SwissLife

Management summary in English

regarding the "Solvabilität" (Solvency) chapter of the Swiss Life Financial Condition Report 2018

This management summary provides relevant solvency information for Swiss Life Group in English. The information listed in this summary is taken from the "Bericht über die Finanzlage 2018" chapter "Solvabilität" for Swiss Life Group. For additional information, please see "Bericht über die Finanzlage 2018".

Please note that this summary is not intended to be a pure translation of the original text published in German. The original German text is binding.

Management summary in English regarding the “Solvency” chapter of the Swiss Life Financial Condition Report 2018

Solvency of Swiss Life Group

SST ratio

Solvency of Swiss Life Group

CHF m	01.01.2018	Prior-year adjustment	**01.01.2019**
Risk-bearing capital	36 225		**30 674**
Target capital	22 972		**18 205**
Market value margin	4 077		**3 456**
A = risk-bearing capital – market value margin	32 148		**27 218**
B = target capital – market value margin	18 894		**14 749**
SST ratio (A/B) in %	170%		185%

The solvency of the Swiss Life Group as of 1 January 2019 amounts to 185%.

Compared with 1 January 2018, the target capital of Swiss Life Group has decreased by CHF 4.8 bn to CHF 18.2 bn, while the risk-bearing capital has declined by CHF 5.6 bn to CHF 30.7 bn. The SST ratio has increased by 15 percentage points to 185%, based on the new SST standard model and the introduction of Solvency II curves for the valuation of EU units.

The SST ratio is calculated on the basis of the risk-bearing capital less the market value margin divided by the target capital less the market value margin.

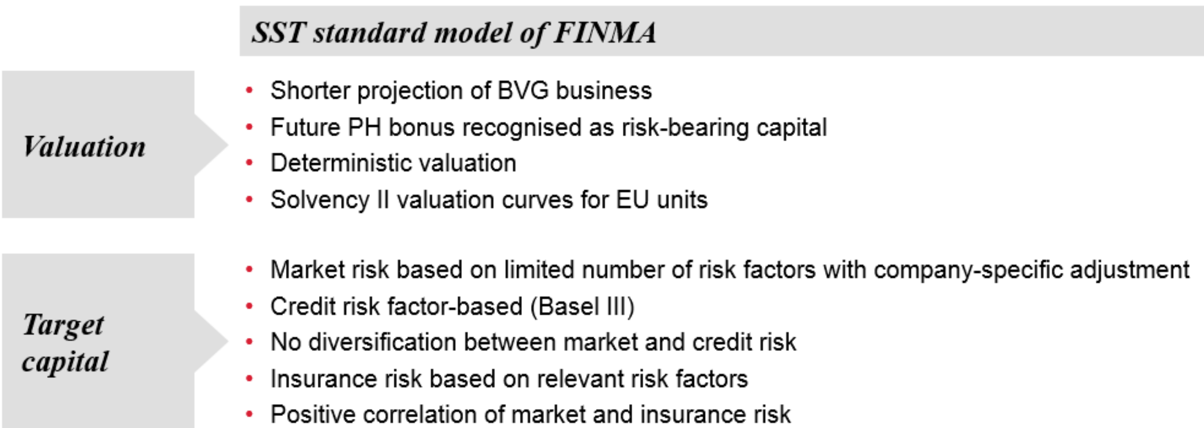
The market value margin is the cost of capital for the risk-bearing capital required to be held by the insurance company while fulfilling its insurance liabilities. It consists of two parts, one to cover the insurance risk and the other to cover the non-hedgeable market risk.

The current information on solvency (risk-bearing capital, target capital) corresponds to the reporting to FINMA. This information is subject to regulatory review.

SST model

Swiss Life has calculated its SST ratio as of 1 January 2019 using the new SST standard model of FINMA with company-specific adjustments to the market risk that are approved by FINMA and the Solvency II valuation curves for EU units. As of 1 January 2018 the SST ratio has been calculated using an internal model approved by FINMA with conditions.

The key characteristics of the SST standard model are as follows:



Risk-bearing capital

The risk-bearing capital comprises the core capital and the supplementary capital.

The supplementary capital consists of risk-absorbing capital instruments that can be allocated to the risk-bearing capital. In the case of Swiss Life this corresponds to the market value of the hybrid instruments.

The core capital comprises the market-consistent value of the assets minus the sum of the best estimate value of the insurance liabilities and the market-consistent value of the remaining liabilities. Planned dividends and capital repayments, treasury shares held directly by the insurance company at its own risk, intangible assets and latent property taxes must be deducted to the extent that they cannot be offset.

Risk-bearing capital

CHF m	01.01.2018	Prior-year adjustment	**01.01.2019**
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	33 207		**28 797**
Deductions	-579		**-1 670**
CORE CAPITAL	32 628		**27 127**
Supplementary capital	3 597		**3 546**
RISK-BEARING CAPITAL	36 225		**30 674**

The risk-bearing capital of the Swiss Life Group has decreased by CHF 5.6 bn from prior year level and amounts to CHF 30.7 bn as of 1 January 2019.

The decline in the risk-bearing capital of Swiss Life Group was mainly driven by negative development on the capital markets, the mentioned model change and the increase of deductions due to the planned share buyback and the higher dividend payment compared to the prior year. These effects were partly offset by the positive business development and parameter updates.

The following section analyses the change in the risk-bearing capital of the Swiss Life Group as of 1 January 2019 compared with the last report. Unless otherwise noted, the calculation of the individual components of the change analysis is based on the internal model approved with conditions.

