SwissLife

Solvency and Financial Condition Report 2016

Swiss Life (Liechtenstein) AG

Contents

List of Abbreviations

ALCO	Asset Liability Committee
AMSB	Administrative, Management or Supervisory Body
BoD	Board of Directors
DTL	Deferred Tax Liability
ExB	Executive Board
GRC	Group Risk Committee
IRC	Investment and Risk Committee
MCR	Minimum Capital Requirements
MTP	Mid-Term-Planning Process
OF	Own Funds
ORSA	Own Risk and Solvency Assessment
OSN	Own Solvency Need
SCR	Solvency Capital Requirements
SII	Solvency II
SLLIE	Swiss Life Liechtenstein

A Business and Performance

A.1 Business

This Solvency and Financial Condition Report (the "Report") is prepared in accordance with Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 ("Solvency II").

The report covers the financial year 2016 and is prepared for "Swiss Life (Liechtenstein) Aktiengesellschaft", In der Specki 3, 9494 Schaan, Liechtenstein ("SLLIE" or the "Company"). The Company is incorporated in Liechtenstein as a limited liability company ("Aktiengesellschaft") since 2004 and is entirely owned by "Swiss Life Holding Aktiengesellschaft" ("SL Group" or "the Group") through the holding structure shown in the annex.

The Company is supervised by the Financial Market Authority Liechtenstein based at Landstrasse 109, Postfach 279, 9490 Vaduz, Liechtenstein ("FMA"). The supervisory authority of SL Group is the Swiss Financial Market Supervisory Authority FINMA based at Laupenstrasse 27, 3003 Bern, Switzerland.

PricewaterhouseCoopers AG, Birchstrasse 160, 8050 Zurich, Switzerland ("PwC"), is serving as external auditor for SLLIE.

SLLIE sells individual life insurance policies in the following lines of business ("LoB"):
- Index linked and unit linked life insurance,
- Life insurance (excluding index linked and unit linked).

These correspond to the following statutory lines of business as defined by law[1] in Liechtenstein:
- line of business 1: life insurance ("Lebensversicherung");
- line of business 3: unit-linked life insurance ("Anteil- beziehungsweise fondsgebundene Lebensversicherung");
- line of business 6: capitalisation operations ("Kapitalisationsgeschäfte").

The traditional life insurance LoB is closed to new business and contains capital and annuity insurance policies with profit participation. The unit-linked portfolio of SLLIE contains products with and without guarantees. Capitalisation products consist of a closed portfolio of unit-linked products for which the Company bears no insurance risk.

In September 2016, the Group launched the new sub-brand Swiss Life Global Solutions, which also includes the business underwritten by SLLIE. The main geographical areas where the Company carries out business are Switzerland, Austria, Italy and Germany, ordered by amount of gross premium written.

Throughout this report, no comparison with previous reporting periods is included pursuant to Art. 303 of Commission Delegated Regulation EU 2015/35, as this report represents the first disclosure after application of the Solvency II Directive.

[1] VersAG Annex 2

A.2 Underwriting performance

This section contains information on the Company's underwriting performance based on the figures shown in template S.05.01.02 and S.05.02.01 (see Appendix). The underwriting performance is derived based on statutory reporting.

Premium written:
The gross premium written consists of CHF 24.5m from the business written in Switzerland, CHF 13.9m from Austria, CHF 5.5m from Italy, and CHF 4.9m from the business written in Germany.

Thereof CHF 3.2m are written in the LoB "Insurance with profit participation" and CHF 45.6m in the LoB "Index-linked and unit-linked insurance".

Claims incurred:
Gross claims incurred for Switzerland are CHF 74.7m and for Austria CHF 0.6m. CHF 0.4m accrued in the LoB "Insurance with profit participation" and CHF 615m in the LoB "Index-linked and unit-linked insurance". The majority of the claims are due to full or partial surrenders.

Changes in technical provisions:
Switzerland recorded a gross change in other technical provision of CHF 51.2m, and Austria of CHF 11.1m. CHF -2.0m are recorded in the LoB "Insurance with profit participation" and CHF 664.0m in "Index-linked and unit-linked insurance".

Expenses incurred:
Expenses incurred in the LoB "Insurance with profit participation" are CHF 0.8m and CHF 23.3m in "Index-linked and unit-linked insurance" Switzerland recorded CHF 2.1m, while Austria booked CHF 3.4m.

A.3 Investment performance

In 2016, the Company recorded the following investment result.

Investment Income

In CHF million

	2016
Income from participations	0.3
Income from other investments	0.4
Net realized gains on investments	0.1
Investment expenses	-0.5
Investment result	0.3

The majority of the investment income from other investments is related to fixed-income securities.

A.4 Performance of other activities

The next table shows the composition of the Company's statutory profit before tax in 2016.

In CHF million

	2016
Insurance result	8.9
Other income from insurance operations	7.9
Other expenses from insurance operations	-11.5
Profit on ordinary operations	5.3
Extraordinary expenses	-1.7
Profit before tax	3.7

The other income from insurance operations is mainly related to extraordinary income from illiquid assets and foreign currency gains, whereas most of other expenses from insurance operations are related to the ordinary amortization of intangible assets, change in claim provisions, and foreign currency losses. Extraordinary expenses for 2016 arise from the extraordinary amortization of deferred costs for a self-generated IT system.

B System of Governance

B.1 General information on the system of governance

The Board of Directors (BoD) is the administrative and supervisory management body (AMSB) of SLLIE and is in charge of the management of the business. It is vested with the broadest powers to perform all acts of administration and management in accordance with the corporate objects of SLLIE. The BoD is constituted according to applicable local law and comprises the following persons:
- Corporate Delegate Mandate Holder of the Group;
- CEO of Market Unit International;
- CFO of Market Unit International;
- A representative of the Group Legal department.

The BoD assumes all non-transferable and inalienable tasks and obligations as provided for by applicable law. In particular, the BoD monitors compliance with local laws and provide directives regarding risk control. Furthermore, the BoD ensures the establishment of adequate audit functions. The BoD role is to:
- Decide on strategic objectives
- Prepare the agenda for the general meeting and implement its resolutions
- Draw up the rules necessary for the orderly conduct of the business and instruct management accordingly
- Supervise the persons entrusted with management and representation, having regard to the correct execution of the latter pursuant to the law, the articles and the regulations
- Be regularly informed concerning the course and the conduct of the business.

Subject to the inalienable tasks and competencies according to applicable local law, the BoD delegates the following responsibilities to the following bodies:
- Running the business (including proposal, implementation of strategies and monitoring of plan execution, performance and compliance) to SLLIE's Business Area Management Team;
- Decision, supervision and cross-divisional coordination of specific topics to the Executive Committee and/or the Management Committee of SL Market Unit International.

The Business Area Management Team is responsible towards the Executive Committee and the Management Committee of Market Unit International as well as to the Board of Directors and local regulators for compliance with applicable laws. To effectively assume its responsibilities, the Executive Committee and the Board of Directors have delegated all necessary powers to the Business Area Management Team.

Prior to any resolution of the Business Area Management Team, the following functions and or local functional governance bodies of SLLIE shall mandatorily be heard:
- Risk and Compliance Committee
- Function heads

The following table depicts the key functions of SLLIE:

Key Function	Key Function Holder
Risk management function	Head Finance & Risk
Compliance function	Head Legal & Compliance
Internal audit function	Chief Audit Executive
Actuarial function	Head Actuarial Services

They are described in more detail in the remaining of this chapter.

Remuneration policy

SLLIE's Compensation Policy is derived from the one of Swiss Life Group. The BoD is responsible for its establishment, and its main principles are summarized in a guideline communicated and made available to all employees on the Company Intranet.

The compensation policy underpins the performance culture required by the corporate strategy and forms part of the Human Ressources policy. The aim is to retain qualified employees and recruit new, highly skilled staff.

The compensation system is to be in line with the market environment and must be competitive.

The individual overall compensation takes into account the employee's professional skills, engagement and personal performance and is independent of age, years of service or gender. It is made up of a basic salary, a variable bonus based on achievement of the annual objectives, which is generally paid in cash and possibly in shares as well as, in restricted cases, a deferred variable mid- to long-term compensation in the form of an equity compensation plan. The form and financing of fringe benefits and occupational pension solutions are market consistent and in line with demand.

In 2016, no fee nor remuneration of any kind were paid to the members of the Board of Directors.

