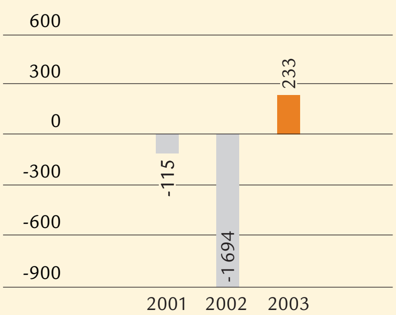
# Going places

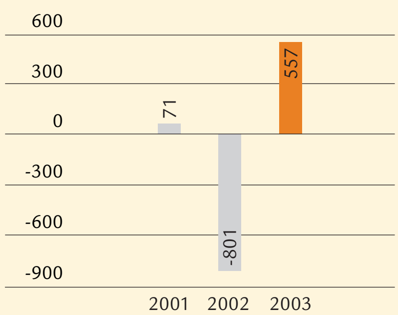
Annual Report 2003

# Key Figures 2003

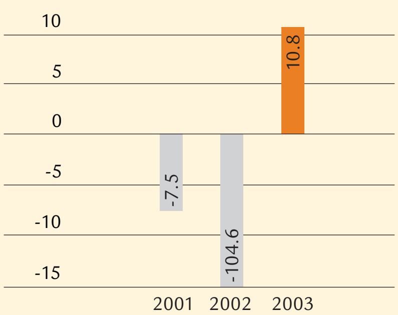
**Net result** CHF million



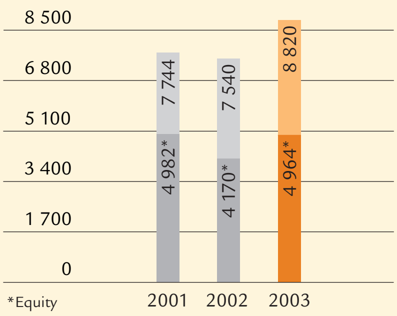

**Operating result** CHF million



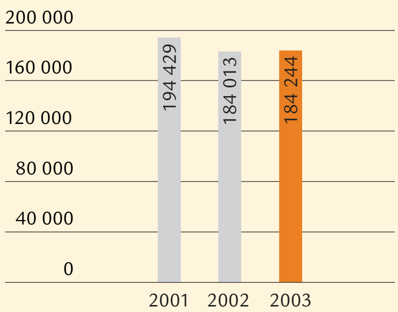

**Earnings per share** CHF



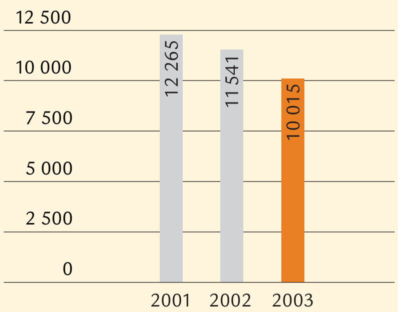

**Core capital for capital adequacy purposes**
CHF million



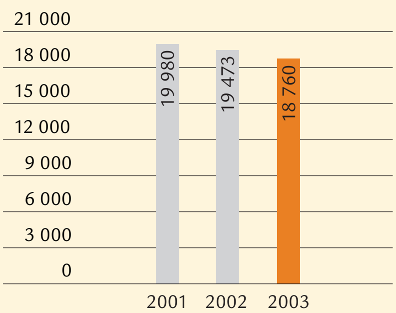

**Assets under management** CHF million



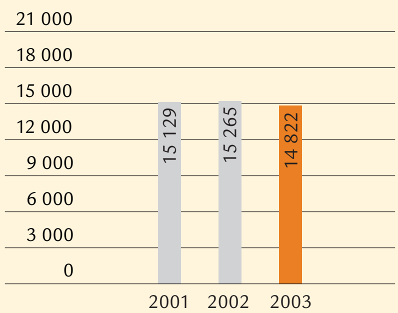

**Employees** (full-time equivalents)



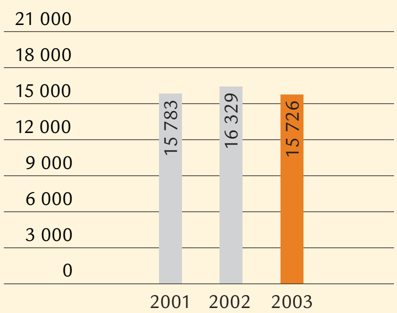

**Gross written premiums** [1] CHF million



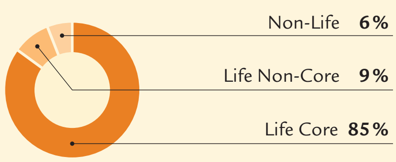

**Net earned premiums and policy fees**
CHF million



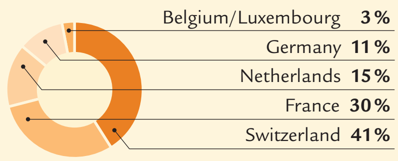

**Benefits paid and changes in insurance reserves** CHF million



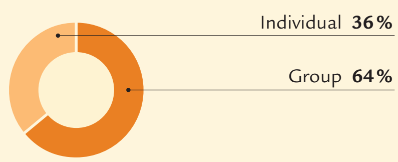

**Gross written premiums by segment** [1,2]




**Gross written premiums Life Core by country** [1,2]




**Direct premiums and policy fees Life Core** [2]




1) Gross written premiums incl. deposits under investment contracts
2) On consolidated basis

## Progress in implementation of strategy

- Net profit of CHF 233 million and operating income of CHF 557 million
- Return to profit zone owing to operational improvements and strict pricing and underwriting policies
- Targets for cost and headcount reductions set for the end of 2004 already exceeded by the end of 2003
- Balance sheet strengthened through growth in equity, write-downs on investments and reductions in goodwill and tax loss carryforwards
- Continued concentration on core business
- Well positioned for future premium growth
- Corporate governance improved
- Definition of values and goals lays foundation for performance-oriented corporate culture
- Brand structure simplified and image refreshed

**Prospects.** “This was an offer I simply couldn’t refuse. It’s one of our company’s most important current research projects in the field of diagnostics. The project is being managed from our branch in Lille and they really want me there. I’ll be working alongside our people, as well as biologists and chemists from the Institut Pasteur. Such an exciting opportunity! I have signed a three-year contract for the time being. My family is, of course, coming with me. In fact, my daughter would fly there tomorrow if she could - she thinks Lille is close to the sea. My wife is also really looking forward to the change. She has always been fascinated by France and its culture. It will be something totally new for all of us. We’ll be leaving Zurich in two months. I’ve never looked forward to any challenge as much as this.”

Chemist, Thomas A. (39), pictured here with his daughter Selina (4), is taking up a new opportunity abroad.

**Expertise.** Individuals who demonstrate exceptional skills and ability go further in life. Each pension and long-term savings solution is only as good as its ability to accommodate an individual's personal circumstances. The solution must be aligned to the person's specific financial situation as well as to their need for change and personal development. Swiss Life accompanies people from one stage of life to the next and provides them with a sense of security, even during challenging times. For life.

**Bruno Gehrig**
Chairman of the Board of Directors

**Rolf Dörig**
Chief Executive Officer

## Dear Shareholders



The Swiss Life Group achieved a profit of CHF 233 million in 2003, after recording a loss of CHF 1.7 billion the previous year. This gratifying result is attributable to operational improvements in all areas and a determined focus on boosting profitability. All the core markets contributed to the good overall result, including our domestic market, Switzerland, which is of particular importance to us. After experiencing a substantial loss in 2002 it returned to the profit zone in 2003, although conditions for Swiss group business are still unsatisfactory and remain unpredictable.

As to cutting costs and jobs, by the end of 2003 we had already reached the targets we set for the end of 2004. Operating expenses declined by 16% compared with the previous year. The improved financial result also contributed here. We furthermore adjusted our product conditions and bonus policy in line with economic realities.

As a consequence of our systematic focus on profitability, we were prepared for a decline in volume. Gross written premiums, at CHF 18.8 billion, were 4% lower than the preceding year. Premium volume in Switzerland decreased by 19%, while the other markets showed growth.

We have further bolstered the financial strength of the Swiss Life Group. Equity totalled CHF 5.0 billion on 31 December 2003, 19% higher than the previous year. Balance sheet risks were diminished further. As a result, our organisation is now less exposed to turbulence on the financial markets. Our newly-defined asset and liability management process is a valuable foundation for coordinating both sides of the balance sheet. We can thereby ensure that the promised benefits are covered by returns which can actually be achieved and that core capital will be able to absorb fluctuations in the value of assets.

The solvency ratio of the Swiss Life Insurance and Pension Company, which relates to more than 80% of the insurance business of the entire Group, stood at 179% on 31 December 2003 and demonstrates that our customers' assets are in safe hands at Swiss Life. A decisive contribution to this security comes from our uncompromising reserve policy, which guarantees that our reserves are always sufficient to meet existing obligations to policyholders.

We continued our targeted concentration on core business in 2003. Divestments included STG Schweizerische Treuhandgesellschaft, our business in Spain, Swiss Life Asset Management in the UK, and our participation in Crédit Agricole (Belgium). We have also found a solution for Swiss Life (UK). Swiss Life spun off its third-party private equity business in the first quarter of 2004.

Our structure was simplified by the delisting of Swiss Life/Rentenanstalt shares and the subsequent reduction in minority interests, and by the transfer of Swiss Life Asset Management units to Swiss Life Holding. We could thus better utilise the advantages of the holding company approach.

We continued to improve our corporate governance. In order to clearly delineate the various internal competencies and responsibilities and create an optimum structure for cooperation between the Board of Directors, management and internal control bodies, the Board of Directors revised the Organisational Regulations along with the regulations for each Board of Directors committee and for the Corporate Executive Board as of 1 December 2003.

Confidence was rekindled, thanks to all these measures and greater transparency in reporting, for example in stating country-specific operating results for our core business. We want to build on this confidence again this year.

Swiss Life is going places, moving in the right direction, at the right speed. However the turnaround is not yet complete. The Board of Directors will therefore propose to the General Meeting of Shareholders that no dividend be paid for 2003. We are going on the assumption that a dividend amounting to 25% to 30% of net profit will be declared for 2004. But there is still much for us to do. We need to focus even more on the needs of our customers.

We have already achieved the goals set for the end of 2004 in our cost-cutting programme, but we know that we are still not among the best in our business when it comes to costs. This is something we will continue to work on. To accomplish this we need to manage costs rigorously and consistently in all areas and at all levels.

We are again aiming for moderate premium growth in 2004. In the medium term, we want to achieve sustainable growth that outpaces the market, and thus expand our market share. This growth should primarily be organic and come from making better use of our distribution network and focusing more on benefits for our customers when it comes to product design and service provision. Swiss Life wants to distinguish itself from competitors in the quality of its advice and services. Improving service quality is accordingly a high priority for us in 2004, and corresponding programmes are under way in all our markets.

Underlying these efforts is a commitment to a performance-oriented corporate culture. This includes harmonising staff performance appraisals, setting clear criteria for determining salaries, and consistently using performance-linked salary components. Shared values are, however, also an important part of the corporate culture. They are the watchwords and signposts guiding us on our way. These values should also direct our day-to-day work, becoming second nature to us. They will thus come to represent a commitment to our customers, our shareholders and the general public. Everyone has to be aware of what they can expect of Swiss Life and its staff, what Swiss Life stands for.

To convey this internally and externally, in the course of implementing our strategy we have taken the step of streamlining our brand architecture and adapting our brand image. Our former complex brand structure with many different names and logos is being replaced by a simple, clear look with “Swiss Life” as the umbrella brand. The name “Rentenanstalt” will not be used in future. The new image will gradually be introduced in all markets by the end of 2005.

The debate on occupational provisions in Switzerland remains a matter of serious concern for us, as this is an important part of our business. We have taken a clear position on this issue. We were the first company to show support for rates determined strictly on the basis of actuarial and economic criteria. We were criticised for doing so, but it was necessary and it set the entire industry in motion. At the same time, we also called for more realistic operating parameters, and we will continue to do so. Discussions concerning the minimum interest rate in 2003 were already quite a bit more objective than a year earlier. Now that this rate has been reduced to 2.25% as of 1 January 2004, we can breathe more easily.

In the interest of our customers and a sustainable second pillar, we are determined to continue providing full coverage for as long as possible. This need is especially felt by small and medium-sized companies, which are normally not in a position to carry the insurance and investment risks on their own. It is up to the responsible political bodies to ensure that we can stay on course in providing security and stability.

However, politicians have missed their chance to deal expeditiously with the issue of an appropriate conversion rate. This has repercussions for us: as of 1 January 2005 we will be distinguishing between the mandatory portion of occupational benefits, for which the conversion rate is currently set at 7.2 %, and the supplementary portion, where rates can be set on a discretionary basis. We want to do this in a way that is as fair and accommodating as possible, considering the economic situation, to underscore our efforts to achieve secure and calculable occupational provisions.

In recent months, we have held concrete negotiations on the sale of Banca del Gottardo. After these were broken off, we decided to retain the bank as part of our organisation and to strengthen its market position. Because we are convinced of the bank's potential to appreciate in value, this is the best solution for the Swiss Life Group, its shareholders and customers, under the circumstances; after all, the bank was already well into the profit zone again in 2003, contributing significantly to the Group's return on equity.

The Board of Directors and the Corporate Executive Board expect the Swiss Life Group to make further visible improvements in profitability and to return to premium growth in 2004.

We wish to thank our shareholders, our customers and our business partners for their support and trust during the past year. A very special thank you goes to our staff, whose impressive performance under demanding conditions made our good result possible. Their dedication is a pledge for the future, and a pledge to our customers and shareholders.

**Bruno Gehrig**
Chairman of the Board
of Directors

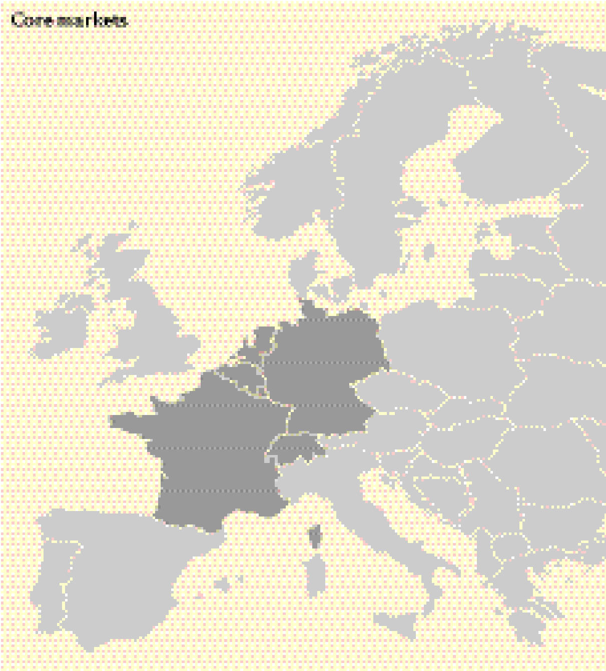
**Rolf Dörig**
Chief Executive Officer

## **Strategy** Swiss Life is aiming for a leading position in private and occupational provisions for the future. It focuses on markets which promise attractive growth and where it has a strong existing or potential position.

Swiss Life announced its new strategic direction in September 2002 and has been concentrating on its life insurance and pensions business ever since. Operational excellence, which involved an economy drive aimed at saving CHF 515 million in operating costs and reducing the headcount by 1500 positions by the end of 2004, formed an important cornerstone of the strategy. These targets had already been surpassed by the end of 2003. But even though these goals have been reached, operational excellence and strict cost management still represent principles which underpin corporate management at Swiss Life. The other strategic cornerstones are: strict business focus, streamlined structure, financial strength and performance-oriented corporate culture.

**Expertise that stands out thanks to focus on traditional strengths** Concentrating on core business enables Swiss Life to build on its traditional strengths: product knowledge and risk expertise, the quality of its advice and services and well-established, high-performance sales networks. The company is focusing on the core markets of Switzerland, France, Germany, the Netherlands, and Belgium and Luxembourg. These are markets which combine the prospect of sustainable, profitable growth with a strong or expandable market position for Swiss Life.

Multinational corporations around the world are served with a comprehensive range of pension solutions through the Swiss Life Network, which has 49 partners in 43 countries. Swiss Life moved to strengthen its competitive position at the beginning of 2004, announcing that a clear and straightforward brand architecture under the "Swiss Life" umbrella brand would replace the previous complex brand structure involving many different names and logos. The new corporate identity is designed to ensure that Swiss Life can position itself internationally as a leading provider of pensions and long-term savings.



**Functional organisation for streamlined management**
Swiss Life is functionally organised and run as an integrated enterprise. This is reflected in the division of responsibilities on the Corporate Executive Board and can be seen in the core markets. Along with the allocation of functional responsibilities across borders, each country has one person with market responsibility who is also responsible for results. This management structure ensures proximity to customers and a focus on results while facilitating risk management and Group-wide sharing of knowledge and resources.

**Sustainable risk and investment policy enhances financial strength** Swiss Life's asset and liability management (ALM) concept as redefined in 2003 ensures that promised benefits are covered by returns which can actually be achieved and that core capital will always be able to absorb any fluctuations in the value of assets. The investment portfolio is accordingly split, with one segment invested in such a way that guaranteed benefits are always covered when due. An "absolute return" strategy is pursued with the other segment. This procedure, combined with the application of strictly economic criteria in the setting of product conditions, ensures the sustainable generation of added value and at the same time keeps Swiss Life from becoming dependent on rising stock markets.

**Strong corporate culture based on clear goals and common values** Clear goals for returns and value creation are the foundation upon which a performance-oriented corporate culture can be built. In the medium term Swiss Life intends to generate a 10% return on equity (under International Financial Reporting Standards, IFRS) with growth above the market average. A catalogue of qualitative and quantitative performance indicators closely attuned to the strategy will support the process of managing and monitoring achievement of these goals. The common values defined in 2003 and serving as guidance for employees' actions are also an important element in the corporate culture. The five values: expertise, proximity, openness, clarity and commitment.

**Goal** Swiss Life is a leading provider of pensions and long-term savings.

**Mission** We are committed to helping people create a financially secure future. For Life.

**Values**

**Expertise:** We offer first-class solutions for pensions and long-term savings. This expertise is based on our proven professional competence and many years of experience.

**Proximity:** We foster close relationships with our customers and partners and endeavour to understand their needs. This proximity enables us to provide optimum solutions tailored to their requirements.

**Openness:** We nurture open and direct dialogue both within and outside of our organisation. This approach builds trust in the work we do.

**Clarity:** We communicate clearly and offer products and services that are comprehensible. This clarity gives our customers and partners a sense of security.

**Commitment:** We work with commitment and enthusiasm to help our customers, staff and shareholders achieve their goals. This commitment forms the basis of long-term partnerships, and enables us to meet our social responsibilities.

**Setting out.** "The idea of being my own boss had always appealed to me – and by opening my own beauty salon, I am now making it come true. When I was working for someone else, I would often think up better ways of doing things. My boss was sometimes receptive – and sometimes not. We'll now see whether my ideas are any good. Of course I have a business plan and my finances are under control. I am confident of establishing a steady source of regular customers fairly rapidly if I run my business well – which of course I will! Many of my friends and other acquaintances have promised to come by. I am sure that I'll also have walk-in customers as my studio is in an ideal location in the centre of Antwerp. I can't wait!"

