



SwissLife



2016 operating result

Occupational provisions
Swiss Life Switzerland

Editorial



Dear Reader

We have had an eventful year. The geopolitical situation is in flux, and with it the fundamentals of the Swiss economy. In such a challenging environment, with continuing low interest rates and low investment income, Swiss Life has been able to maintain its financial stability, its performance and its competitive edge. The more the operating conditions change, the greater the importance of stability and continuity.

Claims paid in 2016 – with an increase of 7.0% over the previous year – amounted to CHF 6.6 billion. Administrative costs were again reduced in 2016 thanks to the systematic implementation of efficiency-enhancing measures.

Net return on book values was a solid 2.60% in 2016. This was a remarkable result in view of the current investment environment, made possible by a targeted and security-oriented investment policy.

As in previous years, additional technical reserves were set aside in 2016 amounting to CHF 430 million, so as to consolidate financial stability and sustainably ensure the long-term financing of benefit commitments to insured persons.

The distribution ratio in business subject to the statutory minimum distribution ratio stood at 93.8% in 2016, thus satisfying the legally stipulated value of 90%. Furthermore, the result enabled allocation of a total of CHF 131 million to the bonus reserve. The bonus reserve at the end of the year was CHF 369 million.

The growth achieved in 2016, the low volume of contract cancellations and the uncomplicated access to provisions via modern portals underscore Swiss Life's customer centricity. Moreover, the positive developments of administrative costs and the stable investment result show that Swiss Life is intent on continuous improvement. As a full-range provider, Swiss Life offers its customers a comprehensive spectrum of solutions for occupational provisions and is able to meet all customer needs individually.

A stylized, handwritten signature in black ink, consisting of several overlapping, sweeping strokes.

*Hans-Jakob Stabel
Head of Corporate Clients business area
Member of the Executive Board*

At a glance – Operating result, group life Switzerland

Income	2016	2015
Premium income	8 176	8 688
Savings premiums	7 265	7 778
Risk premiums	695	695
Cost premiums	216	215
Investment income, net	1 690	2 119
Direct investment income	2 068	2 050
Result from disposals	194	438
Currency result	-331	-8
Balance from write-ups and write-downs	-68	-202
Interest expense	-13	-14
Asset management costs	-160	-145
Other income	7	6
Reinsurance result	-1	-1
<i>Total income</i>	<i>9 872</i>	<i>10 812</i>
Expenses	2016	2015
Insurance benefits, gross	6 649	6 213
Benefits as a result of old age, death and disability	2 260	2 250
Vested benefits	3 419	3 337
Surrender values	935	591
Benefit processing expenses	35	35
Change in insurance reserves, gross	2 709	4 020
Retirement savings	1 231	2 176
Mathematical reserve for current retirement and survivors' benefits	841	1 186
Mathematical reserve for current disability benefits	3	-16
Mathematical reserve, vested benefit policies	164	297
Provision for incurred but not settled claims	-10	4
Other technical reserves	480	373
Costs for acquisitions and administration, gross	202	204
Other expenses	20	20
Bonuses allocated to bonus reserve	131	156
Operating result	161	199
<i>Total expenses</i>	<i>9 872</i>	<i>10 812</i>

All figures in CHF million

Breakdown of savings premiums

Breakdown of savings premiums	2016	2015
Contributions to retirement savings	2 404	2 375
Transferred retirement savings (individually transferred)	3 020	2 983
Transferred retirement savings (new affiliation)	946	1 269
Deposits for acquired retirement and survivors' benefits	34	247
Deposits for acquired disability pensions	30	26
Deposits for vested benefit policies	831	878
Total savings premiums	7 265	7 778

All figures in CHF million

Breakdown of insurance benefits

Breakdown of insurance benefits	2016	2015
Lump-sum benefits as a result of old age, death and disability	1 014	1 047
Pension benefits as a result of old age, death and disability	1 246	1 203
Total benefits as a result of old age, death and disability	2 260	2 250

All figures in CHF million

Breakdown of insurance benefits by risk	2016	2016
Benefits as a result of old age	1 636	72%
Benefits as a result of death	321	14%
Benefits as a result of disability	303	14%
Total benefits as a result of old age, death and disability	2 260	100%

All figures in CHF million

Accounting principles

The occupational provisions operating result comprises group life 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 resulting decrees.

