Operating statement 2021

Semi-autonomous solutions are more attractive, fairer, and more flexible in every scenario.

Thomas Gerber
Head of Life, Savings & Health,
AXA Switzerland

Efficient pension solutions are in demand

Semi-autonomous OPA solutions offer impressive flexibility and attractive benefits. Politicians must now also create a sound basis for ancillary OPA funds so as to guarantee the stability of the second pillar.

> "The three-pillar system still constitutes an excellent basis for pension provision."

An interview with Thomas Gerber

Mr. Gerber, how do you assess the general state of the second pillar?
Switzerland's three-pillar system still constitutes an excellent basis for pension provision. The fully funded second pillar strikes a good balance with the pay-as-you-earn OASI model, although it has a structural advantage in view of demographic change and is thus gaining importance.

That said, it needs to adapt to doggedly low interest rates and steadily rising life expectancy. The Federal Constitution states that occupational benefits insurance, together with OASI, must "enable the insured person to maintain his or her previous lifestyle in an appropriate manner" after retiring, but the benefits paid out from the first and second pillars are no longer enough to do this in most cases. Private pensions (the third pillar) are thus needed to ensure financial freedom in retirement.

However, many occupational benefits institutions adjusted their parameters for extra-mandatory benefits in good time in view of the structural shifts so as to ensure that they can fulfill their purpose in spite of the changing environment.

Semi-autonomy in particular offers good flexibility and attractive payouts. Semi-autonomous pension funds have more freedom when it comes to their investment strategy, giving them greater scope to harness return opportunities for the benefit of their insured persons. They can expect higher interest on their retirement assets and thus higher pension payments – and they even end up paying less.

It's now up to the politicians to create a legal basis for ancillary OPA funds that guarantees the stability of the second pillar.

Sustainability is another hot topic. What role does it play in occupational benefits insurance?
Sustainability has played a key role at AXA for quite some time already. For instance, both the AXA Group and AXA Switzerland have for years had a clear corporate responsibility strategy that covers sustainable use of natural resources as well as social aspects. Minimizing the impact of climate change is becoming more and more central to these efforts. This is why we recently signed off a dedicated climate strategy aimed at further reducing our carbon dioxide emissions and helping society to adapt to climate change.

The AXA collective foundations also have great potential to contribute to reducing CO_2 emissions through their investment decisions. Sustainability criteria play a key role in the AXA Switzerland Asset Management investment process. AXA is keen to invest the funds entrusted to it in a way that takes future generations into account. The AXA Group Responsible Investment Policy has embedded this mindset throughout the company. So, AXA's sustainable investment strategy is built on solid foundations.

However, we don't just think about sustainability in environmental terms, there's also a social dimension. As a social insurance institution, we're systemically important, and our pension solutions bear a share of the responsibility to ensure that people in Switzerland can continue to be financially independent in retirement going forward.

Jürgen Scharfetter
Head of Occupational Benefits,
AXA Switzerland

Secure and profitable at the same time

AXA's semi-autonomous collective foundations have paid out CHF 1.8 billion more in interest to insured persons over the past three years than they would have been able to with full-value insurance. The semi-autonomous model is proving its worth in these challenging times.

"The attractive conditions our collective foundations offer are helping to keep them on a sustainable growth path."

An interview with Jürgen Scharfetter

Mr. Scharfetter, AXA has been fully focused on semi-autonomous pension solutions since the start of 2019. As our new Head of Occupational Benefits, what conclusions can you draw from the first three years of semi-autonomy?
Our new, semi-autonomous collective foundations have performed very well from the outset and even overcame the two challenging years of the coronavirus pandemic without a problem. For 2021, AXA's semi-autonomous collective foundations were able to pay out over CHF 800 million more to their insured persons in total than would have been possible within the strict regulatory constraints of full-value insurance. Following on from CHF 600 million in 2019 and CHF 400 million in 2020, this means that insured persons have received additional interest income of more than CHF 1.8 billion in the three years since the change to semi-autonomy.

These high payouts vindicate our belief that the semi-autonomous model is more profitable for insured persons over the long term. Thanks to higher interest, they ultimately have a much better chance of receiving a sufficient pension to maintain the standard of living they're used to after they retire.

How are the semi-autonomous collective foundations' coverage ratios?
Thanks to good portfolio management, AXA Asset Management was able to achieve a very respectable return for the foundations in spite of persistently low interest rates and a volatile investment environment. Insured persons benefited directly from this through higher interest on their retirement assets. At the same time, the security of their pension solutions was never under threat as the average relevant coverage ratio of the AXA collective foundations remained above 112% even after the interest was credited.

