

2019

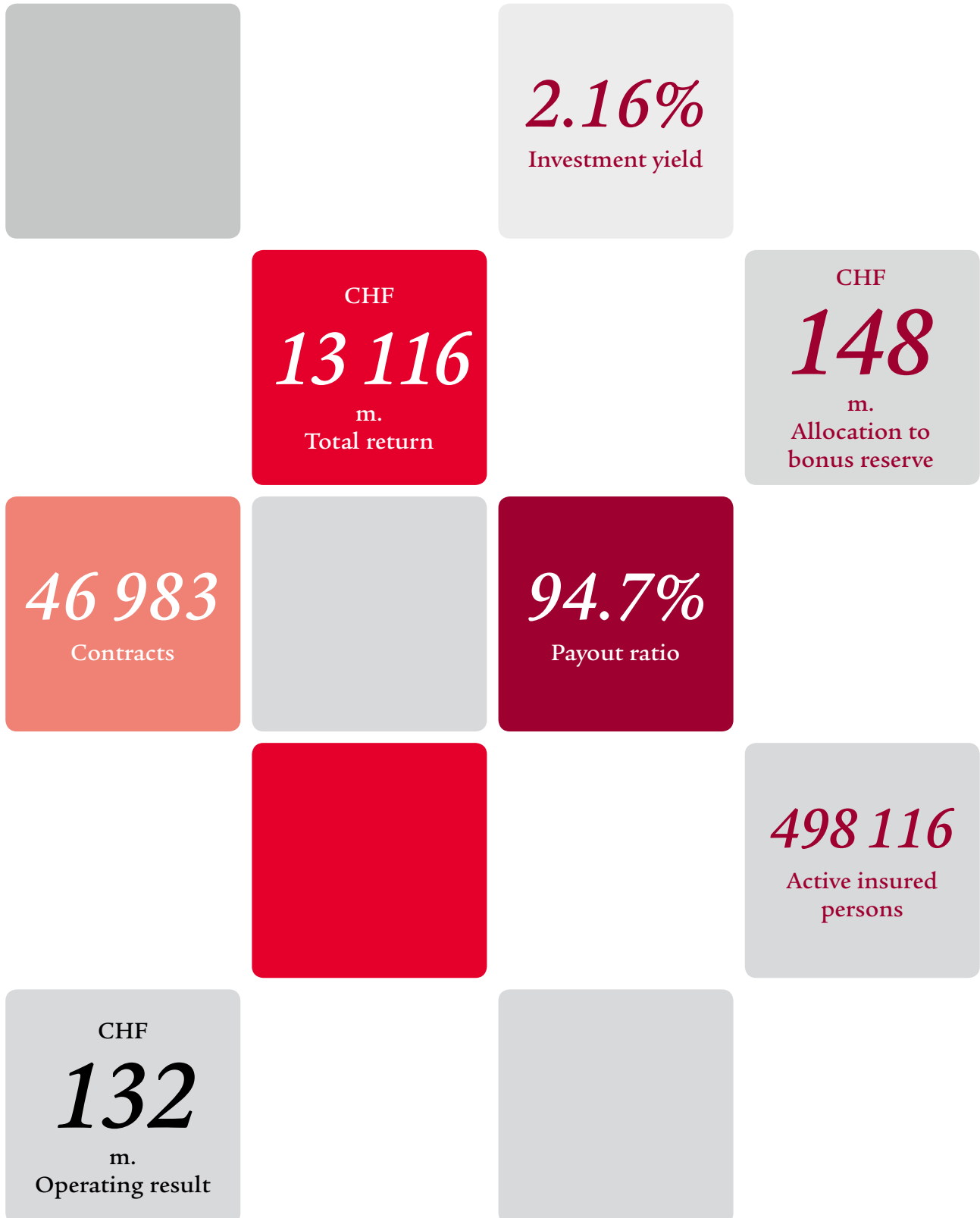
operating result

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Swiss Life

2019 operating result in brief



Editorial

Dear Reader

Swiss Life can look back on a successful financial year. Both full insurance and semi-autonomous solutions posted pleasing growth. The balance sheet was strengthened again despite the difficult market environment, which is still shaped by low interest rates and low investment income. Long-term financial stability for our customers is thus ensured.

