vaudoise

Extract from the 2017 annual report

Vaudoise Insurance Group

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Statement concerning information relating to the future

This extract from annual report contains information relating to the future which entails uncertainties and risks. Readers need to be aware of this and should bear in mind that this information merely represents projections which may differ from actual future events. All information is based on data available at the time when the annual report was prepared.

The full annual report is also available in French and German.
The authoritative text is the French version.

Vaudoise Insurance Group
Extract from the 2017 annual report

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Note to readers: all the figures given in this report are individually rounded up or down

Commentary on the 2017 fiscal year

Commentary on the 2017 fiscal year
Message from the Chairman and the CEO

Dear members, shareholders, customers, colleagues and partners,

2017 saw a general increase in the importance of digitalization across all sectors of the economy. The insurance sector was no exception. Amid the maelstrom of ecosystems, blockchains and other disruptive concepts, the mission of the Board of Directors and the Management Board is to identify factors that make sense for our company with a view to remaining in the group of companies that are winners, while at the same time staying true to our mutualist values. Putting human beings before machines – statements of principle are easy to make, but putting them into practice is a more subtle exercise. The digital strategy takes account of this. Digitalization must serve above all to improve customer relations, it must serve the customer «experience». Proximity to our customers is part of our DNA and must be enhanced by establishing a genuine all-channel distribution system. Process optimization will be the second major pivot of the digital strategy. To achieve this, the internal organization is transforming itself in order to gain transversality. A department of digital transformation is in the process of being established and its first mission will be to complete with agility the many business projects that will help maintain our profitable growth strategy.

Obviously, Vaudoise has accomplished this revolution 4.0 by involving its staff. The new department is equipping itself with a driving force drawn largely from our own ranks. Opportunities for internal mobility are a reality experienced and appreciated by a large number of employees in many units. This contribution of experience from a range of sectors is an asset that will gain even more importance in the future. In addition, ongoing training and the development of work spaces must provide each and everyone with the tools to adapt to the new challenges.

Digitalization must serve above all to improve customer relations, it must serve the customer «experience».

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Succession planning is also very important. Vaudoise, which has always been a company that provides training, is expanding its offerings for young trainees. Alongside apprenticeships and AFA training (AFA/VBV = Swiss Association of Professional Insurance Education), from now on the company will be establishing extensive links with universities and will regularly be welcoming interns from their ranks with a view to recruiting the talent required for the new professions which we shall need in the future.

In this environment, 2017 once again saw the Vaudoise Group post a gratifying result very close to that of 2016, with a consolidated profit of CHF 120.7 million, as against CHF 124.8 million the previous year. This pleasing result was achieved thanks to our well-controlled loss experience in the non-life business and some good investment results. In addition, we are continuing with our policy of strengthening our equity, which reached CHF 1.7 billion in 2017. This 5.6% increase compared to 2016 is linked in part to the results and unrealized gains which are recognized immediately in equity.

Our mutualist ethos means that the Board of Directors and the Management Board endeavour to ensure a healthy balance in the distribution of the Group's profits among members, shareholders, customers and equity resources. Since 2011, we have opted to redistribute our non-life profits on a two-yearly schedule, alternating between allocating a share of our profits to motor insurance customers one year and to third-party liability/property insurance customers the next. To this end, the profit-sharing fund was endowed with CHF 33 million for the 2017 financial year in order to distribute more than CHF 33 million to customers over 12 months from 1 July 2018. The Group's positive results also prompted the Board to maintain the dividend paid on the shares of Vaudoise Insurance Holding Ltd. At the same time, they enable us to deliver an excellent return on investment for Mutuelle Vaudoise members.

Overall, revenues rose by 0.6% year-on-year to CHF 1.1 billion. This figure benefited from income linked to the acquisition of Berninvest and Vaudoise Investment Solutions on 1 July 2017. In 2017, premiums on direct non-life insurance remained virtually unchanged in comparison with 2016, reaching CHF 868 million. The decline in premiums resulting from rigorous underwriting and consolidations in personal lines was offset by good growth in P&C lines. The combined ratio (ratio of claims and operating expenses to premiums) is practically stable at 93.9%.

In life insurance, direct premiums written increased 1.7% to CHF 203.5 million. This increase is mainly due to single premium business. In particular, the company successfully marketed a Trendvalor tranche linked to a stock market index which enabled us to generate growth. In terms of periodic premiums, RythmoInvest, a flexible solution which allows customers to modify their premiums according to what they can afford, has been very well received by our customers. The results greatly exceeded our expectations.

The outlook for our Group in 2018 is positive. We expect growth in our non-life portfolios. At the same time, we will pay close attention to maintaining the quality of our underwriting and to our claims development.

Paul-André Sanglard, Chairman of the Board of Directors

Philippe Hebeisen, Chief Executive Officer

The outlook for our Group in 2018 is positive.

In the life sector, although the challenges remain considerable we expect our success in the new range of RythmoInvest solutions to continue. The return to growth which began in 2017 should continue in 2018.

The outlook for our Group in 2018 is positive.

Our revenues will also incorporate full accounting for the acquisition of Berninvest and Vaudoise Investment Solutions. In addition, we shall maintain the guiding principles underpinning our investment strategy. The performance of the financial markets has persuaded us to further increase the quality of our bond investments, while maintaining high levels of hedging on equities and currencies.

On behalf of the Board of Directors and the Management Board, we would like to thank you, our valued members, shareholders, customers, colleagues and partners, for the confidence you have placed in us and for your loyalty.

Paul-André Sanglard
Chairman of the Board
of Directors

Philippe Hebeisen
Chief Executive Officer

Key figures

418'700 Customers trust us

Revenue
1'084,7 million
(+0,6 %)

Profit for the year
120,7 million
(-4,1 million)

1'734,5 million
Equity
before appropriation of profit
(+5,6 %)

Stable dividends proposed at share-holder's meeting
14 million

Redistribution of 33 million as of 1 July 2018

1'574
Headcount
(or 1'468 full-time equivalents)

Non-life combined ratio
93,9 %
(93,4 %)

Net return on investments
2,4 %

Agency network

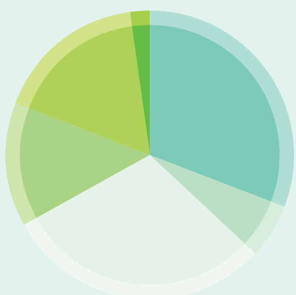
111 branches combined in 28 general agencies

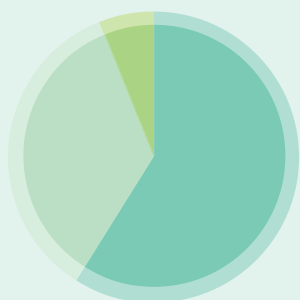
Premiums by sector

- 31 % Accident/health
- 6 % Third-party liability
- 30 % Motor vehicles
- 14 % Fire/miscellaneous
- 17 % Life business
- 2 % Unit-linked

Premiums on Swiss market

- 59 % French-speaking Switzerland
- 35 % German-speaking Switzerland
- 6 % Italian-speaking Switzerland





Insurance business

In 2017, Vaudoise posted a very gratifying operating result.