System of Governance in general

SL's system of governance comprises the adequate and transparent organisational structure, a clear assignment and separation of responsibilities as well as an effective system for the transmission of information. It comprises the necessary organisational structure, in particular the division of powers between the Board of Directors (BoD) and the Corporate Executive Board (ExB), an elaborated Directives System, defined key functions and clearly defined, documented decision making-processes.

The AMSB of Swiss Life Group comprises the BoD and the ExB.

The BoD is responsible for all matters that are not reserved for the consideration of the General Meeting of Shareholders (formally the supreme decision-making body of a public limited company) under the terms of the respective law or by the company's Articles of Association. In line with its non-transferable duties prescribed by law, the BoD is responsible, in particular, for the ultimate direction of the entity, as well as the supervision of the Corporate ExB.

The ExB works out the long-term objectives and strategic orientation for the BoD and ensures a goal-oriented leadership. Swiss Life's business strategy is to offer:

- life and pensions solutions through Business Divisions / Business Areas in Switzerland, France, Germany, Liechtenstein, Luxembourg and Singapore;
- health and non-life insurance coverage in France;
- investment management solutions to institutional clients through Business Divisions/Business Areas in Switzerland, France and Germany;
- distribution of financial products in further markets such as UK, Austria and in Central and Eastern Europe countries.

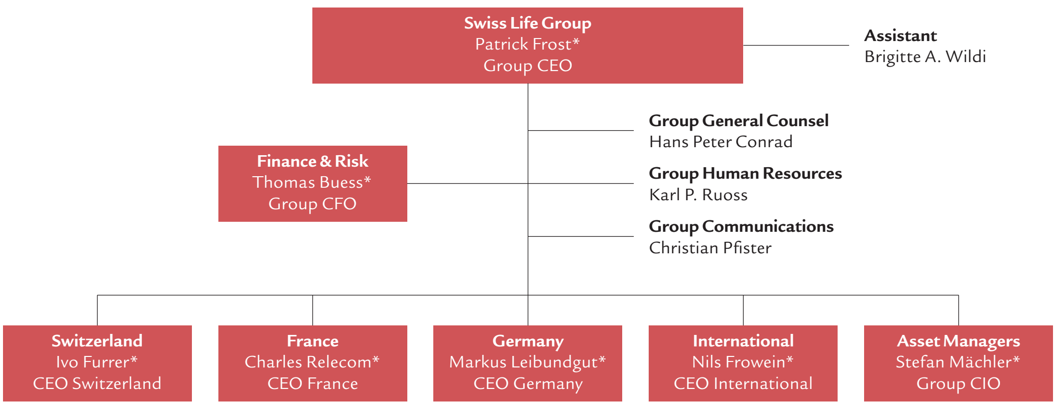
The Directives System – as outlined below – is basically maintained by the Group and ensures the goal-oriented implementation of the business strategy and adherence to Group standards on a Business Division level. For this purpose the organization and division of tasks within the ExB generally reflects the key business areas and functions.

The key functions are implemented on Group and local level and serve as a means of communication for the business strategy and the relevant Directives, Guidelines and Instructions as well as the reporting of the necessary information for the ExB's decision. The key functions are:

- Risk Management Function
- Compliance Function
- Internal Audit Function
- Actuarial Function

The organization described above is reflected on a Business Division / Business Area level and is depicted in the Swiss Life Group's Organizational Chart (Figure 1 below).

Organizational chart Swiss Life Group as of 1 April 2017



*Member of the Corporate Executive Board

Board of Directors

In accordance with the Articles of Association, the BoD has issued Organizational Regulations setting forth the internal organizational structure and the duties and competencies of the BoD, the BoDs' committees, the Chairman of the BoD and the Corporate ExB. The Organizational Regulations are reviewed regularly and adjusted where necessary. They are available on the internet at www.swisslife.com, "About us" area, "Organization" section (www.swisslife.com/en/organisation).

The Chairman of the BoD coordinates the work of the Board and the committees, and ensures reporting from the Corporate ExB to the BoD. In urgent situations, the Chairman may also determine the necessary measures and take steps falling within the scope of the competencies of the Board until the BoD takes a decision. If a timely decision cannot be reached by the BoD, the Chairman is empowered to take a decision.

The BoD meets as often as business requires, usually at least six times a year. Meetings are generally called by the Chairman of the BoD. However, any member of the BoD may request that a meeting be called, as may the Corporate ExB. In addition to the members of the Board of Directors, the Group CEO also generally attends the meetings or parts of meetings in an advisory capacity, as do other members of the Corporate ExB when required.

The BoD is supported by four standing committees. These are the Chairman's and Corporate Governance Committee, the Nomination and Compensation Committee, the Investment and Risk Committee (IRC) and the Audit Committee. The BoD may establish other committees to be entrusted with special tasks.

Group Directives System

An integral part of Swiss Life's system of governance is the Group Directives System. It regulates the functional management throughout SL Group and defines the content-related and organizational principles, standards and topics.

The Group Directives System is arranged into Group topics and contains Group Directives, Group Guidelines and Group Instructions.

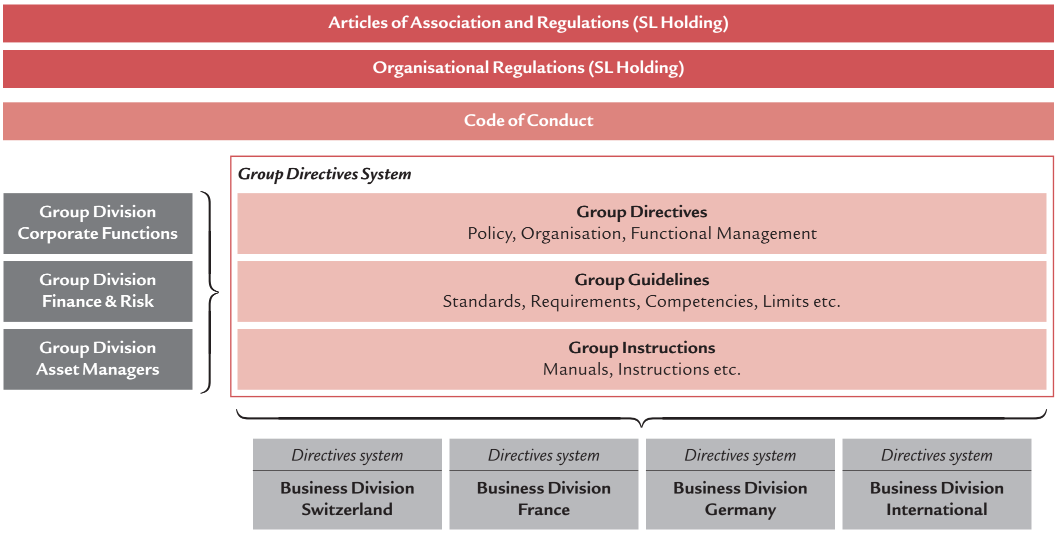
- Group Directives set out the content-related principles (policy) and requirements as well as organizational and functional management aspects (incl. authorities' framework).
- Group Guidelines follow on from the Group Directive and set out more detailed content-based requirements and topics, as well as the minimum standards.
- Group Instructions are based on the Group Directives and Group Guidelines and set out concrete instructions in the form of manuals, etc.

Following a standardized consultation process, involving management, functional stakeholders and responsible persons within the Business Divisions, the Group Directives and Group Guidelines are put into effect by the Group Executive Board.

The Business Divisions operate their own directives system and implement the content and objectives of the Group Directives and Group Guidelines, taking into account local laws and regulations as well as local business specifications.

Figure 2 depicts the hierarchy of regulations and the Directives system within Swiss Life Group:

Swiss Life regulations and directive system



SLLIE is included in the Business Division International, from a management perspective, which groups the insurance entities in smaller countries such as Luxembourg, Liechtenstein and Singapore as well as the distribution channels in the United Kingdom and Eastern Europe.

The system of governance is reviewed internally on a regular basis. It is the responsibility of the Corporate Internal Audit function to plan and perform the audit. Specifically, Swiss Life's Audit Charter defines that Corporate Internal Audit has to ensure the maintenance of an adequate corporate governance. For this purpose the appropriate processes have been defined based on Swiss Life's Audit Charter[1].

The processes include a planning phase where the relevant topics are identified, how the audit has to be performed and documented as well as the manner in which the results have to be reported.

These organisational structures ensure that the every material decision affecting the business is made by at least two people and it can be adapted to changes in strategic objectives or changes in the business environment.

The organisational structures are also mirrored locally by SLLIE.

[1] SLG 19 Audit Charter, p. 2

B.2 Fit and proper requirements

Swiss Life places great importance on ensuring that all persons who fulfil key functions are fit and proper for their position. For this purpose, SL Business Division/ Business Area follows a Human Resources (HR) Cycle based on Swiss Life-wide HR framework.