The main income figures presented in the operating result are periodic premiums, single premiums and investment income. The insurance benefits consist primarily of benefits paid out as a result of old age, disability and death or 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 – also known as the legal quote – 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.

	2016	2015
Sum of income components	2 188	2 532
Savings process	1 425	1 784
Risk process	562	548
Cost process	201	200
Sum of expenses	1 642	1 508
Savings process	1 113	951
Risk process	330	354
Cost process	199	203
<i>Gross result</i>	<i>546</i>	<i>1 024</i>
Accumulation (+) or release (-) of technical reserves	372	798
In the savings process		
Longevity risk	194	658
Insufficient funding upon conversion into pension	207	147
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	-28	-7
Incurred but not reported claims	2	2
Fluctuations in claims	-3	-2
Rate adjustments and rate restructuring	0	0
Costs of raising additional borrowed capital	0	0
Allocation to bonus reserve	39	47
<i>Operating result</i>	<i>135</i>	<i>179</i>
<i>Distribution ratio</i>	<i>93.8%</i>	<i>92.9%</i>

All figures in CHF million

*Including strengthening of mathematical reserve for disability and surviving dependants' pensions

In 2016, Swiss Life used a total of CHF 2 053 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution

ratio of 93.8%, 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. 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.

	2016	2015
Sum of income components	413	497
Savings process	265	335
Risk process	133	147
Cost process	15	15
Sum of expenses	237	227
Savings process	156	140
Risk process	66	72
Cost process	15	15
<i>Gross result</i>	<i>176</i>	<i>270</i>
Accumulation (+) or release (-) of technical reserves	58	141
In the savings process		
Longevity risk	28	127
Insufficient funding upon conversion into pension	31	12
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
In the risk process		
Reported but not settled claims*	-1	1
Incurred but not reported claims	0	0
Fluctuations in claims	0	1
Rate adjustments and rate restructuring	0	0
Costs of raising additional borrowed capital	0	0
Allocation to bonus reserve	92	109
<i>Operating result</i>	<i>26</i>	<i>20</i>
<i>Distribution ratio</i>	<i>93.8%</i>	<i>96.0%</i>

All figures in CHF million

*Including strengthening of mathematical reserve for disability and surviving dependants' pensions

In 2016, Swiss Life used a total of CHF 387 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

Summary

	*MDR	**NMDR	Total
<i>Gross income</i>	2 188	413	2 601
<i>Benefits in favour of the insured</i>			
Sum of expenses	1 642	237	1 879
Change in technical reserves	372	58	430
Allocation to bonus reserve	39	92	131
<i>Operating result</i>	135	26	161
<i>Distribution ratio</i>	93.8%	93.8%	93.8%
<i>Share of total income</i>	6.2%	6.2%	6.2%

*MDR: subject to minimum distribution ratio

**NMDR: not subject to minimum distribution ratio

Insurance reserves

Insurance reserves, gross		Mandatory	Supplementary
Retirement savings	36 410	18 581	17 829
Additional reserve for future pension conversions	1 979	1 369	610
Mathematical reserve for current retirement and survivors' benefits	11 868	5 409	6 459
Mathematical reserve for current disability benefits	2 088	1 241	847
Strengthening of mathematical reserve for current pensions	2 886	1 333	1 553
Mathematical reserve, vested benefit policies	3 743		
Provision for incurred but not settled claims	805		
Cost of living (COL) adjustment fund	879		
Credited bonuses	138		
Other insurance reserves	3 311		
<i>Total insurance reserves</i>	<i>64 107</i>		

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 and has valued pension liabilities with a technical interest rate of 1.44% (2015: 1.63%). 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 2015	465
Allocated to employee benefits institutions	227
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	131
Balance as at end of 2016	369

All figures in CHF million

From the 2016 result, Swiss Life allocated a total of CHF 131 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 2015	869
COL premiums received (risk and cost component)	13
Tariff interest	0
Expenditure for COL increases in risk pensions	0
Withdrawal for costs	3
Balance as at end of 2016	879