The foundations also have a very good age structure, a high proportion of extra-mandatory pension assets, and minimal pension obligations, which in turn minimizes the need for redistribution from active insured persons to pensioners that's otherwise commonplace in the second pillar.

As a result, our semi-autonomous collective foundations are able to offer affiliated companies and their staff an effective pension fund solution for the long term that remains impressively solid and flexible in challenging times.

What has been the trend in new business?
Our competitive terms clearly speak for themselves. After nine out of ten existing customers opted to stay on board when the shift to semi-autonomy happened, AXA's collective foundations have also experienced renewed strong growth in new business over the past three years, to the extent that customer and insured person numbers have already risen back to the levels they were at before the changeover.

How do you intend to develop the business going forward?
The importance of having a good pension solution is growing when it comes to attracting the best staff. This is why we're convinced that new, total solutions are needed to face up to the market's ever-changing demands in future. With this in mind, we're combining our proven pension solutions with new technology-based services and developing new supplemental offerings that go way beyond the classic pension and insurance solutions, particularly in terms of employee health and motivation. For example, we've been offering our OPA customers an innovative fringe benefits platform, Swibeco, for some time now. They can use it for their staff free of charge. These companies can thus position themselves on the fraught job market as attractive employers.

Daniel Gussmann
Chief Investment Officer,
AXA Switzerland

Sustainable profitability

AXA has always pursued a risk-aware investment approach. To achieve attractive returns for customers over the long term, it systematically employs the best-in-class principle and rigorous sustainability criteria.

"Sustainability criteria play a key role in our investment process."

An interview with Daniel Gussmann

Mr. Gussmann, 2021 was a record-breaking investment year in several respects, with the stock markets soaring, interest rates fluctuating considerably, and inflationary pressure mounting. How did you cope with these extremes?
Our portfolios are carefully constructed to withstand potential challenges. In keeping with our insurance DNA, we pursue a risk-aware investment approach with broad diversification. We succeeded once again in profiting from the market upswing in almost all asset classes and achieving excellent performance in 2021.One factor behind this success was our active tactical investment decisions to overweight asset classes with long-term appeal like corporate bonds, equities, and private equity. Equity markets in particular underwent a boom, with average performance reaching an extraordinary 25%. This had a positive impact on overall performance, thus boosting returns for the foundations and increasing their interest payments. Our best-in-class approach, whereby we meticulously select the most suitable asset manager for each asset class, once again helped us to identify and harness the best return opportunities for our customers.

What does this record year mean for your customers – in particular the collective foundations?
AXA decided just over three years ago to withdraw from full-value insurance and make the switch to semi-autonomy. This is sure to pay off for the affiliated pension funds over the long term, but of course the impact is even more pronounced in exceptional years like 2021, when the average return on investments for the various AXA collective foundations was 7%.

The volume of pension fund assets entrusted to us grew by CHF 5.6 billion last year. This shows that we enjoy an outstanding reputation in the marketplace and that customers have faith in us. One reason for this is that we take their needs seriously and respond to them wherever possible. They also appreciate how much importance AXA attaches to sustainability, systematically taking it into account in all its investments.

How exactly do you do that in practice?
We regard responsible corporate governance and transparency as essential. With respect to climate protection in particular, the AXA Group has been a global leader for a long time. For instance, it already reduced the carbon footprint of its own investments by 31% in the period from 2014 to 2019. Both the AXA Group and AXA Switzerland are targeting a further reduction of 20% by 2025. Group-wide green investments are to be increased from EUR 16 billion in 2020 to EUR 26 billion by 2023, and AXA Switzerland is playing its part here too. Sustainability factors thus play a key role in our investment process, both in our business with third-party customers and in terms of how we invest our own premiums and insurance assets. For instance, we have strict exclusion criteria for companies that aren't aligned with our sustainability goals, including those involved in tobacco production. There are currently more than 720 companies on our ESG exclusion list. AXA is also pulling out of the coal industry completely by 2030 in the OECD countries and by 2040 worldwide.

Real estate also has a huge impact. Buildings are responsible for around a quarter of Swiss CO_2 emissions. AXA has therefore set itself the target of reducing the CO_2 emissions from the real estate portfolio we manage to net zero by 2050.

To measure our progress and the impact of our sustainability strategy, the AXA Group launched the AXA for Progress Index in 2021. It has also published the AXA Climate Report every year since 2015. This outlines the current climate strategy and the latest developments in this field.

Key data

Number of insured persons
At the end of 2021, AXA had 532,376 insured persons with occupational benefits insurance. This figure includes 375,610 active insured persons, 65,022 pension recipients, and 91,744 vested benefits policies.

