SwissLife

Management summary in English

regarding the "Solvabilität" (Solvency) chapter of the Swiss Life Financial Condition Report 2019

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 2019" chapter "Solvabilität" for Swiss Life Group. For additional information, please see "Bericht über die Finanzlage 2019".

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 2019

Solvency of Swiss Life Group

SST ratio

Solvency of Swiss Life Group

CHF m	01.01.2019	Prior-year adjustment	**01.01.2020**
Risk-bearing capital	30 674		**35 771**
Target capital	18 205		**19 506**
Market value margin	3 456		**3 906**
A = risk-bearing capital – market value margin	27 218		**31 865**
B = target capital – market value margin	14 749		**15 600**
SST ratio (A/B) in %	185%		**204%**

The solvency of the Swiss Life Group as of 1 January 2020 amounts to 204%.

Compared with 1 January 2019, the target capital of Swiss Life Group has increased by CHF 1.3 bn to CHF 19.5 bn, while the risk-bearing capital has risen by CHF 5.1 bn to CHF 35.8 bn. As a result, the SST ratio has increased by around 20 percentage points to 204%, based on FINMA SST standard model including the continued use of Solvency II curves for the valuation of insurance units in the EU.

The SST ratio is calculated as 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 Group 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 above mentioned information on solvency (risk-bearing capital, target capital) corresponds to the reporting to FINMA and is subject to regulatory review.

The capitalisation of the Group remains strong in 2020 even following the upheavals on the financial markets. As stated in the media release from 24 March 2020, the SST ratio back then was around 175% and therefore in the upper third of the target range of 140% to 190%.

SST model

Since 1 January 2019, Swiss Life has been calculating its SST ratio using the SST standard model of FINMA with the Solvency II valuation curves for insurance units in the EU and company-specific adjustments to the market risk model that are approved by FINMA.

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, to the extent that they cannot be offset, are deducted.

Risk-bearing capital

CHF m	01.01.2019	Prior-year adjustment	**01.01.2020**
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	28 797		**33 161**
Deductions	-1 670		**-1 158**
CORE CAPITAL	27 127		**32 004**
Supplementary capital	3 546		**3 767**
RISK-BEARING CAPITAL	30 674		**35 771**

The risk-bearing capital of the Swiss Life Group has increased by CHF 5.1 bn from prior year level and amounts to CHF 35.8 bn as of 1 January 2020.

The increase in the risk-bearing capital of Swiss Life Group was mainly driven by the positive development on the capital markets, the positive business development and parameter updates. These effects were partly offset by deductions due to the share buyback of CHF 0.4 bn and the higher dividend payment compared to the prior year.

The following section analyses the change in the risk-bearing capital of the Swiss Life Group as of 1 January 2020 compared with the last report.

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

CHF bn	Swiss Life Group	Swiss Life Ltd
As of 01.01.2019	30.7	29.3
Regulatory changes	-0.1	-0.2
Business development	0.5	0.3
Parameter updates	0.5	0.4
Capital markets development	4.6	4.6
Share buyback	-0.4	-
As of 01.01.2020	35.8	34.4

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 2019 increased the risk-bearing capital. The main driver was the expected operating result. The dividend proposed to the Annual General Meeting in April 2020 for the financial year 2019 reduces the risk-bearing capital.

Parameter updates

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

Capital markets development

The development of the capital markets was predominantly positive in 2019. The lower credit spreads, the better than expected performance of the equity markets and real estate and the development of interest rates contributed to the positive development of the risk-bearing capital. The depreciation of the euro against the Swiss franc slightly reduced this positive effect.

Share buyback

In line with all other major listed banks and insurance companies in Switzerland, Swiss Life has suspended its share buyback programme, which started in March 2020, and will not buy back any more shares for the time being. However, the share buyback of CHF 0.4 bn is fully deducted from the risk-bearing capital.

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.

This takes place in accordance with the SST standard model of FINMA with company-specific adjustments to the market risk model. The company-specific adjustment 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.

In accordance with the new FINMA guidelines, the calculation of the target capital as of 1 January 2020 was changed with regard to the insurance risk for businesses abroad. In measuring the insurance risk of the European market units, a permanent relative increase in lapse rates of 25% was applied for the entire portfolio (15% in the previous year). Therefore, the requirements have been tightened compared to previous years for calculating the lapse risk component of businesses abroad. The assumptions in the SST standard model now assume a cancellation risk that is 1.7 times higher than in Swiss individual insurance business. All other risk factors remain unchanged from the last SST reporting.

Target capital

CHF m	01.01.2019	Prior-year adjustment	**01.01.2020**
Market risk	12 232		**12 823**
Insurance risk	2 954		**3 353**
Diversification	-2 142		**-2 398**
Credit risk	3 144		**3 416**
Market value margin and other effects on target capital	2 018		**2 313**
thereof market value margin	3 456		**3 906**
thereof other effects	-1 438		**-1 593**
TARGET CAPITAL	18 205		**19 506**

Compared with 1 January 2019, the target capital of the Swiss Life Group has increased by CHF 1.3 bn to CHF 19.5 bn.

The main drivers for this were the regulatory driven model change (mentioned above), management actions and the capital markets development.

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

CHF bn	Swiss Life Group	Swiss Life Ltd
As of 01.01.2019	18.2	16.8
Change of market risk	0.6	0.6
Change of credit risk	0.3	0.3
Change of insurance risk	0.1	0.1
Change of market value margin and other effects	0.3	-0.0
As of 01.01.2020	19.5	17.8

Change of market risk

The increase of the market risk results mainly from the development on the capital markets, especially the sharp fall of interest rates in various currencies which led to higher market values of bonds and thus a higher spread risk, and the acquisition of additional real estate.

Components of the market risk

CHF m	01.01.2019	Prior-year adjustment	**01.01.2020**
Market risk of interest rates	2 031		**3 226**
Market risk of spreads	6 002		**6 445**
Market risk of currency exchange rates	3 098		**3 369**
Market risk of equities	3 047		**3 014**
Market risk of real estate	4 518		**5 139**
Market risk of participations	744		**800**
Diversification effects of market risk	-7 207		**-9 171**
MARKET RISK	12 232		**12 823**

Change of credit risk

The increase in credit risk is mainly due to lower interest rates compared with the beginning of the year and a slight active reduction in hedging activities. The credit risk is based on the Basel III standard.

Change of insurance risk

The reported change in insurance risk capital includes the diversification with market risk. The slight increase is mainly due to lower interest rates and higher prescribed stress of the lapse rates at European market units. These effects are partially offset by the increased diversification with the market risk.

Components of insurance risk

CHF m	01.01.2019	Prior-year adjustment	**01.01.2020**
Insurance risk of mortality	261		**303**
Insurance risk of longevity	2 161		**2 566**
Insurance risk of disability	1 294		**1 417**
Insurance risk of reactivation rate	483		**552**
Insurance risk of costs	1 393		**1 461**
Insurance risk of lapses	289		**370**
Insurance risk of option exercise	249		**310**
Diversification effects of insurance risk	-3 177		**-3 628**
INSURANCE RISK	2 954		**3 353**

Change of market value margin and other effects

The market value margin has increased driven in particular by the low interest rate environment and the increased insurance risk.

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.

Compared to the previous year, the calculation of the SST ratio of Swiss Life Ltd considers a refined company-specific adjustment to the standard model, which has no impact on the Group's SST ratio.

The solvency ratio of Swiss Life Ltd as of 1 January 2020 amounts to 220%.