Swiss Life provides its customers with a comprehensive occupational provisions offering under one brand. Demand from SMEs and large companies remains strong for security in occupational provisions. Swiss Life posted premiums of CHF 11 540 million in 2019. Swiss Life was able to further strengthen its position as the market leader in full insurance due to the realignment of a competitor enabling it to selectively write profitable new business. Administrative costs fell again by 4.5% due to the consistent implementation of efficiency-enhancing measures. As in previous years, additional technical reserves of CHF 254 million were accumulated. This further consolidated financial stability and sustainably ensured the long-term financing of benefit commitments to our policyholders.

The rapid success of the BVG 2022 reform is extremely important. There is no doubt as to the crucial and pressing need for action in reforming the 2nd pillar. In particular, Swiss Life expressly supports the reform proposed by the Federal Council to lower the BVG conversion rate to 6.0% in one step and introduce a contribution to finance the pension conversion guarantee. The redistribution from active insured persons to pensioners must be significantly reduced; while the pension level of those affected must be maintained. The Federal Council and parliament are now responsible for giving top priority to the reform and for approving a draft acceptable to the majority.

Last year, the focus was on another topic: climate change. People demonstrated in public, discussions were intensified and economic and political demands grew more strident. A direct result of increased climate awareness was reflected recently in the Swiss parliamentary elections. The issue was also in evidence in the financial sector. In the area of environmental and climate protection, Swiss Life depends, among other things, on responsible investment activities and responsible real estate management. In applying ESG criteria, Swiss Life takes environmental, social and good governance issues into account in all its investment decisions. In addition, as Switzerland's largest private real estate owner, Swiss Life supports energy-saving measures, renewable energies and the sparing use of resources.

Swiss Life will continue to focus on high-quality customer advice and support and the further development of its offering, so that our customers in future can continue to decide in self-determination about which occupational provisions solution best suits their needs.



A blue ink handwritten signature of Hans-Jakob Stabel, consisting of several fluid, connected strokes.

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

At a glance – Operating result, group life Switzerland

Income	2019	2018
Gross written premiums	11 540	7 797
Savings premiums	10 604	6 917
Risk premiums	710	670
Cost premiums	226	210
Net investment result	1 572	1 559
Direct investment income	2 070	1 960
Result from disposals	356	215
Balance from write-ups and write-downs	-41	-30
Currency result	-608	-395
Interest expense	-6	-6
Gross investment result	1 771	1 744
Asset management costs	-199	-185
Other income	6	7
Reinsurance result	-2	-2
Total income	13 116	9 361
Expenses	2019	2018
Insurance benefits	7 998	7 220
Benefits as a result of old age, death and disability	2 533	2 398
Individual lump-sum payments (vested benefits, WEF, divorce, vested benefit policy)	3 967	3 645
Surrender values from contract terminations	1 459	1 137
Benefit processing expenses	39	40
Change in insurance reserves	4 605	1 520
Retirement savings	3 446	495
Provision for future pension conversions	-158	42
Mathematical reserve for current retirement and survivors' benefits	748	821
Mathematical reserve for current disability pensions and disabled person's children's benefits	69	-30
Mathematical reserve, vested benefit policies	-17	-22
Mathematical reserve other cover	235	222
Strengthening of mathematical reserve for pension reserves and vested benefit policies	300	241
Provision for incurred but not settled claims	-14	1
Value fluctuation and interest rate guarantee reserves	0	0
Cost of living reserves	0	-249
Other insurance reserves	-4	-1
Costs for acquisitions and administration	211	221
Change in reserves for unearned premiums	0	0
Other expenses	22	14
Bonuses allocated to bonus reserve	148	245
Operating result	132	141
Total expenses	13 116	9 361

All figures in CHF million



Breakdown of savings premiums

Breakdown of savings premiums	2019	2018
Retirement credits	2 725	2 442
Individual deposits due to commencing employment, purchase, WEF or divorce	3 368	3 279
Transferred retirement savings on transfers of contract	3 678	477
Deposits for retirement and survivors' benefits	8	5
Deposits for disability pensions and disabled person's children's benefits	98	23
Deposits for vested benefit policies	727	691
Total savings premiums	10 604	6 917