The portfolio of insured persons increased by 7,568 or 1.4% year-on-year. Thanks to the positive trend in new business, the number of active insured persons rose by 15,678 or 4.4%. This results from the increase in other active insured persons, where insured persons in semi-autonomous models are reported. The number of insured persons with full-value insurance, meanwhile, fell further due to the transformation of the occupational benefits business to a semi-autonomous model, which began in 2019.

The number of vested benefits policies fell by 6,356 and the number of pension recipients by 1,755, the latter being due to the collective foundations covering new pensions.

Costs for active insured persons
Operating expense for active insured persons decreased year-on-year from CHF 170 million to CHF 168 million due to rigorous efforts to increase efficiency and cost discipline. Costs per active insured person fell by CHF 27 to CHF 447 as a result of the lower expense and the higher number of insured persons.

	2021		2020	
Existing customer base at end of accounting year	**532,376**		**524,808**	
Number of active insured persons	375,610		359,932	
Number of persons with full-value insurance	24,119		30,163	
Number of other active insured persons	351,491		329,769	
Number of pension recipients	65,022		66,777	
Number of vested benefits policies	91,744		98,100	
Interest and conversion rates	**Mandatory benefits**	**Extra-mandatory benefits**	**Mandatory benefits**	**Extra-mandatory benefits**
Effective interest rate including surplus participation	1.00%	0.00%	1.00%	0.00%
Interest rate applied to retirement assets	1.00%	0.00%	1.00%	0.00%
Pension conversion rate for men retiring at age 65	6.80%	5.00%	6.80%	5.00%
Pension conversion rate for women retiring at age 64	6.80%	4.88%	6.80%	4.88%
Technical interest rate for valuation of the pension liabilities	0.55%		0.70%	
	Total in millions	**per capita**	**Total in millions**	**per capita**
Total cost premium	**148**	**279**	**153**	**291**
Active insured persons	148	395	153	425
Vested benefits policies / per policy	0	0	0	0
Other cost premiums	0	0	0	0
Total operating expense	**202**	**380**	**204**	**388**
Operating expense ex pension recipients	**172**		**175**	
Active insured persons	168	447	170	474
Vested benefits policies	5	50	5	49
Operating expense for other cost units	0		0	
Operating expense for pension recipients	**30**		**29**	
Pension recipients	30	457	29	427

Monetary amounts in CHF

Income statement

Income
In occupational benefits insurance, the total income consists mainly of savings premiums, risk premiums, and cost premiums together with investment income.

It fell by 25% year-on-year due to the third wave of transformation from full-value insurance to the semi-autonomous model, which was implemented in the reporting year. The transformed foundations' savings premiums are no longer booked to AXA's income statement, hence the 32% fall in premium income to CHF 704 million. The positive trend in new business caused risk and cost premiums to rise by 1% in 2021.

The transformation and resulting transfer of assets to the occupational benefits institutions led to a 17% fall in investment income to CHF 519 million despite financial markets trending higher.

Expenditure
The most important items making up overall expenditure are benefits for insured persons, the change in technical provisions, acquisition and administrative expenses, and the allocation to the surplus fund in favor of insured persons.

Benefits increased by CHF 828 million to CHF 3.4 billion in the reporting year, mainly as a result of higher surrenders following the transfer of retirement assets to the foundations as part of the third wave of transformation, since this involved a larger volume than that in the prior year. This was partially offset by lower individual lump-sum benefits and lower pension and lump-sum benefits on retirement in view of the declining number of pension recipients.

In 2021, the technical provisions decreased by a further CHF 2.6 billion (prior year: decrease of CHF 1.4 billion). The main drivers here were the CHF 1.9 billion decline in retirement assets, primarily as a result of the transfer to the occupational benefits institutions, and the CHF 521 million reduction in actuarial reserves for current retirement and survivors' pensions due to the smaller number of pension recipients. Actuarial reserves for current disability pensions and disabled person's child's pensions were more or less stable. The smaller portfolio also led to further reductions in actuarial reserves for vested benefits policies (CHF 135 million) and in the strengthening of actuarial reserves for annuity capital and vested benefits policies (CHF 28 million).

The amount allocated from the current account to the fluctuation and interest guarantee provisions was CHF 37 million. The allocation to the surplus fund in favor of insured persons fell slightly from CHF 153 million to CHF 138 million. This was caused by lower investment income in business subject to the minimum distribution ratio and lower surpluses in business not subject to the minimum distribution ratio.

In 2021, acquisition and administrative expenses together with other expenses were slightly lower year-on-year at CHF 189 million despite the growing portfolio.

The operating result for 2021 amounted to CHF 110 million before tax. The fall of CHF 5 million is mainly attributable to lower investment income due to the third wave of transformation.

