

Swiss Life
Occupational Pension Foundation, Zurich
(foundation)

Regulations

governing the

**formation of provisions and reserves
at Vorsorgewerk level**

Effective date: 1 January 2018

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Art. 1 Introduction

The present regulations set out the principles and guidelines for the establishment of technical provisions and reserves in the Swiss Life Collective Occupational Pension Foundation (BVST).

Art. 2 Principles and objectives

Pursuant to Art. 48e BVV 2, the Board of Trustees of the Swiss Life Collective Occupational Pension Foundation (foundation) approves the reserving policy at the level of the employee benefits unit and of the foundation, as well as these regulations.

The regulations govern the formation of reserves and provisions, taking into account the principle of consistency. Attention has been paid to the fact that the foundation must be in a position to fulfil its future provision objectives at all times.

The pension actuary shall report regularly, at least once every three years, on the status of reserves and provisions. Based on the pension actuary's report, the Board of Trustees shall review these regulations periodically and, if necessary, adapt them to any new circumstances.

Art. 3 Organisation of the Foundation

The Foundation maintains a Vorsorgewerk for each affiliated company. The Foundation concludes insurance contracts with Swiss Life to cover the risks of death and disability.

The Foundation's Vorsorgewerke are organised in the form of savings and risk systems. A retirement account is maintained for each insured person. Savings contributions and interest are credited to this account. The insurance risks (death, disability) are covered by Swiss Life. The cost of living adjustment risk in accordance with Art. 36, cl. 1 of the BVG is borne by the foundation.

The retirement pensions thus arising are purchased by the employee benefits unit from Swiss Life, for which purpose the savings capital available to the insured person is transferred to Swiss Life. In such cases the employee benefits units bear any underwriting risk within the scope of the funding gap arising from the conversion of all or part of the retirement savings into a retirement pension as a result of the conversion rate differences between the pension fund regulations and the group life insurance premium rates of Swiss Life.

The employee benefits units bear the investment risk alone, along with responsibility for defining the investment concept and selecting the asset manager in the context of the investment of fund assets.

Art. 4 Provisions and reserves at Vorsorgewerk level

1 - Reserve for conversion rate differences

The reserve for any conversion rate differences is set up for each employee benefits unit depending on the regulatory conversion rate, irrespective of whether a uniform or split conversion rate is applied.

In the event of a uniform regulatory conversion rate, the reserve to ensure the minimum retirement pension under the BVG or to fund the higher regulatory conversion rate compared to the conversion rate under the relevant Swiss Life group life insurance premium rate is used. The target amount of the required reserve is calculated according to the following formula:

$$Target\ amount = (1 - PLS) \times \sum_{x,y > 58} p_x \frac{\max(RS_{mand} \times CR_{BVG}, RS_{tot} \times Reg.CR_{RA}) - RS_{tot} \times GRCR_{RA}}{GRCR_{RA}}$$

in the case of a split conversion rate, the target amount of the reserve is calculated according to the following formula:

$$Target\ amount = (1 - PLS) \times \sum_{x,y > 58} p_x \frac{\max(RS_{mand} \times CR_{BVG}, RS_{tot} \times Reg.CR_{RA}) - RS_{tot} \times GRCR_{RA}}{GRCR_{RA}}$$

<i>x,y</i>	Age of insured person (man/woman) on the key date
<i>PLS</i>	Proportion of insured persons with lump-sum payment option
<i>RS_{mand}</i>	Mandatory portion of the retirement savings
<i>RS_{suppl}</i>	Supplementary portion of the retirement savings
<i>RS_{tot}</i>	Total retirement savings (mandatory and supplementary)
<i>CR_{BVG}</i>	Conversion rate as per BVG
<i>Reg.CR_{suppl}</i>	Conversion rate for the supplementary portion of the retirement savings
<i>Reg.CR_{RA}</i>	Regulatory conversion rate at normal retirement age
<i>GRCR_{RA}</i>	Conversion rate according to applicable group life insurance premium rate at normal retirement age
<i>p_x</i>	Retirement rates at the corresponding age

The minimum amount of the reserve corresponds to the liabilities from retirement pension deficits arising as a result of the retirements expected in the following year.

The actual and target amounts of the provision are regularly assessed by the pension actuary, adjusted to current circumstances and reported to the Vorsorgewerk.

2 - Fluctuation reserve

Various investment categories, such as equities, are subject to considerable value fluctuation risk. To buffer such fluctuations in value, a separate fluctuation reserve is established. The fluctuation reserve serves to offset loss of investment income. The latter therefore has only limited impact on the Vorsorgewerk's annual results.

This measure is designed to ensure the fulfilment of the future provisions objective (under Art. 50 BVV 2). To accomplish this, the employee benefits institution and the Vorsorgewerk must adjust their investments carefully to their risk capacities. This includes the ability to offset market-related fluctuations in the value of their assets and to maintain sufficient cash means or readily realisable investments to fulfil their current and future obligations on time.

In accordance with Art. 48e of the BVV 2, value fluctuation reserves shall be formed in a reasonable and readily explicable way. The decisive factors for the formation of value fluctuation reserves are the risk and return features of the current or envisaged strategic structure of the investment (strategic asset allocation) and the bandwidths for the implementation of the investment strategy (tactical asset allocation scope). An overview of the target amount of the fluctuation reserve for each standard investment strategy is provided in the investment regulations.

The fluctuation reserve target of a Vorsorgewerk is set out in the Administrative Board resolution on the investments of the Vorsorgewerk in question.

3 - Sequence of accumulation of provisions and reserves

The employee benefits unit amasses the requisite provisions and reserves in the following sequence:

- Provision for conversion rate differences
- Value fluctuation reserves up to target amount under investment regulations

4 - Use of free funds

In the event that the provision for conversion rate differences and the value fluctuation reserve have been amassed with the target amounts, free funds are disclosed.

The Administrative Board decides how to dispose of the free funds. In reaching its decision the Board has to take into consideration the Vorsorgewerk's financial resources and the principle of equal treatment of beneficiaries.

Art. 5 Effective date

The *Regulations governing the formation of provisions and reserves at Vorsorgewerk level* entered into force on 1 January 2018 on the basis of the resolution of the Board of Trustees of 28 February 2017, and replace the previous regulations. They are sent to the supervisory authority for the latter's information. The Board of Trustees may change the regulations at any time in accordance with the law and the Foundation Charter.

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