2012 operating result

Occupational provisions
Swiss Life Switzerland

Editorial

Dear Reader

As in previous years, Swiss Life provided emphatic proof in 2012 of its financial stability, efficiency and competitiveness. In an ongoing environment of low interest rates and low investment income, Swiss Life was able to pay insured persons attractive total interest rates on retirement savings on the basis of its balanced and security-oriented investment strategy. Swiss Life also again significantly increased its technical reserves and generated respectable growth in premium income.

Demand for full insurance solutions remains high. However, even though many employee benefits units would like to switch to a full insurance policy, current shortfalls under their previous employee benefits solutions are making them ineligible in many cases. The fact that total premiums in group insurance grew by 1 % despite the restricted opportunity to switch is a clear indication of the importance of full insurance and confirms our positioning as a full-range provider with a broad range of products.

Insurance benefits paid out last year amounted to CHF 5.5 billion, down 14.5 % on the previous year as a result of a one-off effect, and roughly consistent with 2010 levels.

Savings premiums rose by 2.5 % and total premiums in group insurance grew by 1 % despite lower risk and cost premiums. Risk premiums stood at CHF 659 million in 2012, down 6 % on the previous year. Swiss Life reduced risk premiums as of 1 January 2012 by an average of 10 %, thus demonstrating that its risk premiums take sufficient account of actual risk experience.

Administrative costs were again cut by 4.4 % in 2012 thanks to a range of efficiency-enhancing measures. Swiss Life had already reduced administrative costs by 2.7 % in the previous year.

Net return on book values in 2012 was an impressive 4.67 %, a significant improvement on the 3.52 % of the previous year and an excellent result in view of the persistent low interest rate environment. Gross performance was strong at 7.66 % while net performance came to 7.48 %.

The distribution ratio was 93.3 % in 2012, again clearly surpassing the legally stipulated value of 90 %. Furthermore it enabled us to allocate a total of CHF 240 million to the bonus reserve (CHF 225 million in 2011). This amount corresponds to the level of distributions and enables Swiss Life to keep on providing its customers with high bonuses.

Our pleasing growth, the additional gains in efficiency and the consistently good investment result show us that we are on the right track with our products, benefits and guarantees and that, as a full-range provider, we offer solutions which meet the needs of our customers.

Hans-Jakob Stahel
Head of Corporate Clients business area

At a glance – Operating result, group life Switzerland

Income	2012	2011
Premium income	**6 518**	**6 450**
Savings premiums	5 657	5 519
Risk premiums	659	701
Cost premiums	202	230
Investment income, net	**2 402**	**1 751**
Direct investment income	1 975	1 929
Result from disposals	719	295
Currency result	-161	-301
Balance from write-ups and write-downs	-30	-73
Interest expense	0	0
Asset management costs	-101	-99
Other income	**35**	**27**
Reinsurance result	**3**	**-5**
Total income	*8 958*	*8 223*

Expenses	2012	2011
Insurance benefits, gross	**5 450**	**6 371**
Benefits as a result of old age, death and disability	1 938	1 870
Vested benefits	2 608	2 121
Surrender values	871	2 349
Benefit processing expenses	33	31
Change in insurance reserves, gross	**2 786**	**1 128**
Retirement savings	1 073	861
Mathematical reserves for pensions	-	473
Mathematical reserve for current retirement and survivors' benefits	546*	-
Mathematical reserve for current disability benefits	-89*	-
Mathematical reserve, vested benefit policies	110	94
Provision for incurred but not settled claims	21**	-
Other technical reserves	1 125	-300
Costs for acquisitions and administration, gross	**237**	**248**
Other expenses	**39**	**37**
Bonuses allocated to bonus reserve	**240**	**225**
Operating result	**206**	**214**
Total expenses	*8 958*	*8 223*

All figures in CHF million

* Introduced in the 2012 financial year (previously reported under mathematical reserves for pensions)
** Introduced in the 2012 financial year (previously reported under other technical reserves)

Accounting principles

The occupational provisions operating result comprises the occupational benefits business in Switzerland. The legal bases include the BVG (Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans), the VAG (Insurance Supervisory Law) and the AVO (Ordinance on the Supervision of Private Insurance Institutions).

The main income figures presented in the operating result are periodic premiums, single premiums and investment income. The insurance benefits consist primarily of benefits for retirement, disability and death, as well as lump-sum benefits resulting from vesting and surrenders.