Income	2021	2020
Retirement credits	7	143
Individual deposits due to start of employment, purchases, PHO or divorce	5	174
Retirement assets brought in connection with contract transfers	22	39
Deposits for retirement and survivors' pensions	23	31
Deposits for disability pensions and disabled person's child's pensions	56	60
Deposits for vested benefits policies	0	1
Savings premiums	**113**	**447**
Risk premiums	**443**	**435**
Cost premiums	**148**	**153**
Gross premiums written	**704**	**1 035**
Gross investment income	**589**	**690**
Direct investment income	405	490
Cash and cash equivalen	0	0
Bonds	150	183
Properties	106	131
Mortgages	69	79
Other investments	81	97
Result from disposals	135	173
Balance from write-ups and write-downs	63	101
Currency result	–9	–68
Interest expense	–5	–7
Asset management fees	–70	–68
Net investment income	**519**	**623**
Other income	**14**	**17**
Reinsurance result	**3**	**–13**
Income	**1,240**	**1,662**

Expenditure	2021	2020
Benefits on retirement	834	893
Pension benefits	760	781
Lump sum benefits	74	111
Death and disability benefits	484	469
Pension benefits	400	387
Lump sum benefits	84	82
Individual lump-sum benefits (vested benefits, PHO, divorce, VBP)	124	397
Surrender values from contract terminations	1,957	814
Benefit processing expenses	30	29
Benefits	**3,429**	**2,601**
Retirement assets	–1,912	–837
Provision for future conversion rate losses	0	–62
Actuarial reserves for current retirement and survivors' pensions	–521	–411
Actuarial reserves for current disability pensions and disabled person's child's pensions	6	16
Actuarial reserves for vested benefits policies	–135	–115
Actuarial reserves for other coverages	0	0
Strengthening of actuarial reserves for annuity capital and vested benefits policies	–28	–117
Provision for insurance cases which have occurred but have not yet been settled	–1	0
Fluctuation and interest guarantee provisions	37	148
Cost-of-living provisions	0	0
Other technical provisions	–74	–25
Change in technical provisions	**–2,627**	**–1,404**
Allocation to surplus fund	**138**	**153**
Change in unearned premium reserves	**0**	**0**
Acquisition and administrative expenses	**175**	**178**
Other expenses	**14**	**19**
Operating result	**110**	**115**
Expenditure	**1,240**	**1,662**

Monetary amounts in CHF millions

Balance sheet: key figures

Explanations regarding the liabilities side
The transfer of retirement assets to the occupational benefits institutions in the third wave of transformation and the winding-up of the portfolio of pension recipients were the main reasons for the reduction in total net assets from CHF 24 billion to CHF 21 billion.

The remaining retirement assets originate from insurance contracts with company-owned and association-run foundations that have not yet made the transition to semi-autonomy. Since the existing recipients of retirement and survivors' pensions as well as the risks of death and disability continue to be insured with AXA, the corresponding reserves also remain on AXA's balance sheet. Other liabilities declined mainly as a result of lower liabilities toward policyholders due to the third wave of transformation.

Explanations regarding the assets side
In the third wave, as in the first two, investments were transferred to the occupational benefits institutions in accordance with the changes on the liabilities side. Investments with a book value equal to that of the retirement assets being transferred were selected and transferred to the occupational benefits institutions. For those recipients of retirement and survivors' pensions remaining on the AXA balance sheet, investments were also selected at book values that correspond to the pension payments. In this process, it was ensured that the ratio of market value to book value is identical in the remaining portfolio and the transferred portfolio.

In 2021, AXA Life Ltd and the trustees of the Pension Fund for AXA Switzerland decided to terminate an existing reinsurance agreement with AXA Life Ltd. The implementation of this strategic decision as of January 1, 2022 caused technical provisions and the corresponding investments to fall by CHF 1.9 billion at the start of the 2022 financial year (balance sheet contraction).

Asset items

Asset items	2021		2020	
Cash and cash equivalents, time deposits	158	0.76 %	52	0.22 %
Bonds in Swiss francs	10,490	50.81 %	10,335	44.27 %
Bonds in foreign currencies	1,411	6.84 %	2,036	8.72 %
Properties	2,102	10.18 %	2,637	11.30 %
Mortgages	3,790	18.36 %	4,359	18.67 %
Equities and participating interests	335	1.62 %	344	1.48 %
Alternative investments	1,175	5.69 %	1,251	5.36 %
Investment fund units	40	0.19 %	205	0.88 %
Net credit balances from derivative financial instruments	5	0.02 %	2	0.01 %
Other investments	1,140	5.52 %	2,123	9.09 %
Total investments	**20,647**	**100.00 %**	**23,344**	**100.00 %**
Liabilities from derivative financial instruments	**75**		**97**	
Other assets	**501**		**582**	
Ceded reinsurance	**49**		**49**	
Total net assets	**21,272**		**24,071**	