In 2017, Vaudoise posted a very gratifying operating result which was mainly thanks to a well-controlled loss experience. While premiums in non-life lines declined slightly (-0.1% as against +0.9% for the Swiss market as a whole), this trend was due to a 2.8% decline in receipts in personal lines. P&C business grew by 1.5%. Thus, in the personal lines segment, motor vehicle insurance – the most important line for Vaudoise in terms of volume – advanced by 1.9%. Property insurance grew by 1.4% while general liability insurance declined slightly by 0.9%. The overall claims burden increased slightly in 2017 (combined ratio: 93.9% as against 93.4% in 2016).

Despite a difficult economic context on the capital market and with interest rates at extremely low levels, Vaudoise Life saw its premium receipts return to growth with an increase of 1.7%. This result is mainly due to single premium business. Policies based on periodic premiums were re-energized by the marketing of RythmoInvest, a savings product linked to investment funds with progressive collateralization.

	Gross premiums written			Gross benefits paid out		
in CHF 1000	2017	2016	+/- %	2017	2016	+/- %
Total business						
Direct business	1'071'452	1'069'132	0.2	806'338	763'561	5.6
Indirect business	8'992	8'770	2.5	5'780	6'314	-8.5
Total	**1'080'444**	**1'077'902**	**0.2**	**812'118**	**769'875**	**5.5**
Direct business						
Non-life insurance	867'911	869'011	-0.1	596'568	570'623	4.5
Life inurance	203'541	200'121	1.7	209'770	192'938	8.7
Total	**1'071'452**	**1'069'132**	**0.2**	**806'338**	**763'561**	**5.6**
Indirect business						
Non-life insurance	7'360	7'216	2.0	3'902	4'329	-9.9
Life inurance	1'632	1'554	5.0	1'878	1'985	-5.4
Total	**8'992**	**8'770**	**2.5**	**5'780**	**6'314**	**-8.5**

Non-life insurance

The P&C business is making pleasing headway with growth of around 1.5%.

P&C Insurance (Property & Casualty Insurance)

The P&C business, comprising the motor liability, general liability and property lines, is making pleasing headway with growth of around 1.5%. With a volume of nearly CHF 550 million in premiums written, the P&C sector accounts for more than 60% of Vaudoise General's premiums.

Growth was not the same across all segments. The motor and property lines of business made good progress with 1.9% and 1.4% growth respectively, as against a growth rate of around 0.3% to 0.4% for the Swiss market as a whole. By contrast, the general liability business posted a decline of 0.9% which is explained by the very strong competition in this area.

The 2017 claims burden is in the line with the previous year and is at a good level despite the many hail events and some very substantial claims. However, the uptrend in certain segments or areas, particularly key accounts, has been confirmed. This development is being closely monitored and measures are being put in place.

To summarize, the P&C business turned in a good result for 2017 and the launch of the distribution partnership with Swiss Life for motor, general liability and property products for individuals points to attractive prospects ahead. In the commercial sector, a business contents product launched at the end of 2017 was added to the new Business One line.

Motor insurance

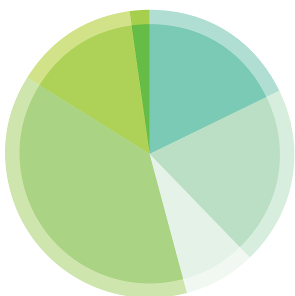
Despite a slowdown in growth in 2017 and a difficult market environment, Vaudoise General is continuing to gain market share. This good result was achieved thanks to the implementation of several measures in 2017. In the motorcycle insurance segment, the company has developed a partnership with the Hostettler (Yamaha) network and since spring 2017 has been offering an exclusive product for motorcycles distributed by this partner.

A spring rates campaign followed by more competitive revised rates at the beginning of the summer boosted the motorcycle insurance market. The insurance product linked to Avenue Smart telematics is also continuing to make gratifying progress and currently represents a proven solution for young drivers; careful driving is rewarded with a attractive discount.

Summer was marked by numerous hail incidents. These provided an opportunity to demonstrate all the expertise of Vaudoise in claims processing, thanks in particular to the arrangement of a drive-in damage assessment and vehicle repair procedure in the immediate vicinity of the location where the damage occurred. Here the company is supported by the valuable collaboration of a recognized service provider and is continuing to digitalize its operations in order to optimize the customer experience. Thus, on this occasion it tested an innovative and experimental scanner which allows hail damage to vehicles to be identified and quantified in a few minutes, enabling faster processing of claims. In parallel, several projects aimed at optimizing customer experience are underway and will assume more specific form in 2018.

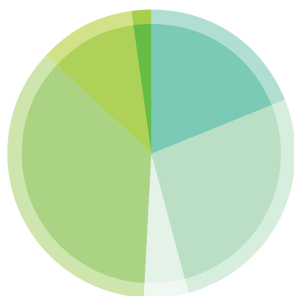
Breakdown of premiums

19 % Accident
20 % Health
8 % Third-party liability
37 % Motor vehicles
14 % Fire and other property insurance
2 % Miscellaneous



Breakdown of benefits

19 % Accident
27 % Health
6 % Third-party liability
35 % Motor vehicles
11 % Fire and other property insurance
2 % Miscellaneous



General liability insurance

The 2017 premium receipts result was affected by increased competition. The premium volume of general liability insurance decreased by around 0.9%, in line with the market. The leading indicators do not point to any improvement in the near future. However, distribution partnerships such as those concluded with the Mutual Group and Swiss Life are helping to mitigate this decline.

In terms of claims and the overall result of the sector, the 2017 combined ratio is very favourable despite some very major cases, including one relating to the construction sector which was among the largest ever recorded.

Property insurance

At 1.4%, this year's increase in premium receipts in the property insurance sector (fire, natural hazard and other property damage) was lower than in recent years, but remains higher than the growth of the Swiss market as a whole.

The flagship products in this area are still the solutions «Building» for buildings insurance and «Home in One» (HIO) for household contents insurance. Both remain highly competitive in this market and fully meet the needs of our customers.

At the end of 2017, Vaudoise launched a new commercial contents solution for businesses («Business One» line). With its innovative modules (cyber risks and contents accidental damage), this product makes it possible to respond to the expectations of an increasingly competitive market in the corporate business segment.

The company has also been able to count on the additional contribution of the partnerships concluded in this area in order to maintain a growth rate higher than the Swiss market. Our loss experience remains at a good level.

