Management summary in English of the "Solvency" chapter of the Swiss Life Financial Condition Report 2021

This management summary provides relevant solvency information in English for the Swiss Life Group. The information in this summary is taken from the "Bericht über die Finanzlage 2021" chapter "Solvabilität" for the Swiss Life Group. For additional information, please see "Bericht über die Finanzlage 2021".

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

Solvency of the Swiss Life Group

SST ratio

Solvency of the Swiss Life Group

CHF m	01.01.2021	Prior-year adjustment	**01.01.2022**
Risk-bearing capital	38 760		**39 982**
Target capital	21 695		**20 169**
Market value margin	4 090		**4 061**
A = risk-bearing capital – market value margin	34 670		**35 921**
B = target capital – market value margin	17 605		**16 107**
SST ratio (A/B) in %	197%		**223%**

The SST ratio of the Swiss Life Group was 223% as at 1 January 2022, an increase of 26 percentage points compared to the prior year. The target capital decreased by CHF 1.5 bn compared to 1 January 2021 and amounted to CHF 20.2 bn. The risk-bearing capital increased by CHF 1.2 bn to CHF 40.0 bn.

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 abovementioned information on solvency (risk-bearing capital, target capital) corresponds to the reporting to FINMA and is subject to supervisory review.

SST model

Since 1 January 2019, Swiss Life has been calculating its SST ratio using the FINMA SST standard model 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.

Effective 1 January 2022, the standard model for the target capital was changed with respect to the credit risk calculation. The credit risk is now measured using the simulation-based approach that FINMA has made mandatory for all insurance companies. Prior to that, the SST standard model for credit risk was based on the Basel III standard. In connection with the change of the credit risk standard model, FINMA also introduced a diversification between credit risk and market risk as well as between credit risk and insurance risk, which increased the total diversification benefit considered in the target capital.

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 value of the assets minus the sum of the best estimate value of the insurance liabilities and the value of the remaining liabilities. Planned dividends and capital repayments, treasury shares held directly by the Group at its own risk, intangible assets and latent property taxes are deducted, if they cannot be offset.

Risk-bearing capital

CHF m	01.01.2021	Prior-year adjustment	**01.01.2022**
Excess of assets over liabilities	36 218		**38 220**
Deductions	-1 154		**-1 852**
CORE CAPITAL	35 063		**36 368**
Supplementary capital	3 697		**3 614**
RISK-BEARING CAPITAL	38 760		**39 982**

The risk-bearing capital of the Swiss Life Group increased by CHF 1.2 bn from the prior-year level and amounted to CHF 40.0 bn as at 1 January 2022.

This change was due to the positive capital market developments, the positive business development and due to the periodic parameter updates. The CHF 1 billion share buyback (announced in November 2021) was fully deducted, as was the planned dividend payment.

The following section analyses the change in the risk-bearing capital of the Swiss Life Group as at 1 January 2022 compared with the last report.

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

CHF bn	Swiss Life Group	Swiss Life Ltd
As at 01.01.2021	38.8	37.2
Regulatory changes	-0.3	-0.3
Business development	0.6	0.3
Parameter updates	1.0	0.9
Capital market development	0.9	1.1
Model changes	-	-
Share buyback	-1.0	-
As at 01.01.2022	40.0	39.2

Regulatory changes

According to FINMA requirements, the ultimate forward rate (UFR) is reduced by 15 basis points for the currencies CHF, EUR, USD and GBP, which reduced the risk-bearing capital.

Business development

The positive business development in 2021 increased the risk-bearing capital. The main driver was the expected operating result. This was partly offset by the dividend proposed for payment for the 2021 financial year at the Annual General Meeting on 22 April 2022.

Parameter updates

The experience-based update of the actuarial parameters along with additional updates increased the risk-bearing capital.

Capital market development

Capital market developments in 2021 were positive overall. The development of real estate and equity markets, which exceeded expectations, and the lower credit spreads contributed to the increase in risk-bearing capital. The higher interest rates slightly reduced this positive effect on the risk-bearing capital.