Liability items

Liability items	2021		2020	
Retirement assets	490	2.39 %	2,401	10.38 %
of which mandatory benefits	82		1,367	
of which extra-mandatory benefits	408		1,035	
Provision for future pension conversion rate losses	15	0.07 %	15	0.06 %
of which mandatory benefits	6		6	
of which extra-mandatory benefits	9		9	
Actuarial reserves for current retirement and survivors' pensions	12,648	61.70 %	13,169	56.94 %
of which mandatory benefits	6,325		6,581	
of which extra-mandatory benefits	6,323		6,588	
Actuarial reserves for current disability pensions and disabled person's child's pensions	1,391	6.79 %	1,385	5.99 %
of which mandatory benefits	717		753	
of which extra-mandatory benefits	675		632	
Actuarial reserves for vested benefits policies	1,193	5.82 %	1,328	5.74 %
Strengthening of actuarial reserves	3,378	16.48 %	3,405	14.72 %
Provision for insurance cases which have occurred but have not yet been settled	345	1.69 %	346	1.50 %
Provisions for interest guarantees, claims fluctuations and value fluctuations	501	2.44 %	464	2.01 %
Other technical provisions	186	0.91 %	261	1.13 %
Cost-of-living provisions	353	1.72 %	352	1.52 %
Technical provisions	**20,500**	**100.00 %**	**23,127**	**100.00 %**
Surplus fund	**226**		**214**	
Unearned premium reserves	**0**	**0**	**0**	
Credited surplus portions	**0**	**0**	**0**	
Other liabilities	**545**		**730**	
Total net assets	**21,272**		**24,071**	

Monetary amounts in CHF millions

Investments

AXA aims to achieve an optimal combination of profitability, liquidity, and security when managing its investments. It has thus been investing for some years now to enhance its asset-liability management (ALM) capability. The analyses and findings of ALM provide the basis for the investment strategy, ensuring that, despite fluctuations in the value of investments, there is always enough equity available to meet the company's obligations at all times.

Investments broken down by asset class

In line with the investment strategy, the majority of funds are invested in fixed-interest, virtually risk-free Swiss government and mortgage bonds as well as corporate bonds.

The "Other investments" item comprises mortgages, loans, cash and cash equivalents, and short-term investments.

The decrease in investments is attributable to the transformation from full-value insurance foundations to semi-autonomous solutions in the reporting year.

The valuation reserves show the difference between market and book values. These were lower year-on-year due to the transformation to semi-autonomous solutions and the resulting reduction in investments. They also reflect market value losses on fixed-interest securities due to rising interest rates.

Investments

	2021		2020	
	Book value	Market value	Book value	Market value
Real property and buildings	2,102	2,919	2,637	3,492
Shares in real estate companies	175	401	198	438
Shares in associated companies	0	0	0	0
Participations	0	0	0	0
Equities and units in investment funds	201	214	351	379
Own equities	0	0	0	0
Fixed-interest securities	11,901	13,209	12,371	14,377
Hedge funds	208	239	227	252
Private equity	968	1,017	1,024	1,041
Net credit balances from derivative financial instruments	5	5	2	2
Other investments	5,088	5,088	6,533	6,533
Total investments	**20,647**	**23,093**	**23,344**	**26,515**
Valuation reserves at the end of the accounting year		**2,446**		**3,171**
Change in valuation reserves compared to previous year		**– 725**		**61**

Monetary amounts in CHF millions

	Market value	Share	Market value	Share
Market value of investments	**23,093**	**100.0 %**	**26,515**	**100.0 %**
Direct investments	21,795	94.4 %	25,006	94.3 %
Single- and multi-level collective investments	1,062	4.6 %	1,311	4.9 %
Non-cost-transparent investments	237	1.0 %	199	0.7 %

Monetary amounts in CHF millions

Trend in investment income
Gross investment income was down 15% year-on-year at CHF 589 million. This fall was mainly caused by the transformation to the semi-autonomous model and lower income from disposals. It was partially offset by a higher currency result with lower hedging costs.

Trend of return on investments

	2021	2020
Direct earnings from investments	405	490
Other investment income	184	200
Result from disposals	135	173
Balance from write-ups and write-downs	63	101
Currency result	–9	–68
Interest expense	–5	–7
Investment income, gross	**589**	**690**
Asset management costs	–70	–68
Investment income, net	**519**	**623**
Asset management without real estate maintenance	–70	–68
Maintenance and servicing of real estate*	–22	–28
Total asset management costs	**–92**	**–95**

Monetary amounts in CHF millions

* The costs of maintenance and servicing of real estate are offset in the income statement directly against real estate income (net view).

