Long-term success via clear objectives

Bruno Gehrig
Chairman of the Board of Directors
Annual General Meeting of Swiss Life Holding
Zurich, 9 May 2006

(The spoken text is definitive)

Ladies and Gentlemen

Three and a half years ago Swiss Life entered a new era. Disregarding the trend to get information ever more quickly and the daily hunt for news, I feel this is the right moment to take stock of the company from the perspective of the Board of Directors; particularly bearing in mind that we are a life insurance company geared towards long-term security and life-long partnerships.

Three and a half years ago, trust in Swiss Life had hit rock bottom – with our clients, with you, our shareholders, with the supervisory authority, with the politicians, with the media, and also with our employees. The company was in a very difficult situation. The new management team and Board of Directors had the initial task of simply securing the survival of the company.

Today we can say with pride: That difficult period is over. The most important objectives in the turnaround were already in place by the end of 2004 – one year earlier than planned. This gave us considerable room for manoeuvre last year. We could say goodbye to our survival strategy and look to the future with confidence.

Today the Swiss Life Group is healthy and well positioned. Swiss Life is one of the very few internationally operating companies that specialise in life insurance and pension solutions. Our ambition is to achieve a position of pensions leadership. After all the discussions about increasing life expectancies and the growing percentage of retired persons within the population, about exploding social costs and the deep holes in the state coffers, one thing is clear: The business of providing financial benefits for the future is set to continue growing in importance in both economic and social terms.

In Switzerland – our domestic market – we are the market leader with Swiss Life. Swiss Life is number 1 in occupational and private provisions. More than one million people here in Switzerland are insured by Swiss Life, either privately or through their employer. This is an impressive vote of confidence.

In its markets abroad Swiss Life holds positions that promise to deliver a great deal of success. In the markets of France, Germany, the Netherlands, Belgium and Luxembourg Swiss Life is a preferred alternative to domestic providers due to its competence, effective sales channels and strong brand. This is particularly the case in the client segments such as affluent clients, self-employed persons and companies.

The dynamic growth abroad speaks for itself. In 2004, we increased premium income in these markets by 14% and this rose to 19% in 2005. This is further confirmed by the award of various honours in the last few years for the quality of our products and services as well as for product innovations.

The market brand Swiss Life, which was introduced in 2004, also supports this market success. It underscores the positioning of the company as a specialist in financial provisions for the future, and as a trustworthy partner for private individuals and companies. Country-specific marketing campaigns contributed to a pronounced increase in brand recognition, a clear profile and a significantly improved image among the general public. But it was the sponsorship of the Swiss national football team – begun two years ago – that proved to be the absolute winner, and the team’s somewhat unexpected qualification for the World Cup in Germany following their stunning display last autumn.

Despite our market success and clear growth in premium income Swiss Life was still able to lower operating costs last year. Strict cost management continues to have high priority in all units. Our efforts to further simplify structures and processes and to realise synergies within the Group will lead to further marked increases in efficiency in the coming years.

These efforts to increase efficiency, which are crucial for our competitiveness, also cost us many jobs over the last years. Jobs that we would like to create again through growth.

Risks are actively steered as part of Asset and Liability Management. The lessons of the past have been well learnt. The management of our assets is aligned far more closely to our liabilities and the conditions of our business. This also means that holding high proportions of equity investments – over 20% five years ago – also belongs to the past. We have set a target corridor of 0% to 7% for equity holdings.

The improved management of the balance sheet also ensures that Swiss Life will fulfill the new capital requirements of the Swiss Solvency Test, which is based on the Basel II solvency directive for the European Union and will take effect in the next few years.

Another important measure was providing clarification of the role of Banca del Gottardo. Today, Banca del Gottardo is an important part of the Swiss Life Group. The bank makes a major contribution to the earning power of our Group and thus to the achievement of our strategic objectives. When a life insurer that is committed to helping people create a financially secure future also has a bank in the family that knows the ins and outs of sophisticated asset management for private clients, this can be very useful indeed. And for a financial institution serving high net worth individuals that wants to attract new customers and build long-term relationships, it can be very advantageous to have all the know-how required for secure, long-term financial provisions for the future right here under one roof. The bank has done its homework itself. In future it will focus on private banking primarily in Switzerland and Italy. A new management team under the leadership of CEO Rolf Aeberli is in the process of implementing this focus.