Insurance for dogs and cats – consolidation and integration of the Animalia portfolio

After the acquisition of the company Animalia in 2016, Vaudoise consolidated the takeover of operations in this sector – which had a portfolio of more than 24,000 risks – and has incorporated this offering into its product range. The Animalia brand has been retained and in a market which is as buoyant as ever, Animalia remains the leader in accident and health insurance for dogs and cats in Switzerland.

The development outlook is gratifying, both for distribution through partners and the Internet and for our own sales network of Vaudoise advisors.

Non-life personal lines

Premiums for non-life personal lines declined by 2.8% in 2017 in a sector in which Vaudoise has outperformed the Swiss market in recent years. This dip, which was expected, allows us to re-establish healthy profitability.

Health loss of income

Thanks to a more measured underwriting policy, which explains the 2% decline in receipts, the sector's claims to premiums ratio has improved significantly. Vaudoise will continue to follow its strategy, both in terms of underwriting and renewals.

Evolution	Gross premiums written			Gross benefits paid out		
in CHF 1000	2017	2016	+/- %	2017	2016	+/- %
Insurance business						
Accident	156'292	161'326	-3.1	113'402	111'093	2.1
Health	173'149	176'769	-2.0	159'458	151'893	5.0
Third-party liability	66'677	67'312	-0.9	29'919	30'165	-0.8
Motor vehicles	326'718	320'761	1.9	213'486	201'146	6.1
Fire and other property insurance	125'146	123'123	1.6	68'308	64'659	5.6
Miscellaneous	19'929	19'721	1.1	11'995	11'667	2.8
Total	**867'911**	**869'011**	**-0.1**	**596'568**	**570'623**	**4.5**

Mandatory (LAA) and voluntary (CLAA) accident insurance
The accident insurance sector, which declined 3.1%, is also regaining a healthy cruising pace.

The loss ratio of the voluntary LAA lines, other collective lines and individual accident lines presents a positive picture. The loss experience of the mandatory LAA accidents business is up in comparison with the excellent 2016 fiscal year and is higher than the preceding fiscal years. This is explained in particular by the strengthening of reserves with a view to the further lowering of the LAA technical rate which could take place as early as 2020.

Since June 2017, thanks to the complete overhaul of LAA voluntary insurance, current and prospective Vaudoise business customers have access to a full range of corporate non-life personal insurance products. This range is available to Vaudoise advisors through a single IT application which is both simple and flexible.

In addition, 70% of non-life personal insurance claims are now reported directly online, allowing the first key step of benefits to be optimized and giving greater fluidity to the cover process for the sick and injured. The Company aims to further strengthen its services with a view to optimizing prevention, management and customer support in the implementation of good staff management practices.

Life insurance

In a difficult economic context on the capital market and with interest rates at extremely low levels, Vaudoise Life saw its premium receipts increase by 1.7% to CHF 205.1 million. This result is mainly due to single premium business.

In summer 2016, the Swiss Financial Market Supervisory Authority announced a further reduction in the technical rate for personal pensions from 0.75% to 0.25% for periodic premiums in CHF and to 0.05% for single premiums in CHF, with effect from 1 January 2017 at the latest. Vaudoise Life then decided to switch its traditional product range to periodic premiums. In addition, a new version of the RythmoInvest solution allows customers to adjust their premiums according to what they can afford. This product involves investing in in-house investment funds while following the customer's life cycle to finally secure his or her investment in full. Vaudoise is known for allowing its customers to share in its success; with this product it allows them to access the same investments as the company they trust. The results have far exceeded our expectations and have practically compensated for the decline in traditional products.

The company has maintained its restraint in its traditional single premium insurance offerings. However, it took advantage of a favourable window to market a new Trendvalor tranche linked to a stock market index, which enabled it to post 29.3% growth to CHF 17.1 million.

In the current environment, the profitability of life insurance products with guaranteed savings components is receiving particular attention.

With this in mind, Vaudoise Life has once again adjusted its interest rate risk reserve. The company also takes advantage of every opportunity to market new generation products with a low correlation with interest rates.

While conditions in the capital markets are still proving particularly difficult, our loss experience is well under control in the disability sector, with a decrease of 10.6%. By contrast, after an exceptionally good year in 2016, death benefits are back at their historical level.

Evolution	**Gross premiums written**			**Gross benefits paid out**		
in CHF 1000	2017	2016	+/- %	2017	2016	+/- %
Individual insurance						
Endowment	196'758	186'370	5.6	105'030	97'691	7.5
Annuities	3'614	10'550	-65.7	51'150	51'047	0.2
Disability	3'169	3'201	-1.0	1'409	1'577	-10.6
Total	**203'541**	**200'121**	**1.7**	**157'589**	**150'315**	**4.8**
				Redemptions		
Individual insurance				52'181	42'623	22.4
Total benefits and surrender				**209'770**	**192'938**	**8.7**
	Production			**Insurance portfolio**		
Individual insurance						
Endowment	339'336	327'223	3.7	6'253'369	6'357'865	-1.6
Annuities	572	4'152	-86.2	604'950	620'598	-2.5
Disability	35'175	37'666	-6.6	650'296	657'429	-1.1
Total	**375'082**	**369'041**	**1.6**	**7'508'615**	**7'635'892**	**-1.7**

Financial investments

Fiscal 2017 saw the Group continue to follow its strategy, based essentially on investment categories generating regular income.

The main focus of the Group's strategy is on broadly diversified investments with a long duration. In 2017, good returns on fixed and variable-income securities led to favourable financial results.

Investment policy and operations

Monetary policies continue to diverge

2017 was once again marked by the actions of central banks and their impact on the foreign exchange markets. With the exception of the US Federal Reserve (Fed) which, as in 2016, raised its key rate on three occasions, central banks maintained their expansionary monetary policies.

2017 was a good year for the financial markets. Inflation remained moderate in the industrialized countries, while global economic growth, as measured by GDP, improved overall by more than 3.5%. Highly accommodative monetary policies – combining low interest rates with historic low levels of volatility on financial assets – once again proved profitable for high-risk assets such as shares.

It was an eventful year on the political front. First of all there was the inauguration of Donald Trump as the 45th president of the United States on 20 January, following his election victory. Then on 7 May there was the inauguration of Emmanuel Macron as France's youngest ever president after he won the second round of the French presidential election. Germany also held elections in 2017. The Christian Democratic Union (CDU), the party of Chancellor Angela Merkel, who has been in office since 2005, won at the polls on 24 September, securing 246 out of 709 seats in the Bundestag. Although victorious, the CDU failed to win an outright majority or form a coalition. On the Iberian peninsula, 1 October marked a decisive turning point for the Catalan people in a referendum on self-determination for Catalan independence. In response to this action – deemed illegal – the Spanish government launched a procedure for the suspension of Catalan autonomy and announced that it would be organizing new regional elections in Catalonia on 21 December 2017.