All figures in CHF million

Breakdown of insurance benefits

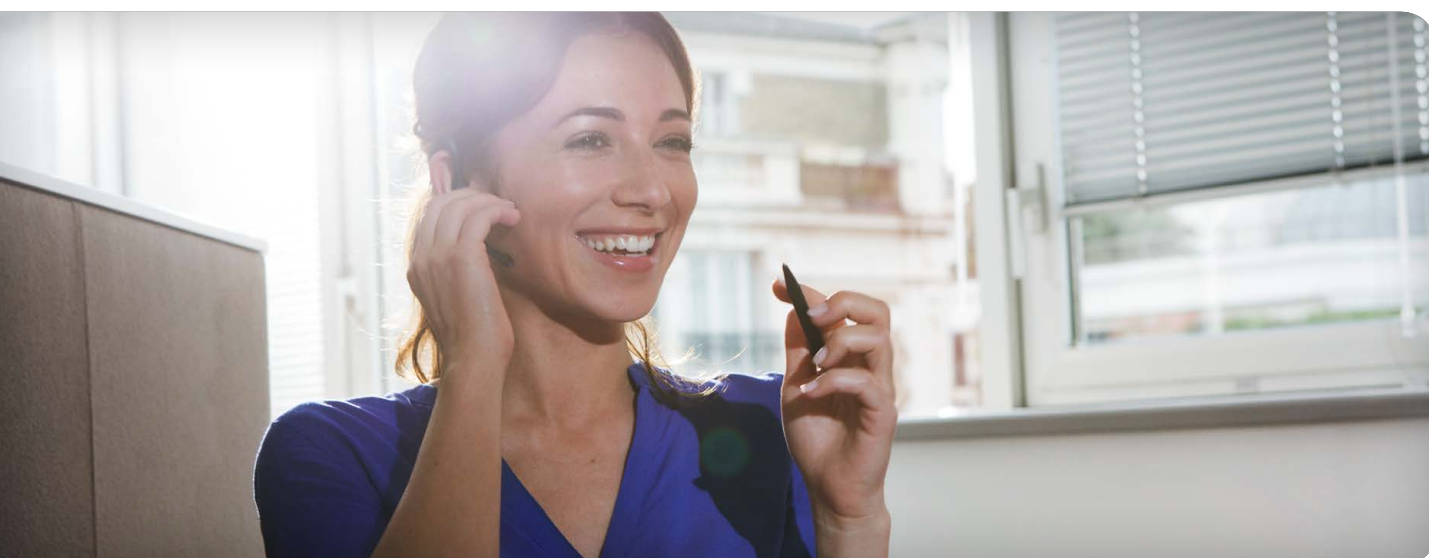
Breakdown of insurance benefits	2019	2018
Benefits as a result of old age	1 886	1 774
Annuity benefits	929	894
Lump sums	957	880
Ratio annuity benefits	49%	50%
Ratio lump sums	51%	50%
Benefits as a result of death and disability	647	624
Annuity benefits	445	432
Lump sums	202	192
Total benefits as a result of old age, death and disability	2 533	2 398

All figures in CHF million

Breakdown of investment income

Breakdown of direct investment income	2019	2018
Liquid assets	2	-3
Bonds	1 171	1 217
Properties	422	397
Mortgages	102	98
Other investments	373	251
Direct investment income	2 070	1 960

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 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 pro-

cess. 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 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.

	2019	2018
Sum of income components	2 303	2 112
Savings process	1 486	1 353
Risk process	603	562
Cost process	214	197
Sum of expenses	1 879	1 753
Savings process	1 268	1 141
Risk process	396	398
Cost process	215	214
Gross result	424	359
Accumulation (+) or release (-) of technical reserves	242	81
In the savings process	210	150
Longevity risk	347	260
Insufficient funding upon conversion into pension	-137	26
Interest rate guarantees	0	0
Release of cost of living reserves for strengthening	0	-136
Fluctuations in value of investments	0	0
In the risk process	32	22
Reported but not settled claims*	32	17
Incurred but not reported claims	2	2
Fluctuations in claims	-2	3
Rate adjustments and rate restructuring	0	0
Release of cost of living reserves for strengthening	0	0
Accumulation of additional cost of living reserves	0	0
Release of cost of living reserves for bonus reserve	0	-91
Costs of raising additional borrowed capital	0	0
Allocation to bonus reserve	62	156
Operating result	120	122
Distribution ratio	94.8%	94.2%

All figures in CHF million

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

In 2019, Swiss Life used a total of CHF 2 183 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribu-

tion ratio of 94.8%, the minimum legal requirements have been met.

Group business not subject to statutory minimum distribution ratio

Contracts with a special arrangement for surplus participation 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.