**Voyages of discovery.** "I am a postman, which means that I know Munich like the back of my hand. That gave me the idea that I could work as a tourist guide at weekends – simply as something to do in my spare time. I'll avoid the tourist trail and take visitors places no coaches go. The City Hall, Frauenkirche and Hofbräuhaus are all sights that people can see on their own. I want to show visitors the Munich I know – the living city: the hidden treasures that you won't come across on your own, the shops that are not featured in any guidebooks, the small beer gardens frequented only by locals, and much more. I have already contacted several hotels and their reactions have all been positive. I am sure that you would recommend my city tour to your guests."

Beautician, Aline K. (27), is opening her own studio.

Postman, Sebastian M. (38), shows tourists around his city.

**Proximity.** Knowing how to relate to people is a key to success. The provision of pensions and long-term savings not only requires expertise and experience but also intuition: a feeling for what makes people tick, an ability to listen to their questions and concerns, an understanding of their personal wishes and objectives. Swiss Life believes it is essential to gain an in-depth knowledge and understanding of its customers and their personal circumstances. To find a suitable solution in each and every case.

## Summary of Group results The Swiss Life Group generated a profit of CHF 233 million in 2003. This clear return to the profit zone was attributable to the unwavering focus on profitability and operational progress in all areas. In return, the company had to accept a 4 % decline in premium volume, which fell to CHF 18.8 billion. Equity rose by 19 % to CHF 5.0 billion.

The measures to restore profitability began to have an impact in 2003. Following a loss of CHF 1.7 billion in the previous year, the Swiss Life Group generated a profit of CHF 233 million in 2003. Operating income stood at CHF 557 million (prior-year loss: CHF 801 million). The Life Core segment (Switzerland, France, Germany, the Netherlands and Belgium/Luxembourg) contributed CHF 341 million to this figure.

Gross written premiums decreased by 4% to CHF 18.8 billion. This slight decline was accepted in the interests of restoring profitability and in support of the corresponding pricing and underwriting policy measures. In core business, premiums fell 2% to CHF 16.1 billion. The declining premium volume in Switzerland (down 19%) was not quite offset by premium growth in the other markets.

The financial result improved 24% from the previous year, where high losses had to be realised in the process of reducing the company's equity exposure, to stand at CHF 5.8 billion. In the year under review investment maturities were extended, resulting in the duration gap between assets and liabilities being narrowed, and the interest-rate risk thus being reduced. The return on insurance portfolio investments came to 4.7% after costs (previous year: 3.3%). Net equity exposure stood at 2.1% as of 31 December 2003.

Benefits paid including changes in insurance reserves fell 4% to CHF 15.5 billion. However, there was actually a 12% rise in insurance benefits paid, which came to CHF 14.5 billion. This increase is primarily attributable to contract terminations in Switzerland. Changes in insurance reserves for future benefits, on the other hand, dropped from CHF 2.6 billion to CHF 693 million as a consequence of the lower premium volume and the contract terminations. The outlay on policyholder bonuses and participation in surplus rose by more than 150% to CHF 871 million, owing to the rise in investment income.

As a result of the cost-reduction programme and falling volumes, operating expenses fell 16% from their prior-year level to stand at CHF 2.9 billion. The reductions of CHF 515 million in operating costs and 1500 FTE positions targeted for the end of 2004 had already been exceeded by the end of 2003, with CHF 532 million in cost savings and an FTE reduction of 1800. As of 31 December 2003 the Swiss Life Group employed a workforce of 10 015 on a full-time-equivalent basis.

Total equity stood at CHF 5.0 billion on 31 December 2003. The 19% increase compared to the end of 2002 resulted, above all from the mandatory convertible securities issued in December (CHF 320 million, net) and the increase in unrealised gains on investments (CHF 177 million), as well as from profit. Core capital for capital adequacy purposes, which includes deferred Group-related funds in addition to core capital, improved by 17% to stand at CHF 8.8 billion. Additional write-downs were taken on investments totalling CHF 735 million along with reductions in goodwill and tax-loss carryforwards of CHF 468 million.

Assets under management came to CHF 184.2 billion on 31 December 2003, representing a slight increase in spite of the sale of STG Schweizerische Treuhandgesellschaft (previous year: CHF 184.0 billion).

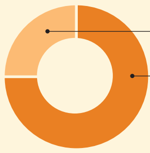
## Life Core Following a loss of CHF 561 million in the previous year, Swiss Life generated CHF 341 million in operating income from the Life Core segment in 2003. Measures to restore profitability were a key feature of the 2003 financial year. While gross premium income edged down 2 % to CHF 16.1 billion, operating expenses were reduced by 7 %.

**Switzerland** Premium income for the Swiss life insurance market as a whole went down 4% in 2003 according to estimates by the Swiss Insurance Association, to stand at around CHF 33 billion. Market volumes receded for individual business in particular, especially where single-premium business was concerned. Swiss Life did experience a reduction in market share, related to its concentration on profitability, but still ranks as market leader in individual insurance and holds second place for group business.

For Swiss Life, the keynotes of the 2003 financial year in its domestic market, Switzerland, were the implementation of its new strategy and the restoration of confidence among clients and the public. The central feature of the strategic realignment was the clear focus on profitability following the previous year's loss of CHF 566 million. Swiss Life adjusted its product and pricing structure accordingly with effect from the beginning of the year. Important factors in this adjustment were the strong rise in disability claims (reflecting the state of the economy) and the moves to pass administrative charges back to the parties originating the costs. The cost-reduction programme went forward faster than planned, resulting in a 20% decline in operating expenses compared with the year before. The measures taken had the desired effect and Swiss Life returned to the profit zone with an operating result of CHF 76 million.

Since Swiss Life was now emphasising profitability, it knew it would have to accept a decline in premium income. Gross written premiums fell back by 19% compared to the previous year, to CHF 6643 million. The drop was due above all to the decline in single premiums, which went down 34% from the prior-year figure to stand at CHF 3094 million. The very low level of interest rates continued to have a negative impact on premium volume for this product category. Swiss Life recorded a rise of 1% in periodic premiums compared to the 2002 figure, bringing them to CHF 3370 million for 2003. A reduction of 19% was recorded in insurance benefits (including changes in insurance reserves), which fell to CHF 7748 million. This reflected the departure of certain major clients as well as the decline in premiums. Both causes were also a factor in the development of technical provisions, which were 2% lower as of 31 December 2003 than at the end of 2002.

**Premiums for Switzerland, by type of insurance**




**Key figures for Switzerland**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premiums, policy fees and deposits under investment contracts | **6 643** | 8 196 | –18.9% |
| Net earned premiums and policy fees | **6 460** | 7 848 | –17.7% |
| Financial result | **2 364** | 2 297 | 2.9% |
| Other income including fees | **– 33** | 109 | n.a. |
| **Total revenue** | **8 791** | 10 254 | –14.3% |
| Benefits paid and changes in insurance reserves | **–7 448** | –9 158 | –18.7% |
| Policyholder bonuses and participation in surplus | **– 230** | – 288 | –20.1% |
| Interest expenses | **– 283** | – 430 | –34.2% |
| Total benefits, losses and interest expenses | **–7 961** | –9 876 | –19.4% |
| Total operating expenses | **– 754** | – 944 | –20.1% |
| **Operating result** | **76** | – 566 | n.a. |
| Assets under management | **55 958** | 65 993 | –15.2% |
| Insurance reserves | **55 409** | 56 530 | –2.0% |
| Number of employees (full-time equivalent) | **2 600** | 2 969 | –12.4% |

The company saw a 14% decline in group premiums over the year, bringing the figure to CHF 4914 million. While income from periodic premiums went up 3%, single premiums decreased by 26% to CHF 2452 million. The reduction in premium income despite the stable performance of the market as a whole was due to the focus on business profitability referred to above. The favourable impact of the measures to boost profitability is also revealed in the generation of new business; in contrast to the two previous years this figure turned positive again in 2003.

Swiss Life's written premiums for individual insurance dropped 31% from the prior-year figure to stand at CHF 1663 million, while the shrinkage in volume for the market as a whole came to 12%. Single premium business in particular suffered from the historically low interest rates, which made this product category unattractive to customers concerned about their returns. Swiss Life continued to feel the influence of the previous year's loss of confidence. In addition, a large number of contracts dating back to promotional campaigns in 1998 reached the end of their terms and expired. It only proved possible to arrange for reinvestment of a very limited portion of these funds.

Uncertainty over the operating conditions for group business continued to be a factor in 2003. Although the minimum required interest rate was indeed lowered from 4.00% to 3.25% as of 1 January 2003, it remained significantly higher than the risk-free interest rate, with the average yield on 10-year Swiss federal bonds working out at 2.50% for the year. The Federal Council has reduced the guaranteed interest rate further to 2.25% as of 1 January 2004. How and when the minimum rate should be set in future is not clear. The high conversion rate for mandatory insurance is another talking point: in view of today's life expectancies and the trend in interest rates, the current 7.2% is clearly too high and favours the generation of retired persons at the expense of the working population. Moreover, the reduction to 6.8% by 2014 as foreseen by the lawmakers does not correspond to reality at all.

These uncertainties led some competitors to introduce new employee benefit models onto the market, incorporating different treatment for mandatory and supplementary (optional) benefits and shifting part of the financial market risks onto the employee benefits foundations and thus the people insured. In Swiss Life's view, the minimum interest rate must be set using a model which is binding, flexible, market-related, transparent, plannable, economically viable and applicable to the investment possibilities, in order to have a secure system of employee benefits which is calculable for all concerned. The conversion rate must be brought in line with reality as well. Since the political decision on the conversion rate was delayed, Swiss Life also decided to separate mandatory from supplementary business and to adjust the conversion rate for supplementary business with effect from 2005. The company intends to avoid an abrupt change to the actuarially appropriate rate of 5.835% for existing customers, however, and is instead offering them a solution in which the conversion rate will be lowered successively in stages over the following three years. Swiss Life is thus accommodating its existing clientele.

Market development stands in the foreground for 2004 following the return to profitability. The company is also aiming to gradually recapture the market share lost in the previous year by pursuing a systematic orientation towards service with a high standard of quality and by further optimising the product range. Swiss Life changed the compensation system for its distribution channels as of 1 January 2004 in order to reinforce customer loyalty and improve its competitive position for the future. Customer servicing is now being given more weight in the distribution organisation's remuneration, and with it the quality created by a longer-term customer relationship.

**France** With a volume of EUR 93 billion, France represents the second-biggest life insurance market in Europe, and one that grew another 9% in 2003. Swiss Life ranks thirteenth in France with a market share of 2.4%. In health insurance the company holds fourth place with a share of 9%. Products are distributed via the organisation's own external sales force and via brokers. In Erisa, a joint venture between Swiss Life and Crédit Commercial de France (HSBC Group), Swiss Life also enjoys direct access to the growing distribution network represented by banks.

In 2003, Swiss Life's emphasis in France was on boosting profitability and carrying out a restructuring. As a consequence, premium income came in 1% lower in the local currency than the previous year's level even though the market was growing. Premium volume came to CHF 4760 million in Swiss francs, amounting to a rise of 2% against 2002. Products with periodic premiums recorded virtually no change in volume against the prior year, while unit-linked products showed an increase. Income from single premiums edged down slightly.

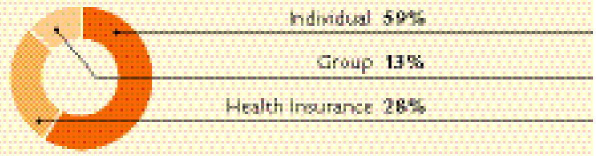
As a provider of individual protection products for the French market, Swiss Life is also active in health insurance in France. Premium volume in this sector went up 2% from the previous year's level. Swiss Life subjected its contracts in this sector to close review for profitability, and gave notice on contracts it found unprofitable.

Bolstered by the higher financial result, reflecting the positive influence of the financial market recovery (in contrast to the large losses that had to be taken in the previous year), Swiss Life's revenue increased by 13% to stand at CHF 3257 million. Operating expenses rose 10% from their prior-year level (up 6% in local currency), chiefly due to the higher outlay on commissions. This produced an operating result of CHF 123 million (+16%).

Swiss Life proceeded systematically with the implementation of its new strategy and the matrix organisation in France in 2003. The distribution organisation was streamlined and simplified. Additional highlights of the period under review included moving into the new head office on Boulevard Haussmann in Paris and transferring the chairmanship from Jean-Antoine Chabannes to Jacques Richier, who was already responsible for Swiss Life's business operations in France as CEO.

The pension reform passed by the French parliament in August 2003 opens up new possibilities for insurers in that market. A tax deduction of up to 10% of income (EUR 23 769 maximum) can be claimed for individual supplementary pensions under the "Plan d'épargne-retraite populaire" (PERP). Among the main priorities for Swiss Life in 2004 are launching and marketing insurance solutions in connection with the pension reform, strengthening the cross-selling of health and life insurance products and instituting further measures to raise efficiency.

**Premiums for France, by type of insurance**




**Key figures for France**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premiums, policy fees and deposits under investment contracts | **4 760** | 4 653 | 2.3% |
| Net earned premiums and policy fees | **2 107** | 1 934 | 8.9% |
| Financial result | **1 134** | 921 | 23.1% |
| Other income including fees | **16** | 25 | –36.0% |
| **Total revenue** | **3 257** | 2 880 | 13.1% |
| Benefits paid and changes in insurance reserves | **–1 730** | –1 498 | 15.5% |
| Policyholder bonuses and participation in surplus | **–217** | –153 | 41.8% |
| Interest expenses | **–582** | –575 | 1.2% |
| Total benefits, losses and interest expenses | **–2 529** | –2 226 | 13.6% |
| Total operating expenses | **–605** | –548 | 10.4% |
| **Operating result** | **123** | 106 | 16.0% |
| Assets under management | **26 788** | 23 164 | 15.6% |
| Insurance reserves | **6 435** | 5 660 | 13.7% |
| Number of employees (full-time-equivalent) | **1 518** | 1 522 | –0.3% |

**Germany** Germany is the third-biggest life insurance market in Europe and showed a growth rate of 3.6% in 2003. Swiss Life's share of this highly fragmented market works out at 1.6%. The good development of new individual insurance business enabled Swiss Life to outpace the growth of the market in the year under review. Total premium income expanded by more than 5% in local currency terms, while premium volume expressed in Swiss francs was up 9% to CHF 1766 million.

Following an operating loss in Germany of CHF 9 million in the previous year, Swiss Life recorded CHF 40 million in operating income for 2003. Along with a higher financial result, the improvement in the operating result is attributable to clear progress on the operations side and a good sales performance. The improvement to the financial result reflected the recovery on the financial markets, which meant the big losses of the previous year did not recur. The largest portion of the financial returns was passed on to policyholders in the form of bonuses or allocated to surplus reserves in accordance with the applicable German law. Thanks to the systematic realisation of the cost-reduction programme launched in 2002, Swiss Life lowered administrative costs to the point where operating expenses were brought down by 1% despite the pronounced growth in premiums in the local currency. The migration of data to the new IT platform went according to plan, creating the preconditions for further increases in efficiency.

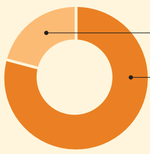
Product quality is a big factor in Swiss Life's success in the German market. In the "bAV Product Awards 2003" the company emerged the winner as the best provider of occupational pension products. In addition Swiss Life ranks with the very best in the "occupational disability insurance" product category, according to a study by Morgen & Morgen GmbH, a company specialising in peer comparisons.

In the framework of the efficiency drive which started in 2002, Swiss Life reorganised its distribution in 2003 and cut the number of regional managements by eight locations, bringing the total to 29. With new approaches to relationship management the company strengthened the sales channel representing financial services providers.

The confidence-building campaign launched in 2003 and the high level of competence in occupational pension benefits further cemented Swiss Life's relations with the brokers, who constitute its most important sales channel in Germany.

Given the continued uncertainty about state social security benefits, Swiss Life expects new business to show another significant rise in 2004. Service quality is to be steadily increased, the position as the brokers' provider of choice is to be built up further and the remaining potential for boosting efficiency is to be utilised.

**Premiums for Germany, by type of insurance**




**Key figures for Germany**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premium, policy fees and deposits under investment contracts | **1 766** | 1 620 | 9.0% |
| Net earned premiums and policy fees | **1 673** | 1 539 | 8.7% |
| Financial result | **931** | 355 | 162.3% |
| Other income including fees | **– 19** | – 12 | 58.3% |
| **Total revenue** | **2 585** | 1 882 | 37.4% |
| Benefits paid and changes in insurance reserves | **–1 821** | –1 580 | 15.3% |
| Policyholder bonuses and participation in surplus | **– 435** | – 22 | n.a. |
| Interest expenses | **– 22** | – 29 | –24.1% |
| Total benefits, losses and interest expenses | **–2 278** | –1 631 | 39.7% |
| Total operating expenses | **– 267** | – 260 | 2.7% |
| **Operating result** | **40** | – 9 | n.a. |
| Assets under management | **16 349** | 14 341 | 14.0% |
| Insurance reserves | **16 709** | 14 768 | 13.1% |
| Number of employees (full-time-equivalent) | **775** | 817 | –5.1% |

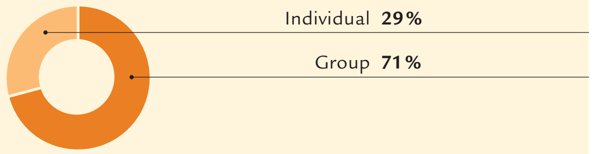
**Netherlands** Swiss Life ranks eighth in volume terms in the Netherlands life insurance market, giving it a position among the most important providers. It represents an interesting alternative to Dutch providers and enjoys a very high recognition factor with its Zwitserleven brand. The market in the Netherlands is heavily concentrated, with the five largest companies accounting for two-thirds of the business. Market volume remained flat in 2003, but a slight upturn is expected again for the years ahead. Half the premium volume in the Netherlands is transacted via independent brokers, and Swiss Life concentrates on this distribution channel.

Swiss Life generated CHF 101 million in operating income in the Netherlands for 2003 (previous year: CHF 34 million). A new contract with the pension fund for HBG, a Dutch construction company, was a highlight of the financial year. The contract involved a single premium of around EUR 570 million, which in turn resulted in premium growth of 63% in local currency terms. Swiss Life designed a model that will guarantee the pension fund's commitments to the insured persons. Total premium volume for the Netherlands came to CHF 2356 million (+68%). Even without the contract just mentioned, Swiss Life would have increased its premiums received: the volume of new group business went up 65% from the prior-year level while new individual business showed a 13% increase. New products and an improved operating performance made significant contributions to this growth. In tandem with the expansion in volume, insurance benefits advanced by 76% while insurance reserves were augmented by 23%. Operating expenses climbed 11% to CHF 199 million, mainly due to higher acquisition costs. In local currency terms the rise in operating expenses came to 7%.

Swiss Life introduced a number of measures in the year under review to align its processes and systems even better with customer requirements and to reinforce customer loyalty. Key elements were the introduction of a software package for customer relationship management and the launching of an extranet for brokers.

Third-pillar provisions are continuing to gain in significance in the Netherlands as well, in view of demographic trends and the strain on public sector budgets. In addition, independent pension funds are increasingly turning to insurance companies for solutions. Swiss Life intends to utilise these changes and opportunities in the market in 2004 to further reinforce its position as *the* life and pension insurer in the Dutch market. Swiss Life also wants to make further progress on customer satisfaction so it can rank among the best in this area in 2005.