The election of Emmanuel Macron gave France and Europe fresh momentum which led to a positive orientation for the eurozone economy. European growth, which had been expected to be somewhere between 1% and 1.5%, should end up close to 2-2.2%. The bloc's unemployment rate fell below the psychological 10% threshold to 9%. A significant proportion of European companies performed very well, posting increases in earnings. Finally, the absence of inflationary pressures and the disappearance of the deflationary trend, which had for years posed a threat for the European Central Bank (ECB), made it possible to maintain a recovery policy while preparing the financial markets for forthcoming gradual changes.

On the foreign exchange market, the strengthening of the euro by more than 9% against the Swiss franc allowed the currency pair to approach a rate of CHF 1.20 to EUR 1.00. This upward trend reflects the economic upturn in the eurozone, referred to above. Meanwhile, the US dollar declined by around 4% against the Swiss currency.

Yields on ten-year Confederation bonds ended the year in negative territory, as in 2016. As readers will recall, at the end of 2016, Swiss, European and American ten-year bond yields stood at -0.22%, 0.21% and 2.44% respectively, against -0.15%, 0.43% and 2.41% at the end of 2017.

For the past decade, the Swiss real estate markets have performed very favourably thanks to strong demand, vacancy rates close to zero and ultra-low mortgage rates. However, 2017 saw some signs of change begin to emerge. A direct return on residential investment properties several percentage points higher than ten-year Confederation bond yields is pushing growing numbers of investors to turn to real estate investments. Although rents are tending to stagnate, investing in property still remains attractive both in terms of quality and in terms of generating regular returns. Persistently strong demand is on the one hand pushing up prices and on the other hand leading to continuous intensive construction activity which is destabilizing the balance in this market. Moreover, vacancy rates are on the increase in the Swiss market, which is starting to have an impact on the valuation of some properties. In the long term, there should be a further increase in the supply of property, adding all the more to the risk of vacancy rates and putting pressure on valuations, particularly in peripheral regions.

The current economic and political situation is marked by continuing accommodative central bank monetary policies, which are de facto reducing the volatility of the financial markets and are pushing up the value of high-risk assets in particular. In this context, Vaudoise continues to favour financial management which is in line with its risk capacity and legal constraints while at the same time enabling it to achieve its target returns.

Top quality bond portfolio
The fixed income portfolio comprises bonds and high-quality municipal loans, including 45% with «AAA» ratings (2016: 45%, 2015: 38%), while 26% are rated «AA» (2016: 29%, 2015: 30%) and 11% «A» (2016: 11%, 2015: 22%).

During the course of the year, Vaudoise maintained a long duration for its investments to match the similarly long-term requirements of its insurance commitments.

Finally, our allocation to this asset class was expanded slightly from 46.8% in 2016 to 48.3%.

Vaudoise's geographical exposure is focused mainly on the Swiss market, followed by the US and European markets. These portfolios also benefit from quality sectoral and geographical diversification.

Real estate: do not buy at any price
Competition in the rental apartments market has further intensified. At the end of 2017, more than 2.4% of the total number of dwellings were unoccupied. This percentage is close to the peak vacancy rate observed in this segment in 1998 (2.8%). However, investors do not yet appear to be troubled by the steady increase in vacancy rates now in progress for the past eight years. After peaking in 2015, offered rents fell by 2.2% in mid-2017, with declines of up to 8.6% observed in certain tourist locations, and as much as 6.2% in some affluent municipalities with advantageous tax rates. The number of new builds authorized has continued to increase and stands at 64,900 units, including more than 53,000 (82%) rental homes. This means that the risk that Swiss real estate investors and owners could suffer losses in terms of rents and property values is continuing to increase. The situation remains worrying for commercial premises. Commercial tenants are still in a position of strength despite the relative stabilization of prices witnessed in this segment in 2017.

The main reasons for this situation are stagnating employment and a smaller increase in population compared to previous years. These factors adversely impact demand for additional rental housing. Substantial investment in construction, driven by low interest rates, remains at odds with the decline in ultimate demand for rental housing.

In this context, Vaudoise intensified its rigorous selection policy for construction projects and real estate purchases. Thus, it continued its long-term investment strategy, focusing even more on the quality of the macro and micro locations of the properties in question and on the fair level of rents available with a view to achieving our target returns. Out of 227 cases analysed in 2017, Vaudoise finalized the purchase of two construction projects and three existing buildings enjoying a very good location and significant potential (Lausanne and Basel). Moreover, Vaudoise turned down a very large number of investment proposals because the price of buildings and projects was judged to be too high in relation to their long-term value.

In 2017, it completed 52 apartments spread across two projects (Cossonay and Lenzburg) and prepared the launch of four new construction sites including two in German-speaking Switzerland and two in French-speaking Switzerland, ultimately placing 315 new homes on the market (Pully 128, Lausanne Fiches Nord 84, Lausen 58, Münchenstein 45).

In parallel, it sold a group of condominiums (Vaduz). Vaudoise's active management of its real estate portfolio enabled it to identify and launch feasibility studies for several refurbishment programmes for existing buildings located in particular in Lausanne, Geneva and Renens, with the potential for extensive renovation and expansion of buildings judged to be in excellent macro- and micro-locations.

The value of the Group's portfolio stands at CHF 1.498 billion (2016: CHF 1.460 billion), bringing its share of the overall allocation to 20.9% against 20.6% in 2016.

Mortgage loans continue to grow
Vaudoise sees mortgage loans as an asset class which offers a means of diversifying its fixed-income investments. They also form an integral part of its comprehensive customer advice strategy.

In the same way as real estate proposals, mortgage applications are carefully analysed and loans are granted only if they fully comply with the company's acceptance criteria. There was good growth in loans granted, increasing their share of its overall asset allocation to 8.7%, against 7.7% at end 2016 and 6.7% at the end of 2015.

Slight decrease in variable-income securities
This investment category consists mainly of equities and alternative investments. During the year under review, Vaudoise reduced its allocation to these assets.

Vaudoise's equity portfolio consists of 40% Swiss shares and 60% foreign shares and is mainly based on passive management (index tracking) to minimize management costs. Given the size of its equity portfolio and its desire to generally control risks, Vaudoise continued to follow a derivative-based hedging strategy on a large proportion of this portfolio to guard against major losses.

Some years ago, it established its own fund of hedge funds and private equity fund, with customized portfolios consisting of diversified alternative investments. The management of these two portfolios is delegated to two companies which specialize in this area. In-house experts monitor their activities. The share of these investments decreased from 5.4% in 2016 to 5.1% in 2017.

Taking into account other variable-income securities held for the long term, along with shareholdings and derivative financial instruments, variable-income investments represented a total of 14.7% of Vaudoise's investments at the end of 2017, against 16.9% in 2016.