Therefore the HR cycle contains the following processes which are described in the respective internal policies and ensure the AMSB as well as employees' fitness and propriety:
- HR planning
- Hiring
- Performance measurement
- Salary review, bonus and nomination
- Human capital management (including development measures)
- Quality assurance (including personnel induced opportunities and risks assessment)
- Management/Leadership tasks

In addition to the above processes, Swiss Life established a Code of Conduct that outlines individual responsibilities, behaviour principles for all employees and additional responsibilities for members of management. Its purpose is to offer guidance for the interactions with each other and with all persons outside of Swiss Life with whom come into contact and serves as the basis for fulfilling the proper requirement. All Employees of Swiss Life Group and its entities must commit to the mission and the values of Swiss Life and comply with the values, principles rules and guidelines for the business activities as outlined in the Code of Conduct including adherence to local laws and regulations.

Swiss Life's Compliance function plays another important role in ensuring the propriety of employees. Not only is the function responsible that employees are educated about the Code of Conduct but also that relevant processes are in place in order to foster compliant behaviour, detect non-compliant behaviour and track and report Swiss Life's employees degree of compliance to standards and local laws and regulations.

SLLI ensures the fitness and propriety of its AMSB and employees in close alignment with SL Group. Group HR and Divisional HR organisations act in cooperation and involve where appropriate, their line management. Heads Divisional HR represent not only their Divisional/ Area organisation's interests but also the Group interests in the Group HR Board.

The list of key function holders is shown in the next table.

Key Function	Key Function Holder	Name	Outsourced [yes/no]
Risk management function	Head Finance & Risk	Günther Groll	No
Compliance function	Head Legal & Compliance	Christoph de Weck	No
Internal audit function	Chief Audit Executive	Erwin Bucher	Yes
Actuarial function	Head Actuarial Services	Günther Groll	No

B.3 Risk management system

SLLIE pursues an integrated, value-oriented risk management approach, involving both quantitative and qualitative elements. The goal is to protect customers' funds and ensure the best possible investment of risk capital, while complying with the regulatory requirements and taking into account the challenging economic conditions.

Risk management is a key component of Swiss Life's management process. The respective committees of the Corporate Executive Board and the Board of Directors monitor and take decisions in the area of risk management; these are then incorporated into the annual planning process of Swiss Life. On the one hand, they comprise qualitative assessments relating to the strategy, to operational risks and to the internal control system (ICS). On the other hand, quantitative elements, such as risk budgeting and investment strategy, are included in asset and liability management. Based on risk capacity and risk appetite and taking account of regulatory provisions, limits are set in Swiss Life for the financial risks incurred, according to which the investment targets are set.

Risk management tasks are performed at all levels within Swiss Life Group by corresponding bodies, such as the Investment and Risk Committee at the level of the Board of Directors of the Swiss Life Group and the Group Risk Committee at the level of the Corporate Executive Board.

Analogously, the Company performs these tasks on a local level.

Risk strategy

Swiss Life's risk strategy supports the business strategy and enables the company to grow in its businesses and markets in a sustainable and profitable way.

Swiss Life seeks to take on those risks inherent to the insurance and pension business, that are well understood and for which the expected return compensates the shareholder adequately, i.e. to assume those risks with which the associated cost of capital can be earned.

Other risks inherent to the business that cannot be avoided (e.g. operational risks) must be actively monitored and mitigated applying various techniques.

As a matter of principle, Swiss Life sets its risk appetite, i.e. how much risk it is willing to assume, in consideration of its risk capacity. The risk appetite shall not exceed the risk capacity, i.e. the amount of risk that can be taken in order to run the business in a sustainable way.

Risk management objectives

Key components of risk management are the systematic identification, analysis, assessment, monitoring and management of risks as well as their reporting.

Risk strategy techniques

For the management of risks, the following techniques are applied at Swiss Life:
- Risk avoidance is the systematic avoidance of undesired risks (those expected not to compensate the shareholder adequately). Since some of them are connected with desired risks, the below mentioned techniques are applied subsequently;

- Risk mitigation is the systematic reduction of existing risks. This can be achieved, e.g. by hedging undesired exposures through purchase of financial instruments or by the implementation of controls;
- Risk diversification reduces risks by accepting risks, which are similar but not fully correlated. The overall risk is then lower than the sum of the individual risks;
- Risks are limited by setting thresholds so that the potential loss is limited, e.g. by limiting the equity exposure or by limiting the size of insurance coverage granted;
- Risk transformation is changing the character of an existing risk, e.g. through the purchase of re-insurance cover;
- Risk acceptance is the conscious decision to accept a risk, if necessary after application of the above risk techniques.
- The application of these techniques varies by risk type and combinations of them may be required in addressing specific risks.

Risk governance – Guiding principles

Responsibility for managing risks is an integral element of all roles and activities throughout Swiss Life. Key principles are:
- *Ownership and accountability:* roles and responsibilities and minimum control standards for risk takers and risk controllers are clearly defined and communicated;
- *Compliance with regulatory requirements:* external legal and regulatory requirements must be met at all times and in an efficient manner;
- Coordination and reliance among different assurance functions, e.g. ongoing exchange between Risk, Compliance and Audit;
- *Independence:* clear separation between risk taking and risk controlling/assurance functions while maintaining strong links to the business.

Risk governance – lines of defence

Swiss Life's organizational structure can be viewed as three «lines of defence» ensuring independent risk monitoring and control activities.

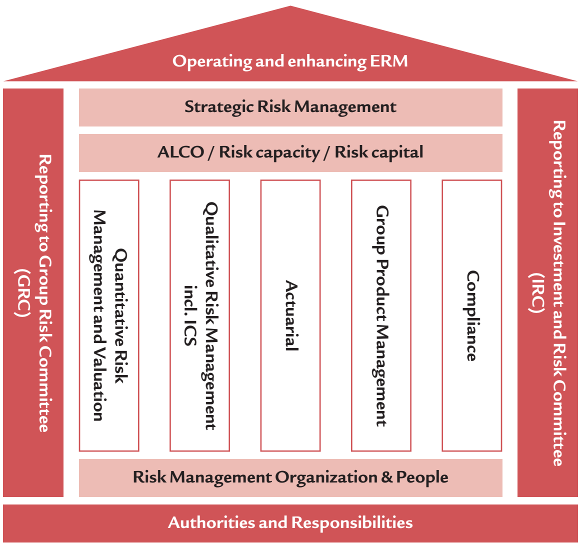
The first line of defence is the responsibility of the business (risk takers) and includes (but is not limited to):
- Senior management
- Process owner
- Control owner

The second line of defence concerns those responsible for risk oversight and risk guidance (risk controller i.e. risk measurement / monitoring) including the corresponding reporting:
- Risk management functions
- Compliance
- Other control functions

The third line of defence is independent assurance of the effectiveness and efficiency of risk management processes (among others). This assurance is the responsibility of:
- Internal audit
- External audit

Risk management framework

The risk management framework as depicted in the table below serves to operate and enhance the Group's enterprise risk management (ERM) and to achieve the stated goals. The authorities and responsibilities are defined in the Articles of Association and Regulations, in the Organisational Regulations of SL Holding and in the directives systems. They provide the foundation to operate the Group's ERM. The boards and committees as well as the organization were described previously.



Quantitative risk management and valuation

The emphasis in the framework for the quantitative risks is put on the insurance businesses and relies on economic principles.

If possible and meaningful, risks are measured and quantified (quantitative risk management). Otherwise a qualitative assessment for the identified risks has to take place (covered by the qualitative risk management directive).

Risks should be quantified as far as possible, based on generally accepted methods. Risk valuation models are not static and have to be continuously improved.

Different forms of financial terms may occur:

- Preferably risk is measured according to probabilities and the corresponding extent of negative drawdowns;
- Possibly risk is measured as the impact of specific scenarios with an assigned probability that is subject to experience and judgement.

The methods to assess the individual quantitative risks are outlined in the guidelines on quantitative risk management:

- *Market risk:* Interest rate risk (covering also Asset and Liability Management (ALM) risk and interest rate spread risk), equity risk, currency risk, real estate and alternative investment risk;
- *Credit risk:* Migration risk (covering also default risk), concentration risk (with respect to counterparty, industry and geography);
- *Insurance risk:* Mortality, longevity, disability, recovery, surrender, costs, capital option

– Liquidity risk (especially funding risk) is covered within the ALM process by stress scenarios. Liquidity is continuously monitored by a liquidity plan and liquidity reporting. In addition liquidity stress test are conducted on a quarterly basis.

