium volume in the life insurance sector is generated. The following table shows the distribution of gross premium income by business line and region. In total, 1.5% (previous year: 1.3%) of the life premiums written was ceded to reinsurers in 2006.

Gross premiums by business line and region in the life business in CHF million

2006	Switzerland	Germany	Italy	Spain	Other	Total
Individual insurance	577.1	118.6	137.4	65.3	105.9	1 004.3
Group insurance	1 555.3	28.6	20.4	34.6	–	1 638.9
Unit-linked life insurance	84.6	64.1	–	8.4	27.6	184.7
Reinsurance	–	–	–	–	4.5	4.5
Gross premiums life	2 217.0	211.3	157.8	108.3	138.0	2 832.4

2005	Switzerland	Germany	Italy	Spain	Other	Total
Individual insurance	556.0	118.9	195.6	63.7	106.4	1 040.6
Group insurance	1 524.6	26.1	7.6	29.5	–	1 587.8
Unit-linked life insurance	93.8	39.1	–	2.4	24.4	159.7
Reinsurance	–	–	–	–	2.1	2.1
Gross premiums life	2 174.4	184.1	203.2	95.6	132.9	2 790.2

These tables were prepared in accordance with the principles of segment reporting described in Note 3.

16.3.1 Individual insurance and unit-linked life insurance

Helvetia Group offers private individuals term insurance, endowment and annuity insurance as well as index- and unit-linked products. Depending on the product, premiums are paid as single or regular premiums. Most of the products include a discretionary participation feature for which regulations in certain countries stipulate the minimum amount of profit participation to be paid out to policyholders. Individual life insurance accounts for 35.5% (previous year: 37.3%) of the Group's gross premium volume in the life insurance sector, with 57.5% (previous year: 53.4%) generated in Switzerland. The share of unit-linked life insurance amounts to 6.5% (previous year: 5.7%) of the Group's gross premium volume, with 45.8% (previous year: 58.7%) generated in Switzerland.

(a) Terms of the contract, guarantees and profit participation

Most of the products include a premium guarantee which means that the assumptions on mortality, disability, interest rate and expenses used to calculate the premiums are guaranteed. These fundamentals are therefore set prudently at the time the contract is underwritten. If the contract develops as expected, profits accrue which are paid out in part to the policyholder in the form of policyholder dividends. There are two important exceptions to note with regard to the guaranteed assumptions. Firstly, there are no interest-rate guarantees for unit-linked insurance, however, some products may guarantee a minimum benefit payout on maturity. Secondly, premiums in Switzerland for disability benefit policies concluded after mid-1997 are not guaranteed and may be adjusted.

(b) Underwriting and reinsurance

An insurance policy covering the risks of death and disability may only be taken out at regular terms and conditions if the insured is in good health. Compliance with this condition is checked during verification of the application. The check is based on the answers to the health questionnaire, and from a specific insured risk amount, a medical examination is required.

Large risks for insured individuals are ceded to various reinsurers through excess-of-loss reinsurance with the deductible varying by country. Additionally, Helvetia Group is reinsured against catastrophes which may concurrently cause several casualties and claim several lives.

16.3.2 Group life insurance

Group life insurance accounts for 57.9% (previous year: 56.9%) of the Group's gross premium volume in the life insurance sector, with 94.9% (previous year: 96%) generated in Switzerland. Outside of Switzerland and in a small run-off portfolio within Switzerland, group life insurance products are very similar to individual insurance policies. For this reason we focus on business with occupational benefit plans in Switzerland when referring to group life insurance below.

In Switzerland, companies are required under the Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) to insure their employees against the risks of death and disability and for retirement benefits. Helvetia Group offers products that cover these risks. The majority of these products include a discretionary participation feature with the minimum amount being stipulated by law or by contract.

(a) Terms of the contract, guarantees and profit participation

Rate guarantees do not apply to the risk premiums for death and disability and to the expense loadings for most of these products. These premiums may therefore be adjusted annually by Helvetia

Group. After a loss has occurred, the benefits that fall due are either guaranteed until the agreed expiry date or for life.

Annual interest is credited to the investment portion of the premiums. The interest rate on the mandatory savings portion is set by the Swiss Federal Council, while the interest rate on the extra-mandatory portion is determined by Helvetia Group. The mandatory interest rate has been unchanged at 2.5% since 1.1.2005, while Helvetia Group has maintained a rate of 2.25% on extra-mandatory portion.

On retirement, a policyholder may choose to have the retirement capital paid out as a lump sum or converted into a retirement pension. The conversion of the mandatory savings capital follows the BVG-conversion rate set by the government, while Helvetia Group determines the conversion rate for the extra-mandatory capital. After conversion, retirement pensions and any survivors' benefits are guaranteed for life.

Statutory regulations stipulate for the majority of products that a minimum of 90% of revenue must be used for the benefit of the policyholder. For example, the return on capital exceeding the guaranteed minimum interest rates must be returned to customers partly in the form of policyholder dividends. Similar rules are stipulated in the insurance contract for most of the products which are not subject to this statutory regulation.

(b) Underwriting and reinsurance

As far as the mandatory insurance is concerned, enrolment with an employer's pension fund cannot be refused on the grounds of ill health. However, certain benefits may be excluded or a higher premium charged for the extra-mandatory cover. There is no obligation to insure a specific company. During the underwriting process it is determined whether and under which terms the company will be insured on the basis of past losses caused by that company and based on estimates of future loss potential.

Large risks for insured individuals are ceded to various reinsurers through excess-of-loss reinsurance as for individual insurance. Reinsurance for disaster events also covers group life insurance.