Exchange-rate risks under control
Vaudoise views the returns on exchange-rate risks as inadequate and therefore deliberately maintained a high level of exchange-rate hedging during the financial year under review, covering more than 75% of its exposure to foreign currencies, while still remaining attentive to the cost of financing this hedging.

Investment results

Fiscal 2017 saw the volume of Vaudoise's investments increase by CHF 86.0 million to CHF 7,389.6 million. Excluding investments for the account and at the risk of policyholders, the volume increased by CHF 62.8 million to CHF 7,175.4 million.

In 2017, revenue from investments declined by CHF 2.0 million to CHF 169.4 million. The decline in fixed income as a result of the low interest rate environment was not offset by the rise in real estate and mortgage revenue. The return on investments[1] reported in the income statement came to 2.4% in 2017 against 3.2% in 2016. This negative development is due to unrealized losses posted on variable income and higher foreign exchange losses than the previous year.

As in 2016, the net performance of the investments in terms of market value[2] came to 2.6%. This performance can be regarded as good and in line with the sector market.

Capital adequacy and solvency

More than 5.6% growth in equity capital and a comfortable SST ratio

Compared to 2016, the Group's equity before appropriation of profit increased by CHF 91.7 million to CHF 1,734.5 million. Our return on equity was 7.1%, against 7.8% in 2016.

The structure of the Group calls for Vaudoise to maintain a very high capital adequacy ratio.

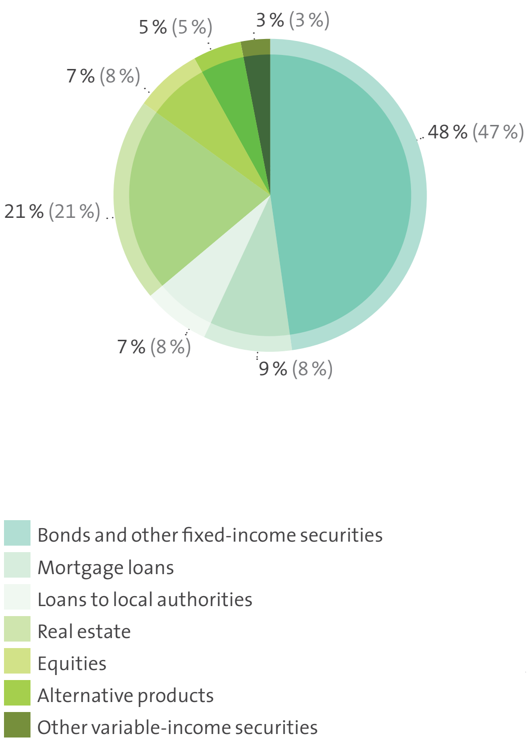
The Group's risk capacity, as measured by the Swiss Solvency Test (SST), is well above the required level of cover.

This ample room for manoeuvre means that the Group can face the future with confidence and take advantage of opportunities on the financial and insurance markets.

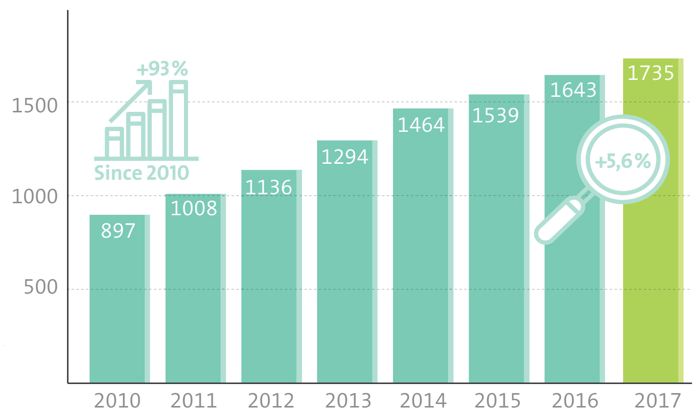
1) Net return, through profit and loss, based on average investment, including exchange-rate gains and losses, excluding results for the account and at the risk of policyholders and excluding unrealized capital gains and losses on securities (equities, alternative investments, bonds, real estate).

2) Net performance at market value, based on average investment, including variation in unrealized capital gains on securities (equities, alternative investments, real estate), including unrealized capital gains or losses on bonds and exchange rate differences, but excluding results for the account and at the risk of policyholders.

Allocation of asset classes as at 31 December 2017 (2016)



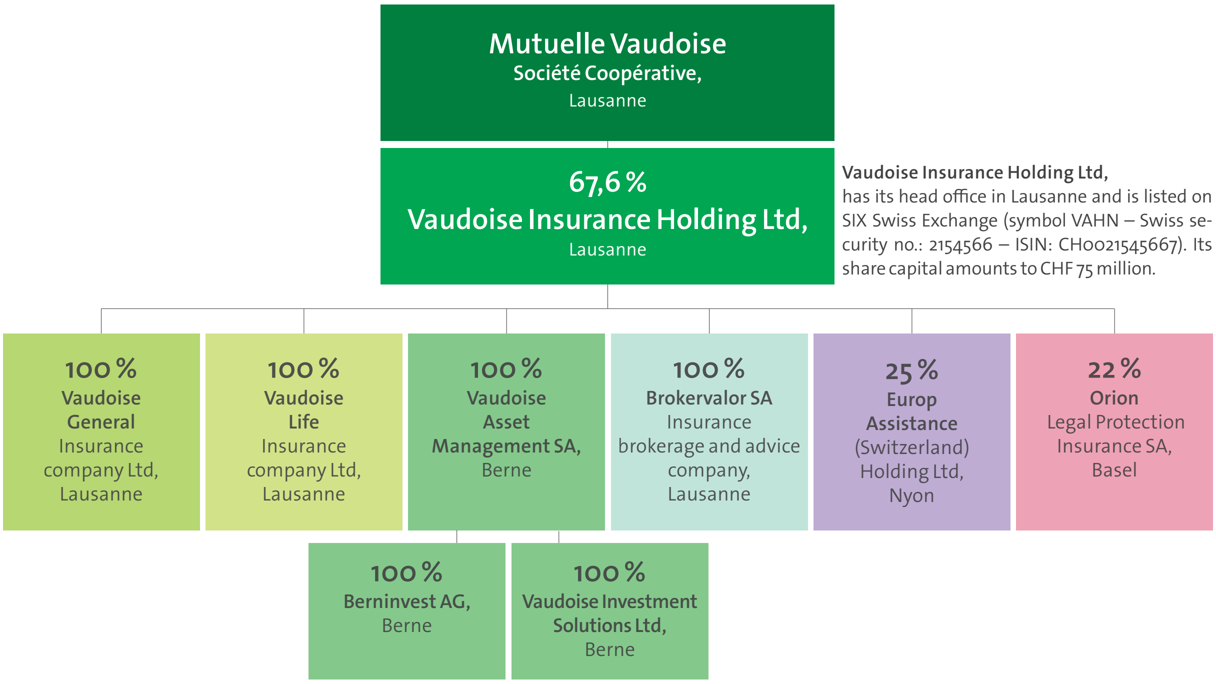
Consolidated equity
(in CHF million)



I

Corporate governance

Corporate governance



Vaudoise Insurance Holding Ltd, has its head office in Lausanne and is listed on SIX Swiss Exchange (symbol VAHN – Swiss security no.: 2154566 – ISIN: CH0021545667). Its share capital amounts to CHF 75 million.