**Premiums for the Netherlands, by type of insurance**




**Key figures for the Netherlands**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premiums, policy fees and deposits under investment contracts | **2 356** | 1 399 | 68.4% |
| Net earned premiums and policy fees | **2 020** | 1 074 | 88.1% |
| Financial result | **503** | 343 | 46.6% |
| Other income including fees | **8** | 13 | –38.5% |
| **Total revenue** | **2 531** | 1 430 | 77.0% |
| Benefits paid and changes in insurance reserves | **–2 296** | –1 307 | 75.7% |
| Policyholder bonuses and participation in surplus | **98** | 129 | –24.0% |
| Interest expenses | **–33** | –39 | –15.4% |
| Total benefits, losses and interest expenses | **–2 231** | –1 217 | 83.3% |
| Total operating expenses | **–199** | –179 | 11.2% |
| **Operating result** | **101** | 34 | 197.1% |
| Assets under management | **15 558** | 13 115 | 18.6% |
| Insurance reserves | **13 043** | 10 602 | 23.0% |
| Number of employees (full-time-equivalent) | **726** | 790 | –8.1% |

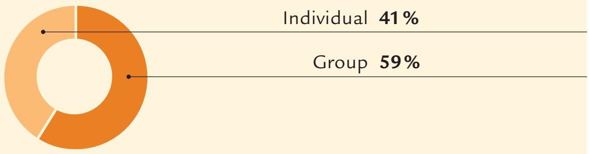
**Belgium/Luxembourg** With a volume of EUR 6 billion, Belgium is a medium-sized life insurance market with interesting growth prospects. Luxembourg is an important centre for cross-border insurance business. In Belgium Swiss Life ranks in eighth position in volume terms and in Luxembourg, ninth. Swiss Life offers a wide and varied range of employee benefits solutions in both countries. A number of different sales channels are employed: general agents, brokers, direct sales and banks. For the sake of efficiency the two countries together constitute the core market of Belgium/Luxembourg.

The operating result with a profit of CHF 1 million was a marked improvement on the previous year, when the result still showed a loss of CHF 126 million. The 31% reduction in operating expenses to CHF 74 million in connection with the restructuring programme was a major contributing factor, along with the higher financial result of CHF 137 million (previous year: CHF 41 million). Premium volume rose 6% to CHF 566 million, with the Belgian market accounting for 80% and the Luxembourg market for 20%. In the local currency, this represented a 2% increase.

Business in Belgium was hampered in the first half of 2003 by the streamlining of the distribution structures conducted during that period and by the still-perceptible loss of confidence from the previous year. The sale of the equity stake in Crédit Acricole S.A. (Belgium) also had a negative impact because the turnover generated via this sales channel declined. The uncertainty occasioned by the sale of this participation with regard to collaboration with Crédit Agricole was cleared away by new agreements between the parties involved. Swiss Life is looking for further such distribution partnerships in Belgium. The second half of the year saw an increase in premium volume brought about by confidence-building measures and also thanks to greater effectiveness on the sales front. Swiss Life also achieved a modest upturn in premium volume in Luxembourg.

A new law coming into force in Belgium in 2004 introduces the second pillar for the self-employed and reorganises the system of group coverage for small and medium-sized enterprises (SMEs). Swiss Life plans to exploit the resultant increased demand for employee benefit products selectively and concentrate above all on the self-employed, as well as SMEs. In Luxembourg, Swiss Life will continue to forge ahead with the expansion of cross-border insurance business.

**Premiums for Belgium/Luxembourg, by type of insurance**




**Key figures for Belgium/Luxembourg**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premiums, policy fees and deposits under investment contracts | **566** | 535 | 5.8% |
| Net earned premiums and policy fees | **270** | 265 | 1.9% |
| Financial result | **137** | 41 | 234.1% |
| Other income including fees | **–** | – 9 | n.a. |
| **Total revenue** | **407** | 297 | 37.0% |
| Benefits paid and changes in insurance reserves | **– 261** | – 262 | –0.4% |
| Policyholder bonuses and participation in surplus | **– 21** | – 15 | 40.0% |
| Interest expenses | **– 50** | – 39 | 28.2% |
| Total benefits, losses and interest expenses | **– 332** | – 316 | 5.1% |
| Total operating expenses | **– 74** | – 107 | –30.8% |
| **Operating result** | **1** | – 126 | n.a. |
| Assets under management | **3 310** | 3 312 | –0.1% |
| Insurance reserves | **1 945** | 1 715 | 13.4% |
| Number of employees (full-time-equivalent) | **314** | 428 | –26.6% |

## Life Non-Core Swiss Life achieved an operating result of CHF 67 million in non-core life business, after posting a loss of CHF 157 million the previous year. Gross premium income decreased 20 % to CHF 1646 million.

During the review period, in line with its concentration on core business Swiss Life sold its company in Spain and stopped writing new business in the UK. As a result, premium income shrank 20% to CHF 1646 million and operating expenses fell 48% to CHF 189 million. With a financial result 43% higher at CHF 450 million, the operating result came to CHF 67 million, in contrast to the loss of CHF 157 million registered the previous year.

**«La Suisse»** «La Suisse» Vie, which operates in Switzerland, saw premium income climb 14% to CHF 780 million in 2003. This was the result of growth in new business and the successful sale of a combined product for health, accident and occupational benefits (TOTEM). Lower costs and higher volumes boosted profitability. The decision to no longer include «La Suisse» in core business was reviewed and confirmed in the course of 2003.

**United Kingdom** Because of its special focus on risk insurance, a capital-intensive market niche, Swiss Life (UK) is no longer classified as belonging to the Group's core business. To get the best possible value in pulling out of the UK market, Swiss Life decided in July 2003 to stop writing new business in the capital-intensive individual insurance segment. After examining various scenarios for group business, Swiss Life finally settled on an agreement with UnumProvident in the fourth quarter of 2003.
As of 1 January 2004 Swiss Life (UK)'s Group Income Protection portfolio will be reinsured with UnumProvident, and Claims Services International Ltd., a subsidiary of UnumProvident, will process the claims. In addition, UnumProvident will become a Swiss Life Network partner.

**Spain** In Spain, Swiss Life sold its subsidiary Swiss Life (España) to VidaCaixa. Spain has not been among the Group's core markets since September 2002, as considerable investment would have been required for the company to achieve critical mass in terms of the Spanish insurance market.

**Italy** Swiss Life's focus in Italy is on group risk business. In this respect, the Swiss Life network in particular is still maintaining a presence in that country. The Group no longer writes new individual business. Combined with a stagnating group portfolio, this led to a decline in premiums in the Italian market during the period under review.

**Key figures for Life Non-Core**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premiums, policy fees and deposits under investment contracts | **1 646** | 2 045 | –19.5% |
| Net earned premiums and policy fees | **1 322** | 1 592 | –17.0% |
| Financial result | **450** | 315 | 42.9% |
| Other income including fees | **18** | 17 | 5.9% |
| **Total revenue** | **1 790** | 1 924 | –7.0% |
| Benefits paid and changes in insurance reserves | **–1 445** | –1 657 | –12.8% |
| Policyholder bonuses and participation in surplus | **–49** | –20 | 145.0% |
| Interest expenses | **–40** | –39 | 2.6% |
| Total benefits, losses and interest expenses | **–1 534** | –1 716 | –10.6% |
| Total operating expenses | **–189** | –365 | –48.2% |
| **Operating result** | **67** | –157 | n.a. |
| Assets under management | **8 703** | 11 082 | –21.5% |
| Insurance reserves | **8 225** | 9 388 | –12.4% |
| Number of employees (full-time equivalent) | **912** | 1 240 | –26.5% |

## Non-Life Swiss Life's operating income in the Non-Life segment came to CHF 23 million in 2003. Gross written premiums remained stable and operating expenses were down 10 %. The combined ratio improved from 121 % to 108 %.

The Non-Life segment no longer forms part of Swiss Life's core business. Nevertheless, various sales channels for non-life indirectly support life business in France and Belgium, as well as at «La Suisse».

Conservative underwriting practices and the restructuring of the insurance portfolio led premium volume of CHF 1075 million to remain at practically the same level as the previous year. An improved claims ratio and cost-cutting measures both contributed to the better operating result of CHF 23 million, as against the previous year's loss of CHF 95 million.

**«La Suisse»** At «La Suisse» premium income remained the same as the year before at CHF 399 million. Higher prices and lower agents' commissions (especially in motor insurance) led to a significantly improved result, but had a negative impact on the volume of business.

**France** In France non-life premium income totalled CHF 601 million, gross. This is equivalent to a decline of 1%, or 4% in the local currency. Conservative underwriting practices and strict attention to reorganising the portfolio brought about an improvement of 13 percentage points in the claims ratio.

**Belgium** In Belgium, where Swiss Life conducts property insurance business through ZELIA, gross written premiums fell by 4% to CHF 74 million in 2003. In the local currency, this was equivalent to a decline of 8%. The lower premium volume was the result of streamlining the distribution structure and reorganising the insurance portfolio.

**Key figures for Non-Life**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Gross written premiums | **1 075** | 1 080 | –0.5% |
| Net earned premiums | **962** | 1 004 | –4.2% |
| Financial result | **119** | 84 | 41.7% |
| Other income including fees | **5** | 15 | –66.7% |
| **Total revenue** | **1 086** | 1 103 | –1.5% |
| Benefits paid and changes in insurance reserves | **–726** | –868 | –16.4% |
| Policyholder bonuses and participation in surplus | **–18** | 25 | n.a. |
| Interest expenses | **–3** | –4 | –25.0% |
| Total benefits, losses and interest expenses | **–747** | –847 | –11.8% |
| Total operating expenses | **–316** | –351 | –10.0% |
| **Operating result** | **23** | –95 | n.a. |
| Claims ratio | **75.5%** | 86.5% | –11.0 [2] |
| Expense ratio | **32.9%** | 34.9% [1] | –2.0 [2] |
| Combined ratio | **108.4%** | 121.4% [1] | –13.0 [2] |
| Number of employees (full-time equivalent) | **1 301** | 1 352 | –3.8% |

1) Due to reclassification (see note 40 to the Financial Statements) the figures for 2002 differ slightly from those published last year.

2) Percentage points

## Private Banking The loss on the sale of STG Schweizerische Treuhandgesellschaft resulted in an overall loss of CHF 19 million for the Private Banking segment. Without this the segment would have registered a profit of CHF 86 million. Banca del Gottardo posted a good result.

Continuing its concentration on core business, Swiss Life sold STG Schweizerische Treuhandgesellschaft for CHF 197 million to the LGT Group, effective 25 June 2003. Consequently, the Private Banking segment now consists primarily of Banca del Gottardo.

During the year under review, operating profit came to CHF 86 million. The CHF 105 million loss on the sale of STG resulted in a loss of CHF 19 million for the Private Banking segment. Compared with the previous year, when Banca del Gottardo recorded extraordinary write-downs, valuation adjustments and provisions, this represents an improvement of CHF 90 million.

Assets under management on 31 December 2003 amounted to CHF 41.8 billion. An increase of CHF 0.3 billion was generated despite the loss of assets managed by STG. The number of full-time positions decreased by 400 to 1205, whereby the 329 jobs at STG constituted the lion's share of this reduction.

**Banca del Gottardo** Banca del Gottardo's result was significantly better than its figures for 2001 and 2002. Gross profits, at CHF 174 million, were 54% higher than the previous year (all figures in this section are calculated on a local basis). The net profit came to CHF 85 million. In the previous year, the company experienced a loss of CHF 160 million stemming from extraordinary write-downs, valuation adjustments and the strengthening of provisions.

Net income increased to CHF 467 million, 4% higher than the preceding year, principally as a result of the 52% growth in trading income, which totalled CHF 72 million. Revenue from commissions and services was slightly lower, declining 7% to CHF 232 million; similarly, revenues from interest operations slipped 5% to CHF 148 million. Business expenses were reduced by 13% to CHF 293 million.

On 31 December 2003 consolidated equity stood at CHF 910 million, a 10% increase. In terms of the provisions of the law, the bank thus has a capital surplus of CHF 388 million.

At the end of the year assets under management at Banca del Gottardo totalled CHF 38.5 billion, an increase of 5%. The second Italian tax amnesty resulted in a net outflow of CHF 500 million. Of the CHF 1.2 billion in assets transferred out of Switzerland, CHF 700 million went to accounts at the subsidiary Banca del Gottardo Italia.

**Key figures for Private Banking**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Fee income | **313** | 392 | –20.2% |
| Financial result | **164** | 285 | –42.5% |
| Other income | **27** | 27 | 0.0% |
| **Total revenue** | **504** | 704 | –28.4% |
| Total interest expenses and expenses from interest operations | **– 103** | – 227 | –54.6% |
| Total operating expenses | **– 420** | – 586 | –28.3% |
| **Operating result** | **– 19** | – 109 | –82.6% |
| Assets under management | **41 773** | 41 472 | 0.7% |
| Number of employees (full-time equivalents) | **1 205** | 1 595 | –24.5% |

## Investment Management Swiss Life's Investment Management segment generated a profit of CHF 95 million. In addition to ongoing business, the focus in 2003 was on defining and introducing new processes in asset and liability management. Compared to the previous year, assets under management rose by 8 % to CHF 99.4 billion.

The investment management segment manages the insurance assets of Swiss Life, amounting to CHF 83.0 billion, as well as third-party assets of CHF 16.4 billion.

For its insurance assets, Swiss Life uses an integrated asset and liability management approach (ALM). This approach forms the basis for determining asset allocation and ensures that assets are congruent with obligations and that the requisite risk capital is compatible with the organisation's risk appetite. To achieve this, and for monitoring purposes, investments have been divided into two portfolios: an ALM portfolio and an absolute return portfolio. In the ALM portfolio, cash flows on either side of the balance sheet should match one another as closely as possible. The second group of assets is invested in a portfolio with an absolute return approach. Policyholders profit from the ensuing investment returns in the form of bonuses, while equity also receives a boost, thus benefiting the shareholders.

In 2003, in the course of concentrating on core business, Swiss Life Asset Management Spain was dissolved and Swiss Life Asset Management UK was sold. Fund business was also reorganised. Swiss Life Funds AG is now focusing exclusively on its core function of managing the funds governed by Swiss law. Activities related to fund strategy and product management, also for foreign funds, were transferred to the newly-established company Swiss Life Funds Business AG at the end of 2003.

Although the first signs of a recovery in both the global economy and equity markets were perceived at the end of 2003, for long stretches of the financial year conditions for asset management remained challenging. Swiss Life posted a profit of CHF 95 million in the Investment Management segment. The decline of 10% compared with the previous year can be traced to the markedly lower financial result (CHF 42 million less, a reduction of 16%), whereby the sale of Swiss Life Hedge Fund Partners Ltd. the year before realised a profit of CHF 92 million.

The 17% decline in fee income to CHF 188 million is principally a consequence of the concentration on core business. All in all, the CHF 238 million in income is 14% lower than in the preceding year. On the other hand, operating costs decreased by 17% to CHF 142 million. The cost-reduction programme introduced in 2002 had a positive impact, as did the various divestments. The investment management segment had 413 employees on 31 December 2003, a staff reduction of 26%.

**Key figures for Investment Management**

| in CHF million | 2003 | 2002 | +/-% |
|---|---|---|---|
| Fee income from investment | **188** | 228 | –17.5% |
| Financial result | **42** | 50 | –16.0% |
| Other income | **8** | 1 | – |
| **Total revenue** | **238** | 279 | –14.7% |
| Total interest expenses and interest-related expenses | **–1** | –1 | 0.0% |
| Total operating expenses | **–142** | –173 | –17.9% |
| **Operating result** | **95** | 105 | –9.5% |
| Assets under management | **99 400** | 92 500 | 7.5% |
| Number of employees (full-time equivalents) | **413** | 558 | –26.0% |

## Swiss Life Network The Swiss Life Network specialises in comprehensive employee benefit plans for multinational corporations. The 2003 business volume came to CHF 1.9 billion. The network embraced 49 partners in 43 countries at the end of 2003.

The pooling system is a key element in the employee benefit solutions delivered by the Swiss Life Network. A multinational company's group insurance contracts with companies in the Swiss Life Group or with partners in the Swiss Life Network are aggregated in a pool. This enables the client company to enjoy a broader, and therefore better, distribution of the risks. For instance, UBS has insured some 4000 employees in 18 countries using a pool solution, which allows this major Swiss bank to have a central voice in the structure, benefits and costs of the different pension plans in its various locations. Favourable loss experience within the pool means the costs are reduced. As an additional service, UBS always receives up-to-date information on the local social insurance situation and the customary plans in the country concerned.

The Swiss Life Network is present in 43 countries either through members of the Swiss Life Group or partnerships with leading local insurers, and can thus provide ideal coverage for the needs of multinational corporations.

The Swiss Life Network continued to perform a twofold function in 2003: pooled premiums contributed directly to the Swiss Life Group's gross written premiums, and the network made it possible to forge and maintain important contacts with multinational clients, thereby providing continued support for the business of the branches and subsidiaries in the Swiss Life Group.

The Swiss Life Network was able to uphold its leading position in a difficult economic environment. There is a clear tendency for multinationals to demand more service level agreements in which the scope and quality of services and guarantees are set down in binding form in writing. Entering into such agreements, delivering an outstanding cost/benefit performance for the client and maintaining excellent personal relations at all levels are increasingly becoming key success factors and will remain so in the competitive marketplace of the near future.

Canada Life (US) in the USA, OM Kotak Mahindra (India) and UnumProvident (UK) all joined the Swiss Life Network in the year under review. In Canada, Great-West took over the previous partner Canada Life and is now serving as the new network partner. In Spain, VidaCaixa took over Swiss Life (España) and joined the network at the same time.

### Europe/Africa

| | |
|---|---|
| Austria | Wiener Städtische |
| Belgium | Swiss Life (Belgium) |
| Czech Republic | Kooperativa |
| Denmark | Danica Pension [1)] |
| | International Health Insurance (IHI) |
| | PFA Pension |
| Finland | Ilmarinen |
| | Suomi Group |
| France | Société suisse (France) |
| Germany | Schweizerische Rentenanstalt (Swiss Life) |
| Greece | Aspis Pronia |
| Hungary | Union Biztosító |
| Ireland | Irish Life |
| Italy | Swiss Life (Italia) |
| Luxembourg | Swiss Life (Luxembourg) |
| Netherlands | ZwitserLeven (Swiss Life) |
| Norway | Vital Forsikring ASA |
| Poland | Compensa |
| Russia | Rosgosstrakh |
| Slovakia | Kooperativa |
| South Africa | Momentum Life |
| Spain | Swiss Life (España) |
| | VidaCaixa |
| Sweden | Danica Fondförsäkring |
| Switzerland | Swiss Life (Head office) |
| | «La Suisse» (Non-Life) |
| United Kingdom | Swiss Life (UK) |
| | UnumProvident |

1) Health insurer for Swiss Life Network's international clients

### North and South America

| | |
|---|---|
| Argentina | Galicia Vida Compañia de Seguros |
| Brazil | Icatu Hartford Seguros |
| Canada | Canada Life |
| | Great-West Life |
| Chile | Cruz del Sur |
| Colombia | Seguros Bolívar |
| Guatemala | Seguros de Occidente |
| Mexico | Seguros Inbursa |
| Panama | Aseguradora Mundial de Panama |
| USA | Canada Life US |
| | Swiss International Services |
| Venezuela | Seguros Comerciales Bolívar |

### Asia Pacific

| | |
|---|---|
| Australia | Swiss Life Asia Pacific |
| | Hannover Life Re of Australasia |
| Hong Kong | CMG Asia Life Assurance |
| India | OM Kotak Mahindra |
| Japan | Meiji Life |
| | Yasuda Life |
| Korea | Korea Life |
| Malaysia | Hong Leong Assurance |
| New Zealand | Hannover Life Re of Australasia |
| Philippines | First Gurantee Life |
| Singapore | NTUC Income |
| | Swiss Life Asia Pacific |
| Taiwan | Kuo Hua Life |
| Thailand | Bangkok Life Assurance |

# Embedded value Embedded value is an indicator of the economic value of the existing insurance portfolio. The figure for embedded value at the Swiss Life Group came to CHF 6.9 billion as of 31 December 2003.