16.3.3 Risks arising from trend changes and sensitivity analysis

Helvetia Group employs a wide range of actuarial methods to monitor existing and new products with regard to underwriting policy, setting necessary reserves and risk-appropriate pricing. Retrospective methods compare original expectations with actual developments. Prospective methods allow early recognition and analysis of the impact of new trends. Most of those calculations use parameter sensitivities to monitor the impact of unfavourable developments in investment returns, mortality, lapse rates and other parameters. All tools combined allow the Group to respond early and actively to adverse trends. If a certain risk takes a worse than expected course, the profit participation is usually the first to be reduced in most of the products. If a product shows evidence of an insufficient security margin, the premiums are adjusted, either for new business only or, if permissible, also for the existing portfolio.

Helvetia Group establishes reserves for its life insurance business to cover its estimated guaranteed and discretionary payments. The amount of life insurance reserves depends on the interest rates applied as well as on actuarial and other parameters. Additionally, the Liability Adequacy Test (LAT) examines whether the reserves in combination with expected premiums are sufficient to finance future benefits. Should this not be the case, local reserves are strengthened accordingly. The reserves included in the balance sheet are sufficient from the current point of view.

If assumptions are changed, the reserve reinforcements are either increased or decreased accordingly. A decrease in reserves flows largely back to the policyholders as a result of the discretionary participation feature. Policyholder dividends are

reduced in a first step to compensate for a required increase in reserves, with shareholders bearing the remaining increase. In the local statutory balance sheet, reserve reinforcements recognised as necessary may be spread over several years and, if possible, compensated by gradually lessening the allocation to the provisions for future profit participation or by the release of undisclosed reserves on investments. In the consolidated financial statements, however, required reinforcement of reserves must be immediately recognised in profit or loss, while offsetting against differences in valuation to the local balance sheet (especially for investments) is allowed in the consolidated financial statements before the deferred profit participation is determined for contracts with discretionary profit participation.

Therefore, a 10% increase in mortality in the LAT of all companies of Helvetia Group would have no impact on the reserves. This is because the margins are sufficient, even after the increase of mortality. Accordingly, the impact on the income statement and equity is marginal. A reduction in mortality by 10% would only have an impact on the reserves for annuity insurance in Switzerland. This scenario would lead to a reserve reinforcement that will burden the income statement by CHF 29.1 million and will have a marginal impact on equity not recognised through profit or loss. The impact on equity and the income would be less than CHF 5 million if net new capital inflow should fall by 50 basis points. However, it should be noted that these sensitivities are usually non-linear, so extrapolation is not possible.

Various impacting factors are described individually below.

(a) Mortality risk

If the death rate exceeds expectations, shareholders may suffer losses once the buffer of profit participation has been exhausted. Analysis shows this risk to be very low for both individual and group life sectors. Helvetia Group sees no necessity for reserve reinforcements for this particular risk.

(b) Longevity risk

If the death rate in individual insurance remains below expectations and policyholders live longer than expected, shareholders may suffer losses. Given the fact that life expectancy is continuously rising, the current mortality rate as well as expected trends regarding increases in life expectancy are taken into account. These reserves are very sensitive to assumed life expectancies and interest rates.

In addition to these considerations, which also apply to group life insurance, the high statutory BVG-conversion rate results in losses in the group life sector that are built into reserves at the expense of policyholders' profit participation. Besides reacting to interest rates and life expectancy, these reserves are also particularly sensitive to the assumed number of policyholders choosing a pension over a lump-sum payment on retirement.

(c) Disability risk

Losses may occur for shareholders if the number of active policyholders becoming disabled exceeds expectations or if fewer disabled policyholders than expected recover and the profit participation system is insufficient to cushion the impact of these variances. As disability benefit policies are almost exclusively taken out in Switzerland and premiums in the group life sector and individual life business may be adjusted for disability benefit contracts sold after mid-1997, the risk in Switzerland is limited to disability benefit policies sold before mid-1997. Here, the portfolio losses that are expected to occur are covered in full by local reserve reinforcements. These reserves are sensitive to the assumed expected loss burden in particular.

(d) Interest rate risk

Shareholders may have to bear losses if the guaranteed interest included in premiums and reserves cannot be generated. At the end of 2006, the individual life segment in Spain had the highest interest-rate guarantees as older policies still include guaranteed minimum interest rates of up to 6%.

These guarantees are partly covered by corresponding assets and the residual risk is covered by supplementary reserves. In other countries, the maximum guaranteed interest rate stands at 4% in euros and at 3.5% in Swiss francs, and it is expected that the structure of the underlying investments for these sub-portfolios will produce such returns. Additional reserves have been set up for some products in Austria, which exhibit a high risk of failing to generate the minimum yield with the underlying investments. Rising interest rates may lead to higher lapse rates of endowment contracts. This risk, however, is considered to be low for two reasons. Firstly, most countries enforce high tax consequences for premature contract terminations, and secondly, a deduction is usually made on highly interest-sensitive products at the time the contract is cancelled to reflect the lower fair values of the underlying investments.

Long-term interest guarantees on reserves for current benefits are in place in group life business. The BVG minimum interest rate on the mandatory accrued savings assets of insured is reviewed annually by the Swiss Federal Council. Since 1.1.2005, this minimum interest rate has been unchanged at 2.5%. Rising rates may lead to higher lapse rates in the group life segment and thus cause losses. Since 2004, no deductions can be made from nominally defined surrender values that reflect the fact that the fair value of the corresponding fixed-income securities may be below the (local) book value for contracts that have been in Helvetia Group's portfolio for more than five years.