The material presented below is based on the statutory financial statements. The statutory financial statements for Switzerland describe the Swiss group life and individual life operations from an actuarial perspective. Based on these statements, the Federal Financial Market Supervisory Authority FINMA can check compliance with solvency and other regulations. The statutory financial statements form the basis for the allocation of bonuses to policyholders, dividend policy and reporting to the supervisory authorities.

The statutory financial statements are not to be confused with the consolidated financial statements of the Swiss Life Group, which describe the business activities of the whole Group from a shareholder's point of view. They are produced in accordance with consistent rules conforming to IFRS (International Financial Reporting Standards) requirements. The results of the foreign subsidiaries are also consolidated in the annual financial statements. It is not possible to make a direct comparison with the operating result for Switzerland.

Proof of adherence to statutory minimum distribution ratio

The occupational pensions business can be divided into the three processes of savings, risk and costs. The income is first used to cover the expenses allotted to each process. The remaining income is then used to strengthen the reserves, to ensure that promised benefits will always be paid and to build up the bonus reserve.

Process	Income	Associated services
Savings process	Net investment income	Interest on retirement savings and mathematical reserves for current pensions, conversion of retirement savings into retirement pensions
Risk process	Risk premium	Payment of disability and survivors' benefits, formation of mathematical reserves for new pensions
Cost process	Cost premium	Services for the administration of occupational benefit and insurance solutions and for client advisory services

Group business subject to statutory minimum distribution ratio

The bulk of the group business is subject to the statutory minimum distribution ratio. The legal provisions on the statutory minimum distribution ratio require that at least 90 % of the income is used for the benefit of the policyholders. This ensures that they participate appropriately in any profit the insurance company makes.

	2012	2011
Sum of income components	**2 718**	**2 227**
Savings process	2 017	1 464
Risk process	515	553
Cost process	186	210
Sum of expenses	**1 398**	**1 603**
Savings process	866	1 023
Risk process	322	351
Cost process	210	229
Gross result	*1 320*	*624*
Accumulation (+) or release (-) of technical reserves	**1 002**	**298**
In the savings process		
Longevity risk	675	330
Insufficient funding upon conversion into pension	433	130
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	31	36
Incurred but not reported claims	5	-36
Fluctuations in claims	-58	2
Rate adjustments and rate restructuring	-84	-164
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**137**	**148**
Operating result	*181*	*178*
Distribution ratio	*93,3 %*	*92,0 %*

All figures in CHF million

*Including strengthening of mathematical reserve for disability and survivors‘ benefits

In 2012, Swiss Life used a total of CHF 2 537 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution ratio of 93.3 %, the minimum legal requirements have been met.

Group business not subject to statutory minimum distribution ratio

Contracts with a special arrangement for participation in surplus are not subject to the statutory minimum distribution ratio either in part or in full. This includes contracts with their own profit and loss accounts, where participation in any surplus (bonus) is determined by the risk experience of the individual contract.

	2012	2011
Sum of income components	**545**	**455**
Savings process	385	287
Risk process	144	148
Cost process	16	20
Sum of expenses	**253**	**271**
Savings process	156	184
Risk process	79	65
Cost process	18	22
Gross result	*292*	*184*
Accumulation (+) or release (-) of technical reserves	**164**	**71**
In the savings process		
Longevity risk	124	108
Insufficient funding upon conversion into pension	62	4
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	4	4
Incurred but not reported claims	2	4
Fluctuations in claims	-4	2
Rate adjustments and rate restructuring	-24	-51
Costs of raising additional borrowed capital	**0**	**0**
Allocation to bonus reserve	**103**	**77**
Operating result	*25*	*36*
Distribution ratio	*95,4 %*	*92,0 %*

All figures in CHF million

*Including strengthening of mathematical reserve for disability and survivors‘ benefits

In 2012, Swiss Life used a total of CHF 520 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

Summary

	*MDR	**NMDR	Total
Gross income	*2 718*	*545*	*3 263*
Benefits in favour of the insured			
Sum of expenses	1 398	253	1 651
Change in technical reserves	1 002	164	1 166
Allocation to bonus reserve	137	103	240
Operating result	*181*	*25*	*206*
Distribution ratio	*93,3 %*	*95,4 %*	*93,7 %*
Share of total income	*6,7 %*	*4,6 %*	*6,3 %*

* MDR: subject to minimum distribution ratio
** NMDR: not subject to minimum distribution ratio

Insurance reserves

Insurance reserves, gross		**Mandatory**	**Supplementary**
Retirement savings	28 641	15 165	13 476
Mathematical reserve for current retirement and survivors' benefits	8 557	3 585	4 972
Mathematical reserve for current disability benefits	2 193	1 443	750
Strengthening of mathematical reserve for current pensions	2 414		
Mathematical reserve, vested benefit policies	2 883		
Provision for incurred but not settled claims	807		
Cost of living (COL) adjustment fund	828		
Credited bonuses	151		
Other insurance reserves	3 924		
Total insurance reserves	*50 398*		

All figures in CHF million

In view of the persistent low interest rate environment, Swiss Life has taken further steps to guarantee its obligations to beneficiaries. By building up additional insurance reserves it has been able to further reduce its future interest burden. This will guarantee that Swiss Life can continue to fulfil its customer promise. In addition, Swiss Life has built up a generous bonus reserve, which will guarantee beneficiaries a high level of profit participation in the future.