The aggregation of market, credit and insurance risks to the economic risk capital takes the effect of extreme scenarios (financial as well as biometric and combined ones) as well as diversification effects into account.

The liabilities and the corresponding assets of the insurance business are projected based on economic scenarios over a long time horizon. In this projection, management rules, such as rules on profit sharing between policyholder and shareholder are applied. The expected shareholder value under these scenarios contributes to the risk capacity as do other forms of capital such as hybrid debt. By stressing the economic scenarios or parameters applied in the projection, sensitivities to financial market changes or to insurance parameters are derived.

The unit-linked contracts on policyholders' account are considered on a net cash flow basis and are subject to insurance, market and credit risk.

The quantification for these is done in terms of economic risk capital that reflects the potential loss in adverse situations over a one-year period, based on the risk drivers identified for each business. This capital needed has to be covered by risk bearing capital, and the ratio corresponds to the coverage or the economic solvency.

Qualitative risk management
The qualitative risk management covers strategic risks, emerging risks and operational risks. In these areas, the risks are difficult to quantify or a general quantification approach is not established yet in the insurance sector. Where appropriate, the identified risks are addressed by the internal control system (ICS).

Strategic Risk
Swiss Life uses analytical methods to ensure that strategic risks are dealt with adequately in what continues to be a very challenging economic environment. In its strategic risk management process, Swiss Life incorporates all the information on risks and the risk/return characteristics in its strategic decisions. A thorough understanding of the interplay of individual risks is essential to take into account the factors influencing risks during strategy development so that these factors can be steered appropriately.

Emerging Risk
With emerging risk management, newly developing or changing risks and their influence on the existing risk environment are monitored and analysed. Emerging risk is a dedicated risk category, which has strong interaction with other risk types such as insurance risk such as mortality, longevity and disability. Often, consequences of emerging risks are influencing triggers of other risk types in both ways, positive or negative. From a risk management perspective, those consequences, which have an impact on the business have to be analysed, understood and monitored over time. The result of the analysis is considered in the strategic risk management process.

Operational Risk

Operational risk is an inevitable consequence of being in business. The aim is not to eliminate every source of operational risk but to provide a framework that supports the identification and assessment of all material operational risks and potential concentrations in order to achieve an appropriate balance between risk and return. Sound operational risk management (which includes information security and IT risk management as well as business continuity management) and an effective ICS are an integral part of creating sustainable value for shareholders.

The Swiss Life's ICS framework is described in chapter B.4.

Risk steering and Swiss Life's comprehensive system of limits

Swiss Life has set up a comprehensive system of limits to capture and reflect the nature of the underlying risks.

Quantitative Risk

- The risk appetite is set on BoD level by the IRC and is expressed as Swiss Solvency Test (SST) ratio limit for Swiss Life Group and for Swiss Life AG;
- This risk appetite is cascaded down through unit specific SST ratio limits (which ensure in aggregate adherence to the SST ratio limit for Swiss Life AG) set by the GRC and specific risk capital and exposure limits for units set by the ALCO;
- For credit risk, rating-dependent exposure limits avoid concentration risk of counterparties;
- Monitoring is performed through two key reports on both unit and consolidated level. As part of ALCO process, additional local constraints (e.g. SII, tied asset coverage, etc.) are monitored and managed locally;
- Within the asset managers division, additional limits (including monitoring) are established to operationalize ALCO limits and to therefore ensure adherence to the ALCO and – ultimately – SST limits.

Qualitative Risk

- Strategic and operational risks have quantitative risk tolerance levels and thresholds.

Actuarial

- Insurance risk is managed through an underwriting case process with limits and thresholds.

Product Management

- Profitability hurdle rates on unit and product level trough pricing policy;
- Local product developments exceeding certain thresholds are subject to a Group approval process.

Risk Management Function

The Risk Management Function is not isolated but an integral part of the overall management activities of SLLIE as it is within Swiss Life Group.

It should not only analyse the developments of the past but should also provide the senior management with the analysis of future risk aspects.

SLLIE's Risk Management Function is headed by the local Head Finance & Risk.

The responsibilities of the local Head Finance & Risk in the context of quantitative risk management are:
- ensuring the establishment of an appropriate risk management in the relevant unit;
- processing and solving risk management issues within the relevant unit;
- representing the relevant unit in risk management issues within and outside the company in consultation with Group Risk;
- reporting according to the instructions of the Group Risk which are outlined in the guideline on risk reporting;
- implementing the respective requirements of the Group directives and guidelines into their directives system by taking into consideration local law, local specifications and business activities;
- ensuring that the necessary human resources are available in terms of numbers, skills, knowledge, and experience.

The final functional management is in the responsibility of the Group Chief Risk Officer ("CRO"). The risk functions are established at Group and SL Business Division/ Business Area level with the respective responsibilities. The Group and local risk functions support the risk management bodies (GRC and IRC) and ensure the adherence to and the compliance with the respective Group and local directives.

Own Risk and Solvency Assessment (ORSA)
Pursuant to Art. 45 of the Solvency II Directive, SLLIE performs the Own Risk and Solvency Assessment (ORSA) which is embedded Company's decision-making and risk management process.

The ORSA consists of a forward-looking assessment of the Company's risk and solvency position over the planning period, comprising:
- An assessment of the continuous compliance with the SCR and Technical Provisions;
- An assessment of the significance of the deviations between the Company's own risk profile and the assumptions underlying the Solvency II Standard Formula;
- An assessment of the Overall Solvency Needs (OSN) taking into account the Company's risk profile and risk tolerance limits.

The quantitative assessment of the OSN is performed by taking the results of scenario- and stress-tests into account and is supplemented by a qualitative description of the Company's risk profile. The OSN assessment covers all material risks the Company is exposed to and is performed considering a number of scenarios. Those are defined by the AMSB consistently with the Company's risk profile taking into account a range of developments relevant for the business such as changes in the economic environment, the resulting evolvement of the risk profile and projected management decisions in accordance with the business strategy.

The ORSA is an integral part of the risk management of SLLIE and is embedded in the decision-making process of the Company. The results of the ORSA are an input to the strategic mid-term planning (MTP) process, which sets strategic direction of the Company over a three year horizon.

The ORSA is performed at least on an annual basis in accordance with the schedule of the MTP process. In addition, a non-regular ORSA might be required in case of specific internal or external events (e.g. the start-up of a new line of business, portfolio transfers or major changes in the asset structure or financial market conditions). The results of the ORSA are included in the ORSA.

In 2016, the Company produced its second official ORSA report duly approved by the Board of Directors.

B.4 Internal control system

Swiss Life's internal control system (ICS) consists of the entirety of procedures, methods and measures prescribed by the Board of Directors and the Corporate Executive Board to ensure the orderly conduct of business. The focus is on the reliability of financial reporting, the effectiveness of business processes and compliance with laws and regulations issued to protect the company's assets.

Swiss Life Group established an effective ICS as part of the overall qualitative risk management to mitigate financial reporting risks, compliance risks and operational risks. Swiss Life's ICS essentially comprises the following parts as outlined in the ICS Group Guideline: the ICS framework, the internal control management process and the associated roles and responsibilities.

The ICS framework contains the description and documentation of:
- process-level control measures (measures implemented in business process to mitigate financial reporting, operations and compliance risk)
- entity-level control measures (measures implemented to control compliance with external and internal laws, regulations and standards),
- the IT control framework (framework to ensure completeness, accuracy and integrity of business transactions which are performed or supported by applications) and
- minimum requirements for end-user computing tools.

SLLIE implemented and operates the ICS locally within the standards of SL Group. The ICS comprises the ICS framework, the internal control management process and the associated roles and responsibilities.

Description of the Compliance Function

The objective of the Compliance Function in SLLIE is to ensure:
- a conduct that ensures compliance with legal and regulatory requirements and other external or internal regulations at all times;
- the identification and avoidance of compliance risks, and thus of respective consequences, above all potential impacts on Swiss Life's reputation;
- a prudent management at all times

by defining the necessary compliance standards and respective processes for all areas of Swiss Life Group, supporting both employees and management in the implementation and enforcement thereof. Moreover, the role of local compliance is prescribed to encompass the local regulatory requirements of Solvency II[2].

Group compliance standards have been developed to ensure the implementation and enforcement of material compliance topics, in accordance with the locally applicable legal and regulatory requirements[3]. The compliance function ensures at every functional level adherence to the Group directives system described in chapter B.1.