Embedded value serves as an indicator of the value of the existing insurance portfolio. It consists of two components: the present value of future profits (PVFP) and the equity attributable to shareholders (adjusted net asset value or ANAV). Future new business is not included. All calculations relating to embedded value are based on the statutory accounts. The information published here has been reviewed and certified by Deloitte & Touche LLP.

For the model PVFP calculations, the best possible assumptions were made regarding a number of factors, in particular returns on investment, the development of costs and claims, insurance customers' participation in surplus and the risk discount rate. Business is also assumed to be continuing at the same level (going concern). The current expense ratios – adjusted for inflation – are thus assumed to hold good for the future as well. The PVFP makes allowance for the future costs of the solvency capital required to underpin the insurance business. This figure is recorded separately in the "embedded value" table ("lock-in") below.

Equity attributable to shareholders in the future – the statutory equity, essentially adjusted for the shareholders' interest in the revaluation reserves – produces the ANAV.

The extent to which the embedded value is dependent on the assumptions made can be seen in the "economic sensitivities" table on the next page.

**Change in 2003** Embedded value for the Swiss Life Group came to CHF 6911 million as of 31 December 2003. This represents a rise of CHF 851 million against the previous year. The improvement was driven primarily by cost savings in all areas as well as the price adjustments for insurance products, which led to an increase of CHF 600 million and CHF 473 million, respectively, in the embedded value figure. Investment income came in clearly above the assumptions in the period under review and led to an increase of CHF 578 million. On the other hand, a reduction of approximately CHF 1 billion resulted from a decrease in projected investment returns. Factoring in the planned introduction in Switzerland of a minimum policyholder participation in surplus laid down by law for group business (the statutory payout ratio or so-called "Legal Quote") reduced the embedded value by another CHF 941 million. A compilation of other changes in embedded value is given in the "analysis of change" table on the next page.

**Embedded Value (Swiss Life Holding) as of 31 December**

| in CHF million | **2003 PVFP** [1] | 2002 PVFP [1] | **2003 ANAV** [2] | 2002 ANAV [2] | **2003 Lock-in-costs** | 2002 Lock-in-costs | **2003 Total** | 2002 Total |
|---|---|---|---|---|---|---|---|---|
| Switzerland | **3 514** | 3 559 | **1 500** | 1 533 | **– 681** | – 933 | **4 333** | 4 159 |
| Europe without Switzerland | **1 729** | 1 222 | **1 506** | 1 283 | **– 447** | – 272 | **2 788** | 2 233 |
| Overhead | **– 473** | – 428 | **–** | – | **–** | – | **– 473** | – 428 |
| Elimination effects | **–** | – | **– 832** | – 785 | **–** | – | **– 832** | – 785 |
| Free capital | **–** | – | **1 095** | 881 | **–** | – | **1 095** | 881 |
| **Total** | **4 770** | 4 353 | **3 269** | 2 912 | **–1 128** | –1 205 | **6 911** | 6 060 |

1) Present Value of Future Profits
2) Adjusted Net Asset Value

**Economic assumptions**

| | Switzerland | | Europe without Switzerland | |
|---|---|---|---|---|
| | **Current** | **In 5 years** | **Current** | **In 5 years** |
| Risk discount rate | **7.0%** | 7.0% | **7.9%** | 7.9% |
| Total weighted new money return | **3.5%** | 4.0% | **4.6%** | 5.2% |
| *Return assumptions per asset class* | | | | |
| Bonds & loans return | **3.0%** | 3.8% | **4.5%** | 5.1% |
| Real estate return | **4.2%** | 4.2% | **5.1%** | 5.1% |
| Equities return | **5.0%** | 5.0% | **6.0%** | 6.0% |
| Return on participations/alternative investments | **5.0%** | 5.0% | **6.0%** | 6.0% |

**Analysis of change**

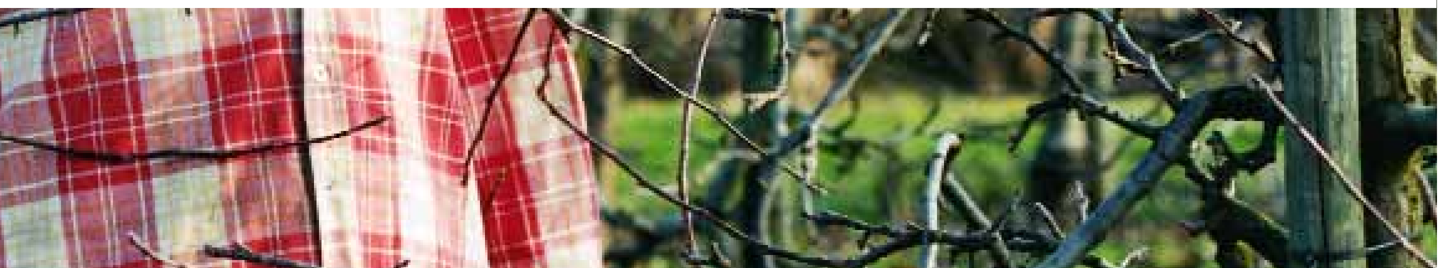
| in CHF million | |
|---|---|
| Embedded value of Swiss Life Holding at year end 2002 | 6 060 |
| Unwind 2003 | + 413 |
| Actual investment return 2003 | + 578 |
| Future investment return | – 1 030 |
| Cost savings | + 600 |
| Strengthening of reserves | – 311 |
| New pricing | + 472 |
| Reduction of BVG interest rate | + 341 |
| Statutory payout ratio (“Legal Quote”) Group business Switzerland | – 941 |
| Value of new business 2003 | + 77 |
| Change in minorities | + 635 |
| Various | + 17 |
| **Embedded value of Swiss Life Holding at year end 2003** | **6 911** |

**Economic sensitivities**

| in CHF million | Switzerland | Europe without Switzerland | Other effects | Total |
|---|---|---|---|---|
| Swiss Life Holding embedded value at year end 2003 | **4 333** | **2 788** | **– 210** | **6 911** |
| Impact of 50 bp increase in investment return | **315** | **303** | **–** | **618** |
| Impact of 50 bp decrease in investment return | **– 645** | **– 331** | **–** | **– 976** |
| Impact of 50 pb decrease in risk account rate | **203** | **107** | **–** | **310** |
| Impact of 10% decrease in asset values (equity only) | **– 18** | **– 36** | **–** | **– 54** |
| Impact of 10% decrease in asset values (property only) | **– 497** | **– 30** | **–** | **– 527** |

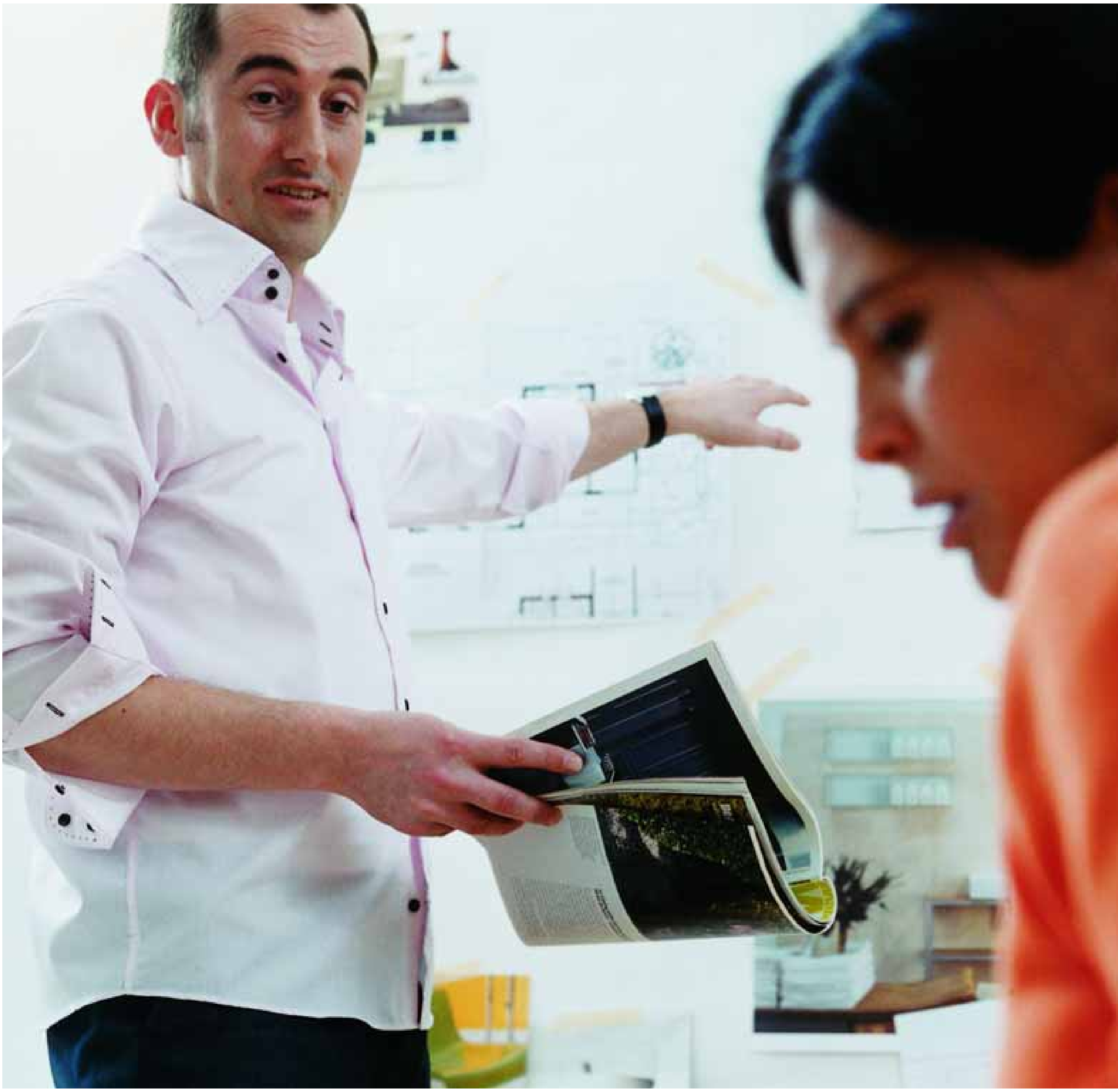
Deloitte & Touche LLP (“Deloitte”), our consulting actuaries, have reviewed the choice of methodology together with the assumptions and calculations made by the Swiss Life Group in the calculation of its embedded value results. Deloitte have reported to Swiss Life that they consider the methodology is appropriate, the assumptions are together reasonable and that the embedded value results have been properly compiled on the basis of the methodology and assumptions chosen. For the purpose of this report, Deloitte have performed certain checks on data provided, but have not verified and have relied on financial information underlying the Group’s financial statements.

**New ground.** "The news came out of the blue. The letter from the law firm that was lying in my mailbox several weeks ago said I had come into an inheritance. I couldn't believe my eyes: I had been left a small farm close to Ivry. The property was in good condition and there were also around 15 hectares of orchards – all of which was to be mine! The farm had belonged to an uncle of mine and I had spent summer holidays there as a child. I always loved climbing the trees there. I am passionate about gardening and spend almost every weekend in our small garden, whatever the weather. I simply love being out in the fresh air and forgetting about the office. Thanks to this inheritance, I will now be able to earn a living from my hobby. I am going to produce top-quality cider and perhaps also distil a little Calvados. I am not worried about my turnover. Quality sells itself. Et voilà!"



**Change of scene.** "It was love at first sight. Part of an old town house, relatively close to the centre. Eight small rooms spread over three stories, with lots of nooks and crannies and windows onto both the street and the courtyard. It's very romantic – but is actually the exact opposite to how we originally imagined our ideal home. We dreamt of living in a converted loft – just one single, enormous room with everything as light and airy as possible. But it's difficult to find proper lofts in old factory buildings and the prices are often astronomical. The situation is now different and we have no regrets about the loft. In fact, we don't have any time for regrets as we go about renovating our house. A few walls are coming out and part of the floor needs to be renewed. We are also putting in a new bath and new kitchen. It's so much fun planning and discussing different possibilities, as well as visiting home exhibitions. But one thing is maddening: why is it that the things we like best are also the most expensive?"

Business man and gardening enthusiast, Yves B. (55), is moving to the country.



Interior designer, Rebekka T. (34), and sales manager, Philipp T. (37), are renovating their home.

**Openness.** Being open to the new opens up a multitude of future prospects. Changes in a person’s private and professional life also have an impact on their pension and long-term savings. Opportunities and risks arise that have to be identified and carefully weighed up against each other. Swiss Life favours an open and direct dialogue with its customers that clearly sets out the benefits and disadvantages of different options and forms the basis for a relationship of trust.

# Risk management Risk management for a life insurance company means covering risks such as old age, death and disability on behalf of its clients while generating a reasonable return on invested funds. 35

Besides underwriting risks, Swiss Life's risk management techniques involve measuring and controlling investment risks and operational risks so that the Group's exposure structure matches its capacity for risk. Accordingly, guidelines exist in relation to risk categories, processes, responsibilities and reporting obligations vis-à-vis the Board of Directors.

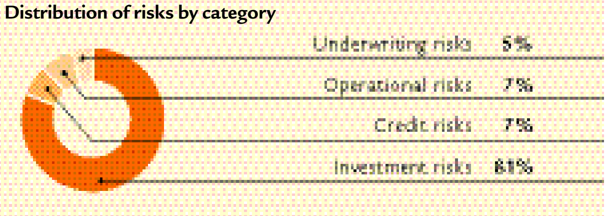
## Investment risks

Investment risks are a life insurer's largest quantifiable risks and are found on the asset side of the balance sheet. Investment risks are subdivided into market risks, credit risks and liquidity risks.

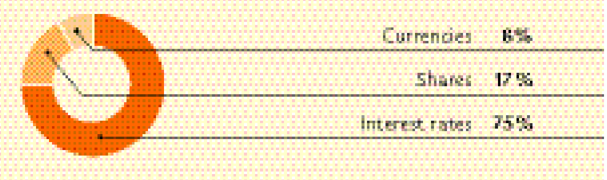
**Market risk** Market risk encompasses the risk of changes in the value of securities such as stocks and bonds or of real estate holdings, as well as fluctuations in foreign exchange rates. The losses resulting from high stock market volatility in recent years provide a perfect example of the impact of market risk.

Swiss Life places great emphasis on a high degree of diversification, both in the structure of its investment portfolio and with regard to individual investments. The bulk of Swiss Life's investments are in fixed-income securities, since insurance benefits must in many cases be guaranteed over several decades. Interest rate risk is managed and controlled by means of a newly introduced, Group-wide asset and liability management (ALM) process.

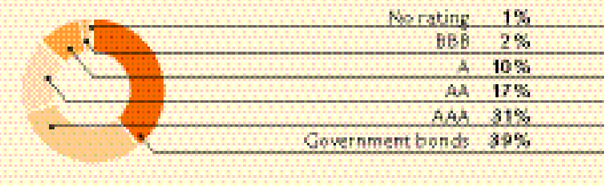
**Distribution of risks by category**




**Distribution of investment risk**




**Structure of bond portfolio**




**Credit risk** Credit risk involves the possibility that individual debtors may no longer be able to meet their obligations.

Swiss Life applies very strict guidelines to the risk structure of its bond portfolio, which must be widely diversified and of a very high quality. As of 31 December 2003, some 90% of all bond investments had a double "A" or better rating. Over 70% of bond investments had either a triple "A" rating or consisted of government bonds.

**Liquidity risk** Liquidity risk management should ensure that sufficient liquidity is available at all times to meet payments becoming due (endowment sums or pensions and annuities). To this end, Swiss Life continuously forecasts its expected cash flows on both sides of the balance sheet. As an additional precaution, the greater part of the company's investments are placed in securities which are readily realisable.

### Underwriting risks

In the life business a distinction is made between the risk types of longevity, death and disability. The actuaries' primary task is to design insurance products and set prices/rates properly as well as ensuring that reserves are sufficient for the immediate fulfilment of future insurance obligations. Swiss Life reviews and analyses the mortality structure of its customer portfolio annually to stay abreast of demographic changes. If it is established that a portfolio of pensioners does not have sufficient reserves, for example due to a significant drop in mortality, the necessary additional reserves are calculated and set aside.

Life insurers also offer risk cover for the event of disability. The frequency of disability claims rises during economic slumps and is connected to the unemployment rate, making disability subject to greater fluctuation than mortality rates. To control disability risk and improve risk performance, individual evaluations are used along with portfolio analyses for disability risk to allow a better assessment of the exposure structure. This enables fine-tuning of premium rates and pricing for customers which is more in line with their specific risk profile.

### Operational risks

Alongside the financial risks outlined above, there are additional risks of operational deficiencies and limitations, human error or moral hazard risks, process risks, technology risks and risks resulting from changes in the economic, fiscal or legal environment. In order to pre-empt such problems, a qualitative review based on uniform criteria is carried out periodically throughout the Group. During this review, estimates are compiled on a local basis of the probability that these risks will lead to material losses. The consolidated report should indicate at an early stage in which areas action may become necessary.

### Ongoing improvements

Since early 2003, the Swiss Life Group has used a periodic reporting strategy for measuring and assessing all of the above risks according to uniform criteria. The system quantifies and aggregates the economic aspects of market, credit and underwriting risks, enabling Swiss Life to determine what maximum loss the Group may incur in the course of one year in the most adverse circumstances. This loss potential is compared with the Group's risk capacity and used as a basis for action. As part of the risk budgeting process being introduced in 2004, for example, limits are to be set for interest rate risk. A Group-wide risk controlling process ensures compliance with risk limits by comparing exposures to the designated limits.

A Group Risk Committee was set up in 2003, comprising all Corporate Executive Board members under the chairmanship of the Chief Risk Officer. This committee is kept informed of current exposures on a monthly basis and takes any corrective measures that may be necessary, for example if current risk exposures exceed risk capacity. The Group Risk Committee reports periodically to the Investment and Risk Committee of the Board of Directors.

# Asset and Liability Management Matching assets and liabilities is one of the most important aspects of risk management in life insurance. It ensures that benefits payable are covered and that core capital will always be able to absorb fluctuations in the value of assets.

By using asset and liability management (ALM) to systematically get the right fit between assets and liabilities, Swiss Life aims to make sure it can meet its commitments towards policyholders at all times, while also enabling shareholders to be adequately compensated for making risk capital available.

The ALM concept at Swiss Life is based on the following principles:

**Fair valuation of assets and liabilities** The liabilities side of the balance sheet of any life insurance company mainly consists of long-term commitments towards policyholders. These commitments are principally matched against fixed-income investments on the asset side. An economic approach dictates that the value of both these positions will change, depending on interest-rate trends. Since the assets and liabilities of a life insurer are not equally sensitive to interest rates, each will clearly react differently to interest-rate changes. Interest-rate sensitivity can be measured in terms of duration, the weighted average time left to maturity. As a rule, the assets of a life insurance company will have a five to seven-year duration – significantly shorter than the term to maturity of the liabilities, which can exceed ten years. Thus, if interest rates change, the value of commitments on the liabilities side will fluctuate much more wildly than the economic value of investments on the assets side. When interest rates rise, the value of liabilities will drop more steeply than the value of investments. Economic equity will go up, thus increasing the value of the enterprise as a whole. Conversely, when interest rates fall, the value of liabilities will rise more steeply than that of investments. Economic capital will be reduced. The greater the duration gap between the two sides of the balance sheet, the higher the volatility of economic equity and thus the greater the balance sheet risk for the enterprise. Consistent ALM aims to reduce this balance sheet risk as much as possible.