All figures in CHF million

Book values

Total insurance reserves	64 107
Bonus reserve	369
Other obligations (including those to policyholders)	1 693
Other liabilities	3 032
<i>Total book value</i>	<i>69 201</i>

All figures in CHF million

Other key figures

Number of group insurance contracts	43 166
Number of insured persons at end of accounting year	652 578
Number of active insured persons	478 103
Number of pension recipients	79 495
Number of vested benefit policies	94 980
Interest rate for retirement savings in mandatory insurance, guaranteed	1.25%
Interest rate for retirement savings in supplementary insurance, guaranteed	0.75%
Technical interest rate used to value pension liabilities	1.44%
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 2016 investment year

Fears of deflation and the British people's decision to "Brexit" had yields on government bonds in the developed world at new lows into the summer months. From October, the global economic upswing and the renewed rise in commodity prices saw an adjustment of inflation forecasts on the markets. Donald Trump's subsequent victory was a catalyst for a robust hike in US interest rates until Christmas. In Switzerland interest rates also finally began to rise, albeit by year's end not beyond the level of January 2016.

What no one was expecting was the euphoria that reigned on equity markets during the second half of 2016, in spite of Brexit and the election of Donald Trump as the next President of the United States. Following a first semester plagued by fears of recession and political uncertainty, the new directions taken in the UK and the US increased optimism on the stock exchanges. This was of course only possible because real-world data contradicted the abovementioned worries about growth to point to a simultaneous upturn in the key economies.

The Swiss franc played a secondary role on foreign exchange markets, unlike in 2015, but the Swiss National Bank was nevertheless obliged to intervene again to prevent an appreciation of the franc against the euro, and was able to check the exchange rate at a level of 1.07. In the wake of the EU referendum in the United Kingdom, pound sterling took a massive hit against all other leading currencies in the second semester. The US dollar, for its part, has appreciated since the election.

Against this backdrop, Swiss Life continued to pursue its strategy of previous years. In the persistent low interest rate environment, Swiss Life invested in senior secured loans and infrastructure as well as bonds. The partial drop in interest rates and discounts had a positive effect on the rating of fixed-interest investments. As in previous years, additional expansions were made to the real estate portfolio. Equity exposure was further increased. These measures enabled Swiss Life to generate a net return on investment for occupational benefits insurance of 2.60% (2015: 3.40%), with an investment performance at market values of 4.30 % (2015: 1.39%).

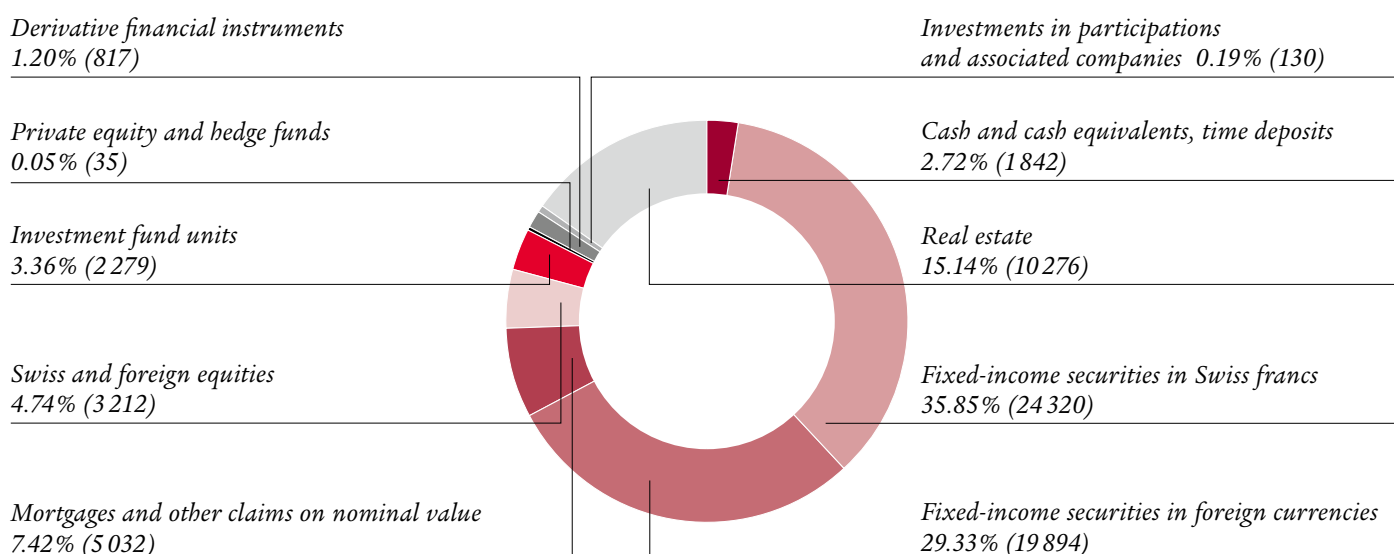
Information on Swiss Life's investment policy