	2019	2018
Sum of income components	205	327
Savings process	86	206
Risk process	107	108
Cost process	12	13
Sum of expenses	95	194
Savings process	35	135
Risk process	48	45
Cost process	12	14
Gross result	110	133
Accumulation (+) or release (-) of technical reserves	12	25
In the savings process	10	36
Longevity risk	30	35
Insufficient funding upon conversion into pension	-20	15
Interest rate guarantees	0	0
Release of cost of living reserves for strengthening	0	-14
Fluctuations in value of investments	0	0
In the risk process	2	-2
Reported but not settled claims*	4	2
Incurred but not reported claims	0	0
Fluctuations in claims	-2	-4
Rate adjustments and rate restructuring	0	0
Release of cost of living reserves for strengthening	0	0
Accumulation of additional cost of living reserves	0	0
Release of cost of living reserves for bonus reserve	0	-9
Costs of raising additional borrowed capital	0	0
Allocation to bonus reserve	86	89
Operating result	12	19
Distribution ratio	93.8%	94.2%

All figures in CHF million

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

In 2019, Swiss Life used a total of CHF 193 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>	2 303	205	2 508
<i>Sum of expenses</i>	1 879	95	1 974
Accumulation (+) or release (-) of technical reserves	242	12	254
Allocation to bonus reserve	62	86	148
<i>Operating result</i>	120	12	132
<i>Distribution ratio</i>	94.8%	93.8%	94.7%
<i>Bonus reserve</i>	267	100	367

*MDR: subject to minimum distribution ratio

**NMDR: not subject to minimum distribution ratio

Insurance reserves

Insurance reserves		Mandatory	Supplementary
Retirement savings	40 806	20 378	20 428
Provision for future pension conversions	2 059	1 533	526
Mathematical reserve for current retirement and survivors' benefits	14 346	6 649	7 697
Mathematical reserve for current disability and disabled person's children's benefits	2 044	1 332	712
Mathematical reserve, vested benefit policies	3 644		
Mathematical reserve other cover	3 772		
Strengthening of mathematical reserve for current pensions	3 356		
Provision for incurred but not settled claims	739		
Reserves for interest rate guarantees, claim and value fluctuations	0		
Other insurance reserves	126		
Cost of living reserves	635		
<i>Total insurance reserves</i>	<i>71 527</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 0.96% (2018: 1.18%). 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.

Balance as at beginning of year	390
Allocated to employee benefits institutions	-171
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	148
Balance as at end of 2019	367
of which: fixed allocation	134
of which: free	233

All figures in CHF million

From the 2019 result, Swiss Life allocated a total of CHF 148 million to the bonus reserve for group life insurance.

Cost of living reserves

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.

Balance as at beginning of year	634
Gross cost of living premiums	5
Outlay	-3
Expenditure for COL increases in risk pensions	-1
Release for strengthening under Art. 149 para. 1a	0
Release for bonus reserve	0
Accumulation of additional cost of living reserves	0
Balance as at end of 2019	635

All figures in CHF million

Book values – Liability items

Total insurance reserves	71 527
Bonus reserve	367
Reserves for unearned premiums	0
Credited bonuses	147
Other liabilities	4 326
Total book value	76 367

All figures in CHF million

Other key figures

Number of group insurance contracts	46 983
Number of insured persons at end of accounting year	679 306
Number of active insured persons	498 116
of which number of fully insured persons	378 733
of which number of other active insured persons	119 383
Number of pension recipients	83 219
Number of vested benefit policies	97 971
Interest rate for retirement savings in mandatory insurance	1.00%
Interest rate for retirement savings in supplementary insurance	0.25%
Mandatory minimum BVG interest rate (compliance account)	1.00%
Technical interest rate used to value pension liabilities	0.96%
Conversion rate for women's mandatory retirement savings with full insurance (retirement age 64)	6.80%
Conversion rate for women's supplementary retirement savings with full insurance (retirement age 64)	5.25%
Conversion rate for men's mandatory retirement savings with full insurance (retirement age 65)	6.80%
Conversion rate for men's supplementary retirement savings with full insurance (retirement age 65)	5.25%
Mandatory minimum BVG pension conversion rate for women at retirement age 64 (compliance account)	6.80%
Mandatory minimum BVG pension conversion rate for men at retirement age 65 (compliance account)	6.80%

Information on the 2019 investment year

Equities

Following corrections at the end of 2018, the stock markets got off to a flying start in 2019. The correction in March due to disappointing US economic data was only brief, as was the dampening effect of the trade dispute escalation in April. The interest rate cuts by the Federal Reserve and later the European Central Bank (ECB) gave the stock exchanges fresh impetus in the summer, while the DAX lagged behind due to falling economic activity in Germany. The S&P 500 ended the year with a gain of 31%, closing at its highest level ever. The SMI ended December with a healthy increase of 26%.