**Optimal risk/return profile** The targeted returns must be in keeping with the company's risk capacity and risk appetite.

**Compliance with external constraints** As well as economic considerations, there are other factors that have to be considered (regulatory requirements, funding ratio, solvency, local and international accounting standards, liquidity requirements, rating agency models), some of which may lead to results that conflict with the economic approach. For example the economic approach is not consistent with the international accounting standards currently in force (International Financial Reporting Standards, IFRS). Under the current accounting treatment liabilities are not carried at fair value. Valuations are not adjusted following interest-rate changes, although the value of future commitments will obviously have changed. However, the focus on managing assets and liabilities according to economic criteria really does make sense since accounting standards are clearly moving in the direction of fair-value accounting for liabilities. Moreover, it is anticipated that new, risk-based solvency tests will be introduced, another factor in favour of an economic approach.

Three important decisions have to be made in the context of the ALM process, based on these basic principles:

- How are the policyholders' funds and the insurer's free reserves to be invested (asset allocation)?
- How is the investment surplus distributed (distribution policy)?
- What guarantees and benefits are being promised to policyholders and at what price (product design)?

**Asset allocation** On the asset side the portfolio is managed in such a way that economic risk capital consumption is consistent with Swiss Life's risk appetite. To achieve this goal, assets are divided into two blocks: an ALM portfolio and an absolute return portfolio. The idea behind the ALM portfolio is to ensure that the assets, and the income generated by these assets, will always meet the contractual or statutory commitments towards policyholders. Cash flows on either side of the balance sheet should match one another as closely as possible. Since the majority of the liabilities are long-term in nature, the ALM portfolio is mainly composed of fixed-income instruments. In this way the economic impact of interest-rate fluctuations on the enterprise is kept to a minimum, thus ensuring that policyholders will receive the benefits they were promised.

The remaining block of assets is invested following an absolute return strategy. The aim behind this particular portfolio is to generate a positive return irrespective of market conditions. Policyholders profit from the ensuing investment returns in the form of bonuses, while equity also receives a boost, thus benefiting the shareholders.

**Basic balance sheet structure**

| Assets | Liabilities |
|---|---|
| **ALM portfolio**<br>(Cash flow matching) | **Insurance reserves**<br>(guaranteed benefits) |
| **Absolute return portfolio** | **Insurance reserves**<br>(non-guaranteed benefits)<br>**Equity** |

Asset allocation therefore no longer adheres to the strategic approach of the past, with a set percentage of equity and fixed-income investments. It is now determined on the basis of the Group's existing commitments and its risk capacity. The asset allocation is hence reviewed twice a year and adjusted where necessary.

**Asset Allocation as of 31 December (insurance portfolio)**

| In CHF million | 2003 | | 2002 | |
|---|---|---|---|---|
| Equity securities and equity funds | **7 780** | **6.0%** | 7 072 | 5.7% |
| Private equity | **399** | **0.3%** | 401 | 0.3% |
| Hedge funds | **3 553** | **2.7%** | 3 491 | 2.8% |
| Real estate | **10 837** | **8.4%** | 10 616 | 8.6% |
| Mortgages | **10 298** | **8.0%** | 9 757 | 7.9% |
| Loans | **7 555** | **5.8%** | 10 429 | 8.4% |
| Debt securities | **79 507** | **61.6%** | 71 864 | 57.9% |
| Cash and cash equivalents | **4 802** | **3.7%** | 2 294 | 1.9% |
| Other investments | **4 575** | **3.5%** | 8 020 | 6.5% |
| **Total** | **129 306** | | 123 944 | |
| *Net equity exposure* | ***2.1%*** | | *1.8%* | |
| *Duration of debt securities* | ***7.0 years*** | | *5.9 years* | |
| *Duration of loans originated by the enterprise* | ***3.3 years*** | | *2.8 years* | |

**Distribution policy** The distribution policy at Swiss Life serves to harmonise the interests of the individual stakeholders. For policyholders the accent is firmly on security: they want the safety of the minimum interest rate coupled with a regular and appropriate bonus. Shareholders place greater emphasis on returns commensurate with the level of risk: they are looking for a dividend or capital gain to adequately compensate them for the risks assumed. From the enterprise's point of view, the stress is on sustainability: its business model has to remain successful in the long run. A lasting balance must be found between the differing interests of policyholders and shareholders.

Distribution policy is determined on an annual basis.

**Product design** Product design involves deciding, on the basis of customers' needs, which guarantees and benefits are to be promised to policyholders. The actuarial bases prescribed for this purpose guarantee that each individual product will generate a sufficient contribution margin.

For new business, the product parameters are set in such a way that the costs, including capital costs, are covered and both a positive risk result and net interest result will be achieved. In addition, premium levels must either reflect the value of embedded options, such as policy surrender or waiver of premium, or eliminate these altogether. Alternatively, products can be designed in such a way that the costs associated with exercising such options are negligible.

There must always be sufficient reserves to meet the contractual and regulatory requirements arising from existing business. Consequently, not only must the regulatory constraints be observed, but in-house estimates concerning specific types of risk must also be taken into consideration.

Product design principles are reviewed twice a year.

**Process management** The ALM process, which was redefined in 2003, is managed centrally. The Asset and Liability Management Committee (ALCO), composed of members of the Corporate Executive Board and presided over by the Chief Financial Officer (CFO), sets the parameters. The CFO has ultimate responsibility for the Group-wide ALM process. At local level, the competent bodies implement the decisions reached at Group level in collaboration with the ALCO at their business unit. All the relevant functions are represented in the ALM process: investments, actuarial services, product management, distribution and finances.

The process should lead to value creation from all these areas. Investment decisions should be coordinated with the contractual obligations towards policyholders. Products and their prices should be in line with the investment returns that can actually be achieved, so that the promises to policyholders can be fulfilled and the expectations of shareholders met.

**Achievements in 2003** Significant progress was made regarding ALM in 2003. The concept and organisational structure were both established in the first half of the year. Once these were in place, objective ALM targets were set in the fields of asset allocation, distribution policy and product design and the concept was integrated into the corporate strategy.

Finally, Swiss Life decided to reduce the existing duration gap, i.e. the difference in interest-rate sensitivity between assets and liabilities, and thus diminish its balance sheet risk. To this end the duration of the bond portfolio was increased in 2003 by 1.1 years, allowing for the difficulty of determining the duration for existing liabilities, given the various uncertainties that surround the legal parameters for group business in Switzerland (including the minimum interest rate and pension conversion rate).

Moving forward, in 2004 Swiss Life will establish the ALM process in all business units as an integral part of the corporate calendar. Information from the risk budgeting process will flow into the ALM process and the conclusions from ALM will in turn feed into the planning process.

**Jumping for joy.** "I'd really love to do a somersault from a standing position. But that's really hard – even if it looks easy when someone else does it. I can already do rolls and handstands and am now practising handsprings with a run-up. I would like to join the circus when I'm older but my father thinks I should learn something proper. But when I perform my stunts, I can see that he's proud of me. Unfortunately, I'm not too good at arithmetic and I don't like sitting still. My teacher tells me I'm always fidgeting. If I try harder with my sums, I'll be allowed to go to an acrobatics course for children every Thursday afternoon. I would go there every day of the week if I could!"

**Shooting stars.** "The sky is our world. Nothing is more fascinating than watching the heavens and the stars. Or Mars, when it appears as a light, reddish celestial body; Saturn with its glowing ring; the Orion nebula and the Andromeda nebula. If conditions are right they look close enough to touch. Nadine, François and I met several years ago through an Internet forum for amateur stargazers. We have been in contact ever since, exchanging tips and comparing notes.
We are mainly observing exoplanets at the moment, planets outside our solar system. There is an international research programme that astronomy enthusiasts can take part in. You have to be well equipped, of course – and astronomy is an expensive hobby if you want to do it properly. But we all agree that it is also very fulfilling. Who knows, maybe one fine day – or rather one clear night – we will make a special discovery and become famous."

Schoolgirl, Katrin W. (9), wants to join the circus.

Student, Christina D. (23), joiner, François L. (26), and laboratory technician, Nadine M. (24), reach for the stars.

**Clarity.** People with clear ideas see further. With the increasingly complicated range of insurance and financial products on offer today, pensions and long-term savings products are a mystery to many people. This makes it all the more important to present complex scenarios in easily comprehensible terms. Swiss Life strives to create transparency when dealing with customers and partners. Clear information and simply structured products are therefore indispensable.

# Corporate Governance In 2003, the Swiss Life Group made further improvements to corporate governance. The revision of the Organisational Regulations with effect from 1 December 2003 was another step in the ongoing process of aligning corporate governance with best practice standards.

In order to clearly delineate the various internal competencies and responsibilities and create an optimum structure for cooperation between the Board of Directors, management and internal control bodies, the Board of Directors revised the Organisational Regulations along with the regulations for each Board of Directors committee and for the Corporate Executive Board as of 1 December 2003.

The Swiss Life Holding Board of Directors is composed entirely of non-executive directors; there is a strict division of functions between the Chairman of the Board of Directors and the Chairman of the Corporate Executive Board. This organisational structure upholds the separation of powers between the decision-makers and guarantees the autonomy of the Board of Directors.

The information that follows is provided and structured in accordance with the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange with effect from 1 July 2002.

## Group structure and shareholders

**Group structure** Swiss Life Holding is a public limited company incorporated under Swiss law with its registered office in Zurich. It was established in 2002 and has been listed on the SWX Swiss Exchange since 19 November 2002. Swiss Life Holding brings together all Swiss Life Group companies and activities under a single holding company umbrella. The holding company structure makes it easier to effect investments, enter into partnerships or cooperation agreements and execute capital market transactions. In addition, by separating the interests of shareholders from those of policyholders, transparency is also improved.

One of the measures to implement the holding structure in 2003 involved the sale under market conditions of the Group's asset management business (Swiss Life Asset Management) to Swiss Life Holding by Swiss Life/Rentenanstalt.

The companies falling within the Group's scope of consolidation are presented in note 43 of the Financial Statements. Details concerning the SWX Swiss Exchange listing and market capitalisation can be found on page 47. The operational Group structure is described on page 9.

**Shareholders** On 8 January 2003, Premafin Finanziaria S.P.A. reported that a group consisting of Premafin Finanziaria S.P.A. Rome; Fondiaria-SAI SPA, Florence; Fondiaria Nederland BV, Amsterdam; and Milano Assicurazioni S.P.A., Milan, held a 10.87% stake (2 356 112 shares) in Swiss Life Holding.

The asset management company Threadneedle Asset Management Ltd., Station Road, Swindon, UK, disclosed a 5.31% interest (1 245 370 shares) in Swiss Life Holding on 10 November 2003.

And as of 24 December 2003, the fund management organisation Fidelity International Limited, P. O. Box HM 670, Hamilton HMCX, Bermuda, reported a 5.22% shareholding (1 224 098 shares) in Swiss Life Holding.

In its capacity as trustee for the “MCS Share Trust”, established in the context of the “MCS II (2003-2004)” convertible bond issue in 2003, Queensgate Bank and Trust Company Ltd., P.O. Box 30464 SMB, Grand Cayman, Harbour Place, 103 South Church St., Grand Cayman, Cayman Islands, reported holding 6.76% of the Swiss Life Holding shares entered in the share register as of 31 December 2003.

On the balance sheet date, Swiss Life Holding held 8.06% of its own shares, either directly or indirectly via its subsidiaries Swiss Life/Rentenanstalt, Banca del Gottardo and Swiss Life Cayman Finance Ltd. Following the MCS I (2002-2005) issue of mandatory convertible securities in 2002, 7.54% of this total was earmarked for the allocation reserve required to carry out the compulsory conversion of the securities issued under MCS I (2002-2005) into shares of Swiss Life Holding (additional information on both MCS I (2002-2005) and MCS II (2003-2004) can be found in the “capital structure” section below and in note 31 to the financial statements). These percentage figures are in relation to the share capital recorded in the commercial register as of 31 December 2003 (CHF 1 172 397 150 divided into 23 447 943 registered shares).

The increase in capital by 1 586 098 registered shares to CHF 1 251 702 050 divided into 25 034 041 registered shares as of 30 December 2003, effected in conjunction with the issue of the MCS II (2003-2004) mandatory convertible securities, had not yet been recorded in the commercial register on the balance sheet date. Their registration will lead to a marginal change in the percentage shareholdings reported.

Swiss Life Holding is not aware of any other parties, apart from those mentioned above, who directly or indirectly held more than 5% of the registered shares in issue as of the balance sheet date.

No cross participations exceeding the 5% threshold exist between Swiss Life Holding or its subsidiaries and other listed companies.

## Capital structure

**Capital and changes in capital** Swiss Life Holding was established on 17 September 2002 with a share capital of CHF 250 000, divided into 5000 registered shares with a par value of CHF 50 each. On 23 September 2002, Swiss Life/Rentenanstalt shareholders were presented with an offer to exchange their registered shares for Swiss Life Holding registered shares on a 1:1 basis. Due to the acceptance of the public exchange offer by around 92% of Swiss Life/Rentenanstalt shareholders, on 18 November 2002 the Swiss Life Holding share capital increased, through taking delivery of 10 834 704 Swiss Life/Rentenanstalt registered shares with a par value of CHF 50 each, by 10 834 704 registered shares with a par value of CHF 50 each to CHF 541 985 200 (divided into 10 839 704 registered shares).

On 2 December 2002, Swiss Life Holding successfully completed an ordinary capital increase of CHF 541 985 200, divided into 10 839 704 registered shares of CHF 50 par value each, in which existing shareholders were granted negotiable subscription rights for each share. As a result, the share capital increased to CHF 1 083 970 400, divided into 21 679 408 registered shares.

The Swiss Life Holding General Meeting of Shareholders on 18 November 2002 approved the creation of conditional capital of no more than CHF 270 992 600 through the issuance of a maximum number of 5 419 852 registered shares to be paid in full, with a par value of CHF 50 per share. Such capital is at the disposal of the holders of conversion or option rights granted by the company or companies belonging to the Group in connection with new loan debentures or similar bonds issued by the company or companies belonging to the Group. The existing shareholders are excluded from subscription rights, however their advance subscription rights remain safeguarded.

On 19 December 2002, pursuant to the issue of MCS I (2002-2005) mandatory convertible securities, 1 768 535 registered shares with a par value of CHF 50 per share were created from this conditional capital. As a result, the ordinary share capital rose by CHF 88 426 750 from CHF 1 083 970 400 to CHF 1 172 397 150, divided into 23 447 943 registered shares, while conditional capital decreased to CHF 182 565 850.

In conjunction with the issue of MCS II (2003-2004) mandatory convertible securities, on 30 December 2003 a further 1 586 098 registered shares, each with a CHF 50 par value, were issued from conditional capital. Ordinary share capital thus expanded by CHF 79 304 900 to its current value as per the balance sheet date of CHF 1 251 702 050, divided into 25 034 041 fully paid shares of CHF 50 par value per share, while conditional capital fell to CHF 103 260 950.

Further information concerning the capital structure can be found in the Financial Statements, starting on page 69, and in the prospectus of 18 November 2002 for the ordinary capital increase, published separately, the prospectus of 9 December 2002 for the MCS I (2002-2005) and the prospectus of 22 December 2003 for the MCS II (2003-2004).

**Shares** The share capital of Swiss Life Holding came to CHF 1 251 702 050 on the balance sheet date, divided into 25 034 041 fully paid registered shares with a par value of CHF 50 per share. Each share entitles the holder to one vote at the General Meeting of Shareholders. Information on the restriction on voting rights laid down in the Articles of Association, which prevents any person from collecting more than 10% of the total share capital, can be found in the section on shareholders' participation rights on page 59. No other kind of shares exist with either increased or restricted voting rights, privileged or restricted voting rights, privileged dividend entitlement or other preferential rights. Likewise, there are no other equity securities. No registration restrictions apply to Swiss Life Holding shares.

**Swiss Life share details**

**Symbols**

| | |
|---|---|
| Security number: | 1 458 278 |
| ISIN: | CH 001 485 278 1 |
| Ticker symbol: | SLHN |
| Reuters: | SLHN.VX |
| Bloomberg: | SLHN VX |

**Key figures as of 31 December**

| in CHF | 2003 | 2002 | +/-% |
|---|---|---|---|
| Shares outstanding | **25 034 041** | 23 447 943 | 6.8% |
| Share price | **227** | 108 | 110.6% |
| Market capitalisation | **5 682 727 307** | 2 527 688 255 | 124.8% |
| Earnings per share | **10.8** | –104.6 | – |

## Limitations on transferability and nominee registrations

Swiss Life Holding shares are not subject to any limitations on transferability. Pursuant to the Articles of Association, the introduction, amendment or repeal of limitations on transferability is the responsibility of the General Meeting of Shareholders and requires the agreement of two-thirds of the voting shares represented as well as an absolute majority of the share par value represented. Swiss and foreign banks and securities brokers, as well as companies acting on their behalf, with shares of Swiss Life Holding held in their custody for the account of the beneficial owners, may be registered as nominees. Professional asset managers may also be registered as such if, in a fiduciary capacity, they have deposited Swiss Life Holding shares to the account of third parties with Swiss or foreign banks or securities brokers in their own name. Nominees are required to be subject to banking or financial market supervision. Nominees must apply for registration. The voting rights of nominees are restricted to 10% of the share capital, whereby nominees who are connected with regard to capital or voting rights under uniform management or contractual agreement will be counted as a single shareholder. The Board of Directors may approve exceptions to these restrictions on registration, observing the principle of free decision-making based upon a due assessment of the circumstances. No such exceptions were granted during the period under review.

**Convertible bonds and options** Two mandatory convertible securities issued by Swiss Life Cayman Finance Ltd. for conversion into Swiss Life Holding registered shares, the MCS I (2002-2005) and the MCS II (2003-2004) remained outstanding on the balance sheet date. The scope of the MCS I (2002-2005) issue of December 2002 amounts to CHF 250 000 000. The total amount of MCS II (2003-2004) issued in December 2003 comes to CHF 341 011 000. The specific conditions attached to these mandatory convertible securities as well as further details can be found in note 31 to the Financial Statements and in the issue prospectuses of 9 December 2002 and 22 December 2003, respectively.

Information on options granted by Swiss Life Holding or by Group companies on rights to participate in Swiss Life Holding under equity compensation plans for employees can be found in note 26 to the Financial Statements.

### Board of Directors

**Function** The Board of Directors 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 Art. 698 of the Swiss Code of Obligations (OR) or of the company's Articles of Association. In addition to its non-transferable duties (stipulated in Art. 716a OR) the Board of Directors is responsible, in particular, for the ultimate direction of the Group, including determining strategy as well as supervising the Corporate Executive Board.

**Elections and terms of office** Pursuant to the Articles of Association, the Board of Directors shall consist of no fewer than five and no more than fourteen members. Individual members of the Board are elected by the General Meeting of Shareholders for a term of office not exceeding three years. When the Board of Directors was reconstituted at the General Meeting of Shareholders on 27 May 2003, the new members were given staggered terms of office to guarantee that, as far as possible, an equal number of members will come up for re-election each year. If a member steps down during his or her term of office, a successor will serve for the rest of that term.

The Organisational Regulations stipulate that a member of the Board of Directors shall automatically resign from the Board at the Annual General Meeting of Shareholders in the year in which he or she reaches age 70.