(e) Risk in embedded derivatives

The return for policyholders of index-linked insurance contracts depends on an external index. Unit-linked insurance products may include a guaranteed survival benefit. These product components must be separated as embedded derivatives and recognised at fair value. The majority of these guarantees and index-dependent payouts are serviced by and at the risk of external partners. There are two products in Switzerland where this does

not apply and the risk is assumed by Helvetia Group, but these are covered by appropriate reserves. Their amount is determined especially by the volatility of the underlying assets as well as by the level of the risk-free interest rate. A change in the reserve is charged to profit and loss and cannot be compensated with a profit participation component.

(f) Summary

To sum up, there is a wide range of various and product-specific risks in life insurance, which Helvetia Group monitors using a number of actuarial methods and then offsets where necessary with an appropriate increase in reserves. In compliance with IFRS 4, Helvetia Group also has free reserves at its disposal for future policyholder dividends. These reserves can also be used to cover insurance risks.

16.4 Financial market risks and ALM

As at 31.12.2006, Helvetia Group managed assets of CHF 28.9 billion (previous year: CHF 27.8 billion). Since 2001, the Group has shifted a significant portion of its equity investments into fixed-income instruments to reduce the overall volatility of its portfolio.

The most important financial market risks to which the Group is exposed are interest rate risk, foreign exchange risk and equity price risk. The Group is also exposed to the real estate market through a significant portfolio of real estate in its investment portfolio. Financial market risks influence the profit and loss account as well as the balance sheet. The Group manages its real estate, mortgages and securities in-house. More complex investments such as hedge funds, private equity or convertible bonds are managed by external asset managers. Savings accumulated in unit-linked policies are invested in a wide range of funds and managed by third parties.

16.4.1 Asset & Liability Management and liquidity risk

Asset & liability management (ALM; see also Note 16.1.2) at Helvetia Group is geared towards accounting, especially protecting the income statement and balance sheet, as well as towards fair value considerations on risk limitation. Besides matching the investment strategy to liabilities, derivatives are selectively used to hedge foreign exchange risks and control the risk of losses on equity investments. The instruments mostly employed are options and forwards on both equity investments and foreign exchange underlyings. As of 31.12.2006, the risk of loss on equities was controlled by hedging with put options, and foreign exchange exposure was largely hedged. More information is available in tables 7.7.1 'Derivative financial assets' and 8.3.1 'Derivative financial liabilities'.

Helvetia Group has sufficient liquid assets at its disposal to meet unforeseen outflows of funds at all times. The proportion of liquid assets (cash, premiums to be invested, liquid equity and bonds) exceeds the scale of annual net flows of funds many times over. Additionally, the Group manages assets and liabilities in terms of their liquidity. The liabilities side of the balance sheet does not contain any significant individual positions. Part of the Group's investment portfolio consists of investments in assets which are not easily realisable, such as real estate or mortgages. These investments can only be realised over a longer period of time.

Maturity schedule of recognised insurance liabilities in CHF million

as of 31.12.2006

	up to 1 year	1–5 years	5–10 years	more than 10 years	without maturity	Total
Actuarial reserve (gross)	1 936.4	6 706.8	4 673.1	7 701.8	0.9	21 019.0
Provision for future policyholder participation	122.2	18.0	–	–	602.0	742.2
Loss reserves (gross)	1 167.5	1 194.9	384.3	139.4	–	2 886.1
Unearned premium reserve (gross)	890.5	–	–	–	–	890.5
Total reserves for insurance and investment contracts (gross)	4 116.6	7 919.7	5 057.4	7 841.2	602.9	25 537.8
Reinsurers' share	104.6	178.0	95.3	65.3	–	443.2
Total reserves for insurance and investment contracts (net)	4 012.0	7 741.7	4 962.1	7 775.9	602.9	25 094.6

as of 31.12.2005

	up to 1 year	1–5 years	5–10 years	more than 10 years	without maturity	Total
Actuarial reserve (gross)	2 012.7	6 303.5	4 536.0	7 291.5	2.6	20 146.3
Provision for future policyholder participation	72.0	18.5	–	–	597.8	688.3
Loss reserves (gross)	1 211.6	1 137.5	357.1	84.4	1.4	2 792.0
Unearned premium reserve (gross)	844.7	–	–	–	–	844.7
Total reserves for insurance and investment contracts (gross)	4 141.0	7 459.5	4 893.1	7 375.9	601.8	24 471.3
Reinsurers' share	160.5	188.6	87.0	59.4	5.9	501.4
Total reserves for insurance and investment contracts (net)	3 980.5	7 270.9	4 806.1	7 316.5	595.9	23 969.9

Maturity schedule of financial liabilities from insurance business in CHF million

as of 31.12.2006

	up to 1 year	1–5 years	5–10 years	more than 10 years	without maturity	Total
Financial liabilities at amortised cost:						
Deposit liabilities for credited policyholder profit participation	883.7	–	–	–	–	883.7
Deposit liabilities from reinsurance contracts	17.3	287.6	18.4	13.4	69.0	405.7
Total financial liabilities at amortised cost	901.0	287.6	18.4	13.4	69.0	1 289.4
Financial liabilities at fair value:						
Deposits for investment contracts	200.1	–	–	–	–	200.1
Total financial liabilities at fair value	200.1	–	–	–	–	200.1
Total financial liabilities from insurance business	1 101.1	287.6	18.4	13.4	69.0	1 489.5

as of 31.12.2005

	up to 1 year	1–5 years	5–10 years	more than 10 years	without maturity	Total
Financial liabilities at amortised cost:						
Deposit liabilities for credited policyholder profit participation	944.3	–	–	–	–	944.3
Deposit liabilities from reinsurance contracts	66.9	316.8	18.1	13.1	69.0	483.9
Total financial liabilities at amortised cost	1 011.2	316.8	18.1	13.1	69.0	1 428.2
Financial liabilities at fair value:						
Deposits for investment contracts	291.6	–	–	–	–	291.6
Total financial liabilities at fair value	291.6	–	–	–	–	291.6
Total financial liabilities from insurance business	1 302.8	316.8	18.1	13.1	69.0	1 719.8

16.4.2 Interest rate risk

Helvetia Group's results are affected by changes in interest rates. A prolonged period of low interest rates reduces the return on fixed-income investments such as bonds and mortgages. On the other hand, return increases with rising interest rates. Information on current investment returns can be found in Note 7.1 (page 115).