Interest rates

By the start of 2019, all traces of the tentative attempt to change the long-term interest rate trend had already disappeared. Following a brief rise, yields fell further in May in light of trade tensions and plunged once again after the ECB and Fed meetings in June. Yields on German and Swiss government bonds fell into negative territory, Austrian securities posted a negative return for the first time. Yields rallied briefly in mid-August, but were already falling again from mid-September due to disappointing economic data. Central banks across the world cut base rates 44 times net, after increasing them 38 times in 2018. The new ECB President, Christine Lagarde, continued Mario Draghi's expansionary policy.

Currencies

At the beginning of 2019, currencies traditionally deemed safe were able to devalue as risk tolerance grew. However, the inversion of the US yield curve then fuelled recessionary fears, and the Swiss franc and the yen appreciated. In June, the euro fell to its lowest value against the franc since August 2017. The British pound recovered in July when Parliament rejected an EU exit without a deal. The British currency was a pawn of the twists and turns in the Brexit drama. The rollercoaster ride culminated in a strong year-end performance. The dollar devalued in the fourth quarter.

Swiss Life investment strategy

Swiss Life continued the strategy implemented in previous years in this market environment, too. In the persistent low interest rate environment, Swiss Life mainly invested in senior secured loans, mortgages and infrastructure investments as well as bonds. 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 2.16% (2018: 2.22%), with an investment performance at market values of 5.53% (2018: 0.32%).

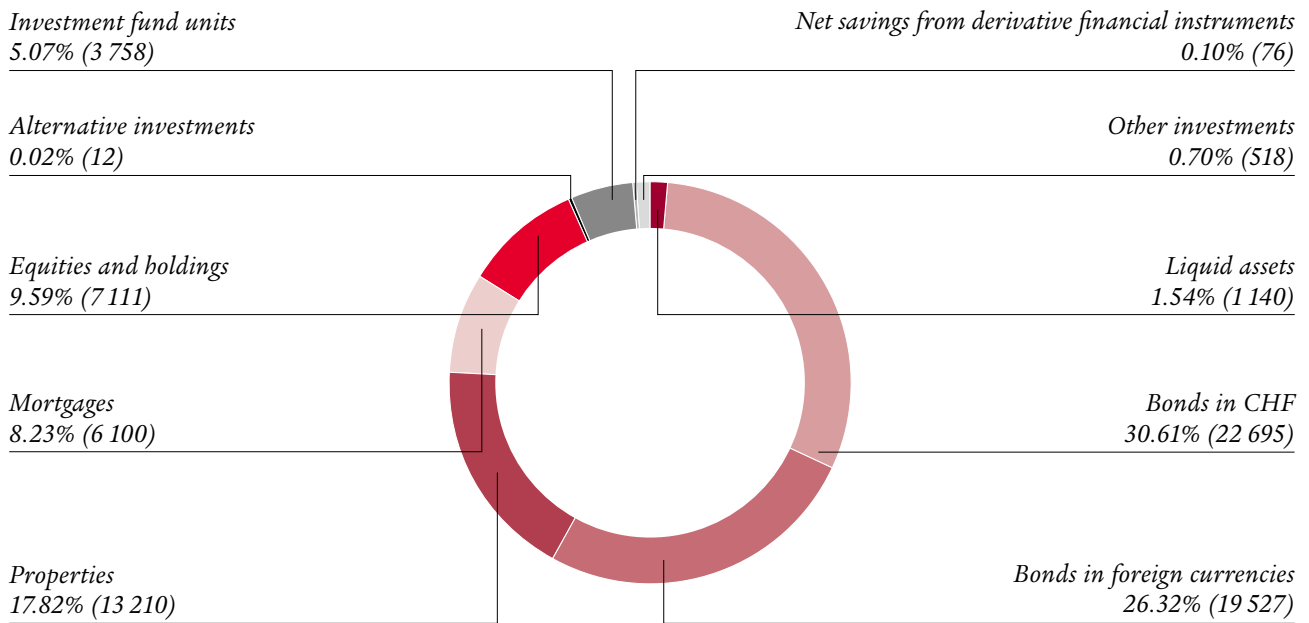
Information on Swiss Life's investment policy

