Baloise Group – Swiss Solvency Test as at 1 January 2018

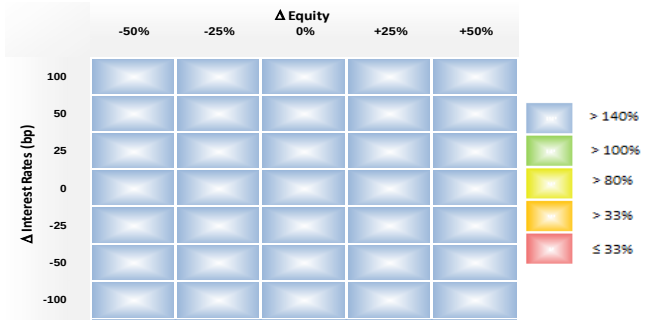
Results for the Baloise Group

In CHF mn	1 January 2017	**1 January 2018**
Risk-bearing capital (RBC)	7'821	10'214
Target capital (TC)	3'996	4'369
Solvency ratio	**214%**	**262%**

- **Risk-bearing capital** increased significantly year on year. This change is attributable to the level of operating income, improvements in the economic environment and the issuance of hybrid capital amounting to CHF 500 million.
- **Target capital** also rose year on year. This was due to increases in insurance risk, market risk and credit risk.
- Because risk-bearing capital grew at a stronger rate than target capital, the **solvency ratio** improved to 262%.
- The solvency ratios of the two Swiss companies Baloise Life Ltd and Baloise Insurance Ltd stood at 200% and 348% respectively as at 1 January 2018 (1 January 2017: 181% and 296%).

Sensitivities of the solvency ratio
(as at 1 January 2018)

- Even in an economic stress scenario, such as a reduction in interest rates of 100 bp and a stock market fall of 50%, the solvency ratio would still be above 140%.



General remarks

- The **Swiss Solvency Test (SST)** as a modern solvency regime for insurance companies measures the economic risk situation of insurance companies. This regulatory instrument is aimed at protecting policyholders against the consequences of an insurance company becoming insolvent.
- The Swiss Financial Market Supervisory Authority (FINMA) sets the capital requirement at a level that ensures an insurance company will be able to maintain an adequate level of capital even if a negative event materialises that only occurs every 100 years. The capital calculated in this way is called **target capital (TC)**. The available capital is known as **risk-bearing capital (RBC)**.
- The **solvency ratio** is the ratio of available to required capital, after deduction of the market value margin (MVM) in both cases. To meet the solvency requirements, this ratio must be above 100%.

$$\text{solvency ratio} = \frac{\text{RBC} - \text{MVM}}{\text{TC} - \text{MVM}}$$

- The Baloise Group uses a partial internal model to calculate the SST. Because of the current **transition to standard models**, the SST continues to be subject to considerable model uncertainty. The standard model for group life business, which was developed jointly by FINMA and the insurance industry, will be applied from the start of 2019.

30 April 2018