Group structure

The parent company of the Vaudoise Insurance Group is Mutuelle Vaudoise, Société Coopérative, which holds 67.6% of the capital and 91.2% of the voting rights of Vaudoise Insurance Holding Ltd. The company has four subsidiaries and two companies under joint control. All are established in Switzerland and five fall within the scope of consolidation. These are the Group's two main operating companies, Vaudoise General, Insurance Company Ltd, and Vaudoise Life, Insurance Company Ltd, plus Vaudoise Asset Management SA, Europ Assistance (Suisse) Holding Ltd and Orion, Legal Protection Insurance SA. Vaudoise Insurance Holding Ltd holds all the share capital of the three operating companies: CHF 60 million for Vaudoise General, CHF 100 million for Vaudoise Life and CHF 100,000 for Vaudoise Asset Management.

Vaudoise Asset Management SA is a holding company which holds all the share capital of Berninvest AG, in Berne, the real estate fund management company Immo Helvetic (listed on the Swiss Exchange) and Good Buildings, as well as Vaudoise Investment Solutions Ltd, Berne, a company whose main activity is the management of the «Sustainable Real Estate Switzerland» section of the J. Safra Sarasin investment foundation.

Major shareholder

As of 31 December 2017, Mutuelle Vaudoise, Société Coopérative, controls Vaudoise Insurance Holding Ltd and is the majority shareholder with 67.6% of the capital and 91.2% of voting rights. No investment disclosure within the meaning of stock exchange regulations was made in 2017. There are no cross-shareholdings which exceed 5% of voting rights or 5% of capital.

Capital structure

The fully paid-up share capital of Vaudoise Insurance Holding Ltd amounts to CHF 75 million. It consists of 10 million registered A shares with a nominal value of CHF 5.– and 1 million registered B shares with a nominal value of CHF 25.–.

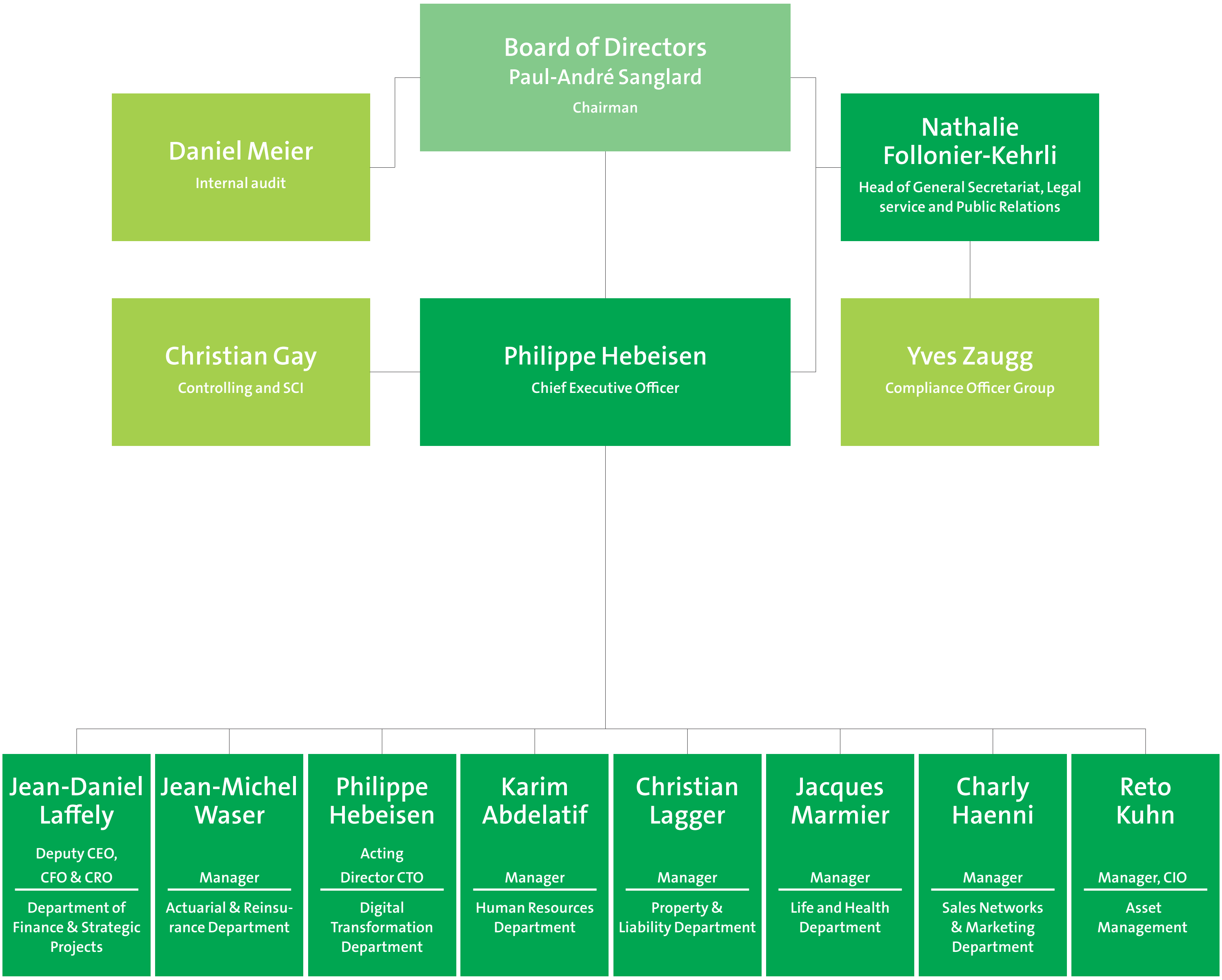
Vaudoise Insurance Holding Ltd has not issued any authorized or conditional capital and has not made any changes to its capital during the last three fiscal years.

Shares and participation certificates

The registered B shares are listed on SIX Swiss Exchange (Mid & Small Caps Swiss Shares). The registered A shares, all of which are held by Mutuelle Vaudoise, have privileged voting rights. Despite the difference in their nominal value, both types of shares confer entitlement to one vote.

Vaudoise Insurance Holding Ltd has not issued any participation certificates.