Return and performance
The investment income for 2021 corresponds to a return on book values of 2.80% (prior year: 2.94%). After deduction of asset management costs, a return of 2.47% (prior year: 2.65%) was achieved.

The returns shown in italics in the table (before transfer of investments) correspond to the calculated returns without adjustment for the reduction in assets following the transfer.

The return on market values was –0.07%, reflecting market value losses on fixed-interest securities as a result of higher interest rates.

Asset management costs
Asset management costs (gross) fell by CHF 4 million. This was mainly due to lower TER costs as a result of reduced maintenance and servicing costs for properties and slightly lower holdings. Meanwhile, transaction costs (TTC) increased marginally due to higher transaction volumes (especially with regard to property gains taxes).

Return and performance

	2021		2020	
	Gross	Net	Gross	Net
Total return on book values	**2.80%**	**2.47%**	**2.94%**	**2.65%**
Book value performance (before transfer of investments)	*2.68%*	*2.36%*	*2.90%*	*2.62%*
Market value performance	**-0.07%**	**-0.36%**	**3.12%**	**2.87%**
Market value performance (before transfer of investments)	*-0.55%*	*-0.83%*	*2.79%*	*2.54%*

Asset management fees

	2021	2020
Direct investments	–52	–56
Single- and multiple-level investments	–14	–17
TER costs	–66	–72
TTC costs	–15	–14
SC costs	–11	–11
Asset management costs (gross)	**–93**	**–97**
Capitalized costs	**1**	**1**
Maintenance and servicing costs for properties	**22**	**28**
Asset management costs (net)	**–70**	**–68**

Monetary amounts in CHF millions

TER costs: Costs of administration and management (internal and external)
TTC costs: Transaction costs
SC costs: Costs that cannot be allocated to individual investments

Minimum distribution ratio (MDR)

Explanations
The majority of group life business is subject to statutory provisions governing the minimum distribution ratio (MDR). These provisions state that at least 90% of the income generated must be used for the benefit of insured persons – i.e. for insurance benefits, strengthening reserves, and allocations to the surplus fund. At 90.4%, AXA's distribution ratio remained above the statutory minimum in the reporting year.

Explanation of business processes
We distinguish between three basic business processes:

Process	Revenues	Expenses (benefits)
Saving process	Net investment income	• Interest paid on retirement assets and actuarial reserves for current pensions, conversion losses • Formation and reversal of technical provisions for longevity risk, interest guarantees, and fluctuations in the value of investments
Risk process	Risk premium	• Payment of death and disability benefits • Formation and reversal of technical provisions for insurance cases reported but not yet settled, for insurance cases which have occurred but have not yet been reported, for claims fluctuations as well as for rate adjustments and rate restructuring
Cost process	Cost premium	• Administrative and customer advisory services related to occupational pensions and insurance

	2021		2020	
	Subject to MDR	Not subject to MDR	Subject to MDR	Not subject to MDR
Sum of income components	**1,071**	**39**	**1,139**	**72**
Saving process (income from investments)	519	0	623	0
Risk process (risk premiums)	404	39	372	63
Cost process (cost premiums)	148	1	145	8
Total expenditure	**–811**	**–42**	**–930**	**–44**
Saving process (mainly technical interest)	–348	0	–416	0
Risk process (mainly death and disability benefits)	–308	–42	–311	–40
Cost process (mainly administrative costs)	–154	0	–202	–5
Gross result, operating statement	**260**	**–2**	**209**	**28**
Change in technical provisions in the saving process	**–31**	**0**	**10**	**0**
Longevity risk	6	0	96	0
Gaps in coverage on conversion into pensions	0	0	62	0
Interest guarantees	–10	0	–92	0
Reversal of cost-of-living provisions in favor of strengthening measures	0	0	0	0
Fluctuations in value of investments	–27	0	–56	0
Change in technical provisions in the risk process	**–2**	**24**	**23**	**–2**
Insurance cases reported but not yet settled	–2	24	23	–2
Insurance cases which have occurred but have not yet been reported	0	0	0	0
Fluctuations in claims	0	0	0	0
Rate adjustments and rate restructuring	0	0	0	0
Total change in technical provisions	**–33**	**24**	**33**	**–2**
Cost of raising additional risk capital	**0**	**0**	**0**	**0**
Allocation to surplus fund	**–124**	**–14**	**–133**	**–20**
Result, operating statement	**103**	**8**	**109**	**5**
Dividend ratio	**90.4%**	**80.6%**	**90.4%**	**92.8%**
Recapitulation of the operating result				
Share of business subject to MDR	103		109	
Share of total income as %	9.6%		9.6%	
Share of business not subject to MDR		8		5
Share of total income as %		19.4%		7.2%
Operating result	**110**		**115**	
Share of total income as %	10.0%		9.5%	
Surplus fund	**212**	**15**	**185**	**29**