[2] Risk Charter p. 12
[3] SLG 8.2 Compliance Standards

SLLIE defines the reporting line between the local Head of Compliance and the local Management while taking into consideration the independence of the function as second line of defense. In addition, the local Head of Compliance has a functional reporting line to the Group Head of Compliance.

SLLIE's Compliance Function is owned by the Head of Compliance & Controls. This function is geared toward 5 different pillars for which the department is responsible for performance and reporting to the local CEO and the divisional Head of Legal & Compliance:
- Compliance with the regulation against money laundering and the terrorisme financing
- Qualitative Risk management (including the management of the ICS)
- Compliance Audits & Controls
- Regulatory Compliance including tax reporting activities (FATCA/CRS)
- Special Investments in the context of the Private Wealth business (private equity investments)

B.5 Internal audit function

The Internal Audit Function is performed by the Corporate Internal Audit of the Swiss Life Group in conjunction with the Audit Committee of the Group. By doing so, the Company ensures that:
- Appropriate resources are allocated to the task
- Recognised internal audit standards are applied and fulfill the requirements of the law such as audit plan definition, adequate reporting of audit findings and recommendations
- A follow-up process is in place through effective tracking tools.
- Decisions of the Board of Directors of the Company comply with previous recommendations.

B.6 Actuarial function

The local Head of Actuarial Services ensures at all time that the actuarial function is carried out by persons who have an adequate knowledge and understanding of the written insurance business, stochastic nature of insurance, the risk inherent in assets and liabilities, as well as an understanding of the use of statistical models commensurate with the sophistication of the methodologies and models applied by Swiss Life Group. The deepness of the knowledge required depends on the organisational level they belong to.

The Actuarial Function at Swiss Life is defined in the following organisational levels:
- Group Actuarial Services
- Appointed Actuary
- Actuarial Board
- Actuarial Organisation and local Actuarial Services

The local Head Actuarial Services represents the Actuarial Function.

Actuarial Board

The Actuarial Board consists of the Group Chief Actuary (Chairman), the local Chief Actuaries and the Appointed Actuaries. The Board approves Actuarial Directives, Guidelines and Instructions from a functional point of view according to the Group Directive system.

Local Chief Actuary

The local Chief Actuary is responsible for performing all actuarial functions of the "Business Division" without any statutory duties in contrast to the Appointed Actuary. The local Chief Actuaries and Appointed Actuaries are members to the Swiss Life Actuarial Board.

The local Chief Actuary has to ensure the appropriateness of the Divisional Actuarial Function Guidelines and the alignment with all local specific legal and regulatory requirements. As an Actuarial Function the local Chief Actuary is responsible for assessment of the technical provisions according to Solvency II principle, the assessment of reinsurance and underwriting policy regarding their appropriateness. An adequate segregation of responsibilities established within the organizational structure ensures that the person performing actuarial tasks are not simultaneously responsible for the execution and for the providing an option on the adequacy of the execute item.

B.7 Outsourcing

A Group Outsourcing Guideline defines outsourcing requirements throughout the Swiss Life Group. It regulates the outsourcing to an external service providers and describes the outsourcing process at Swiss Life and has been implemented accordingly by SLLIE.

Prior to the outsourcing of critical or important functions or activities as well as of any subsequent material developments with respect to those functions or activities, the outsourcing SL entity has to notify Group Qualitative Risk Management.

In case of outsourcing of a critical or important functions such as risk management, compliance, internal audit or actuarial, the Company has to ensure the fitness and propriety of all persons working on that function. The outsourcing has to be approved by the Group Executive Committee or the Divisional Executive Committee.

The Company maintains an inventory about all outsourcings (internal and external) which contains information about the classification ("critical and / or important activity or function"), the performance evaluation and the impact on Swiss Life, in case the service is not delivered as agreed (risk assessment).

The Company has two critical outsourcings (IT infrastructure management and outsourcing of HR payroll administration) which both have the appropriate formal agreements and are monitored closely.

C Risk Profile

Risk is defined as the potential danger of an actual result deviating adversely from the expected result. If meaningful, material risks must be measured and quantified. If a risk cannot be quantified, a qualitative assessment needs to be done.

When measured, the risks are assessed by their contribution to the SCR applying the standard formula from the Directive 2009/138/EC. In other cases, when this is not possible, the risks are identified, assessed and managed through the Company's qualitative risk management framework including the internal control system.

The detailed results from the Solvency II standard formula are given in section E.2. As a summary, the main risks for the Company are the market risk, more specifically equity and spread risk, and the life underwriting risk due to lapse risk.

The Company invests its assets according to the 'prudent person principle' as presented in Article 132 of Directive 2009/138/EC:

The general assets (i.e. not covering unit-linked contracts) are invested in regulated financial markets and no use of derivatives was made over 2016.

The unit-linked investments follow the investment strategy provided in the contract conditions chosen by the policyholder. Moreover, the valuation processes in place aim at limiting any discrepancy in value between the technical provisions and the covering assets.

C.1 Underwriting risk

Insurance risk refers to the risk of a loss based on deviation between the expected costs for claims and benefits and the actual costs as a result of accident, error or change of circumstances.

Insurance contracts are contracts under which one party (the insurer) agrees to compensate the other party (the policyholder) if a specified uncertain future event affects the policyholder. The Group's insurance entities neither generally accept nor generally deny insurance coverage to applicants, but ensure that all the insurance risks are identified and thoroughly assessed, and that the insurance premiums accurately reflect the risk taken. The amount and type of risk taken must be in line with the Group's risk policy and strategy, and must also meet the profitability targets.

Embedded options

The ability of a policyholder to pay reduced or no future premiums under a contract, to terminate the contract completely or to exercise a guaranteed annuity option means that the insurer's liability is also subject to policyholder behaviour to a certain extent. On the assumption that a certain group of policyholders will make decisions rationally, overall insurance risk can be aggravated by such behaviour.

Underwriting strategy

Underwriting is the process of selecting and classifying insurable risks. The underwriting strategy attempts to ensure that the risks underwritten are profitable and well diversified in terms of type of risk and level of insured benefits. Life insurance underwriting is performed to ensure that the premiums and the general conditions of the insurance policies are adequate for the risks to be insured.

Measures to assess the material risks
Insurance Risk is regularly measured based on the Solvency II Standard Formula and its assessment is part of the ORSA process of the Company.

Material risk exposure (incl. material changes)
Due to the nature of its portfolio and unit-linked products, SLLIE is exposed to underwriting risk mainly by lapse risk linked to the policyholder behaviour.

Expense risk exists in all insurance companies and arises when the loadings are not sufficient to cover the administration expense basis. Expense risk is the second largest underwriting risk.

Biometric risks such as mortality have a limited risk contribution due to the reinsurance program in place and the nature of the products with only legally required death coverage.

C.2 Market risk

Market risk refers to the risk of a loss due to changes in the financial position, which, directly or indirectly, arise from fluctuations in the level and/or volatility of market prices for assets, liabilities or financial instruments. Market risk includes the risk of currency rate changes.

In the context of SLLIE, market risk is mainly due to a potential decrease in future profits due to adverse market developments. This is a consequence of the fact that market risks are borne by policyholders for the majority of the Company's portfolio.

Measures to assess the material risks
Market Risk is regularly measured based on the Solvency II Standard Formula and its assessment is part of the ORSA process of the Company.

Material risk exposure (incl. material changes)
SLLIE's Market Risk is mainly driven by currency risk resulting from the fact that the currencies of the insurance contracts are mostly different from the reporting currency CHF.

Furthermore, Market Risk is explained by equity and spread risk which are the second largest ones due to the unit-linked portfolios invested in equity, bonds, equity and fixed income funds.

Interest rate risk is not material as the durations of the liabilities and their covering assets are matched.

C.3 Credit risk

SLLIE is exposed to Credit Risk, which is the risk due to the uncertainty in a counterparty's ability to meet its contractual obligations. Key areas are:
– Counterparty risk with respect to money market and cash positions
– Reinsurance share of insurance liabilities
– Amounts due from reinsurers in respect of claims already paid

Measures to assess the material risks
Credit risk is regularly measured based on the Solvency II Standard Formula and its assessment is part of the ORSA process of the Company.

Material risk exposure (incl. material changes)
As of YE16, the Company is exposed to credit risk custodian accounts of a policy which are held at in the name of SLLIE by custodian banks. Furthermore, credit risk arises on the reinsurance treaties in force as of YE16.

C.4 Liquidity risk

Liquidity Risk means the risk that SLLIE is unable to realise investments and other assets in order to settle their financial obligations when they fall due.