We have also made great progress in the area of corporate governance in the Swiss Life Group. We have improved the control mechanisms and collaboration between the committees and the Board of Directors. We have also unbundled the legal structure of the Group. These measures simplify management, increase flexibility and improve transparency not just for us on the Board of Directors but also for you as investors and shareholders.

The compensation of the Board of Directors and management is also an important part of corporate governance. It is the responsibility of the entire Board of Directors to determine the level and make-up of compensation for its members.

As you can see from our Annual Report, the members of the Board of Directors received a total compensation of between around 100 000 and around 300 000 Swiss francs in the 2005 financial year, depending on their function and additional responsibilities; as Chairman I received total compensation of around 600 000 francs in cash and shares.

The Board of Directors also establishes guidelines for the compensation policy within the Group. In so doing it takes into consideration the compensation policies of other organisations of comparable size and in comparable industries and consults external experts. Based on these guidelines, the three-member Chairman's Committee of the Board of Directors determines the compensation for individual members of the Corporate Executive Board. The total compensation for the members of the Corporate Executive Board includes a fixed basic salary, a variable compensation component in the form of a bonus in cash and an allocation of Swiss Life shares.

As you can see from our Annual Report, CEO Rolf Dörig received annual compensation totalling 3.3 million Swiss francs in the 2005 financial year. The other members of the Corporate Executive Board received on average 1.35 million francs in total compensation last year.

The structure of the long-term remuneration component in the form of shares as part of the total compensation package was adjusted by the Board of Directors in 2005. First of all: Future subscription rights have been granted that will only result in an allocation of shares after three years, i.e. in 2008. The subscription rights expire worthless if a recipient leaves the company before the deadline. This period of three years is a sensible retention measure for keeping key persons in management. Secondly: The number of definitively allocated shares via subscription rights is linked to two objective performance criteria: to the absolute total return of Swiss Life shares, i.e. the market performance plus the distribution of profit, and the relative performance of the shares against the Dow Jones STOXX Insurance Index, which currently includes 35 companies. Depending on the performance of the Swiss Life shares and thus the company's growth in value in the three years between March 2005 and 2008, 0.5 to a maximum of 1.5 shares can be obtained per subscription right in 2008.

As you can see from our Annual Report, 37 members of the Swiss Life Group's top management took part in this equity compensation programme in 2005. In total, around 67 000 future subscription rights were allocated to them. Around 32 000 of these went to the Corporate Executive Board and 9 400 to CEO Rolf Dörig alone. As these subscription rights will only result in an allocation of shares in 2008 and will only then represent a value that is of relevance to income, they have not been entered under "Compensation paid to acting members of governing bodies" for the 2005 reporting period. In 2008 they will form a salary component due to the subscription rights for allocated shares and will therefore be presented correspondingly as income in the 2008 Annual Report.

Ladies and Gentlemen, I took the liberty of going into this topic in some detail as various things have been said and written about it over the past few weeks. We are convinced that our compensation policy will serve the long-term success of our company and will therefore also benefit you. This is further emphasised by the fact that the information provided in our Annual Report exceeds the requirements both of the law and the SWX Swiss Exchange with regard to transparency. The compensation paid to all the members of the Board of Directors is listed individually and even the CEO's total compensation appears separately.

The progress Swiss Life Group has made over the past three years can also be seen from a few simple key figures. One of the most important from the shareholders' point of view is naturally profit.

Following the record loss in 2002 we have consistently increased our profit. Our target for 2008 is a profit of 1 billion Swiss francs. If our trend in earnings is on target, a corresponding dividend can also be paid. For three years you, our shareholders, have had to renounce this. And even worse: You had to inject further capital. From now on we want to increase the distribution of profit annually, so that the Swiss Life share represents a stable dividend-bearing security reflecting the nature of our business.