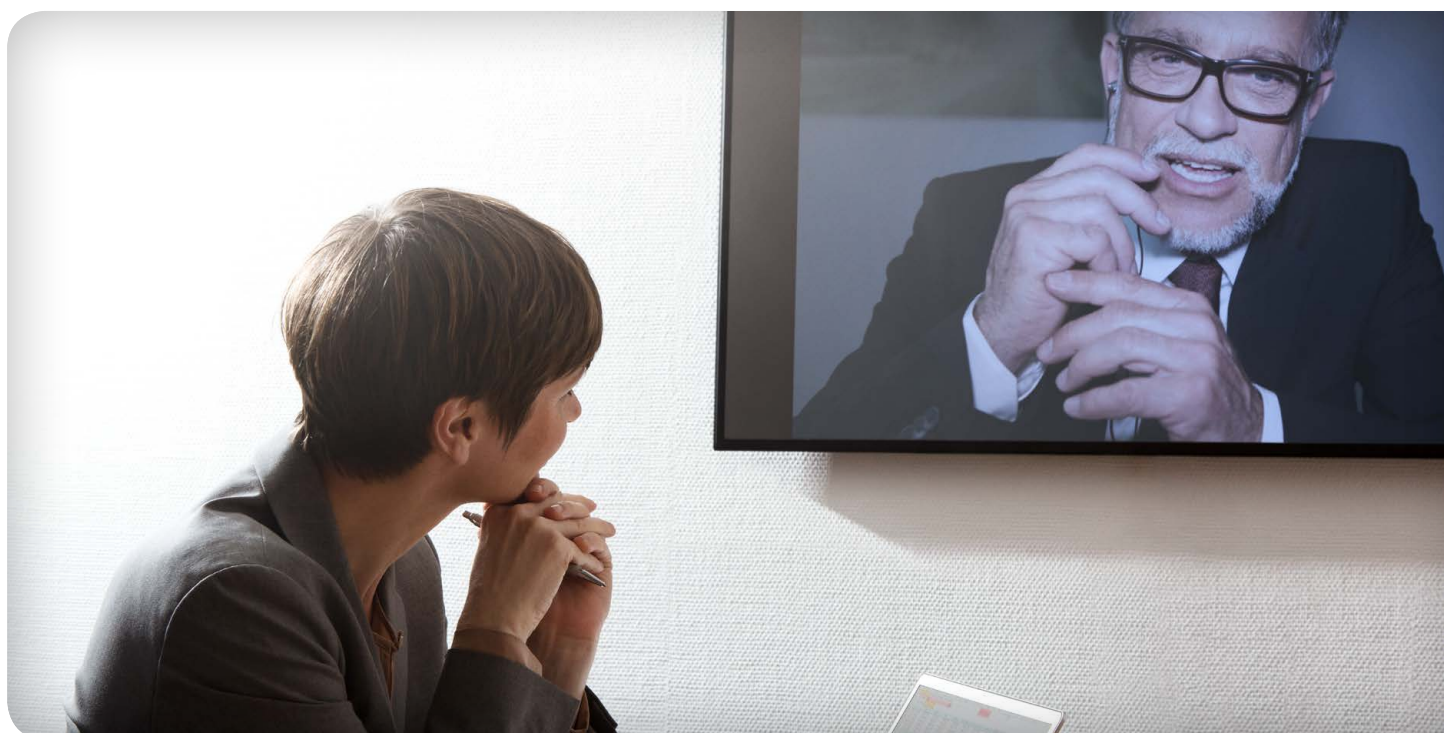
Swiss Life manages investments in such a way that the economic risk capital is used in line with its risk appetite. The company's asset and liability management (ALM) is applied for this purpose, and the investment strategy is based on these risk assessment findings. The aim is to be in a position to 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 always 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 2019 (as a percentage of the book value).
The total is CHF 74 147 million (all figures in brackets in CHF million).