Monetary amounts in CHF millions

Income and expenditure
In occupational benefits insurance, the various elements of income and expenditure are assigned to the saving, risk, and cost processes. Within each of these three processes, certain items of income are posted against certain expense items. Although, as a general rule, each process should cover its own costs, cross-subsidization is possible. AXA was able to significantly alleviate the problematic situation in the saving process caused by high conversion rate losses through the transformation of the collective foundations to semi-autonomy.

Change to technical provisions
Technical provisions are reserves that AXA uses to strengthen its ability to meet future challenges. The technical interest rate, which had already been reduced from 0.8 % to 0.7 % in 2020, was cut further to 0.55 % in 2021. Actuarial reserves for current retirement pensions were increased by only CHF 6 million due to the smaller portfolio of pension recipients. The technical provisions for interest guarantees and fluctuations in the value of investments were strengthened by CHF 37 million.

Division of income between insured persons and AXA
AXA's operating result depends directly on the applicable revenue, which consists of investment income, the risk premium, and the cost premium. It is limited by the statutory minimum distribution ratio (MDR) to a maximum of 10 %.

For business subject to the MDR, a total of CHF 968 million went to insured persons in 2021 in the form of insurance benefits, strengthening reserves, and allocations to the surplus fund. This equates to a distribution ratio of 90.4 %. AXA's profit – the remaining 9.6 % – was CHF 103 million before tax in 2021.

How the minimum distribution ratio is calculated

		2021	2021	2020	2020
Saving process	Income from investments		519		623
Risk process	Premium income from death and disability insurance		404		372
Cost process	Premium income for operations and service		148		145
Sum of income components			1,071		1,139
At least 90 % of the income components go to insured persons in the form of benefits.			90.4 %		90.4 %
Use for the following benefits for insured persons:			Total – 811		Total – 930
1. Interest on retirement assets of insured persons and conversion losses		– 348		– 416	
2. Benefits in the event of disability and death		– 308		– 311	
3. Administration, operations, and service		– 154		– 202	
Formation of reserves for future benefits for insured persons			Total – 33		Total 33
1. Longevity		6		96	
2. Gap in coverage on conversion into pensions		0		62	
3. Interest guarantees due to persistent low interest rate phase		– 10		– 92	
4. Reversal of cost-of-living provisions in favor of strengthening measures		0		0	
5. Fluctuations in value of investments		– 27		– 56	
6. Expected benefit cases due to disability		– 2		23	
Allocation to surplus fund to be used for insured persons			– 124		– 133
Total benefits allocated to insured persons			– 968		– 1,030
The profits of life insurers are limited by law and cannot exceed 10 % of the income components.			9.6 %		9.6 %
Operating result for AXA Life Ltd. from business subject to MDR (gross before tax)			103		109

Monetary amounts in CHF millions

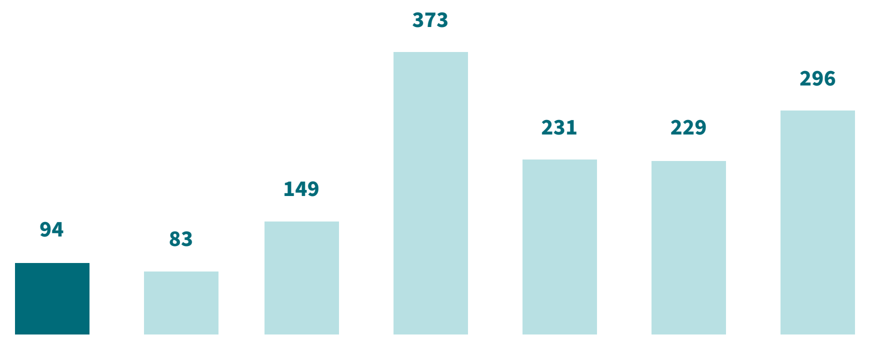
Risk process

Explanations
The risk process comprises income from risk premiums, expenses in the form of death and disability benefits, the formation and/or reversal of technical provisions, and allocations to the surplus fund.

By law, AXA is entitled to retain a maximum of 10% of the risk premiums as its profit share for guaranteeing the risk benefits. A minimum of 90% goes to the insured persons in the form of current and future benefits.