Measures to assess the material risks
Liquidity Risk is assessed as not material due to the business model of the Company. In terms of unit-linked policies, a certain minimum level of cash is always available in the policy accounts to earn the admin fees and mortality risk premiums, allowing to face liquidity risk.

Material risk exposure (incl. material changes)
As of YE16, the Company is not subject to material liquidity risk exposures.

C.5 Operational risk

Operational Risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes Outsourcing and Legal Risks but excludes risks arising from strategic decisions and reputational risks.

Measures to assess the material risks
Operational risk is regularly measured based on the Solvency II Standard Formula and its assessment is part of the ORSA process of the Company.

Material risk exposure (incl. material changes)
As of FY16, the Company is exposed to material operational risk related to the business, which can therefore not be avoided. These include negative developments in the political / tax environment and loss of key skills or employees.

C.6 Other material risks

Besides the risks discussed above, the Company is exposed to the risks which arise as a consequence of the cross-border nature of the business. These are related to external regulatory or market factors (e.g. change in political or tax environment) that would unfavourably change the SLLIE's ability to maintain or develop its activities in the areas where the business is currently conducted.

C.7 Any other information

Risk concentration

The company has no material exposure to concentration risk as of FY16.

Risk mitigation

Reinsurance

Reinsurance is used to limit the exposure to insurance risk. This does not, however, discharge the liability as a primary insurer, and, if a reinsurer fails to pay a claim, the Company remains liable for the payments to the policyholder. A loss allowance would be recognised for any estimated unrecoverable reinsurance.

SLLIE's management reviews reinsurance programmes covering treaty, type, risks covered and retention on a regular basis. A process, competencies and limits are set up for the approval of reinsurance programmes and their modification. To ensure that the Group's principles are observed, guidelines on reinsurance are in place.

In accordance with its retention policy for mortality, the Company limits its exposure to CHF 5 million per life.

Other risk transfer

Risk transfer primarily takes the form of reinsurance. Alternative forms of risk transfer (such as securitisation) require the formal approval of the Group Risk Committee. No significant alternative form of risk transfer is used by the Company at present.

Insurance risks are regularly reported to the Group Risk Committee.

Risk sensitivities

The assessment of risk sensitivities is a key element of the Company's ORSA, where a number of stress-, scenario and reverse stress tests are performed. These are performed based on assumptions related to the development of assets and a liabilities, taking the risk profile of SLLIE into account. The outcome of this analysis is used as a basis to identify the key risks the Company is exposed to and is integrated in the MTP process through the ORSA.

D Valuation for Solvency Purposes

D.1 Assets

According to Article 75(1)(a) of Directive 2009/138/EC all assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction, that means with their fair values.

The overview of the Company's assets reported in the Solvency II balance sheet as of YE2016 is shown below. For more detailed information on the asset breakdown, refer to template S.02.01.02 in the annex.

In CHF million

ASSETS	
Investments (other than assets held for index-linked and unit-linked contracts)	42.8
Assets held for index-linked and unit-linked contracts	4 861.0
Reinsurance recoverables	1 309.5
Cash and cash equivalents	22.9
Other assets	2.9
Total Assets	**6 254.7**

A hierarchy of valuation methodologies is prescribed by Solvency II in Art. 10 of Commission Delegated Regulation EU 2015/35 for the valuation of assets. As a default valuation method, quoted market prices in active markets shall be used. If this is not possible, alternative approaches shall be used. The bases, methods and main assumptions used for the valuation of assets for solvency purposes are given below for the material asset classes, together with an explanation of material differences compared to the statutory valuation.

Investments (other than assets held for index-linked and unit-linked contracts)

SLLIE investments as of YE2016 mainly consist of bonds and deposits. Both assets classes are valued according to their market value as reported for IFRS purposes. Differences compared to statutory financial statements arise due to bonds being valued at amortized cost for statutory reporting purposes.

Assets held for index-linked and unit-linked contracts

Assets held for index-linked and unit-linked contracts are valued as the market value of the underlying investments as reported for IFRS and statutory reporting purposes.

Reinsurance recoverables

The value of the reinsurance recoverables corresponds to the amount of gross Solvency II best-estimate technical provisions which is reinsured according to the underlying reinsurance treaties (D.2).

Cash and cash-equivalents, other assets

Cash and cash equivalents and other assets are valued according to their nominal value. Differences compared to statutory financial statements arise from goodwill and intangible assets being valued to zero pursuant to Art. 12 of Commission Delegated Regulation EU 2015/35.

Reconciliation of assets

The reconciliation of assets recognized for statutory and Solvency II purposes is shown in the table below.

In CHF million

	2016
Statutory assets	**6 310.8**
Goodwill and intangible assets valuation	**-13.7**
Bond valuation	**1.2**
Valuation of reinsurance recoverables	**-43.7**
Solvency II assets	**6 254.7**

D.2 Technical Provisions

The overview of the Company's technical provisions reported in the Solvency II balance sheet as of YE2016 is shown below. For more detailed information on the breakdown, refer to template S.12.01.02 in the annex.

In CHF million

	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance
Best estimate	17.2	6 025.1	3.1
Risk margin	0.1	20.1	0.0
Technical provisions	17.3	6 045.1	3.1

Solvency II valuation

The valuation of technical provision is set out in the Delegated Acts, Art. 17 to 61. Technical provisions either constitute of the best estimate and the risk margin or are calculated as a whole. Both methods are described in detail below. The same approach is used for the valuation of reinsurance recoverables.

According to Delegated Acts, Art. 55, technical provisions have to be calculated separately for the relevant LoB. The calculation of technical provisions shall make use of and be consistent with information provided by the financial markets and generally available data on underwriting risks (market consistency).

The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. The calculation of the best estimate is based upon up-to-date and reliable information and realistic assumptions and performed using adequate, applicable and relevant actuarial and statistical methods. The best-estimate is calculated gross of reinsurance recoverables.

The calculation of the best estimate is performed using a cash-flow valuation model in order to project future cash-flows related to premium, claims, expenses related to the Company's insurance obligations. Those cash-flows are derived based on assumptions about future mortality, policyholder behaviour, expenses and future evolution of the financial markets. The cash-flows are discounted using the relevant risk-free interest rates provided by EIOPA.

The risk margin is such as to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. It reflects the cost of holding regulatory capital. Pursuant to the Solvency II Directive, the calculation of the risk margin is based on a projection of future the future Solvency Capital Requirements under the assumption that the insurance portfolio of SLLIE is transferred to another insurance company.

Transitional and long-term guarantee measures
SLLIE does not use the Volatility Adjustment referred to in Art. 77b of Directive 2009/138/EC nor the transitional measures referred to in Art. 308c and Art. 308d of the same Directive.

Reconciliation of Technical Provisions
The difference between the Solvency II and statutory value of life technical provisions (excluding unit-linked business) as of YE16 is shown below.

In CHF million

	Solvency II	Statutory
Best estimate	20.3	20.3
Risk margin	0.1	-
Total	**20.4**	**20.3**

The only difference between the statutory and Solvency II value of technical provisions for non-unit linked business is therefore given by the Risk Margin (which does not exist in the statutory framework). The Best Estimate of technical provisions is assumed to be equal to the statutory value thereof (i.e. no revaluation takes place) as this business is considered to be immaterial compared to the remaining part of the Company's portfolio as of YE16. This simplification has been chosen by the Company pursuant to Art. 56 of Commission Delegated Regulation EU 2015/35.

The difference between the Solvency II and statutory value of life technical provisions for unit-linked business is as of YE16 is shown below.

In CHF million

	Solvency II	Statutory
Best estimate	6 025.1	6 141.3
Risk margin	20.1	-
Total	**6 045.1**	**6 141.3**

Besides differences arising from the Risk Margin (see above), material differences between the Solvency II best estimate and the statutory value of liabilities are due to future profits being recognized in the Solvency II balance sheet. These are calculated with the same approach used for the PVFP valuation for the Market Consistent Embedded Value.

Level of uncertainty in the amount of the technical provisions
Random annual fluctuations of the insurance benefits, the lapse behaviour of policyholders and the profit participation rules could lead to portfolio variation. Pandemic events can have also significant on-off effects on the insurance benefits. Furthermore, changes in policyholder biometrics or lapse risks lead to high level of uncertainty of technical provisions. Thus the actuarial assumptions have to be reviewed anually.

Recoverables from reinsurance contracts
The reinsurance recoverables as of YE16 are related to reinsurance contracts which are in place and cover the guarantees on a portion of the unit-linked portfolio of the Company.