Bonus reserve

The bonus reserve is a reserve for future bonus distributions to policyholders. It serves to even out fluctuations in the course of business so that policyholder bonuses remain stable. The bonus reserve is used exclusively for the policyholders. It is built up using allocations from the operating result. The distributions to policyholders are taken from this reserve. Money that flows into the bonus reserve must be passed on to the policyholders within five years at the most. No more than two-thirds of the bonus reserve can be distributed to policyholders in any given year.

Bonus reserve as at end of 2011	**522**
Allocated to employee benefits institutions	240
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	240
Balance as at end of 2012	**522**

All figures in CHF million

From the 2012 result, Swiss Life allocated a total of CHF 240 million to the bonus reserve for group life insurance.

Cost of living (COL) adjustment fund

The cost of living adjustment fund is an insurance reserve used to finance future adjustments of current disability and surviving dependants' pensions to price developments. The fund is financed by cost of living premiums paid by the active insured persons.

Cost of living adjustment fund as at end of 2011	**802**
COL premiums received	19
Premium interest	8
Expenditure for COL increases in risk pensions	1
Withdrawal in favour of operating account	0
Balance as at end of 2012	**828**

All figures in CHF million

Other key figures

Number of group insurance contracts	38 602
Number of insured persons at end of accounting year	568 716
Number of active insured persons	412 227
Number of pension recipients	73 762
Number of vested benefit policies	82 727

Interest rate for retirement savings in mandatory insurance, guaranteed	1,50 %
Interest rate for retirement savings in mandatory insurance, with interest surplus	1,70 %
Interest rate for retirement savings in supplementary insurance, guaranteed	1,25 %
Interest rate for retirement savings in supplementary insurance, with interest surplus	2,20 %

Conversion rate for women's supplementary insurance (retirement age 64)	5,72 %
Conversion rate for men's supplementary insurance (retirement age 65)	5,84 %

Information on the 2012 investment year

The decline in interest rates caused by the debt crisis and the measures launched to counter the crisis continued in 2012. Interest rates hovered at a record low level in the autumn, only recovering slightly towards the end of the year. As a result government bonds again performed well. Corporate bond performance was even better as yield spreads fell under the improving economic conditions. Equity markets were surprisingly positive. The major key equity markets gained between 10 % and 20 %. Only the UK index lagged behind somewhat at around 5 %.