In 2002 and 2003 premium volume declined. This was due to the fact that the loss of trust led to a fall in premiums, mainly in Switzerland but partly also abroad. In the last two years we were able to compensate for this decline and even surpass the 20 billion franc mark. In 2004 we also profited from some special circumstances. In 2005, thanks to further growth, we achieved it again. It must be borne in mind that this premium volume was generated entirely in our core business. In earlier years premium volume also included a large share of premiums from the property insurance business.

The renewed strength of the company can also be clearly seen in the trends regarding market capitalisation and shareholders' equity. In the first quarter of 2003, the price of Swiss Life shares sank to 42 francs. At this time the value of the whole Swiss Life Group on the stock exchange was less than 1 billion francs. By the end of 2003, the value of the company on the stock exchange had again reached over 5 billion francs. Yesterday the share price rose to 300 francs. The market capitalisation of Swiss Life is now more than 10 billion francs. The value of the company has increased tenfold in the last three years.

The share price also reflects the positive business trend. Swiss Life Holding shares were up with the best in the Swiss Market Index, with a performance of 44% in 2005. In this year too the shares have gone up again by over 20%.

Naturally, the capital adequacy level is also important for the successful further development of our business. Midway in 2002 this lay under 4 billion francs. Since then our capital base has almost doubled to around 8 billion francs. The share of goodwill in the capital base was reduced to under 10%. We have also considerably reduced our debts in the past few years. The strong capitalisation and the positive course of business also led to a slightly improved rating from Standard and Poor's in July 2005. We are confident that the coming year could see a further improvement to our "A-minus" rating due to continued positive developments.

Financial capital is important to us as life insurers. But trust is almost more important. Client surveys in Switzerland show that confidence has returned. People are once again happy with Swiss Life.

Here you can see the average level of client satisfaction in individual life insurance in Switzerland on a scale of 1 to 5. We have once again reached 4. Our aim is to achieve a further improvement to 4.25.

We also notice this increase in confidence in the political debate. Swiss Life, together with the whole sector, has undertaken considerable measures to ensure that transparency is improved and credibility is restored. We are again accepted as partners in the debate. Our arguments count once more. Though, naturally enough, it is still not easy to lay a finger on acquired rights. But reality has clearly entered the political discussion regarding financial provisions for the future. It is to be hoped that this realistic assessment does not go up in smoke because of new impetus on the financial markets or electioneering squabbles.

Our employees are a very important factor in our success. In the past three years they have delivered amazing results under enormous pressure. So it is all the more gratifying to us to be able to note that there has been an increase in job satisfaction and identification with Swiss Life among our employees over the past two years.

In 2005 the number increased from 61 to 70 on a scale of 1 to 100. But we want to make improvements here as well in the next two years and reach a total of 80, which in cross comparisons is very high.

And, Ladies and Gentlemen, it has to be admitted that the success achieved in the last three years was also partly a matter of luck. I was able to participate in this luck personally in November 2005, when I suffered a stroke. I was really lucky. It was only a slight stroke resulting in short-term disruption to my speech centre. Thanks to excellent medical help, targeted therapy and the moral support of those close to me, I was able to recover from this illness extremely quickly. I also received many messages of sympathy during this time, from your circles as well. I was very moved and touched by this. I would like to thank you warmly for your support during this difficult period for me.

I would like to offer my particular thanks in this regard to Vice-Chairman Gerold Bührer and CEO Rolf Dörig, who never doubted for one moment that they would be dealing with me and counting on me again. This demonstration of confidence helped me enormously. Today I am back in the driver's seat and full of enthusiasm. I would therefore be very pleased if you would once again express your confidence in me when voting on agenda item 4.

Ladies and Gentlemen, dear shareholders, following the successful completion of our three-year plan for 2003 to 2005, we now have clear aims for 2008. The goals are ambitious but we are certain that we can achieve them. This also shows you that we see ourselves in a position in which we can continue to increase the long-term value of Swiss Life as an independent company through our own efforts, without having to constantly be glancing to left and right.

In September 2007 Swiss Life will be 150 years old. I am convinced that I will be bringing you positive news both next year and at the anniversary Annual General Meeting in 2008.

Thank you for your attention. I would now like to hand you over to Rolf Dörig, who will tell you about our 2005 annual results in more detail.