The requirements regarding the treatment of recoverables are outlined in Delegated Acts, Art. 41 and 42. In particular, the calculation be consistent with the principles and methodologies used for the valuation of the underlying technical provisions. As of YE16, the value of reinsurance recoverables is equal to the portion of gross technical provisions which is ceded by SLLIE to the reinsurer. As a result, the valuation is based on the same methods, models and assumptions used for the valuation of the Company's technical provisions.

D.3 Other Liabilities

The overview of the Company's other liabilities reported in the Solvency II balance sheet as of YE16 is shown below.

In CHF million

	2016
Provisions other than technical provisions	19.1
Pension benefit obligations	1.6
Deferred tax liabilities	4.8
Insurance and intermediary payables	60.8
Payables (trade, not insurance)	13.3
Subordinated liabilities	5.0
Any other liability, not elsewhere shown	4.6
Total other liabilities	**109.2**

The valuation of other liabilities for solvency purposes is discussed below together with the main differences compared to the statutory valuation.

Provisions other than technical provisions
Provisions other than technical provisions are are provisions due to ongoing and/or expected litigation cases. They correspond to the undiscounted settlement value according to IFRS.

Pension benefit obligation
The pension benefit obligation is recognized at its IAS19 value under IFRS as prescribed by Solvency II. This liability is not recognized in the statutory balance sheet.

Deferred tax liabilities
Pursuant to Art. 15 of the Delegated Acts, DTLs are recognized in relation to all assets and liabilities recognized for solvency or tax purposes. The value of DTLs is determined based on the valuation differences between the market consistent values according to Solvency II and values used for tax purposes assuming a tax rate of 12.5%.

Insurance and intermediary payables
Insurance & intermediaries payables mainly consist of pending benefits of insurance contracts and are valued with their surrender value as for statutory purposes.

Payables
Payables are measured with the settlement value which corresponds to the values according to IFRS and statutory accounting. They mainly consist of short-term liabilities against associate companies and other creditors.

Subordinated liabilities
Subordinated liabilities are measured with the settlement value which corresponds to the Statutory and IFRS value.

Any other liabilities
Any other liabilities are measured with the settlement value which corresponds to the values according to IFRS and statutory accounting. They mainly consist of accruals for liabilities.

Reconciliation of other liabilities
As discussed above, the only differences between other liabilities recognized for solvency and statutory purposes as of YE16 arise from the recognition of pension benefit obligations and deferred tax liabilities in the Solvency II balance sheet.

In CHF million

Other liabilities	2016
Statutory value	**102.8**
Pension benefit obligation	**1.6**
Deferred tax liabilities	**4.8**
Solvency II value	**109.2**

D.4 Alternative methods for valuation

SLLIE applies no alternative methods for valuation as of YE16.

E Capital Management

E.1 Own Funds

Capital management is included in the yearly planning ORSA process. For the planning process, at least three scenarios are defined at group level that are analysed in terms of capital management. Over a time horizon of three years, the different scenarios are analysed in depth to foresee future capital management actions.

The quantitative information contained in this section refers to template S.23.01.01 shown in the annex. The Own Funds are classified in Tiers pursuant to Solvency II regulations to reflect their quality, with Tier 1 being of highest quality and made up of items which fully absorb losses to enable the Company to continue as a going concern. Own Fund items which do not satisfy the conditions to be classified as Tier 1 but are still available to absorb losses can be classified as Tier 2 and Tier 3 items provided that they satisfy the relevant conditions set by Solvency II. As of YE16, all Basic Own Fund Items of SLLIE are classified as Tier 1 except for a subordinated loan classified as Tier 2.

The composition and quality of the Basic Own Funds of SLLIE as of YE16 is shown in the next table.

In CHF million

Basic Own Funds	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3	**Total**
Ordinary share capital	5.0	-	-	-	**5.0**
Share premium account	35.8	-	-	-	**35.8**
Reconciliation reserve	36.2	-	-	-	**36.2**
Subordinated liabilities	-	-	5.0	-	**5.0**
Total Basic Own Funds	**80.0**	**-**	**5.0**	**0.0**	**85.0**

As of YE16, the total Basic Own Funds are eligible to cover the Solvency Capital Requirement of SLLIE, as shown in the table below.

In CHF million

	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3	**Total**
Total Eligible Own Funds to meet the SCR	80.0	-	5.0	-	**85.0**

The amount and composition of the eligible Own Funds to cover the Minimum Capital Requirement as of YE16 are shown below.

In CHF million

	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3	**Total**
Total Eligible Own Funds to meet the MCR	80.0	-	4.4	-	**84.4**

Only 4.4 mCHF of the subordinated loan are eligible to cover the MCR due to the quantitative limits set by Art. 82 of the Delegated Acts on Tier 2 items, whose eligible amount is capped at 20% of the MCR.

Material differences between equity shown in the financial statements and the excess of assets over liabilities as calculated for Solvency II purposes arise from different rules and regulations for valuation and consideration of balance sheet items (see chapter D). The reconciliation between statutory equity and the excess of assets over liabilities in the Solvency II balance sheet as of YE16 is shown below.

In CHF million

	2016
Statutory Equity	**46.4**
Valuation of Technical Provisions and reinsurance recoverables	**+52.4**
Goodwill and intangible assets	**-13.7**
Deferred tax liabilities	**-4.8**
Other adjustments	**-0.4**
Excess of assets over liabilities for solvency purposes	**80.0**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR is calculated based on the Solvency II Standard Formula. The next table shows the amount of SCR for SLLIE as of YE16.

In CHF million

	2016
Basic SCR	**51.6**
Adjustment for the loss absorbing capacity of technical provisions	**-**
Adjustment for the loss absorbing capacity of deferred taxes	**-7.0**
Operational risk	**4.0**
SCR	**48.6**

The amount of SCR by risk module as of YE16 is shown below.

In CHF million

SCR for market risk	14.9
SCR for counterparty default risk	25.0
SCR for life underwriting risk	31.6
Basic SCR	51.6

The highest insurance risks are related to the loss in future income which would be faced by SLLIE in case of a significant lapse event in the underlying portfolio. Counterparty risk arises mainly from ceded insurance portfolios and the assets for unit-linked policies held at custodian banks.

The Minimum Capital Requirement is calculated based on the standard model. In the end, the cap from the SCR is defining the required level of Minimum Capital Requirement (45% of the SCR).

In CHF million

	2016
Linear MCR	**33.4**
Floor	**12.2**
Cap	**21.9**
Combined MCR	**21.9**
Minimum guarantee fund	**3.9**
MCR	**21.9**

SLLIE applies no simplified calculations for the Standard Formula SCR nor uses undertaking specific parameters as of YE16.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

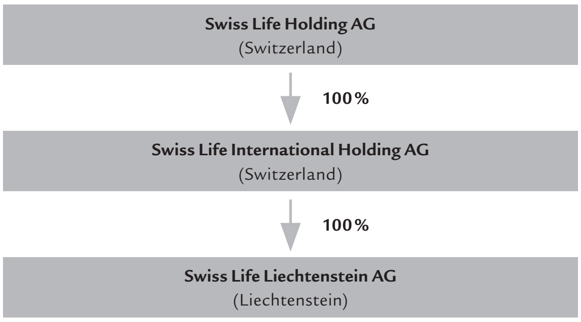
SLLIE does not use the duration based equity risk sub-module.

E.4 Differences between the standard formula and any internal model used

The figures shown in the previous chapters show that SLLIE is compliant with the regulatory requirements in terms of compliance with the MCR and SCR.