Investments, valuation reserves, return and performance

Investments	Book value	Market value	Share
Investments at beginning of accounting year	71 507	79 637	
Investments at end of accounting year	74 147	85 264	100.00%
Direct investments		80 356	94.24%*
Single and multi-tier collective investment schemes		4 691	5.50%*
Non-cost-transparent investments		217	0.26%*

All figures in CHF million

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

Valuation reserve	2019	2018
Valuation reserve at beginning of accounting year	8 130	9 438
Valuation reserve at end of accounting year	11 118	8 130
Change in valuation reserve	2 988	-1 308

Yield and performance	gross	net
Investment income	1 771	1 572
Return on book values*	2.43%	2.16%
Market value performance**	5.77%	5.53%

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 – Asset items

Total investments	74 147
Obligations arising from derivative financial instruments	782
Other assets	1 438
Passive reinsurance	0
Total book value	76 367

All figures in CHF million

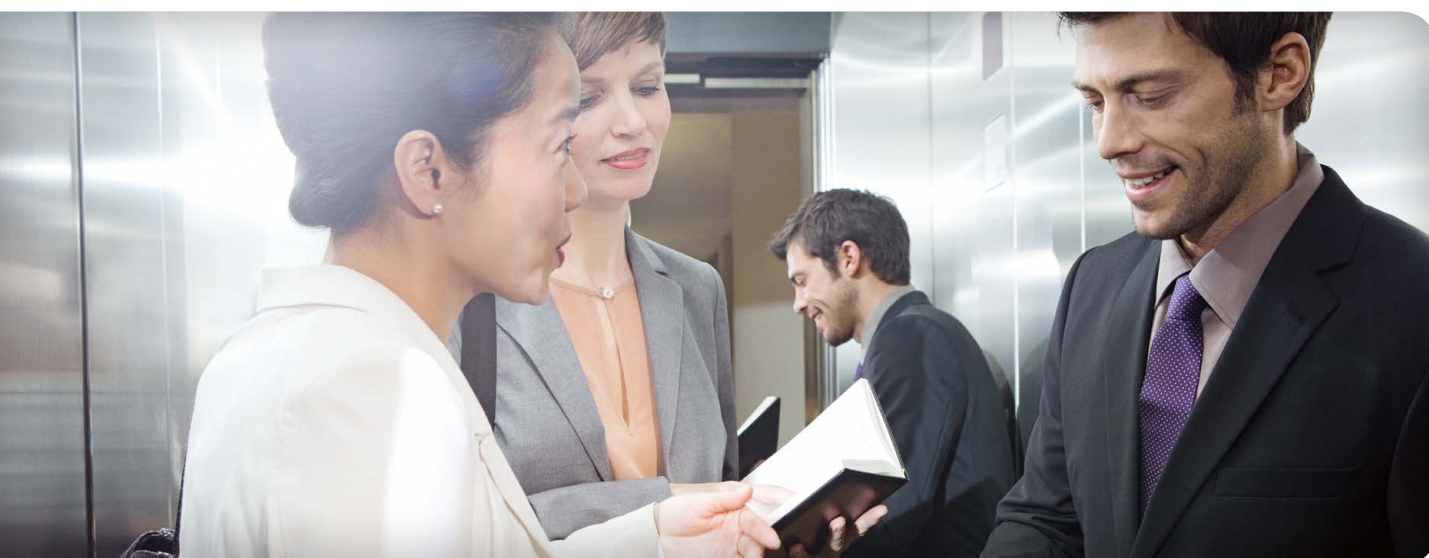
Asset management costs

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).

Asset management costs (net as per BVG operating account)	199
Asset management costs (gross as per OAK scheme)	388
TER costs	295
Direct investments	266
Single and multi-tier investments (cost key figure)	29
TTC costs	86
Service costs	7
Capitalised costs	-75
Maintenance and upkeep costs for properties	-114

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	205	411	220	441
Vested benefits policies	3	34	3	29
Other	3		3	
Subtotal	211	369	226	332
Pensioners	39*	465		
Total	250			

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

Breakdown of operating expenses by cost unit

Acquisition expenses	60
for brokers and intermediaries*	35
for sales force	25
other	0
Expenses for marketing and advertisement	5
Other general administrative expenses	146
Acquisition and administrative costs	211
Benefit processing expenses	39
Reinsurers' share in operating expense	0
Total net operating expense	250

All figures in CHF million

*Incl. commissions for distribution agreements

The administrative costs of CHF 211 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 intro-

duced, Swiss Life was able to reduce the administrative costs by 4.5% against 2018, from CHF 221 million to CHF 211 million. Swiss Life aims to reduce these costs still further in the future.