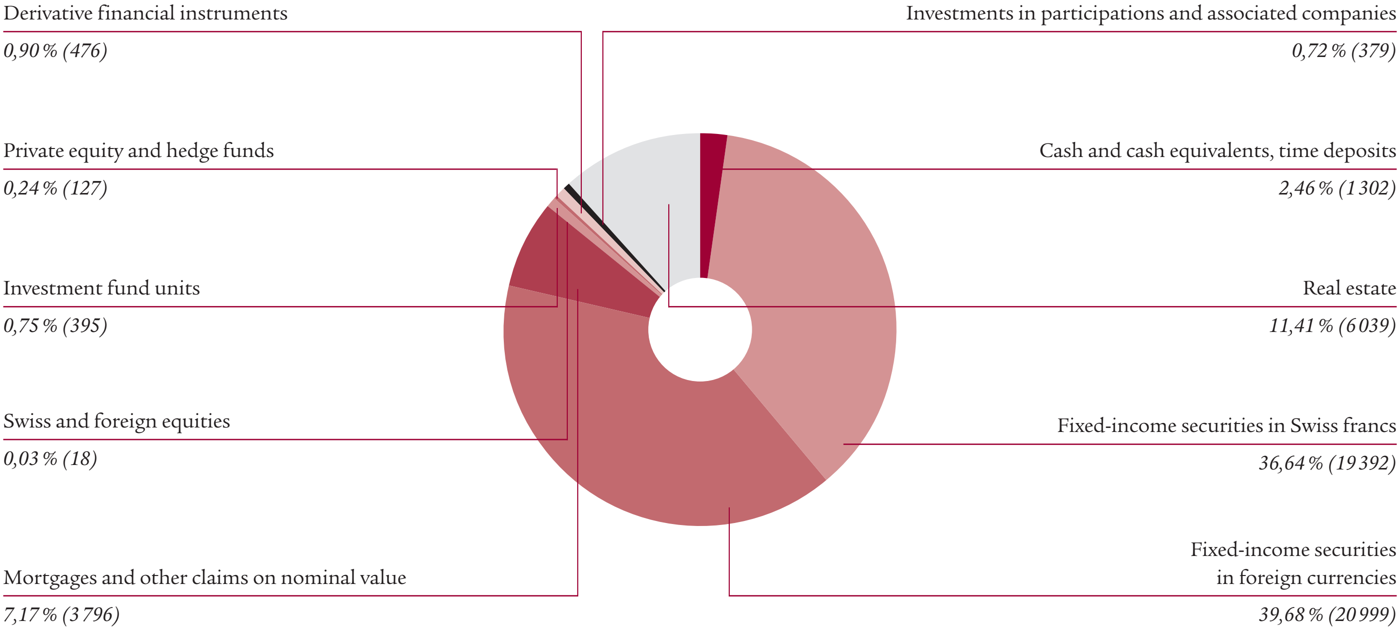
Against this backdrop, Swiss Life continued its strategy of previous years. In the persistent low interest rate environment, the company invested in high-quality, long-term corporate bonds. As a reaction to the deteriorating creditworthiness of government bonds, exposure was reduced slightly and shifts were made particularly from EUR investments, primarily to CHF investments. The real estate portfolio was also further expanded. Equity exposure was kept low and hedge fund holdings were again reduced. These measures enabled Swiss Life to generate a net return on investment for occupational benefits insurance of 4.67 % (2011: 3.52 %), with an investment performance at market values of 7.48 % (2011: 8.01 %).

Information on Swiss Life's investment policy

Swiss Life manages investments in such a way that the economic risk capital is efficiently used in line with its risk appetite. The company's asset and liability management (ALM) is applied for this purpose, and the investment strategy is based on these risk assessment findings. The aim is to be in a position to pay benefits whenever they fall due and always to have sufficient equity to absorb fluctuations in the value of assets and liabilities. Clearly defined criteria on security, yield and liquidity are taken into account when policyholder assets, the company's free reserves and shareholders' equity are invested.

The investment portfolio in detail

Investments by asset class as at 31 December 2012 (as % of book value).
The total is CHF 52 923 million (all figures in brackets in CHF million).



Investments

Investments	**Book value**	**Market value**
Investments at beginning of accounting year	50 385	55 193
Investments at end of accounting year*	52 447	59 128
Valuation reserve		
Valuation reserve at beginning of accounting year		4 808
Valuation reserve at end of accounting year		6 681
Change in valuation reserve		1 873
Yield and performance	**gross**	**net**
Investment income	2 503	2 402
Return on book values**	4,87 %	4,67 %
Market value performance***	7,66 %	7,48 %

All figures in CHF million

* Total investment income minus obligations under derivative financial instruments
** Investment income as percentage of average book value
***Investment income and change in valuation reserve as percentage of average market value

Asset management costs

Asset management costs	
Asset management costs*	101
As percentage of investments at market value	0,18 %

*in CHF million

The asset management costs comprise all internal costs resulting from investment activities as well as external costs. External costs include, for instance, custodian and other fees.

Cost premiums and operating expense

	Operating expense (in CHF million)	per capita (in CHF)	Cost premiums (in CHF million)	per capita (in CHF)
Active insured persons	215	523	191	463
Vested benefit policies	8	94	6	72
Other	5*		5	
Subtotal	*228*		*202*	
Other income and expenses	7*			
Pensioners	33**	453		
Total	*268*			

* Operating expense for other cost objects
** Operating expense for pensioners is borne by the savings and risk process

Breakdown of expense by cost unit is as follows:

Acquisition expenses	65
Benefit processing expenses	33
Marketing and advertising expenses	3
Other general administrative expenses	169
Reinsurers' share in operating expense	-2
Total net operating expense	*268*

All figures in CHF million

The administrative costs of CHF 237 million include all the costs for acquisitions and administration, which Swiss Life incurs in managing its group life business. Thanks to the efficiency enhancing measures introduced, Swiss Life was able to reduce administrative costs by 4.4 %, from CHF 248 million to CHF 237 million. Swiss Life aims to reduce these costs still further in the future.

05.2013

The future starts here.

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