**Composition** The Board of Directors of Swiss Life Holding currently consists entirely of non-executive directors with no duties related to operational management within Swiss Life Holding, and who have not exercised such duties during the past three financial years. No member of the Board moreover has any significant business relationship with Swiss Life Holding or any of the Group companies.

The members of the Board of Directors of Swiss Life Holding also make up the Board of Directors of Swiss Life/Rentenanstalt.

There are no mutual cross-directorships with listed companies. Information on further directorships held by individual members of the Swiss Life Holding Board of Directors with other listed companies can be found in the following section.

**Members of the Board of Directors** As of the balance sheet date the Board of Directors was composed of the following members:

| Name | Functions | Year appointed | Elected until |
|---|---|---|---|
| Bruno Gehrig | Chairman<br>Chairman's Committee, Chairman<br>Investment and Risk Committee | 2003 | 2006 |
| Gerold Bührer | Vice Chairman<br>Chairman's Committee<br>Investment and Risk Committee, Chairman | 2002 [1)] | 2005 |
| Volker Bremkamp | Member<br>Audit Committee, Chairman | 2003 | 2004 |
| Paul Embrechts | Member<br>Audit Committee | 2003 | 2005 |
| Rudolf Kellenberger | Member<br>Chairman's Committee | 2003 | 2004 |
| Georges Muller | Member<br>Audit Committee | 2002 [2)] | 2006 |
| Peter Quadri | Member<br>Audit Committee | 2003 | 2004 |
| Pierfranco Riva | Member<br>Investment and Risk Committee | 2003 | 2006 |
| Franziska Tschudi | Member<br>Investment and Risk Committee | 2003 | 2005 |

1) Member of the board of directors of Swiss Life/Rentenanstalt since 2000

2) Member of the supervisory board of Swiss Life/Rentenanstalt since 1995 respectively member of the board of directors since 1997

**Bruno Gehrig**
Born 1946, Swiss national
Chairman of the Board of Directors

Bruno Gehrig received his Doctorate in Economics (Dr. rer. pol) in 1975 from the University of Bern where, following studies at the University of Rochester, New York, USA, he also qualified as a lecturer in 1978 with a paper on monetary policy. From 1971 to 1980 he was an assistant and lecturer at the University of Bern, becoming Assistant Professor in 1978.

From 1981 to 1984 Bruno Gehrig was head of the Economics Section at the Union Bank of Switzerland. In 1985 he spent a year studying international banking.
In 1988 he was promoted to Head of Stock Markets and Securities Sales Division for the UBS Group. Between 1989 and 1991 he was Chairman of the Executive Board of Bank Cantrade. From 1992 to 1996 he held the chair as Professor of Business Administration at the University of St. Gallen and was Head of its Swiss Institute of Banking and Finance. In 1996 Bruno Gehrig was appointed Member of the Governing Board of the Swiss National Bank as Head of Department III, and served as the Board's Vice Chairman from 2001 to 2003. His political activities include his serving as Chairman of the economic policy study group of the Swiss Christian Democratic Party from 1984 to 1991. He was a member of the Swiss Federal Banking Commission between 1992 and 1996.

Other appointments:
- Bruno Gehrig is being put forward for election to the Board of Directors at the General Meeting of Shareholders of Roche Holding AG, Basel, on 6 April 2004. If elected he will assume the position of Independent Lead Director.

**Gerold Bührer**
Born 1948, Swiss national
Vice Chairman of the Board of Directors

Gerold Bührer graduated from the University of Zurich in Economics (lic. oec. publ) in 1972. Following 17 years with the Union Bank of Switzerland as a member of management in its Financial Sector and as a Member of the Executive Board of its investment company, he joined Georg Fischer AG in 1991 where he was a member of its Corporate Executive Board (Finances) until 2000.
He currently acts an independent economic consultant.

Other appointments:
- Association of Swiss Companies in Germany, domiciled in Basel, Vice Chairman
- Bank Sal. Oppenheim jr.& Cie.(Schweiz) AG, Zurich, Member of the Board of Directors
- Cellere AG, St. Gallen, Member of the Board of Directors
- Georg Fischer AG, Schaffhausen, Member of the Board of Directors
- Employee benefits foundations for Swiss Life/Rentenanstalt's Internal Services and External Sales staff in Switzerland, Member of the Board of Trustees

Political activities:
- 1982 to 1991 Member of the Grand Council of the Canton of Schaffhausen
- Member of the Swiss Parliament since 1991
- 2001/2002 President of the Free Democratic Party (FDP) of Switzerland

**Volker Bremkamp**
Born 1944, German national
Member of the Board of Directors

Volker Bremkamp joined Albingia Versicherungs AG in Hamburg in 1963 (a subsidiary of Guardian Royal Exchange plc, London), receiving his qualifications as an insurance expert in 1965. Between 1969 and 1971 he was employed by various insurance companies and brokers in London and Paris. He returned to Albingia Versicherungs AG, Hamburg, in 1971, serving as a member of the Board of Directors from 1978 to 1989 and from 1989 to 2002 as Chairman of the Board of Directors of Albingia Lebensversicherungs AG and of Albingia Versicherungs AG. Volker Bremkamp was a member of the Board of Directors and Group Executive Director, Continental Europe, at Guardian Royal Exchange plc, London, from 1995 to 1999, which was taken over by the AXA Group in 1999. From 1999 to 2000 he was a member of the Board of Directors of AXA Colonia Konzern AG, Cologne, which is the holding company of AXA Germany. Since 2000 he has been Managing Director of BMB Bremkamp Management- und Beteiligungs-GmbH.

Volker Bremkamp will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 18 May 2004.

Other appointments:
- Vereins- und Westbank AG, Hamburg (a member of Hypo Vereinsbank AG, Munich), Supervisory Board
- AON International Insurance Broker, Hamburg, Advisory Committee
- Dresdner Bank AG, Member of the Advisory Committee for Northern Germany
- Everpublic AG, Hamburg, Chairman of the Supervisory Board
- WAVE Management AG, Hamburg, Deputy Chairman of the Supervisory Board
- UKE University Clinic Hamburg, Member of the Supervisory Board
- Hanse Merkur Krankenversicherung VVaG., Hamburg, Advisory Committee
- Stifterverband für die Deutsche Wissenschaft, Member of the Board of Trustees

**Paul Embrechts**
Born 1953, Belgian national
Member of the Board of Directors

Paul Embrechts received his Master's Degree in Mathematics from the University of Antwerp (Belgium) in 1975 and his Doctorate (Dr. sc. [Math.]) from the Catholic University of Leuven (Belgium) in 1979. Between 1975 and 1983 he held a post as Research Assistant at the Catholic University of Leuven. From 1983 to 1985 he was Lecturer in Statistics at Imperial College, University of London, moving to a position as Lecturer at the University of Limburg (Belgium), which he held from 1985 to 1989. In 1989 Paul Embrechts was appointed Professor of Mathematics at the Swiss Federal Institute of Technology (ETH) in Zurich.

Other appointments:
- Julius Bär Holding AG, Zurich, Member of the Board of Directors
- Bank Julius Bär & Co. AG, Zurich, Member of the Board of Directors
- Employee benefits foundations for Swiss Life/Rentenanstalt's Internal Services and External Sales staff in Switzerland, Member of the Board of Trustees

**Rudolf Kellenberger**
Born 1945, Swiss national
Member of the Board of Directors

Rudolf Kellenberger received his degree in Civil Engineering from the Swiss Federal Institute of Technology (ETH), Zurich in 1970. Between 1970 and 1978 he held various project management positions in the construction industry, including three years in the United Kingdom. Rudolf Kellenberger joined Swiss Re in 1978, where he served as Head of the Engineering Department from 1990 to 1992. In 1993 he was appointed as a Member of the Executive Board with responsibility for Europe. In 2000, he was named Deputy Chief Executive Officer at Swiss Re.

Rudolf Kellenberger will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 18 May 2004.

Other appointments:
- Atradius (formerly Gerling NCM Credit & Finance AG Cologne), Cologne, Chairman of the Supervisory Board
- Wüstenrot & Württembergische AG, Stuttgart, Member of the Supervisory Board
- Fortis, Brussels, Member of the International Advisory Council
- British-Swiss Chamber of Commerce, Council Member
- Swiss Insurance Association, Member of the Board of Directors
- Association for the Promotion of the Insurance Institute, University of St. Gallen, Member
- Swiss Pool for Aviation Insurance, Chairman
- Employee benefits foundations for Swiss Life/Rentenanstalt's Internal Services and External Sales staff in Switzerland, Deputy Member of the Board of Trustees

**Georges Muller**
Born 1940, Swiss national
Member of the Board of Directors

Georges Muller graduated from the University of Lausanne in Law and Business Administration in 1963 and earned an LL.M. at Harvard University in 1969. In 1973, he received his Doctorate in Law from the University of Lausanne. Georges Muller joined the Swiss Tax Administration in 1964 and has been a partner with the law office Bourgeois, Muller, Pidoux & Associés since 1975. Between 1984 and 2000, he was also a Professor of Law at the University of Lausanne. He has been an Honorary Professor since 2000.

Other appointments:
- «La Suisse» Vie, Lausanne, Chairman of the Board of Directors
- «La Suisse» Accidents, Lausanne, Chairman of the Board of Directors
- Serono SA, Coinsins, Chairman of the Board of Directors
- SGS SA, Geneva, Chairman of the Board of Directors
- Bertarelli & Cie., Chéserex, Vice Chairman
- Schindler Elevator Limited, Ebikon, Member of the Board of Directors
- Vaudoise Chamber of Commerce and Industry, Lausanne, Mandate
- ISREC, Swiss Institute for Experimental Cancer Research, Epalinges, Chairman of the Board of Trustees

**Peter Quadri**
Born 1945, Swiss national
Member of the Board of Directors

Peter Quadri received his Master's Degree in Economics and Business Administration and Operations Research in 1969 from the University of Zurich. He began his career in 1970 as a systems engineer and software/operating systems specialist at IBM and held various management positions before assuming his current appointment as Country General Manager at IBM Switzerland in 1998.

Peter Quadri will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 18 May 2004.

Other appointments:
- IBM Switzerland, Zurich, Chairman of the Board of Directors
- Swiss-American Chamber of Commerce, Member of the Board
- SWICO, Swiss Association for Information, Communication and Organisational Technology, Advisory Committee
- economiesuisse, Zurich, Member of the Board
- Zurich Chamber of Commerce, Member of the Board

**Pierfranco Riva**
Born 1940, Swiss national
Member of the Board of Directors

Pierfranco Riva studied at the Universities of Freiburg, Munich and Berlin between 1960 and 1966, and received his doctorate in law in 1968. He became a member of the Bar in 1970. He has been an attorney and notary public with the firm Felder Riva Soldati in Lugano since 1970. He served as Chairman of the Council of the Bar Association of the Canton of Ticino between 1987 and 1989, and from 1995 to 1999 was a member of the supervisory authority, Council of Magistrates for the Canton of Ticino.

Other appointments:
- Finter Bank Zürich, Zurich, Vice Chairman of the Board of Directors
- Finter Bank France, Paris, Member of the Board of Directors
- Fondazione Daccò, Lugano, Member of the Board of Trustees
- Fondazione Nerina Bellingeri ved. Gualdi, Lugano, Member of the Board of Trustees
- Fondazione Rudolf Chaudoire, Lugano, Member of the Board of Trustees

**Franziska Tschudi**
Born 1959, Swiss national
Member of the Board of Directors

Franziska Tschudi studied Law at the University of Bern between 1978 and 1984, and passed her Bar exam there in 1984. From 1985 to 1986 she studied US law at Georgetown University, Washington, DC, earning an LL.M. degree, and passed the Bar exam for the states of New York and Connecticut in 1987. Franziska Tschudi also did postgraduate studies at the University of St. Gallen (1991 – 1993), receiving an Executive MBA. From 1984 to 1985, after completing various internships in law between 1981 and 1983, Franziska Tschudi was an Assistant for Media Law at the Institute for Constitutional and Administrative Law at the University of Bern. Between 1984 and 1992 she practised business and media law in Zurich, Geneva and Washington, DC. From 1992 to 1995 she served as Secretary General at SIG Swiss Industrial Company. Franziska Tschudi then became a member of the Executive Board of WICOR Holding AG, Rapperswil ("Weidmann Group") in 1995, where she was Head of Corporate Development and from 1998 Head of Business Area Electrical Technology Asia/Pacific. She has been Chief Executive Officer and Managing Director of WICOR Holding AG since 2001.

Other appointments:
- SCRJ Sport AG, Rapperswil, Vice Chairperson
- BIOMED AG, Dübendorf, Member of the Board of Directors
- Swiss-Chinese Chamber of Commerce, Member of the Executive Board
- Swiss-American Chamber of Commerce, Member of Management Team for Chapter "Doing Business in the USA"
- Chamber of Commerce Germany-Switzerland, Member of the Executive Committee
- IHK, Chamber of Commerce and Industry St. Gallen-Appenzell, Member of the Board
- OSEC, Member of the Advisory Committee
- Judge at Commercial Court for the Canton of St. Gallen
- "Die Chance" Foundation, Member of the Board of Trustees
- Employee benefits foundations for Swiss Life/Rentenanstalt's Internal Services and External Sales staff in Switzerland, Member of the Board of Trustees

**Resignations** During the review period the following members of the Board of Directors stood down with effect from the General Meeting of 27 May 2003.

Retiring for reasons of age:

**Rino Rossi**
(Member of the Board of Directors 1988[1)]–2003,
Vice Chairman of the Board of Directors 1996–2003)

Resigning are:

**Andres F. Leuenberger**
(Member of the Board of Directors 1998[1)]–2003,
Chairman of the Board of Directors 2000–2003)

**Ulrich Oppikofer**
(Member of the Board of Directors 1986[1)]–2003,
Vice Chairman of the Board of Directors 1996–2003)

**Gilbert Coutau**
(Member of the Board of Directors 1985[1)]–2003)

**Maria Luisa Garzoni**
(Member of the Board of Directors 1988[1)]–2003)

**Josef Kühne**
(Member of the Board of Directors 1991[1)]–2003)

**Henri B. Meier**
(Member of the Board of Directors 2001[1)]–2003)

**Internal organisational structure** In line with the Articles of Association, and in observance of local and international standards for corporate governance, the Board of Directors decided to introduce a revision of the Organisational Regulations, effective 1 December 2003. These regulations apply to the internal organisation and delineate the tasks and competencies of the Board of Directors, the Board of Directors' committees, the Chairman of the Board of Directors and the Corporate Executive Board. As opposed to before, the tasks and responsibilities of the Chairman of the Board of Directors are now included in the Organisational Regulations. The Chairman coordinates the work of the Board and the committees, and is responsible for ensuring reporting from the Corporate Executive Board to the Board of Directors. In urgent situations, the Chairman may also determine the necessary measures and steps falling within the scope of competencies of the Board until it takes a decision. If a timely decision cannot be reached by the Board of Directors, the Chairman is empowered to take a decision.

The Board of Directors meets as often as business requires, but normally at least six times a year. As a rule, meetings are called by the Chairman. However, any member of the Board of Directors or the Corporate Executive Board may request that a meeting be called. In addition to the members of the Board of Directors, the CEO, as well as other members of the Corporate Executive Board as required, normally attend the meetings or parts of meetings in an advisory capacity.

Three standing committees support the work of the Board of Directors as a whole: the Chairman's Committee, the Audit Committee, and the Investment and Risk Committee. The Board of Directors may establish other committees to be entrusted with special tasks.

**Chairman's Committee** The Chairman's Committee assists the Chairman of the Board of Directors in fulfilling his leadership and coordination role, and assists the Board of Directors with matters concerning corporate governance. It additionally assists the Board of Directors in decisions concerning the appointment of personnel at the highest levels of management (nomination function) and in setting guidelines for compensation of members of the Board of Directors and the Corporate Executive Board, and determining how these guidelines will be applied to the compensation and terms of employment of the CEO and the other members of the Corporate Executive Board (compensation function).

The Chairman's Committee normally meets six times a year.

1) As Swiss Life Holding was founded only in 2002, the dates given refer to the first appointment to the Supervisory Board or Board of Directors of Swiss Life/Rentenanstalt.

**Investment and Risk Committee** The Investment and Risk Committee assists the Board of Directors in matters concerning investment management, financial management and risk management within the company. The tasks and competencies of the Investment and Risk Committee include, among others, submitting proposals to the Board of Directors concerning the principles of asset and liability management and the definition of investment policy, monitoring capital adequacy, verifying compliance with guidelines on investments, and establishing the risk tolerances in insurance and investment operations.

The Investment and Risk Committee meets at least four times a year.

**Audit Committee** The Audit Committee assists the Board of Directors in its supervision of the accounting function and financial reporting activities as well as compliance with the legal requirements. It reviews the appropriateness of the internal control structures and processes used to comply with the legal requirements. It monitors the activities of Corporate Internal Audit and the external audit services.

The Audit Committee meets at least four times a year. The frequency of meetings depends on the financial budgeting and reporting process.

### Delineation of competencies between the Board of Directors and the Corporate Executive Board

The Organisational Regulations of Swiss Life Holding provide for the comprehensive delegation of the executive management of the company to the Corporate Executive Board, with the exception of those duties reserved for other bodies in accordance with the law, the Articles of Association or the Organisational Regulations themselves. The Corporate Executive Board bears responsibility in particular for the implementation of corporate strategy, for the conditions governing business operations and for financial guidance. It is further responsible for the preparation of the resolutions for the Board of Directors and its committees, and for monitoring the implementation of these decisions in the Group. It is vested with the authority to rule on business referred to it by the Board of Directors, the Board of Directors' committees and the Chairman of the Board of Directors insofar as decision or approval is not reserved exclusively to the delegating body.

**Information and control instruments vis-à-vis the Corporate Executive Board** The Board of Directors is kept continually and comprehensively informed regarding the activities of the Corporate Executive Board. The Chief Executive Officer, as chairman of the Corporate Executive Board, keeps the Chairman of the Board of Directors and the Board of Directors and its committees regularly informed about the conduct of business, new business activities and significant projects. Internal auditing procedures represent an efficient means of independent monitoring and information gathering for the Board of Directors, whereby the Corporate Internal Audit department reports directly to the Chairman of the Board.

### Corporate Executive Board

The CEO directs the business operations of the Group. Together with the Corporate Executive Board he determines the long-term goals and strategic direction of the Group for approval by the Board of Directors and, based on the Board of Directors' decisions, ensures the target-oriented management and development of the Group. The Corporate Executive Board may form committees for individual areas of responsibility and delegate competencies to such a Corporate Executive Board Committee.

Each member of the Corporate Executive Board has responsibility for a functional division within the Group. The members of the Corporate Executive Board are responsible for setting the objectives, financial planning, HR management and achievement of objectives within their division. They issue directives for their division within the context of legal and regulatory requirements, the relevant regulations and the Group directives intended for the Group as a whole.

## Members of the Corporate Executive Board

The Corporate Executive Board of Swiss Life Holding is composed of the following members:

| Name | Position | From |
|---|---|---|
| Rolf Dörig | Chief Executive Officer | 06.11.2002 |
| Reto Himmel | Chief Technology Officer | 20.01.2003 |
| Michael Koller | Chief Risk Officer | 01.01.2003 |
| Paul Müller | Chief Markets Officer | 15.01.2003 |
| Bruno Pfister | Chief Financial Officer | 01.08.2002 |
| Martin Senn | Chief Investment Officer | 01.01.2003 |
| René van der Smeede | Officer International Markets | 01.01.2003 |

### Rolf Dörig

Born 1957, Swiss national
Chief Executive Officer (CEO)

Rolf Dörig laid the groundwork for his professional career by obtaining a Doctorate in Law from the University of Zurich before being called to the Bar of Zurich. Joining Credit Suisse in 1986, he assumed a number of executive responsibilities in various areas of banking and in different geographical markets. He subsequently became Chief of Staff and Chief Communications Officer for the Credit Suisse Group. As a member of the Executive Board of Credit Suisse Financial Services, he was assigned responsibility for Swiss corporate and retail banking from 2000 onwards. In spring 2002 he became Chairman of Switzerland for the Credit Suisse Group.