As with most investments, the value of Helvetia Group's liabilities depends on interest rate levels. Generally speaking, the higher the interest rate,

the lower the present value of assets and liabilities. The extent of this change in values depends, among other things, on the time pattern of cash flows. To manage the volatility of net positions (assets – net liabilities, i.e. AL mismatch) the Group compares the maturities of cash flows arising from liabilities with those resulting from assets, and analyses them for maturity matching. The derived risk is administered as part of the asset & liability management process. Risk capacity, on one side, and the capacity to finance guaranteed benefits or to generate surpluses, on the other side, are balanced.

Maturity schedule of financial assets in CHF million

as of 31.12.2006

	up to 1 year	1–5 years	5–10 years	more than 10 years	without maturity	Total
Loans (LAR) incl. money market instruments	2 420.2	2 289.6	1 180.6	750.6	102.2	6 743.2
Held-to-maturity investments (HTM)	367.8	977.6	927.6	1 196.7	–	3 469.7
Available-for-sale investments (AFS)	514.8	4 280.4	3 448.1	1 987.9	1 632.5	11 863.7
Financial assets at fair value through profit or loss	59.5	230.5	78.3	69.1	2 477.5	2 914.9
Total financial assets	3 362.3	7 778.1	5 634.6	4 004.3	4 212.2	24 991.5

as of 31.12.2005

	up to 1 year	1–5 years	5–10 years	more than 10 years	without maturity	Total
Loans (LAR) incl. money market instruments	1 859.4	2 703.9	1 057.1	658.6	100.0	6 379.0
Held-to-maturity investments (HTM)	300.4	997.8	765.6	717.2	–	2 781.0
Available-for-sale investments (AFS)	594.0	4 635.2	3 476.4	1 865.6	1 261.0	11 832.2
Financial assets at fair value through profit or loss	64.2	236.1	80.6	31.4	2 449.7	2 862.0
Total financial assets	2 818.0	8 573.0	5 379.7	3 272.8	3 810.7	23 854.2

A statement on the ALM situation of a portfolio can be made by comparing the guaranteed interest rates with yields. Aggregated information on interest guarantees is given in the following diagram.

The interest guarantees range from 1% to 6%. Less than 1% of the Helvetia Group's actuarial reserves carry an interest guarantee of more than 4%.

Interest guarantees in CHF million

as of 31.12.2006	Direct business Switzerland		Direct business EU	Reinsurance
	CHF	Other currencies	EUR	
Actuarial reserve for insurance and investment contracts excluding interest guarantee	761.4	–	126.5	–
Actuarial reserve for insurance and investment contracts with 0% interest guarantee	312.8	–	87.2	13.2
Actuarial reserve for insurance and investment contracts with positive interest guarantee	15 827.9	70.8	3 804.7	14.5
Average interest guarantee in per cent	2.73	3.01	3.10	3.00

as of 31.12.2005	Direct business Switzerland		Direct business EU	Reinsurance
	CHF	Other currencies	EUR	
Actuarial reserve for insurance and investment contracts excluding interest guarantee	681.4	–	85.3	–
Actuarial reserve for insurance and investment contracts with 0% interest guarantee	329.4	–	84.6	11.8
Actuarial reserve for insurance and investment contracts with positive interest guarantee	15 416.8	64.5	3 457.0	15.5
Average interest guarantee in per cent	2.74	3.17	3.14	3.00

16.4.3 Equity price risk

Investments in shares are used to generate long-term surpluses. Funds are mostly invested in large caps traded on the major stock exchanges. Helvetia Group holds a well-diversified portfolio (mainly in the CHF, EUR and USD markets). The share of each individual position is less than 4% of the portfolio, with the exception of 'Allreal', a highly diversified holding company which accounts for 10.4% of equity exposure, and 'Credit Suisse Group' (9.1%). In the case of the 'Credit Suisse Group', it should be noted that only 2.2% directly result from Credit Suisse Group share investments and that the remaining 6.9% arise from investments in five ETFs (exchange traded funds) listed on the SMI and SMIM and held in a safekeeping account with Credit Suisse Group. The equity portfolio is subject to market fluctuations. Market risk is constantly monitored and, if necessary, reduced through sales or the use of hedging instruments in order to meet the strict internal requirements on risk capacity.

Market risks are decreased through hedging strategies. Out-of-the-money put options are largely used to comply with internal loss limits. Equities constitute about 8.2% (before hedging) of the Group's investments. A substantial proportion is hedged against the risk of significant losses. Using out-of-the-money put options results in a relatively small delta-adjusted hedge ratio. The hedging protection, however, increases with large market fluctuations.

16.4.4 Foreign exchange risk

Most of the Group's assets, including its investments, and most of its liabilities are denominated in Swiss francs and euros. With the exception of the Swiss business, most liabilities are hedged through investments in matching currencies. In the Swiss business, investments to hedge liabilities in Swiss francs are held in both Swiss francs and euros for reasons of return and liquidity. The resulting currency risks are hedged to a great extent.