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 2016 (as a percentage of the book value).
The total is CHF 67 837 million (all figures in brackets in CHF million).



Investments

Investments	Book value	Market value
Investments at beginning of accounting year*	63 316	70 810
Investments at end of accounting year*	66 905	75 861
Percentage of collective investment schemes**		2,92%
Percentage of capital investments that are not cost transparent**		0,26%

All figures in CHF million

*Total investments minus obligations under derivative financial instruments

**Measured by market value of investments at end of accounting year

Valuation reserve	2016	2015
Valuation reserve at beginning of accounting year	7 494	8 634
Valuation reserve at end of accounting year	8 956	7 494
Change in valuation reserve	1 462	-1 140

Yield and performance	gross	net
Investment income	1 850	1 690
Return on book values*	2.84%	2.60%
Market value performance**	4.52%	4.30%

All figures in CHF million

*Investment income as percentage of average book value

**Investment income and change in valuation reserve as percentage of average market value

Book values

Total investments	67 837
Other assets	1 364
Total book value	69 201

All figures in CHF million

Asset management costs

Asset management costs as percentage of investments at market value (all figures in brackets in CHF million).

Asset management costs without real estate maintenance	0.22% (160)
Cost of upkeep and maintenance of real estate	0.14% (105)
Asset management costs with real estate maintenance	0.36% (265)

The asset management costs without real estate maintenance comprise all internal costs resulting from investment

activities as well as external costs. External costs include, for instance, custodian and other fees.

Schedule of asset management costs

The gross expenses for management of occupational pension investments are posted by cost category: Administration and

management (TER), Transaction and commission (TTC) and Other non-assignable service costs (SC).

	TER	TTC	SC
Direct investments	240	35	
Single-tier collective investments	11		
Multi-tier collective investments	6		
Investments that are not cost transparent			
Service costs of investments			8
Total before capitalisation	257	35	8
Capitalised costs	0	28	8
Total recognised in income	257	7	0

All figures in CHF million

Summary

	Market value	Total costs
Direct investments	73 452	275
Single-tier collective investments	1 833	11
Multi-tier collective investments	379	6
Investments that are not cost transparent	197	
Service costs of investments		8
Total market value / Total before capitalisation	75 861	300
Capitalised costs		36
Total recognised in income		264

All figures in CHF million

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	194	406	209	439
Vested benefit policies	4	47	4	41
Other	3		3	
Subtotal	201		216	
Pensioners	35*	442		
Total	236			

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

Breakdown of expense by cost unit is as follows:

		to brokers and intermediaries	to own sales force
Acquisition expenses including commission to brokers, agents, sales force	55	35*	20
Benefit processing expenses	35		
Marketing and advertising expenses	5		
Other general administrative expenses	142		
Reinsurers' share in operating expense	0		
Total net operating expense	237		

All figures in CHF million

*incl. commissions for distribution agreements

The administrative costs of CHF 201 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 the administrative costs by 1.5% against 2015, from CHF 204 million to CHF 201 million. Swiss Life aims to reduce these costs still further in the future.

The future starts here.

*Swiss Life Ltd
General-Guisan-Quai 40
P. O. Box
8022 Zurich
www.swisslife.ch*