Rolf Dörig has been CEO of the Swiss Life Group since 6 November 2002.

Other appointments:
- Swiss Insurance Association (SIA), Member of the Board
- economiesuisse, Zurich, Member of the Board
- Zurich Chamber of Commerce, Member of the Board of Directors
- ANBE AG, Baar, Member of the Board of Directors
- Grasshopper-Club Zürich, Member of the Board of Directors

### Reto Himmel

Born 1956, Swiss national
Chief Technology Officer (CTO)

The physicist Reto Himmel (Master's Degree in Physics, Swiss Federal Institute of Technology (ETH), Zurich, 1982) graduated from the Harvard Business School in 1987 with an MBA. He began his career in 1982 as a software engineer with Brown Boveri & Co. in Baden, before joining Credit Suisse in 1985. From 1990 to 1994 he went on to head the General Secretariat at Bank Leu. He then returned to Credit Suisse where he held the position of Chief of Staff of the Investment and Trading Division. In 1997 Reto Himmel became a member of the Executive Board at ABN AMRO Bank (Switzerland), assuming responsibility for the bank's logistics operations. He became Head of Operations Switzerland at UBS Warburg in August 2001.

Reto Himmel has been Chief Technology Officer (CTO) at the Swiss Life Group since January 2003.

### Michael Koller

Born 1964, Swiss national
Chief Risk Officer (CRO)

Michael Koller studied Mathematics at the Swiss Federal Institute of Technology (ETH), Zurich, receiving his Diploma in 1988 and his Doctorate in 1993. He also qualified as an accredited pension actuary, gaining his Swiss Federal Diploma in 1998. He was an Assistant in the Mathematics Department of the ETH Zurich, before joining Swiss Life in 1993, since when he has held a number of leading actuarial positions within the company.

In October 2001 he became head of the new Actuarial & Financial Techniques division. He was promoted to Chief Risk Officer (CRO) in January 2003.

Since July 2002 he has been Professor of Life Insurance Mathematics at the Swiss Federal Institute of Technology, Zurich. He has served on various professional bodies and is the author of a large number of publications.

**Paul Müller**
Born 1950, Swiss national
Chief Markets Officer (CMO)

Paul Müller studied at the University of St. Gallen. After graduating with a Master's Degree in Economics and Law in 1975 he launched his career by joining Wintherthur Versicherungen. In 1982 he moved to Baloise Insurance where he held a number of leading positions. As a member of the Corporate Executive Board he was responsible for the German, Austrian, French, Belgium and Luxembourg markets. From 1995 Paul Müller served as CEO of Helvetia Patria Assurances' Swiss Division in Basel.

He took up his new position as Chief Markets Officer and CEO Switzerland at the Swiss Life Group in January 2003.

Other appointments:
- «La Suisse», Lausanne, Vice Chairman of the Board of Directors
- Pendia Associates AG, Zurich, Member of the Board of Directors
- Chamber of Commerce Germany-Switzerland, Member of the Board

**Bruno Pfister**
Born 1959, Swiss national
Chief Financial Officer (CFO)

Bruno Pfister obtained his Law Degree from the University of Geneva before being admitted to the Bar of Geneva. He then turned his attention to business management studies, earning an MBA from the Graduate School of Management in Los Angeles. The initial stages of his career saw Mr Pfister work for Chase Manhatten Bank in London and Geneva. From 1988 onwards he was a management consultant for McKinsey & Co. In 1996 Mr Pfister became Chief of Staff of the Private Banking division at Liechtenstein Global Trust (LGT) where he managed a global strategic project before being appointed Chief Financial Officer of LGT Bank, Liechtenstein in 1998. In 1999 he took over as Head of Customer Segment and Product Management at Credit Suisse.

Bruno Pfister has been Chief Financial Officer (CFO) of the Swiss Life Group since August 2002.

Other appointments:
- Telekurs-Holding Ltd, Zurich, Member of the Board of Directors (to May 2003)
- Banca del Gottardo, Lugano, Member of the Board of Directors
- Castle Alternative Invest Ltd., Freienbach, Member of the Board of Directors

**Martin Senn**
Born 1957, Swiss national
Chief Investment Officer (CIO)

Martin Senn attended the Commercial School and Business School in Basel before attending the International Executive Program at INSEAD in Fontainebleau and the Advanced Management Program at Harvard Business School. He worked at the former Swiss Bank Corporation from 1976 to 1994, where his positions included Treasurer in Hong Kong and Regional Treasurer for Asia and the Pacific region in Singapore before ultimately managing the company's Tokyo office. In 1994 he moved to Credit Suisse where his many executive roles included that of Regional Treasurer for Europe and Turnaround Manager with a mandate to restructure and reposition all legal entities of the Credit Suisse Group in Japan. A member of the Credit Suisse Executive Board, he was appointed Head of its Trading and Investment Services Division in 2001.

Martin Senn has been Chief Investment Officer (CIO) of the Swiss Life Group since January 2003.

Other appointments:
- Maerki Baumann & Co. AG, Zurich, Member of the Board of Directors
- Nomura Bank (Switzerland) Ltd, Zurich, Member of the Board of Directors
- Castle Alternative Invest Ltd., Freienbach, Member of the Board of Directors
- Swiss Life Asset Management, Zurich, Chairman of the Board of Directors

**René van der Smeede**
Born 1948, Dutch national
Head of International Markets

René van der Smeede obtained his degree as Qualified Actuary in 1976. Until 1984 he worked for the Dutch insurers ENNIA, subsequently heading their subsidiary in Spain as Director. He then went on to hold various management positions at the Dutch insurance company Aegon, serving on their Executive Board in the Netherlands for ten years.

In 1998 he became CEO of Swiss Life Netherlands (ZwitserLeven). René van der Smeede was named acting Head of the new International Markets division at Swiss Life in November 2002. He became a Member of the Corporate Executive Board on 1 January 2003.

He has served as Vice President of the Netherlands Actuarial Association, President of the Netherlands Association of Life Insurers and was a Board Member of the Dutch Association of Insurers from 1993 to 1998.

**Resignations** There were no resignations from the Corporate Executive Board during the review period.

### Transfer of manangement tasks

No management tasks have been contractually assigned to third parties by Swiss Life Holding.

### Compensation, participation in equity, loans

**Practice and procedure** Pursuant to the Organisational Regulations, the Board of Directors as a whole is responsible for determining the level and make-up of compensation for its members. The Chairman's Committee, in its capacity as a Compensation Committee, is responsible for putting forward corresponding proposals. 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, with its findings drawn from publicly available information or, as necessary, studies by external experts. Based on these guidelines, the Chairman's Committee determines the compensation for individual members of the Corporate Executive Board.

In the year under review the share option plan for Swiss Life Group management introduced in 2000 was discontinued. Accordingly, no share options were allocated in 2003.

Further details on compensation and benefit expenditure for the Swiss Life Group management and employees can be found in Note 26 of the Financial Statements.

**Compensation paid to acting members of governing bodies** Compensation paid to incumbent members of the Board of Directors and the Corporate Executive Board during the period under review was as follows:

| | | |
|---|---|---|
| Board of Directors | CHF | 1 168 540 [1] |
| Corporate Executive Board | CHF | 6 920 656 |

1) of which CHF 532 000 was paid in the first half-year and CHF 636 540 in the second half-year

The following compensation was received by incumbent members of the Board of Directors of Swiss Life Holding (as of 31 December 2003) subsequent to their election at the General Meeting of Shareholders on 27 May 2003.

| Name | Remuneration in cash | Shares [1] |
|---|---|---|
| Bruno Gehrig | CHF 277 500 | – |
| Gerold Bührer | CHF 60 040 | 68 |
| Volker Bremkamp | CHF 44 000 | 50 |
| Paul Embrechts | CHF 36 200 | 40 |
| Rudolf Kellenberger | CHF 44 000 | 50 |
| Georges Muller | CHF 36 200<br>CHF 30 000 [2] | 40 |
| Peter Quadri | CHF 36 200 | 40 |
| Pierfranco Riva | CHF 36 200 | 40 |
| Franziska Tschudi | CHF 36 200 | 40 |

1) c.f. also the section on share allotment
2) for activities as Chairman of the Board of Directors of «La Suisse»

Members of the Board who resigned during the period under review received no severance packages. There were no resignations from the Corporate Executive Board during the review period.

**Compensation paid to former members of governing bodies** No compensation was paid to former members of the Board of Directors. Four former members of the Corporate Executive Board received compensation totalling CHF 2 528 442 in accordance with contractual agreements for payment of salary which ended in 2003.

**Share allotment in the year under review** Swiss Life Holding registered shares with a par value of CHF 50 each were allocated to members of the Board of Directors and the Corporate Executive Board as follows during the 2003 financial year.

| | |
|---|---|
| Board of Directors | 368 shares allocated at a value of CHF 184.70. These are subject to a three-year vesting period. |
| Corporate Executive Board | 42 124 shares allocated at an average value of CHF 76.00 and CHF 116.40. 27 124 shares are subject to a three-year vesting period. |

No shares were allocated to parties closely linked[1] to such persons within the meaning of the law.

**Share ownership** On the balance sheet date, members of the Board of Directors and the Corporate Executive Board (including closely linked parties) held a total number of Swiss Life Holding registered shares, with a par value of CHF 50 each, as follows:

| | |
|---|---|
| Board of Directors | 3 707 shares |
| Corporate Executive Board | 42 584 shares |

**Options** The following gives an overview of the options on shares of Swiss Life/Rentenanstalt or Swiss Life Holding allocated to members of the Board of Directors and the Corporate Executive Board in the context of the share option plan for 2000, 2001, and 2002 introduced in 2000 for the entire senior management of the Swiss Life Group. At the end of 2002 this share option programme was discontinued as of 2003. In connection with the exchange of Swiss Life/Rentenanstalt shares for shares of Swiss Life Holding and the subsequent capital increase in autumn 2002, the parameters of the corresponding options were adjusted in accordance with Eurex guidelines. No other changes have been made to the allocated share options.

1) "Closely linked parties" are natural persons and legal entities pursuant to Art. 678 of the Swiss Code of Obligations that have close personal, economic, legal or de facto ties with members of governing bodies. This typically includes spouses, minor children, companies controlled by the member of the governing body, and natural or legal persons serving the member of the governing body in a fiduciary capacity.

**Board of Directors**

| Allotment year | |
|---|---|
| 2003 | none |
| 2002 | 11 400 options |
| | Option life: 5 years |
| | Vesting period: 3 years |
| | Subscription ratio: 1.39 |
| | Exercise price: CHF 257.13 |
| 2001 | 11 250 options |
| | Option life: 5 years |
| | Vesting period: 3 years |
| | Subscription ratio: 1.39 |
| | Exercise price: CHF 784.88 |
| 2000 | 11 250 options |
| | Option life: 3.5 years |
| | Vesting period: 3 years |
| | Subscription ratio: 1.39 |
| | Exercise price: CHF 960.17 |

**Corporate Executive Board**

| Allotment year | |
|---|---|
| 2003 | none |
| 2002 | 22 000 options |
| | Option life: 5 years |
| | Vesting period: 3 years |
| | Subscription ratio: 1.39 |
| | Exercise price: CHF 257.13 |
| 2001 | 23 500 options |
| | Option life: 5 years |
| | Vesting period: 3 years |
| | Subscription ratio: 1.39 |
| | Exercise price: CHF 784.88 |
| 2000 | 25 500 options |
| | Option life: 3.5 years |
| | Vesting period: 3 years |
| | Subscription ratio: 1.39 |
| | Exercise price: CHF 960.17 |

### Additional honorariums and remuneration

During the period under review there were no additional honorariums or remunerations paid to members of the Board of Directors or the Executive Board that would have been subject to disclosure requirements.

**Loans** On the balance sheet date, there were no loans outstanding to members of the Board of Directors. Three loans to members of the Corporate Executive Board were outstanding in the form of mortgages, as follows:

| | | |
|---|---|---|
| Board of Directors | | none |
| Corporate Executive Board | CHF | 953 495 |

The interest rates used for the three mortgages were 5% and 4% on CHF 903 495 of this amount and 2.75% on CHF 50 000. These terms are available to all employees of Swiss Life.

**Highest total compensation** The highest total compensation for a member of the Board of Directors in 2003 was paid to Bruno Gehrig as Chairman of the Board.

The total compensation paid since he assumed this position on 1 July 2003, after being elected at the General Meeting of Shareholders of 27 May 2003, is as follows:

| | | |
|---|---|---|
| Compensation | CHF 277 500 | equivalent to an annual compensation of CHF 555 000 |
| Shares | none | |
| Share options | none | |
| Total compensation | CHF 277 500 | |

### Shareholders' participation rights

**Restriction on voting rights** In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of his/her own shares and those he/she represents. Legal entities and partnerships which are connected through capital, voting rights, uniform management or in any other way, as well as individuals or legal entities and partnerships which act in concert by virtue of agreement, as a syndicate or in any other way, are deemed to be a single person. Any amendment to or revocation of restrictions on voting rights must be approved by at least two-thirds of the voting shares represented at the General Meeting of Shareholders and an absolute majority of the share par value represented.

**Right of representation** The Articles of Association stipulate that a shareholder may be represented by another shareholder, a legal representative, a management representative, independent voting representative or a representative of deposited shares. Married persons may also be represented by their spouses, who are not required to be shareholders.

**Required majorities** In addition to the resolutions provided for by law, a qualified majority (corresponding to at least two-thirds of the voting shares represented and an absolute majority of the share par value represented) is required to:

- change provisions concerning restrictions on voting rights
- dissolve the company (liquidation)
- dismiss more than one-third of the Members of the Board of Directors;
- change these provisions of the Articles of Association

**Convocation of the General Meeting of Shareholders and agenda** The rules set out in the Articles of Association for convening a General Meeting of Shareholders and drawing up the agenda encompass the stipulations of the law.

**Entry in the share register** Entries can be made in the share register up to, but not including, the day before the General Meeting of Shareholders. In all cases, however, the company reserves the right to adhere to the legal maximum period of 20 days for refusal to recognise entries in the share register in accordance with Art. 685g of the Swiss Code of Obligations. For administrative reasons (mail delivery times) the deadline for registering to participate in the General Meeting of Shareholders is usually seven calendar days before the meeting takes place.

**Voting system and procedures** Voting at Swiss Life Holding is by show of hands; a written vote may be requested by the presiding officer at the General Meeting of Shareholders, or by shareholders who together represent at least 10% of the entire share capital. The presiding officer may use electronic voting for a written vote. Swiss Life Holding uses a certified electronic voting system, which it helped develop, to permit balloting with remote-controlled handsets and to record the exact number of proxy votes.

### Change of control, defence measures

**Duty to make an offer** Swiss Life Holding's Articles of Association provide for neither an "opting up" nor an "opting out" clause within the meaning of Art. 22 and 32 of the Swiss Stock Exchange Act.

**Clauses on changes of control** No agreements exist in favour of the Board of Directors or the Corporate Executive Board for cases concerning changes in control of the company.

### Auditors

PricewaterhouseCoopers (PwC) serves as external statutory auditor for 77% of the Swiss Life Group companies that are directly or indirectly held by Swiss Life Holding under its scope of consolidation. PwC is also the Group Auditor for Swiss Life Holding. The remaining auditing mandates for subsidiaries are carried out by Ernst & Young (14%) and other auditing firms (9%).

In the report of the Group Auditors, PwC confirms that it meets the legal requirements concerning professional qualification and independence.

**Duration of the mandate and term of office of the lead auditor** At the time Swiss Life Holding was established in 2002, PwC was named as Group Auditor and was re-elected at the Annual General Meeting of Shareholders in May 2003. The Articles of Association stipulate that the External Auditor is to be elected by the General Meeting of Shareholders for one financial year at a time. PwC has served as Group Auditor for Swiss Life since 1994.

The lead auditor from PwC was first charged with reviewing the consolidated financial statements of Swiss Life Holding or its predecessor Swiss Life in 1997. A successor will be chosen for the 2004 financial year.

**Auditing fees** In 2003 the auditing fees received by PwC from the Swiss Life Group came to CHF 11.602 million (previous year: CHF 13.503 million). These include the costs of reviewing Swiss Life's half-year accounts and of comfort letters issued in connection with the issue of MCS II (2003-2004) mandatory convertible securities.

**Additional auditing fees** In 2003 PwC received additional payments totalling CHF 2.785 million for advisory services (previous year: CHF 3.907 million).

## Supervisory and control instruments vis-à-vis the auditors

The Audit Committee assists the Board of Directors in its supervision of the accounting function and financial reporting activities as well as the Group's compliance with the legal requirements. It reviews the appropriateness of the internal control structures and processes used to comply with the legal requirements.

The Audit Committee does not itself carry out any auditing, but rather supervises the activities of the internal and external auditors. The Audit Committee has the following remit:

- verifying that the appropriateness, reliability and effectiveness of the accounting policies and financial control mechanisms are suitably monitored
- verifying that the functioning and effectiveness of the processes and procedures for ensuring compliance with the legal and regulatory requirements (compliance processes) are suitably monitored;
- preparing recommendations for the Board of Directors concerning the election or re-election of the external statutory auditors for Swiss Life/Rentenanstalt and Swiss Life Holding as well as the Group Auditor
- commissioning audits to be performed by internal or external auditors
- ascertaining the independence of the statutory auditors, identifying possible conflicts of interest affecting them and agreeing on their fee
- taking note of and evaluating the statutory auditors' findings and recommendations, and receiving reports from the management regarding measures taken
- reviewing and assessing the quality of external reporting
- examining the organisation and effectiveness of internal auditing, and taking note of the findings and results of internal auditors' reports

The Audit Committee meets at least four times a year. The Audit Committee held six meetings during the 2003 financial year. The lead auditor from PwC took part in these sessions.

## Information policy

In addition to its comprehensive review of operations and financial statements, Swiss Life Holding also reports its half-year results. All Swiss Life annual reports and half-year reports from 1997 onwards can be accessed via the website www.swisslife.com. Twice a year, a report with important facts and figures is sent to all those recorded in the share register. The first Investors' Day event was held in December 2003. On this occasion, Swiss Life informed financial analysts and institutional investors about the progress made in realising its new strategy and offered an in-depth look at its concepts, methods and processes with reference to asset and liability management, risk management and investment management. The Investors' Day will be instituted as an annual event focusing on various topics and issues.

Important dates and contacts can be found on page 154.

**Board of Directors (from left to right):** Volker Bremkamp, Rudolf Kellenberger, Peter Quadri, Bruno Gehrig, Paul Embrechts, Franziska Tschudi, Georges Muller, Gerold Bührer, Pierfranco Riva

**Corporate Executive Board** (from left to right): Michael Koller, Bruno Pfister, Reto Himmel, Rolf Dörig, Paul Müller, René van der Smeede, Martin Senn

**Inspiration.** "I am totally hooked again. My dream of having my own artist's studio is turning into a reality. Finding this room was a real stroke of luck. The rent is affordable and it is close enough for me to cycle there – simply ideal. But the best thing of all is that the studio is right on the coast. Even before we were married, I had always enjoyed being creative – but I simply didn't have time afterwards, when I was bringing up three children. That's the way things are. Once the children left home, I started sketching and painting again – just simple subjects, still life, landscapes. The main thing was doing something with my hands. I had done some painting when I was a student in The Hague but after so many years I was out of practice. It is up to others to decide whether I have any talent – it doesn't really matter to me. I can hardly wait to be standing in my studio, gazing out through that huge window at the sea. I think there is nothing more inspiring than the surge of the sea, the waves, and the clouds repeatedly forming new images in the sky."