*Exposure to currency risk 2006***Assets** in CHF million

as of 31.12.	CHF	EUR	USD	Others	Total
Property and equipment	318.3	207.9	–	–	526.2
Goodwill and other intangible assets	29.0	39.6	–	–	68.6
Investments in associates	43.6	2.6	–	–	46.2
Investment property	3 457.4	432.6	–	–	3 890.0
Loans (LAR) incl. money market instruments	4 742.8	1 997.5	2.9	–	6 743.2
Held-to-maturity investments (HTM)	2 795.8	673.9	–	–	3 469.7
Available-for-sale investments (AFS)	6 667.3	5 087.7	44.0	64.7	11 863.7
Financial assets at fair value through profit or loss	891.8	1 488.6	394.3	140.2	2 914.9
Receivables from insurance business	170.5	434.5	19.2	13.9	638.1
Deferred acquisition costs (life)	202.0	17.8	–	–	219.8
Reinsurance assets	94.6	670.0	13.9	3.9	782.4
Deferred tax assets	0.1	49.5	–	–	49.6
Current income tax assets	0.4	1.1	–	–	1.5
Other assets	69.7	80.2	1.1	0.7	151.7
Accrued investment income	163.9	158.4	1.0	0.0	323.3
Cash and cash equivalents	–2.5	109.5	14.2	0.0	121.2
Total assets	19 644.7	11 451.4	490.6	223.4	31 810.1

Liabilities in CHF million

as of 31.12.	CHF	EUR	USD	Others	Total
Actuarial reserve (gross)	16 979.3	4 039.3	0.4	–	21 019.0
Provision for future policyholder participation	602.3	139.9	–	–	742.2
Loss reserves (gross)	985.1	1 771.8	89.9	39.3	2 886.1
Unearned premium reserve (gross)	262.7	587.3	30.2	10.3	890.5
Financial liabilities from financing activities	199.1	–	–	–	199.1
Financial liabilities from insurance business	872.9	615.2	1.4	0.0	1 489.5
Other financial liabilities	29.3	7.9	–	–	37.2
Liabilities from insurance business	584.7	118.2	0.6	0.0	703.5
Non-actuarial provisions	40.2	23.9	–	–	64.1
Employee benefit obligations	29.0	243.1	–	–	272.1
Deferred tax liabilities	345.5	113.5	–	6.7	465.7
Current income tax liabilities	40.9	75.0	–	–	115.9
Other liabilities and accruals	90.4	97.0	–1.6	1.0	186.8
Total liabilities	21 061.4	7 832.1	120.9	57.3	29 071.7

*Exposure to currency risk 2005***Assets** in CHF million

as of 31.12.	CHF	EUR	USD	Others	Total
Property and equipment	235.7	190.4	–	–	426.1
Goodwill and other intangible assets	22.2	40.2	–	–	62.4
Investments in associates	43.0	2.2	–	–	45.2
Investment property	3 493.2	390.6	–	–	3 883.8
Loans (LAR) incl. money market instruments	4 484.0	1 891.8	3.2	–	6 379.0
Held-to-maturity investments (HTM)	2 178.3	602.7	–	–	2 781.0
Available-for-sale investments (AFS)	6 832.9	4 828.1	92.6	78.6	11 832.2
Financial assets at fair value through profit or loss	770.6	1 459.3	503.3	128.8	2 862.0
Receivables from insurance business	60.3	508.0	18.8	13.6	600.7
Deferred acquisition costs (life)	204.6	17.0	–	–	221.6
Reinsurance assets	151.2	727.7	17.3	6.4	902.6
Deferred tax assets	0.1	38.9	–	–	39.0
Current income tax assets	2.9	–	–	–	2.9
Other assets	51.8	74.7	1.2	0.0	127.7
Accrued investment income	154.4	151.6	0.7	0.1	306.8
Cash and cash equivalents	62.6	96.8	4.4	8.6	172.4
Total assets	18 747.8	11 020.0	641.5	236.1	30 645.4

Liabilities in CHF million

as of 31.12.	CHF	EUR	USD	Others	Total
Actuarial reserve (gross)	16 497.6	3 648.2	0.5	0.0	20 146.3
Provision for future policyholder participation	530.4	157.9	–	–	688.3
Loss reserves (gross)	991.6	1 625.0	102.1	73.3	2 792.0
Unearned premium reserve (gross)	254.1	547.8	30.4	12.4	844.7
Financial liabilities from financing activities	198.8	0.0	–	–	198.8
Financial liabilities from insurance business	1 000.3	717.9	1.6	–	1 719.8
Other financial liabilities	4.3	20.6	7.2	–	32.1
Liabilities from insurance business	610.3	143.9	0.2	0.0	754.4
Non-actuarial provisions	39.3	21.9	–	–	61.2
Employee benefit obligations	26.7	219.0	–	–	245.7
Deferred tax liabilities	336.7	121.0	–	–	457.7
Current income tax liabilities	34.3	62.7	–	–	97.0
Other liabilities and accruals	31.0	86.9	5.7	3.0	126.6
Total liabilities	20 555.4	7 372.8	147.7	88.7	28 164.6

16.5 Counterparty risk

Counterparty risk includes risks of default and changes in value. The risk of default refers to the possibility of the counterparty becoming insolvent, while the risk of changes in value is related to the possibility of a financial loss due to a change in the counterparty's credit rating or a change in credit spreads in general. The risk of counterparties failing to meet their obligations is continuously monitored. Helvetia Versicherungen works with various counterparties with good credit ratings in order to minimise counterparty risk.