Share buyback

The share buyback of CHF 1 billion (announced in November 2021 and running until May 2023) was already fully deducted from the risk-bearing capital as at 1 January 2022.

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 FINMA SST standard model 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.

The credit risk is measured using the simulation-based approach that FINMA has made mandatory for all insurance companies as of the reporting date of 1 January 2022. Prior to that, the SST standard model for credit risk was based on the Basel III standard. In connection with the change of the credit risk standard model, FINMA also introduced a diversification between credit risk and market risk as well as between credit risk and insurance risk, which increased the total diversification benefit considered in the target capital.

Target capital

CHF m	01.01.2021	Prior-year adjustment	**01.01.2022**
Market risk	14 607		**14 011**
Insurance risk	3 689		**3 661**
Credit risk	3 623		**3 352**
Diversification	-2 623		**-3 167**
Market value margin and other effects on target capital	2 398		**2 312**
of which market value margin	4 090		**4 061**
of which other effects	-1 692		**-1 750**
TARGET CAPITAL	21 695		**20 169**

The target capital of the Swiss Life Group decreased by CHF 1.5 bn compared to the previous year and amounted to CHF 20.2 bn, mainly driven by developments in the market and credit risk as well as in diversification benefits.

The following section analyses the change in the target capital of the Swiss Life Group as at 1 January 2022 compared with the last report.

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

CHF bn	Swiss Life Group	Swiss Life Ltd
As at 01.01.2021	21.7	19.9
Change in market risk	-0.6	-0.6
Change in insurance risk	-0.0	-0.0
Change in credit risk	-0.3	-0.3
Change in diversification	-0.5	-0.5
Change in market value margin and other effects	-0.1	0.3
As at 01.01.2022	20.2	18.8

Change in market risk

The decrease in market risk was due to the increase in interest rates in different currencies, which led to a lower market value of the insurance assets with positive effects on market risk of interest rates and market risk of spreads. This was partly offset by a higher market risk of equities and real estate. The diversification effect within market risk was lower, driven by a lower market risk of interest rates.

Components of the market risk

CHF m	01.01.2021	Prior-year adjustment	**01.01.2022**
Market risk of interest rates	3 923		**2 746**
Market risk of spreads	7 789		**6 768**
Market risk of currency exchange rates	3 537		**3 620**
Market risk of equities	3 168		**3 219**
Market risk of real estate	5 901		**6 286**
Market risk of participations	791		**694**
Diversification effects of market risk	-10 501		**-9 321**
MARKET RISK	14 607		**14 011**

Change in insurance risk

Insurance risk was essentially stable as minor reductions in some components and higher diversification effects within insurance risk were offset by small increases in other insurance risk components.

Components of insurance risk

CHF m	01.01.2021	Prior-year adjustment	**01.01.2022**
Insurance risk of mortality	420		**518**
Insurance risk of longevity	2 808		**2 674**
Insurance risk of disability	1 605		**1 678**
Insurance risk of reactivation rate	642		**604**
Insurance risk of costs	1 592		**1 647**
Insurance risk of lapses	402		**481**
Insurance risk of option exercise	351		**321**
Diversification effects of insurance risk	-4 132		**-4 262**
INSURANCE RISK	3 689		**3 661**

Change in credit risk

The decrease in credit risk was due the new simulation-based approach in the FINMA standard model (effective 1 January 2022, while the prior year was based on the Basel III standard). Higher interest rates also had a positive effect, leading to a lower market value of insurance assets and thus to lower potential losses.

Change in diversification

The increase in diversification benefits across market, insurance and credit risks was mainly due to the new SST standard model for credit risk as of 1 January 2022, which now also includes a diversification between market and credit risk as well as insurance and credit risk. This was not yet the case in the prior year SST reporting, where the diversification benefits arose exclusively between market and insurance risk.

Change in market value margin and other effects

The market value margin was stable. Other effects comprise the expected financial result, which improved compared to the prior year.

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 at 1 January 2022 amounted to 238%.