The difference between risk premiums on the one hand and benefits and changes to provisions on the other was CHF 94 million in 2021 (CHF 11 million higher than in the prior year). Revenues from risk premiums rose by CHF 32 million, while direct benefit payments increased by CHF 3 million, and changes to provisions for expected disability cases were up CHF 25 million year-on-year.

The result from the risk process improved slightly compared with the prior year, mainly due to the growth.



Risk process

	2021	2020	2019	2018	2017	2016	2015
Risk premiums	404	372	331	557	509	533	572
Risk benefits	–308	–311	–214	–326	–284	–302	–275
Provisions for expected disability (IV) cases	–2	23	32	142	5	–2	–2
Result of risk process	94	83	149	373	231	229	296

Monetary amounts in CHF millions

Surplus fund

Explanations
Life insurers provide security at all times, which is why they calculate their premiums in such a way that all risks can be covered over the long term. As a consequence of this, they generate a surplus (which is allocated to the insured persons) when business performance is good – i.e. when their income is greater than their expenses.

By law, no more than two thirds of the surplus fund may be withdrawn in any one year. Every allocation must be paid out to the insured persons within five years. This mechanism ensures that sufficient funds are available to offset poor results in difficult years and that the fund is built up again in good years, an approach that complies with the principles of sustainability and stability in occupational benefits insurance.

In 2021, AXA was able to allocate CHF 138 million to the surplus fund, with business subject to the MDR accounting for CHF 124 million of this. The total allocation in the reporting year was CHF 15 million below the prior-year figure.

	2021	2020
As at end of previous year	214	237
Distribution to occupational benefits institutions (allocation of surpluses)	–125	–177
Surplus participation, current year allocation of surpluses)	138	153
Withdrawal to cover the operating shortfall	0	0
Valuation adjustment	0	0
As at end of accounting year	226	214
of which tied assets	161	164
of which free assets	65	50

Monetary amounts in CHF millions

Cost-of-living provision

Explanations
The cost-of-living provision is used to finance future inflation-related adjustments to current disability and survivors' pensions, as stipulated by law. It is funded by the cost-of-living premiums paid by active insured persons. Current pensions are generally adjusted for inflation every two years. A contribution to cost expenses is also taken from the cost-of-living provision.

Survivors' and disability pensions that have already been paid out for more than three years must be adjusted for inflation in line with the Swiss Consumer Price Index until the recipients reach regular retirement age.

	2021	2020
As at end of previous year	352	353
Cost-of-living premiums, gross	4	4
Cost expenses	– 3	– 3
Expenditure for COL increases in risk pensions	– 1	– 1
Reversal in favor of strengthening measures as per Art. 149 para. 1 letter a	0	0
Reversal in favor of surplus fund	0	0
Formation of additional cost-of-living provisions	0	0
As at end of accounting year	353	352

Monetary amounts in CHF millions

Operating expense and asset management costs

The operating and management costs of CHF 202 million include all acquisition and administrative expenses and consulting costs incurred due to AXA's business activities in connection with occupational benefits insurance.

To make the cost process more transparent, acquisition costs are reported in detail, with information provided on acquisition commissions as well as other general administration expenses, broken down into staff costs and material expenses.

Operating expense fell by CHF 2 million year-on-year to CHF 202 million, mainly due to lower administrative costs.

Asset management costs do not count toward operating expense but are instead included in the income statement directly as part of the net return on investments. They amounted to CHF 93 million in 2021, a slight reduction compared with the prior year. At CHF 22 million, real estate maintenance and servicing costs were also lower year-on-year.

Breakdown of operating expense	2021		2020	
Commission paid to sales force	43		43	
Commission paid to brokers	23		21	
Other acquisition costs	16		13	
Acquisition costs	82	40.71 %	78	38.04 %
Benefit processing expenses	30	14.69 %	29	14.01 %
Marketing and advertising expenses	2	0.76 %	2	0.82 %
Other expenses for general administration	91	45.17 %	99	48.44 %
Reinsurers' share in operating expense	– 3	– 1.34 %	– 3	– 1.30 %
Total net operating expense	202	100.00 %	204	100.00 %
Costs of asset management without real estate maintenance	70		68	
Capitalized costs	1		1	
Costs of maintenance and servicing of real estate*	22		28	
Kosten der Vermögensverwaltung mit Immobilienunterhalt	93		97	

Monetary amounts in CHF millions

* The costs of maintenance and servicing of real estate are offset in the income statement directly against real estate income (net view).

Our aim is to offer Swiss SMEs and their staff sustainable OPA solutions that perform well over the long term.

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