Functional organization chart
as at 31 December 2017



Management Committee

Members of the Board of Directors as at 31 December 2017

The seven-member Board of Directors is chaired by Mr. Paul-André Sanglard
The members, whose powers and authority complement each other, are divided between three committees:
► Audit and risk ► Appointments and remuneration ► Investment

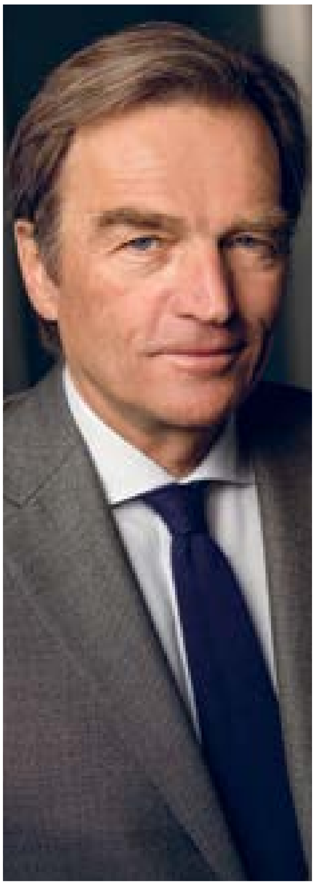



Paul-André Sanglard
Chairman
Non-executive member
PhD in Economics
Swiss citizen
Born 8 October 1950

Chantal Balet Emery
Vice-Chairman
Non-executive member
Attorney at law and notary public
Swiss citizen
Born 7 June 1952

Martin Albers
Director
Non-executive member
M. Sc. in Engineering Sciences, MBA
Swiss citizen
Born 10 July 1960

Javier Fernandez-Cid
Director
Non-executive member
Master of Law
Spanish citizen
Born 10 January 1956



Eftychia Fischer
Director
Non-executive member
B. Sc. in Physics, CFA, FRM
Swiss citizen
Born 17 August 1963

Peter Kofmel
Director
Non-executive member
Attorney at law and notary public
Swiss citizen
Born 16 September 1956

Jean-Philippe Rochat
Director
Non-executive member
Attorney at law
Swiss citizen
Born 11 November 1957

Members of the Management Committee
as at 31 December 2017

Jacques Marmier Head of Life and Health Department	Reto Kuhn Head of Asset Management, CIO	Karim Abdelatif Head of Human Resources Department	Charly Haenni Head of Sales Networks & Marketing Department	Philippe Hebeisen Chief Executive Officer

Nathalie
Follonier-Kehrli
Head of General Sec-
retariat, Legal service
and Public Relations

Jean-Daniel Laffely
Deputy CEO, CFO &
CRO, Department
of Finance & Strategic
Projects

Christian Lagger
Head of
Property and Liability
Department

Jean-Michel Waser
Head of Actuarial &
Reinsurance
Department

II

Group consolidated accounts

Consolidated income statement
(in CHF 1000)

Technical income statement non-life insurance business	Gross	Reinsurance ceded	2017 net	2016 net
Premiums written	875'271	37'059	838'212	837'122
Change in unearned premium reserves	-141	110	-251	-760
Premiums earned	**875'130**	**37'169**	**837'961**	**836'362**
Financial result transferred from non-technical income statement			84'359	76'116
Other technical income			181	178
Total income			**922'501**	**912'657**
Claims paid	600'470	17'287	583'183	555'527
Change in claims reserves	28'469	3'740	24'730	11'624
Claims expenses	**628'939**	**21'027**	**607'913**	**567'151**
Change in other technical provisions	-17'985	-	-17'985	5'345
Policy-holder bonuses	14'232	518	13'713	13'388
Operating and acquisition costs	204'798	4'985	199'812	214'447
Other technical costs			2'153	1'811
Total costs			**805'607**	**802'142**
Technical result non-life insurances business			**116'894**	**110'515**
Technical income statement life insurance business				
Premiums written	205'173	2'356	202'818	199'183
Change in unearned premium reserves	1'489	84	1'405	1'596
Premiums earned	**206'663**	**2'440**	**204'223**	**200'779**
Financial result transferred from non-technical income statement			89'575	118'791
Total income			**293'798**	**319'570**
Claims and benefits paid	211'648	2'130	209'517	193'892
Change in claim reserves	-2'154	-800	-1'354	1'188
Change in actuarial reserves	44'126	-613	44'739	74'700
Claims and benefits expenses	**253'619**	**717**	**252'902**	**269'780**
Policy-holder bonuses	4'459	1'186	3'273	3'403
Operating and acquisition costs	32'999	-	32'999	33'321
Total costs			**289'174**	**306'504**
Technical result life insurance business			**4'623**	**13'065**

For the notes, please refer to pages 61 to 81 of the original French version of the 2017 Annual Report

Other activities income statement	2017 net	2016 net
Income from services	4'214	-
Total income	**4'214**	**-**
Operating costs	2'383	-
Total costs	**2'383**	**-**
Other activities result	**1'831**	**-**
Financial (non-technical) income statement		
Investment income	346'170	389'877
Investment expenses	-119'359	-144'196
Investment result	**226'812**	**245'681**
Financial results allocated to technical income statement	-173'934	-194'907
Other financial income	129'137	95'378
Other financial costs	-171'766	-123'397
Financial (non-technical) result	**10'249**	**22'755**
Comprehensive income statement		
Technical result – non life insurance business	116'894	110'515
Technical result – life insurance business	4'623	13'065
Other activities result	1'831	-
Financial (non-technical) result	10'249	22'755
Allocation to (-)/withdrawal from provision for future policy-holder participation	3'757	1'704
Share of profite of associates	1'708	1'504
Profit before tax	**139'063**	**149'544**
Current income taxes	-19'606	-23'831
Defferred income taxes	1'194	-901
Profit for the year	**120'652**	**124'811**

Earnings per share (in CHF)	31.12.2017	31.12.2016
Earnings per registered A share (10 million shares with a par value of CHF 5.–)	**8.00**	**8.30**
Earnings per listed registered B share (1 million shares with a par value of CHF 25.–)	**40.20**	**41.60**

Consolidated balance sheet as at 31 December
(in CHF 1000)