Reconciliation of risk-bearing capital of Swiss Life Group and Swiss Life Ltd

CHF bn	Swiss Life Group	Swiss Life Ltd
As of 01.01.2018	36.2	33.4
Regulatory changes	-0.4	-0.4
Business development	1.1	0.9
Parameter updates	0.7	0.7
Capital markets development	-3.7	-3.6
Model change	-2.2	-1.7
Share buyback	-1.0	-
As of 01.01.2019	30.7	29.3

Regulatory changes

According to FINMA requirements, the Ultimate Forward Rate (UFR) is reduced for the currencies CHF, EUR, USD and GBP by 15 basis points each year, which reduces the risk-bearing capital.

Business development

The positive business development in 2018 increased the risk-bearing capital. The main driver was the expected operating result, which was calculated prospectively on the basis of the new SST standard model. Moreover, the issuance of two external hybrid bonds and the early repurchase of one external hybrid bond increased the risk-bearing capital by CHF 0.3 bn as of 1 January 2019. The proposed dividend for payment in May 2019 reduces the risk-bearing capital.

Parameter updates

The experience-based update of the insurance parameters along with additional updates has increased the overall risk-bearing capital for the reporting period.

Capital markets development

The development of the capital markets was negative overall in 2018. Higher credit spreads, the lower than expected performance of the equity markets, the negative development of interest rates and the depreciation of the euro against the Swiss franc contributed in particular to the negative development. The positive development of real estate counteracted these negative effects on the risk-bearing capital.

Model change

The change to the SST standard model as of 1 January 2019 led to a reduction in risk-bearing capital. The shortened projection of BVG business was the main driver of this reduction. The valuation of the EU units with Solvency II curves, introduced by Swiss Life together with the new SST standard model, partially compensated for this negative effect.

Share buyback

The CHF 1.0 bn share buyback, which runs until the end 2019, has been considered in the risk-bearing capital as of 1 January 2019.

Target capital

The required capital (target capital) is determined in consideration of possible losses over a time horizon of one year in unfavourable circumstances for the company.

For 1 January 2019, this takes place in accordance with FINMA's new SST standard model. The relevant model changes pertain to market risk, credit risk and the positive correlation of market and insurance risk. Moreover, the market risk is based on a limited number of risk factors. In addition, the risk parameters for the insurance risk and market value margin were changed by FINMA in the new standard model. No diversification between credit risk and other risk categories is applied.

Furthermore, FINMA has approved a company-specific adjustment for the market risk. This allows for a refined determination of the market risk of those financial instruments, which the SST standard model treats in a simplified manner, e.g. derivatives.

Target capital

CHF m	01.01.2018	Prior-year adjustment	**01.01.2019**
Market risk	16 055		**12 232**
Insurance risk	3 302		**2 954**
Diversification	-3 101		**-2 142**
Credit risk	3 988		**3 144**
Market value margin and other effects on target capital	2 728		**2 018**
thereof market value margin	4 077		**3 456**
thereof other effects	-1 349		**-1 438**
TARGET CAPITAL	22 972		**18 205**

Compared with 1 January 2018, the target capital of the Swiss Life Group has decreased by CHF 4.8 bn to CHF 18.2 bn.

The main drivers for this were the model change, management actions and the capital markets development primarily impacting the market risk, as shown in the table below.

Reconciliation of target capital of Swiss Life Group and Swiss Life Ltd

CHF bn	Swiss Life Group	Swiss Life Ltd
As of 01.01.2018	23.0	20.8
Change of market risk	-3.8	-4.3
Change of credit risk	-0.8	-0.0
Change of insurance risk	0.6	0.7
Change of market value margin and other effects	-0.7	-0.4
As of 01.01.2019	**18.2**	**16.8**

Change of market risk

The reduction in the market risk results primarily from the model change and the associated shortening of the projection period in the Swiss BVG business. The capital markets development in 2018 and management actions further reduced the market risk.

Components of the market risk

CHF m	01.01.2018	Prior-year adjustment	**01.01.2019**
Market risk of interest rates	9 546		**2 031**
Market risk of spreads	5 746		**6 002**
Market risk of currency exchange rates	4 014		**3 098**
Market risk of equities	4 273		**3 047**
Market risk of real estate	4 532		**4 518**
Market risk of participations	74		**744**
Diversification effects of market risk	-12 131		**-7 207**
MARKET RISK	16 055		**12 232**

Change of credit risk

The model change, the portfolio adjustments and the capital markets development with credit spread widening reduced the credit risk.

Change of insurance risk

The reported change in insurance risk capital includes the reduced diversification with market risk. The new SST standard model assumes a positive correlation between these two risks.

Components of insurance risk

CHF m	01.01.2018	Prior-year adjustment	01.01.2019
Insurance risk of mortality	2 154		**261**
Insurance risk of longevity	853		**2 161**
Insurance risk of disability	418		**1 294**
Insurance risk of reactivation rate	268		**483**
Insurance risk of costs	1 640		**1 393**
Insurance risk of lapses	2 221		**289**
Insurance risk of option exercise	1 932		**249**
Insurance risk of non-life	274		**-**
Diversification effects of insurance risk	-6 458		**-3 177**
INSURANCE RISK	3 302		**2 954**

Change of market value margin and other effects

The market value margin has decreased due to the model change as the new SST standard model does not apply scenario aggregation for the target capital calculation. Moreover, the negative capital markets development and the lower exchange rate of the euro against the Swiss franc further amplify this decrease.

General note on Swiss Life Ltd

Swiss Life Ltd is the major subsidiary of Swiss Life Holding and plays a major role within the Swiss Life Group.

The SST ratio of the Swiss Life Group is therefore largely driven by Swiss Life Ltd, while effects from other companies only exert a minor additional impact. The SST solvency model of Swiss Life Ltd corresponds to that of the Swiss Life Group.

The solvency ratio of Swiss Life Ltd as of 1 January 2019 amounts to 194%.