16.5.1 Risk exposure

The Helvetia Group is exposed to counterparty risk in the following areas in particular:

- Counterparty risks from bonds and money market instruments.
- Counterparty risk from granted loans and mortgages: the largest positions in the loans asset class consist of borrower's note loans and policy loans. Policy loans are hedged through life insurance policies. Most mortgages are also hedged through a pledged life insurance policy in addition to the real estate lien. All these measures lead to good collateralisation and a correspondingly low loss rate.
- Counterparty risks from transactions involving derivative financial instruments: this risk primarily results from transactions with OTC derivatives. As derivatives currently held by Helvetia are predominantly short-term, this exposure is also short-term, with a correspondingly reduced risk.
- Counterparty risks from ceded reinsurance: Helvetia Group transfers part of its risk exposure to others under reinsurance contracts. If the reinsurer defaults, the Group continues to be liable for the reinsured liabilities. The Group therefore periodically analyses the balance sheets and credit ratings of its reinsurers. The Group places its reinsurance contracts with several first-class companies to reduce dependency on one single reinsurance company. The Group also holds collateral in the form of fund deposits and/or letters of credit under related reinsurance treaties. Fur-

ther counterparty risks arise from the facultative reinsurance business.

- Counterparty risks from insurance business: the default of other counterparties (policyholders, agents and brokers, insurance companies) can lead to the loss of receivables from insurance business. On the balance sheet, the maximum gross exposure would correspond to the positions shown in Note 9 'Receivables due from policyholders, agents and brokers and insurance companies (without receivables due from reinsurance companies recognised under credit risk exposure from ceded reinsurance)'.
 - Counterparty risks from financial guarantees and credit approval: detailed information on contingent liabilities can be found in Note 12.

Rating of interest rate instruments, loans and derivative financial assets in CHF million

as of 31.12.	AAA	AA	A	BBB	BB and lower	Not rated	Total 2006	Total 2005
Money market instruments	167.4	396.2	283.6	–	–	252.0	1 099.2	1 002.1
Derivative financial assets	0.0	6.0	0.0	–	–	–	6.0	0.6
Bonds	9 339.3	3 495.2	1 584.5	97.7	8.0	207.3	14 732.0	14 167.9
Mortgages	–	–	–	–	–	3 094.0	3 094.0	3 036.3
Borrower's note loans	414.6	747.4	317.5	3.0	–	178.0	1 660.5	1 626.4
Policy and other loans	20.4	9.3	102.5	8.0	–	149.8	290.0	310.2
Total	9 941.7	4 654.1	2 288.1	108.7	8.0	3 881.1	20 881.7	20 143.5

Credit risk from ceded reinsurance in CHF million

	Exposure	Share in %
AAA	15.6	2.6
AA	459.3	75.0
A	105.4	17.2
BBB	13.2	2.2
BB and lower	0.1	0.0
Not rated	18.1	3.0
Total as of 31.12.2006	611.7	100.0
Total as of 31.12.2005	702.0	100.0

Both ceded actuarial provisions and receivables from reinsurance are recognised under credit risk exposure from ceded reinsurance.

16.5.2 Risk clusters or accumulations

The Group monitors counterparty risk on a regular basis, and diversifies and avoids this risk as much as possible. Credit risk is well diversified and

distributed among a wide range of commercial clients. The largest individual positions in bonds, money market instruments and borrowers' note loans are government bonds with prime credit ratings.

The largest counterparties in bonds, money market instruments and borrowers' note loans with a fair value of >10% of consolidated shareholders' equity in CHF million

as of 31.12.2006	Issuer rating	Fair value
Switzerland	AAA	2 264.3
Germany	AAA	808.2
Spain	AAA	512.2
Commerzbank AG	A	510.7
Austria	AAA	473.1
Raiffeisen Switzerland	AA	385.8
Mortgage Bond Bank of the Swiss Mortgage Institutions	AAA	367.6
Central Mortgage Bond Institution of the Swiss Cantonal Banks	AAA	360.0
Italy	A	333.0
General Electric Co	AAA	287.8
France	AAA	276.2

as of 31.12.2005	Issuer rating	Fair value
Switzerland	AAA	2 292.9
Germany	AAA	650.9
Austria	AAA	469.3
Mortgage Bond Bank of the Swiss Mortgage Institutions	AAA*	381.9
Spain	AAA	363.1
Italy	AA	340.3
Central Mortgage Bond Institution of the Swiss Cantonal Banks	AAA*	310.7
Eurohypo AG	A	299.9
Raiffeisen Switzerland	without rating	291.4
HSH Nordbank AG	A	266.8
France	AAA	265.0

* The rating refers to issued securities.

17. Events after the reporting date

No important events occurred before or on 27.3.2007, the date on which these consolidated financial statements were completed, that are likely to have a significant impact on the financial statements as a whole.

18. Scope of consolidation

The following events in the reporting period led to changes in the scope of consolidation of Helvetia Group:

The Helvetia Group did not make any acquisitions during the period under review. Ecenter Solutions AG, which is based in Zurich and included in the scope of consolidation for the first time, was founded for the purpose of consultation and the development and distribution of software. In the segment reporting, the company is assigned to the region 'Switzerland' and the business segment 'Other'.

The special funds Helvetia I Fonds North America, Great Britain and Europe were established in the reporting period with the aim of optimising the management of securities. As with the Group's other special funds, the funds are distributed to the segments proportionally, according to the ownership structure.

The investment in Helvetia Compañía Suiza, Seville, was increased from 98.87% to 98.91% through successive share purchases during the reporting year.

The Fund DeAM HL1 was liquidated in the reporting period. The fund units were repaid in full to

the holding company, Helvetia Schweizerische Lebensversicherungs-AG, Frankfurt. The company was assigned to the region 'Germany' and to the business segment 'Life'.

The following other companies were liquidated in the reporting year: ANKER Business Service GmbH, Vienna, Mathematica Versicherungsmathematische Beratungs-GmbH, Vienna, and V.N. Societed de Agencia de Seguros de la Vasca Navarra S.A., Pamplona. The remaining assets and liabilities of the Austrian companies were transferred in full to Helvetia Versicherungen AG, Vienna, and those of the Spanish company to Helvetia Compañía Suiza, Seville. The companies were assigned to the regions 'Other' and 'Spain' respectively and to the business segment 'Other'.