Assets	2017	2016
Investments		
Real estate	1'498'855	1'460'075
Participation in affiliated compagnies	9'724	8'308
Other non-current securities	24'441	21'478
Equities	448'623	543'319
Alternative products	366'424	386'334
Other variable-income securities	204'920	232'697
Derivate financial instruments	5'663	18'286
Bonds and other fixed-income investments	3'461'907	3'322'042
Mortgages	621'983	545'386
Loans to corporations	529'406	569'494
Policy loans	3'450	5'219
	7'175'397	**7'112'638**
Investments for unit-linked contracts	**214'232**	**191'031**
Excess employer contributions to pension scheme	**3'917**	**3'917**
Tangible assets	**87'717**	**89'735**
Intangible assets	**18'011**	**16'235**
Reinsurance deposit receivables	**32'581**	**31'818**
Receivables from insurance operations		
Receivables from insurance policy-holders	7'695	8'953
Receivables from agents and brokers	1'363	1'307
Receivables from insurance and reinsurance companies	8'532	10'585
	17'590	**20'846**
Receivables from related parties	**1'594**	**939**
Other receivables	**52'657**	**57'932**
Cash and cash equivalents	**291'221**	**199'726**
Prepayments and accrued income		
Investment income	33'471	36'864
Other	12'060	13'260
	45'531	**50'124**
Total assets	**7'940'447**	**7'774'941**

For the notes, please refer to pages 61 to 81 of the original French version of the 2017 Annual Report

Liabilities and equity	2017	2016
Equity		
Share capital	75'000	75'000
Treasury shares	-6'248	-6'248
Capital reserves	27'842	27'842
Retained earnings	1'123'169	1'090'962
Revaluation reserve	394'127	330'515
Profit for the year	120'652	124'811
	1'734'542	**1'642'882**
Technical reserves		
Unearned premium reserve	95'711	97'786
Actuarial reserves	3'450'291	3'387'513
Claims reserves	1'643'407	1'647'934
Provision for policy-holder participation	80'577	86'234
Other technical provisions	44'593	62'578
	5'314'578	**5'282'045**
Technical reserves for unit-linked contracts	**205'867**	**188'985**
No technical provisions (Financial)		
Provisions for current taxes	10'776	17'476
Provisions for deferred taxes	107'140	101'101
Provisions for restructuring costs	4'115	4'881
	122'031	**123'458**
Liabilities from reinsurance contracts	**14'612**	**16'372**
Liabilities from insurance operations		
Payables to insurance and reinsurance companies	3'019	2'775
Payables to brokers, policy-holders or other beneficiaries	69'781	75'924
Deposit liabilities for credited policy-holder profit participation	108'573	113'972
	181'373	**192'670**
Non-current liabilities		
Payables to related parties	32'000	22'000
Other	3'650	-
	35'650	**22'000**
Current liabilities		
Payables to related parties	52	10'350
Derivate financial instruments (negative position)	819	563
Other	24'333	23'570
	25'204	**34'484**
Accrued expenses and deferred income		
Prepaid premiums	276'966	224'274
Other	29'623	47'771
	306'590	**272'045**
Total liabilities and equity	**7'940'447**	**7'774'941**

Cash flow statement as at 31 December (in CHF 1000)

Cash flow from operating activities	2017	2016
Profit for the year	**120'652**	**124'811**
Share of profit of associates	-1'708	-1'504
Realized / unrealized gains (-) / losses (+) on		
• Real estate	-118	-4'154
• Securities and other investments	-101'548	-103'956
• Other non-current securities	-1'462	229
Depreciations and impairments on		
• Real estate	19'831	1'283
• Securities and other investments	20'361	21'427
• Other non-current securities	-	-469
• Tangible assets	7'880	7'199
• Intangible assets	6'144	5'401
Change in operating assets and liabilities		
• Technical reserves	48'585	96'790
• Bonuses credited to policy-holders in the life business	-4'464	-4'305
• Provisions for future policy-holder participation	-1'193	5'339
• No technical provisions (Financial)	-8'834	-331
• Receivables from insurance operations	3'256	-4'483
• Liabilities from insurance operations	-11'297	-502
• Deposits for accepted reinsurance	-763	-463
• Deposits for liabilities from reinsurance contracts	-1'760	1'111
• Receivables from related parties	-655	-3
• Payables to related parties	-10'298	-49
• Other receivables	5'935	8'878
• Other liabilities	-639	-9'414
• Prepayments and accrued income	4'826	5'478
• Accrued expenses and deferred income	33'818	-21'742
Total	**126'549**	**126'572**
Cash flow from investing activities		
• On participations/associated companies (less a deduction for cash)	-47'578	-2'879
• Real estate	-22'902	-16'742
• Securities and other investments	81'791	-96'228
• Other non-current securities	-1'500	200
• Tangible assets	-5'690	-9'669
• Intangible assets	-7'905	-9'298
Total	**-3'784**	**-134'616**
Cash flow from financing activities		
• Dividends and other distributions from previous year	-44'919	-38'919
• Long-term liabilities toward affiliated companies	10'000	-
• Other non-current liabilities	3'650	-
Total	**-31'269**	**-38'919**
Net increase/decrease (-) in cash and cash equivalents	**91'495**	**-46'963**

Consolidated statement of equity as at 31 December

(in CHF 1000)

	Share capital	Treasury shares1)	Capital reserves	Retained earnings2)	Revaluation reserve	Total
Equity as at 1 January 2016	**75'000**	**-6'248**	**27'842**	**1'131'151**	**311'372**	**1'539'117**
Dividends and other distributions (previous fiscal year)				-38'919		-38'919
Dividend Orion, company by equity method consolidated				-440		-440
Integration of Europ Assistance in the scope of consolidation				-1'100		-1'100
Profit of the year				124'811		124'811
Revaluation of						
• real estate					29'096	29'096
• securities					-17'727	-17'727
• other investments				270		270
• deferred taxes					7'774	7'774
Equity as at 31 December 2016	**75'000**	**-6'248**	**27'842**	**1'215'773**	**330'515**	**1'642'882**
Dividends and other distributions (previous fiscal year)				-44'919		-44'919
Dividends of companies by equity method consolidated				-861		-861
Compensation of goodwill via equity				-46'830		-46'830
Profit of the year				120'652		120'652
Revaluation of						
• real estate				7	35'584	35'591
• securities					34'690	34'690
• other investments					569	569
• deferred taxes					-7'232	-7'232
Equity as at 31 December 2017	**75'000**	**-6'248**	**27'842**	**1'243'821**	**394'127**	**1'734'542**

1) Since 31 December 2009, Vaudoise General, Insurance Company Ltd, Lausanne, has further held 56'725 registered B shares in Vaudoise Assurances Holding SA amounting to CHF 6'248'175.–. A reserve for an equivalent amount of treasury shares has been set up in the financial statements of the parent company in compliance with legal requirements.

2) As at 31 December 2017, the non-distribuable reserves required by law or under the Articles of Incorporation amount to CHF 101,7 million (CHF 101,2 million as at 31 December 2016)

Treasury shares held by related parties

Mutuelle Vaudoise, Société Coopérative, Lausanne, holds 10 million registered A shares with a nominal value of CHF 5.– each and 26'780 registered B shares with a nominal value of CHF 25.– each.

The Caisse de pension Vaudoise Assurances, Lausanne, holds 20'000 registered B shares with a nominal value of CHF 25.– each.


MM