Annex

Holding structure



S.02.01.02 Balance sheet

in thousand CHF		Solvency II value
		C0010
ASSETS AS OF 31 DECEMBER 2016		
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	42 810
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	100
Equities	R0100	0
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	R0130	36 231
Government Bonds	R0140	6 490
Corporate Bonds	R0150	29 741
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	6 479
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	4 861 005
Loans and mortgages	R0230	135
Loans on policies	R0240	135
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	1 309 473
Non-life and health similar to non-life	R0280	0
Non-life excluding health	R0290	0
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	13 947
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	13 947
Life index-linked and unit-linked	R0340	1 295 526
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	2 123
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	13 352
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	22 880
Any other assets, not elsewhere shown	R0420	2 902
TOTAL ASSETS	R0500	**6 254 680**

S.02.01.02 Balance sheet (continued)

in thousand CHF		Solvency II value
		C0010
LIABILITIES AS OF 31 DECEMBER 2016		
Technical provisions – non-life	R0510	0
Technical provisions – non-life (excluding health)	R0520	0
TP calculated as a whole	R0530	0
Best Estimate	R0540	0
Risk margin	R0550	0
Technical provisions – health (similar to non-life)	R0560	0
TP calculated as a whole	R0570	0
Best Estimate	R0580	0
Risk margin	R0590	0
Technical provisions – life (excluding index-linked and unit-linked)	R0600	20 412
Technical provisions – health (similar to life)	R0610	0
TP calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	20 412
TP calculated as a whole	R0660	0
Best Estimate	R0670	20 344
Risk margin	R0680	68
Technical provisions – index-linked and unit-linked	R0690	6 045 128
TP calculated as a whole	R0700	0
Best Estimate	R0710	6 025 071
Risk margin	R0720	20 057
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	19 102
Pension benefit obligations	R0760	1 591
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	4 794
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	60 752
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	13 342
Subordinated liabilities	R0850	5 000
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	5 000
Any other liabilities, not elsewhere shown	R0880	4 578
TOTAL LIABILITIES	R0900	**6 174 699**
Excess of assets over liabilities	R1000	**79 981**

S.05.01.02 Premiums, claims and expenses by line of business

as of 31 December 2016		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
in thousand CHF		**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
PREMIUMS WRITTEN										
Gross	**R1410**		3 227	45 632						48 859
Reinsurers' share	**R1420**		2 286	19 700						21 986
Net	**R1500**		941	25 932						26 873
PREMIUMS EARNED										
Gross	**R1510**		3 227	45 632						48 859
Reinsurers' share	**R1520**		2 286	19 700						21 986
Net	**R1600**		941	25 932						26 873
CLAIMS INCURRED										
Gross	**R1610**		428	615 026						615 455
Reinsurers' share	**R1620**		82	74 796						74 878
Net	**R1700**		347	540 230						540 577
CHANGES IN OTHER TECHNICAL PROVISIONS										
Gross	**R1710**		-2 024	663 820						661 796
Reinsurers' share	**R1720**		-2 176	51 191						49 016
Net	**R1800**		152	612 628						612 780
Expenses incurred	**R1900**		798	23 335						24 133
Other expenses	**R2500**									**876**
TOTAL EXPENSES	**R2600**									**25 009**

S.05.02.01 Premiums, claims and expenses by country

as of 31 December 2016		Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
in thousand CHF		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400		(CH)	(AT)	(IT)	(DE)		
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
PREMIUMS WRITTEN								
Gross	R1410	0	24 447	13 896	5 551	4 965		48 859
Reinsurers' share	R1420	0	18 851	2 271	0	15		21 137
Net	R1500	0	5 596	11 625	5 551	4 950		27 722
PREMIUMS EARNED								
Gross	R1510	0	24 447	13 896	5 551	4 965		48 859
Reinsurers' share	R1520	0	18 851	2 271	0	15		21 137
Net	R1600	0	5 596	11 625	5 551	4 950		27 722
CLAIMS INCURRED								
Gross	R1610	0	74 717	629				75 346
Reinsurers' share	R1620	0	74 734	75				74 809
Net	R1700	0	-17	554				537
CHANGES IN OTHER TECHNICAL PROVISIONS								
Gross	R1710	0	51 191	11 077				62 268
Reinsurers' share	R1720	0	51 191	2 157				53 348
Net	R1800	0	0	8 920				8 920
Expenses incurred	R1900		2 133	3 351				**5 484**
Other expenses	R2500							
TOTAL EXPENSES	R2600							**5 484**

S.12.01.02 Life and Health SLT Technical Provisions

as of 31 December 2016			Index-linked and unit-linked insurance			Other life insurance					
		Insurance with profit participation	Index-linked and unit-linked insurance	Contracts without options and guarantees	Contracts with options or guarantees	Other life insurance	Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
in thousand CHF		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010										
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020										
TECHNICAL PROVISIONS CALCULATED AS A SUM OF BE AND RM											
BEST ESTIMATE											
Gross Best Estimate	R0030	17 283		4 729 545	1 295 526		627	2 434			6 045 415
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	13 947			1 295 526						1 309 473
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	3 336		4 729 545	0		627	2 434			4 735 942
Risk Margin	R0100	58	20 057			10					20 124
AMOUNT OF THE TRANSITIONAL ON TECHNICAL PROVISIONS											
Technical Provisions calculated as a whole	R0110										
Best estimate	R0120										
Risk margin	R0130										
TECHNICAL PROVISIONS – TOTAL	R0200	**17 340**	**6 045 128**			**3 071**					**6 065 540**

S.23.01.01 Own funds

in thousand CHF

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
BASIC OWN FUNDS BEFORE DEDUCTION FOR PARTICIPATIONS IN OTHER FINANCIAL SECTOR AS FORESEEN IN ARTICLE 68 OF DELEGATED REGULATION (EU) 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	5 000	5 000		0	
Share premium account related to ordinary share capital	**R0030**	35 767	35 767		0	
Iinitial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	**R0040**	3 000	3 000		0	
Subordinated mutual member accounts	**R0050**	0		0	0	0
Surplus funds	**R0070**	0	0			
Preference shares	**R0090**	0		0	0	
Share premium account related to preference shares	**R0110**	0		0	0	0
Reconciliation reserve	**R0130**	36 214	36 214			
Subordinated liabilities	**R0140**	5 000		0	5 000	0
An amount equal to the value of net deferred tax assets	**R0160**	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	0	0	0	0	0
OWN FUNDS FROM THE FINANCIAL STATEMENTS THAT SHOULD NOT BE REPRESENTED BY THE RECONCILIATION RESERVE AND DO NOT MEET THE CRITERIA TO BE CLASSIFIED AS SOLVENCY II OWN FUNDS						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**	0				
DEDUCTIONS						
Deductions for participations in financial and credit institutions	**R0230**	0	0	0	0	
Total basic own funds after deductions	**R0290**	**84 981**	**79 981**	**0**	**5 000**	**0**
ANCILLARY OWN FUNDS						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	**R0310**	0			0	
Unpaid and uncalled preference shares callable on demand	**R0320**	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	0			0	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	0			0	0
Other ancillary own funds	**R0390**	0			0	0
Total ancillary own funds	**R0400**	**0**			**0**	**0**
AVAILABLE AND ELIGIBLE OWN FUNDS						
Total available own funds to meet the SCR	**R0500**	84 981	79 981	0	5 000	0
Total available own funds to meet the MCR	**R0510**	84 981	79 981	0	5 000	
Total eligible own funds to meet the SCR	**R0540**	84 981	79 981	0	5 000	0
Total eligible own funds to meet the MCR	**R0550**	84 363	79 981	0	4 382	
SCR	**R0580**	**48 684**				
MCR	**R0600**	**21 908**				
Ratio of Eligible own funds to SCR	**R0620**	**174.56%**				
Ratio of Eligible own funds to MCR	**R0640**	**385.08%**				

		C0060
RECONCILIATION RESERVE		
Excess of assets over liabilities	**R0700**	79 981
Own shares (held directly and indirectly)	**R0710**	0
Foreseeable dividends, distributions and charges	**R0720**	0
Other basic own fund items	**R0730**	43 767
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0
Reconciliation reserve	**R0760**	**36 214**
EXPECTED PROFITS		
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	0
Expected profits included in future premiums (EPIFP) – Non- life business	**R0780**	0
Total Expected profits included in future premiums (EPIFP)	**R0790**	**0**

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

in thousand CHF

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	14 917		
Counterparty default risk	R0020	25 039		
Life underwriting risk	R0030	31 596		
Health underwriting risk	R0040	0		
Non-life underwriting risk	R0050	0		
Diversification	R0060	-19 921		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	**51 632**		

CALCULATION OF SOLVENCY CAPITAL REQUIREMENT		C0100
Operational risk	R0130	4 007
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-6 955
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	**48 684**
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	**48 684**
OTHER INFORMATION ON SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity Linear formula component for non-life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	**33 367**

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	3 069	
Obligations with profit participation – future discretionary benefits	R0220	157	
Index-linked and unit-linked insurance obligations	R0230	4 729 545	
Other life (re)insurance and health (re)insurance obligations	R0240	3 172	
Total capital at risk for all life (re)insurance obligations	R0250		126 165

S.28.01.01 Overall MCR calculation

		C0070
Linear MCR	R0300	33 367
SCR	R0310	48 684
MCR cap	R0320	21 908
MCR floor	R0330	12 171
Combined MCR	R0340	21 908
Absolute floor of the MCR	R0350	3 969
		C0070
Minimum Capital Requirement	R0400	**21 908**

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The future starts here.

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