In 2006, the share capital of Helvetia Vermögens- und Grundstücksverwaltung GmbH & Co. KG, Frankfurt am Main, was increased by EUR 2.4 million.

The introduction of the unified 'Helvetia' brand led to numerous changes to the names of existing Group companies. The following is a complete list of all Group companies:

Affiliates and associates

as of 31.12.2006

Switzerland

	Segment	Holding in per cent	Method of consoli- dation	Currency	Company's capital in millions
Helvetia Holding AG, St.Gallen	other	–	–	CHF	86.5
Helvetia Schweizerische Versicherungsgesellschaft AG, St.Gallen	non-life	100.00	full	CHF	77.5
Helvetia Schweizerische Lebensversicherungsgesellschaft AG, Basel	life	100.00	full	CHF	50.0
Helvetia Beteiligungen AG, St.Gallen	other	100.00	full	CHF	225.7
Patria Schweizerische Lebensversicherungs-Gesellschaft AG, St.Gallen	life	100.00	full	CHF	0.1
Helvetia Consulting AG, St.Gallen	other	100.00	full	CHF	0.1
Rhydorf AG, Widnau	other	75.00	full	CHF	0.4
Ecenter Solutions AG, Zurich	other	100.00	full	CHF	0.1
Helvetia I Fonds North America	life and non-life	100.00	full	USD	–
Helvetia I Fonds Great Britain	life and non-life	100.00	full	GBP	–
Helvetia I Fonds Europe	life and non-life	100.00	full	EUR	–
Tertianum AG, Berlingen		23.20	equity	CHF	
Prevo-System AG, Basel		26.00	equity	CHF	

	Segment	Holding in per cent	Method of consoli- dation	Currency	Company's capital in millions
Germany					
Helvetia Schweizerische Versicherungsgesellschaft AG, Direktion für Deutschland, Frankfurt a.M. *	non-life	100.00	full	EUR	–
HELVETIA INTERNATIONAL Versicherungs-AG, Frankfurt a.M.	non-life	100.00	full	EUR	8.0
HELVETIA Schweizerische Lebensversicherungs-AG, Frankfurt a.M.	life	100.00	full	EUR	6.5
Der ANKER Vermögensverwaltung GmbH, Frankfurt a.M.	other	100.00	full	EUR	0.0
Helvetia Vermögens- und Grundstücksverwaltung GmbH & Co. KG, Frankfurt a.M.	other	100.00	full	EUR	10.7
Helvetia Grundstücksverwaltung GmbH, Frankfurt a.M.	other	100.00	full	EUR	0.0
Hamburger Assekuranz GmbH, Frankfurt a.M.	other	100.00	full	EUR	3.1
helvetia-e.com GmbH, Frankfurt a.M.	other	100.00	full	EUR	0.0
Helvetia Versicherungs- u. Finanzdienstleistungsvermittlung GmbH, Frankfurt a.M.	other	100.00	full	EUR	0.0
DeAM Fonds DFD 1 (Europa)	non-life	100.00	full	EUR	–
Italy					
Helvetia Compagnia Svizzera d'Assicurazioni S.A. – Rappresentanza Generale e Direzione per l'Italia, Milan*	non-life	100.00	full	EUR	–
Helvetia Vita – Compagnia Italo Svizzera di Assicurazioni sulla Vita S.p.A., Milan	life	100.00	full	EUR	13.4
GE.SI.ASS Società Consortile a R.L., Milan	other	55.00	full	EUR	0.0
Spain					
Helvetia Holding Suizo, S.A., Madrid	other	100.00	full	EUR	90.3
Helvetia Compañía Suiza, Sociedad Anónima de Seguros y Reaseguros, Seville	life and non-life	98.91	full	EUR	21.4
Previcia S.A., Sociedad de Inversion Mobiliaria, Seville	other	99.95	full	EUR	2.4
Previsur Agencia de Seguros S.L., Seville	other	100.00	full	EUR	0.0
Gesnorte S.A., S.G.I.I.C., Madrid		31.73	equity	EUR	
Gesnorte de Pensiones, S.A., Entidad Gestora de Fondos de Pensiones, Madrid		24.00	equity	EUR	
Gesnorte de Servicios, S.A., Madrid		28.00	equity	EUR	
Other					
<i>Austria</i>					
Helvetia Schweizerische Versicherungsgesellschaft AG, Direktion für Österreich, Vienna*	non-life	100.00	full	EUR	–
Helvetia Versicherungen AG, Vienna	life and non-life	100.00	full	EUR	12.7
Römertor Versicherungsmakler, Immobilien und Bau GmbH, Vienna	other	100.00	full	EUR	0.0
Marc Aurel Liegenschaftsverwaltung GmbH, Vienna	other	100.00	full	EUR	0.0
Helvetia Financial Services AG, Vienna	other	100.00	full	EUR	0.6
ZSG Kfz-Zulassungsservice GmbH, Vienna		33.33	equity	EUR	
<i>France</i>					
Helvetia Compagnie Suisse d'Assurances S.A., Direction pour la France, Paris*	non-life	100.00	full	EUR	–
<i>England</i>					
Helvetia Finance Ltd., Jersey	other	100.00	full	CHF	0.1
<i>Luxembourg</i>					
Helvetia Europe S.A., Luxembourg	other	100.00	full	EUR	11.5
Helvetia Fund SICAV Euro Bonds	life and non-life	100.00	full	EUR	–
Helvetia Fund SICAV European Equity	life and non-life	100.00	full	EUR	–
Helvetia Fund SICAV International Equity	life and non-life	100.00	full	EUR	–
<i>Worldwide</i>					
Helvetia Schweizerische Versicherungsgesellschaft AG, Rückversicherung, St. Gallen*	life and non-life	100.00	full	CHF	–

* Branches

Report of the Group Auditors to the General Meeting

Report of the Group Auditors to the General Meeting of Helvetia Holding AG, St. Gallen

As Group Auditors, we have audited the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements) of Helvetia Holding AG for the year ended 31 December 2006 as presented on pages 81 to 173 of the Annual Report 2006.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined, on a test basis,

evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Ltd

Hieronymus T. Dormann Bill Schiller
Auditor in Charge

Zurich, 27 March 2007

Financial statements of Helvetia Holding AG 2006

Financial statements	176
Notes to the annual financial statements	177
Report to the Statutory Auditors	178

Financial statements

Helvetia Holding AG

Income statement in CHF million

	2006	2005	Change
Dividend income	199.2	74.3	
Services to/from related parties	0.0	0.1	
Loan interest expenses	-6.0	-6.6	
Loan interest income	5.7	6.8	
Trademark expenses	-2.3	0.0	
Extraordinary income	0.0	0.1	
Profit for the period before tax	196.6	74.7	163.2%
Taxes	-0.3	-0.5	
Profit for the period	196.3	74.2	164.6%

Balance sheet in CHF million

	31.12.2006	31.12.2005	
Assets:			
Investments	745.1	695.0	
Loans to Group companies	150.1	200.0	
Intangible assets	9.0	0.0	
Non-current assets	904.2	895.0	1.0%
Cash and cash equivalents	0.4	0.5	
Balances receivable from Group companies	199.2	90.1	
Current assets	199.6	90.6	120.3%
Total assets	1103.8	985.6	12.0%
Liabilities and shareholders' equity:			
Share capital	86.5	86.5	
Reserve for treasury shares	17.1	24.4	
Other statutory reserves	596.7	589.4	
Profit carried forward	3.1	6.8	
Profit for the period	196.3	74.2	
Shareholders' equity	899.7	781.3	15.2%
Bond	200.0	200.0	
Provisions	0.2	0.4	
Accruals	3.9	3.9	
Borrowed capital	204.1	204.3	-0.1%
Total liabilities and shareholders' equity	1103.8	985.6	12.0%

Proposed appropriation of profit in CHF million

	31.12.2006	31.12.2005
Profit for the period	196.3	74.2
Profit carried forward	3.1	6.8
Profit available for distribution	199.4	81.0
Dividend (2006: CHF 13.50; 2005: CHF 9.00) per registered share	116.8	77.9
Allocation to free reserves	80.0	0.0
Profit carried forward to new account	2.6	3.1

Notes to the annual financial statements of Helvetia Holding AG

1. Change of name

On 12.5.2006, Helvetia Patria Holding in St. Gallen changed its name to Helvetia Holding AG with amendments to the articles of incorporation.

2. Investments

On the balance sheet date, Helvetia Holding AG owned the following direct investments:

Investments Helvetia Holding AG

Company	Reported company capital in CHF million	Percentage holding as of 31.12.2006	Percentage holding as of 31.12.2005
Helvetia Schweizerische Versicherungsgesellschaft AG, St. Gallen	77.5	100.00%	75.30%
Helvetia Schweizerische Lebensversicherungs- gesellschaft AG, Basel	50.0	100.00%	100.00%

The reported share capital of the companies in which Helvetia has an investment did not change compared to 31.12.2005.

The investment in Helvetia Schweizerische Versicherungsgesellschaft AG was increased from 75.30% to 100.00% in June 2006 through the acquisition of shares from Helvetia Schweizerische Lebensversicherungsgesellschaft AG and subscription to the share capital increase. This terminated the cross-holding of Helvetia Schweizerische Lebensversicherungsgesellschaft AG of 24.70% in Helvetia Schweizerische Versicherungsgesellschaft AG.

The Federal Office of Private Insurance positively acknowledged the pricing and course of action in its letter of 22.5.2006.

3. Dividend income

The reported income of Helvetia Holding AG represents the dividend paid simultaneously to Helvetia Holding AG by the subsidiaries Helvetia Schweizerische Versicherungsgesellschaft AG

and Helvetia Schweizerische Lebensversicherungsgesellschaft AG from their respective net profits for 2006.

4. Bond

The 3% bond 2004 – 2010 of Helvetia Holding AG has a nominal value of CHF 200,000,000 and was issued on 5.5.2004. It must be repaid at nominal value on 5.5.2010. The bond has a coupon rate of 3% p.a., which is paid annually on 5 May. Nominal value and bond terms did not change compared to the previous year.

Compared to the previous year, no new bonds were issued or any bonds redeemed.

5. Treasury shares

On the balance sheet date, subsidiaries of Helvetia Holding AG held 70,312 registered shares of Helvetia Holding AG (previous year: 100,312 registered shares of Helvetia Patria Holding). The amount of treasury holdings decreased due to the sale of treasury shares. The corresponding equity reserve for treasury shares has been adjusted accordingly.

6. Shareholders with interests of more than 5%

On the balance sheet date, two shareholders owning more than 5% of the share capital were recorded in the share register: Patria Genossenschaft (30.09%) and Munich Re (8.16%).

On the balance sheet date, the shareholder pool comprised the following shareholders:

- Patria Genossenschaft with 30.09%,
- Vontobel Beteiligungen AG with 4.0%,
- Raiffeisen Schweiz with 4.0%.

Report of the Statutory Auditors

Report of the Statutory Auditors to the General Meeting of Helvetia Holding AG, St. Gallen

As Statutory Auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Helvetia Holding AG for the year ended 31 December 2006.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Ltd

Hieronymus T. Dormann Bill Schiller
Auditor in Charge

Zurich, 27 March 2007