**Mountain air.** "I can still hardly believe it! An old friend of mine called me three weeks ago. He is the warden of an alpine hut and asked whether I could help him out during the next season. That means cooking, clearing up, getting food down in the valley and so on. I love being in the mountains and immediately agreed. Over the last 30 years, I have spent every spare moment in the mountains – I simply can't live without them. Every year, I do a three or four thousand meter ascent. After a strenuous climb, it is an incredible feeling to stand on the summit and gaze out over the mountain peaks. You are suddenly transformed into someone completely new."

Housewife, Sophie V. (57), takes up her brush and paints once again.

Heating engineer, Pierre H. (58), scales new heights.

**Commitment.** You can achieve more if you enjoy what you do. Trying something new can totally transform your life. It can also have implications for your pension and long-term savings. Swiss Life will provide you with easily comprehensible answers to complex questions. Advice that gives you a clear picture. Products and services that inspire confidence because you understand them. Transparency creates trust.

# Consolidated Statement of Income

## Consolidated statement of income for the years ended 31 December



| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| **Revenue** | | | |
| Net earned premiums and policy fees [1)] | 24 | **14 822** | 15 265 |
| Net investment income | 8 | **5 552** | 5 505 |
| Net realised and unrealised gains/losses on investments | 8 | **334** | –2 304 |
| Net trading income | 8 | **–50** | 1 512 |
| Investment management, banking and other fee income | 8 | **553** | 574 |
| Other income | 8 | **–123** | 72 |
| **Total revenue** | | **21 088** | 20 624 |
| **Benefits, losses and interest expenses** | | | |
| Benefits paid and changes in insurance reserves | 8 | **–15 726** | –16 329 |
| Policyholder bonuses and participation in surplus | | **–871** | –340 |
| Interest credited to investment contracts, customer deposits and other funds on deposit | 8 | **–818** | –946 |
| Interest on borrowings | | **–177** | –363 |
| Other interest expenses | | **–59** | –11 |
| **Total benefits, losses and interest expenses** | | **–17 651** | –17 989 |
| **Operating expenses** | | | |
| Investment management and banking expenses | 8 | **–635** | –917 |
| Insurance-underwriting and policy-acquisition costs | 8 | **–1 546** | –1 690 |
| Other operating and administrative expenses | 8 | **–699** | –829 |
| **Total operating expenses** | | **–2 880** | –3 436 |
| **Operating result** | | **557** | –801 |
| Amortisation of goodwill | 19 | **–80** | –1 046 |
| **Net result before tax and minority interests** | | **477** | –1 847 |
| Income tax expenses | 28 | **–202** | 92 |
| **Net result before minority interests** | | **275** | –1 755 |
| Minority interests | | **–42** | 61 |
| **Net result** | | **233** | –1 694 |
| Basic earnings per share (in CHF) | 7 | **10.8** | –104.6 |
| Diluted earnings per share (in CHF) | 7 | **10.6** | –104.6 |

1) Under the accounting principles adopted, deposits made under investment contracts are not recognised as income

| | | | |
|---|---|---|---|
| Net earned premiums and policy fees as reported | 24 | **14 822** | 15 265 |
| Deposits under investment contracts | | **3 382** | 3 716 |
| **Net earned premiums, policy fees and deposits** | | **18 204** | 18 981 |
| **Gross written premiums, policy fees and deposits under investment contracts** | | **18 760** | 19 473 |

# Consolidated Balance Sheet



## Consolidated balance sheet as of 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| **Assets** | | | |
| **Investments** | | | |
| Held-to-maturity securities | 9 | **5 252** | 4 416 |
| Available-for-sale securities | 9 | **88 118** | 80 821 |
| Financial assets held for trading | 10 | **3 024** | 3 552 |
| Investment property | 12 | **11 082** | 10 770 |
| Loans originated by the enterprise | 14 | **25 600** | 31 650 |
| Investments in associates | 15 | **64** | 181 |
| Other investments | 16 | **853** | 1 003 |
| **Total investments** | | **133 993** | 132 393 |
| **Other assets** | | | |
| Cash and cash equivalents | | **6 250** | 4 217 |
| Insurance and other receivables | 29 | **4 715** | 4 259 |
| Reinsurance assets | 25 | **1 608** | 1 533 |
| Deferred acquisition costs | 17 | **2 793** | 2 576 |
| Property and equipment | 18 | **1 468** | 1 625 |
| Goodwill and other intangible assets | 19 | **1 071** | 1 386 |
| Deferred tax assets | 28 | **944** | 1 721 |
| Other assets | 30 | **978** | 1 075 |
| Separate account (unit-linked) assets | 20 | **8 658** | 8 781 |
| **Total other assets** | | **28 485** | 27 173 |
| **Total assets** | | **162 478** | 159 566 |

## Consolidated balance sheet as of 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Financial liabilities held for trading | 10 | **1 225** | 1 585 |
| Investment contracts, customer deposits and other funds on deposit | 21 | **29 352** | 28 086 |
| Insurance reserves | 22, 25 | **103 862** | 100 638 |
| Borrowings | 27 | **5 802** | 6 534 |
| Deferred tax liabilities | 28 | **1 825** | 2 516 |
| Insurance and other payables | 29 | **4 779** | 3 792 |
| Other liabilities | 30 | **1 780** | 3 002 |
| Separate account (unit-linked) liabilities | | **8 674** | 8 738 |
| **Total liabilities** | | **157 299** | 154 891 |
| | | | |
| **Minority interests** | | **215** | 505 |
| | | | |
| **Equity** | | | |
| Share capital | 31 | **1 252** | 1 172 |
| Share premium | | **1 948** | 1 716 |
| Treasury shares | | **–21** | –36 |
| Gains/losses recognised directly in equity, net | 31 | **714** | 537 |
| Foreign currency translation differences | | **–117** | –174 |
| Retained earnings | | **1 188** | 955 |
| **Total equity** | | **4 964** | 4 170 |
| | | | |
| **Total liabilities and equity** | | **162 478** | 159 566 |

## Core capital for capital adequacy purposes as of 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| Equity | | **4 964** | 4 170 |
| Minority interests | | **215** | 505 |
| Hybrid debt | 27 | **1 461** | 1 384 |
| Subordinated debt | 27 | **216** | 213 |
| Deferred Group-related funds after deduction of minority interests | | **1 964** | 1 268 |
| **Total core capital for capital adequacy purposes** | 32 | **8 820** | 7 540 |

# Consolidated Statement of Cash Flow



## Consolidated statement of cash flow for the years ended 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net result before tax and minority interests | | **477** | –1 847 |
| *Adjustments* | | | |
| Net realised and unrealised gains/losses | | **–1 402** | 2 013 |
| Depreciation and amortisation | | **708** | 934 |
| Net impairment losses | | **655** | 1 698 |
| Net income from investments in associates | 15 | **–5** | 80 |
| Interest credited to investment contracts, customer deposits and other funds on deposit, net of fee income | | **974** | 530 |
| Expenses for equity compensation plans | | **4** | – |
| Other, net | | **–267** | 474 |
| *Changes in operating assets and liabilities* | | | |
| Financial assets and liabilities held for trading | | **144** | –273 |
| Deferred acquisition costs | 17 | **–569** | –361 |
| Reinsurance assets | | **–15** | –72 |
| Insurance reserves | | **961** | 2 447 |
| Net changes in other operating assets and liabilities | | **695** | –2 627 |
| **Cash flow from operating activities** | | **2 360** | 2 996 |
| Income taxes paid | | **–18** | –158 |
| **Total net cash flow from operating activities** | | **2 342** | 2 838 |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchases of held-to-maturity securities | | **–1 034** | –13 |
| Purchases of available-for-sale securities | | **–42 269** | –49 322 |
| Sales of held-to-maturity securities | | **–** | 0 |
| Sales of available-for-sale securities | | **35 007** | 45 446 |
| Redemptions of held-to-maturity securities | | **517** | 520 |
| Redemptions of available-for-sale securities | | **2 145** | 1 481 |
| Purchases of investment property | | **–326** | –699 |
| Sales of investment property | | **256** | 58 |
| Origination of loans | | **–33 320** | –47 112 |
| Redemptions of loans | | **39 264** | 41 064 |
| Purchases of investments in associates | | **–1** | –83 |
| Sales of investments in associates | | **142** | 243 |
| Purchases of other investments | | **–284** | –1 165 |
| Sales and redemptions of other investments | | **341** | 4 496 |
| Purchases of property and equipment | | **–102** | –323 |
| Sales of property and equipment | | **15** | 17 |
| Acquisitions of minority interests | | **–296** | – |
| Acquisitions and disposals of subsidiaries, net of cash and cash equivalents | 4 | **–117** | 91 |
| **Total net cash flow from investing activities** | | **–62** | –5 301 |
| | | | |
| **Balance carried forward to page 75** | | **2 280** | –2 463 |

## Consolidated statement of cash flow for the years ended 31 December



| In CHF million | 2003 | 2002 |
|---|---|---|
| **Balance carried forward from page 74** | **2 280** | –2 463 |
| **Cash flow from financing activities** | | |
| Deposits under investment contracts, other policyholder funds and reinsurance contracts | **3 282** | 3 400 |
| Withdrawals under investment contracts, other policyholder funds and reinsurance contracts | **–2 699** | –1 406 |
| Deposits under financial reinsurance contracts that do not transfer risk | **0** | 6 |
| Withdrawals under financial reinsurance contracts that do not transfer risk | **–6** | –15 |
| Net change in demand deposits, savings deposits and time deposits | **–929** | –1 295 |
| Issuance of debt instruments | **714** | 45 956 |
| Redemption of debt instruments | **–1 065** | –47 473 |
| Reduction in share capital | **–** | – |
| Issuance of shares | **–** | 790 |
| Issuance of mandatory convertible securities | **323** | 238 |
| Purchases of treasury shares | **–172** | –388 |
| Sales of treasury shares | **175** | 580 |
| Contributions from minority interests | **6** | – |
| Dividends paid to shareholders and minority interests | **–4** | –20 |
| **Total net cash flow from financing activities** | **–375** | 373 |
| Effect of exchange rate differences on cash and cash equivalents | **128** | –67 |
| **Total change in cash and cash equivalents** | **2 033** | –2 157 |
| Cash and cash equivalents as of 1 January | **4 217** | 6 374 |
| Total change in cash and cash equivalents | **2 033** | –2 157 |
| **Cash and cash equivalents as of 31 December** | **6 250** | 4 217 |
| **Supplemental disclosures on cash flow from operating activities** | | |
| Interest received | **4 427** | 4 455 |
| Dividends received | **499** | 479 |
| Interest paid | **220** | 703 |
| **Non-cash financing and investing activities** | | |
| Conversion of debt to equity | **–** | – |
| Change in gains/losses recognised directly in equity, net | **177** | 190 |
| Acquisition of assets through finance leases | **1** | 17 |

# Consolidated Statement of Changes in Equity

## Consolidated statement of changes in equity for the years ended 31 December

| In CHF million (except for per share data) | Notes | 2003 Number of shares | 2002 Number of shares | 2003 Total recognised gains and losses | 2002 Total recognised gains and losses | 2003 Cumulative change in equity | 2002 Cumulative change in equity |
|---|---|---|---|---|---|---|---|
| **Share capital** | 31 | | | | | | |
| Balance as of 1 January | | **23 447 943** | 11 747 000 | | | **1 172** | 587 |
| Reclassification to minority interests due to new structure (unexchanged SL/RA shares) | | **–** | –912 296 | | | **–** | –45 |
| Original SLH shares | | **–** | 5 000 | | | **–** | 0 |
| Balance under new structure | | **23 447 943** | 10 839 704 | | | **1 172** | 542 |
| Issuance of shares | | – | 10 839 704 | | | | 542 |
| Issuance of mandatory convertible securities (MCS) | | **1 586 098** | 1 768 535 | | | **80** | 88 |
| Reduction in share capital | | **–** | – | | | **–** | – |
| **Balance as of 31 December** | | **25 034 041** | 23 447 943 | | | **1 252** | 1 172 |
| **Share premium** | 31 | | | | | | |
| Balance as of 1 January | | | | | | **1 716** | 1 780 |
| Reclassification to minority interests due to new structure | | | | | | **–** | –138 |
| Balance under new structure | | | | | | **1 716** | 1 642 |
| Issuance of shares | | | | | | **–** | 314 |
| Issuance of MCS | | | | | | **258** | 126 |
| Reduction in share premium | | | | | | **–** | – |
| Equity compensation benefits | | | | | | **4** | – |
| Convertible debt and share options | | | | | | **–** | 1 |
| Gains/losses on sales of SL/RA treasury shares | | | | | | **–** | –290 |
| Gains/losses on sales of SLH treasury shares | | | | | | **–12** | 1 |
| Equity transaction costs (capital increase), net of taxes | | | | | | – | –66 |
| Equity transaction costs (MCS), net of taxes | | | | | | **–18** | –12 |
| **Balance as of 31 December** | | | | | | **1 948** | 1 716 |
| **Treasury shares** | 31 | | | | | | |
| Balance as of 1 January | | **1 892 614** | 614 289 | | | **–36** | –540 |
| Purchases of SL/RA treasury shares | | | 1 305 344 | | | | –345 |
| Sales of SL/RA treasury shares | | | –1 862 794 | | | | 855 |
| Exchange of SL/RA shares for SLH shares | | | 56 839 | | | | –30 |
| Original SLH shares | | | 5 000 | | | | 0 |
| Issuance of shares in form of MCS | | **1 586 098** | 1 768 535 | | | **–** | – |
| Purchases of SLH treasury shares | | **1 365 921** | 308 795 | | | **–172** | –43 |
| Sales of SLH treasury shares | | **–1 369 571** | –246 555 | | | **187** | 37 |
| **Balance as of 31 December** | | **3 475 062** | 1 892 614 | | | **–21** | –36 |
| **Balance carried forward to page 77** | | **21 558 979** | 21 555 329 | | | **3 179** | 2 852 |

## Consolidated statement of changes in equity for the years ended 31 December



| In CHF million (except for per share data) | Notes | 2003 Number of shares | 2002 Number of shares | 2003 Total recognised gains and losses | 2002 Total recognised gains and losses | 2003 Cumulative change in equity | 2002 Cumulative change in equity |
|---|---|---|---|---|---|---|---|
| **Balance carried forward from page 76** | | **21 558 979** | 21 555 329 | | | **3 179** | 2 852 |
| **Gains/losses recognised directly in equity, net** | 31 | | | | | | |
| Balance as of 1 January | | | | | | **537** | 376 |
| Reclassification to minority interests due to new structure | | | | | | **–** | –29 |
| Balance under new structure | | | | | | **537** | 347 |
| Change in net unrealised gains/losses | | | | **177** | 190 | **177** | 190 |
| **Balance as of 31 December** | | | | | | **714** | 537 |
| **Foreign currency translation differences** | 31 | | | | | | |
| Balance as of 1 January | | | | | | **–174** | –93 |
| Reclassification to minority interests due to new structure | | | | | | **–** | 7 |
| Balance under new structure | | | | | | **–174** | –86 |
| Change for the period | | | | **57** | –88 | **57** | –88 |
| **Balance as of 31 December** | | | | | | **–117** | –174 |
| **Retained earnings** | 31 | | | | | | |
| Balance as of 1 January | | | | | | **955** | 2 872 |
| Reclassification to minority interests due to new structure | | | | | | **–** | –223 |
| Balance under new structure | | | | | | **955** | 2 649 |
| Net result | | | | **233** | –1 694 | **233** | –1 694 |
| Dividend | | | | | | **–** | – |
| Dividend paid on MCS | | | | | | **–** | – |
| **Balance as of 31 December** | | | | | | **1 188** | 955 |
| **Total equity** | | **21 558 979** | 21 555 329 | **467** | –1 592 | **4 964** | 4 170 |

# Notes to the Consolidated Financial Statements

## 1 General Information

The Swiss Life Group is a multinational insurance and financial services group registered in Zurich, Switzerland. Swiss Life is a diversified organisation offering a wide range of services in areas such as insurance, investment management, risk management and banking. Swiss Life is a major life and pension insurer in Switzerland and has operations in various European countries through branch offices, subsidiaries and affiliates. The Group also provides for individualised investment forms of employee benefit plans for large clients and offers solutions in long-term savings protection. The Group offers a broad line of life, pension, annuity, accident and health and investment-type products to both individuals and groups and delivers additional banking services through its banking subsidiaries. Multinational companies are serviced with tailor-made solutions by a network of partners in over 40 countries.

A holding structure was established and a company was founded as a wholly-owned subsidiary for this purpose on 17 September 2002. This company, Swiss Life Holding (SLH), had a share capital of CHF 250 000. On 23 September 2002, Swiss Life launched an exchange offer to all holders of Swiss Life/Rentenanstalt (SL/RA) shares. At the end of the exchange offer period, a total of 10 834 704 SL/RA shares or 92.23% of the total SL/RA shares had been tendered. In connection with the capital increase resolved by the Extraordinary General Meeting of Shareholders held on 18 November 2002 and its entry in the Commercial Register of the Canton of Zurich on 19 November 2002, the SL/RA shares were transferred to Swiss Life Holding by way of a contribution in kind in exchange for the issue to the tendering shareholders of 10 834 704 SLH shares. With this transaction Swiss Life Holding became the parent company of the Swiss Life Group.

On 29 March 2004, the Board of Directors approved the annual financial statements and the financial report and authorised them for issue. The financial report therefore only reflects events up to this date.

The General Meeting of Shareholders of Swiss Life Holding has the power to amend the financial statements after issue.

## 2 Summary of Significant Accounting Policies

The consolidated financial statements of Swiss Life have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements are prepared under the historical cost convention as modified by recording available-for-sale investments, investment property and trading account assets and liabilities at fair values.

Currently, IFRS has no insurance industry guidelines for the technical areas. Swiss Life has based the accounting for the insurance (technical) areas on the requirements of Generally Accepted Accounting Principles in the United States (US GAAP).

## 2 Summary of Significant Accounting Policies (continued)

### Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, revenues and expenses of Swiss Life Holding and its subsidiaries. A subsidiary is an entity in which Swiss Life Holding owns directly or indirectly more than 50 % of the voting rights, or in which it otherwise has the power to exercise control over operations. Subsidiaries are consolidated from the date on which effective control is transferred. All intercompany balances, transactions and unrealised gains and losses on transactions have been eliminated. A listing of the Group's principal subsidiaries is set out in note 43. The financial effect of acquisitions and disposals of subsidiaries is shown in note 4. Associates, partnerships and certain joint ventures for which the Group has between 20 % and 50 % of the voting rights and/or exercises significant influence are accounted for using the equity method. The Group's share of net income for the year is recognised as investment income and the ownership interest in the investment is recorded in the balance sheet at an amount that reflects its share of the net assets and includes goodwill on the acquisition. A listing of the Group's principal associates, partnerships and joint ventures is shown in note 43.

### Foreign currency translation and transactions

The reporting currency of the Group is the Swiss franc (CHF).

**Foreign currency exchange rates**

| | **31.12.2003** | 31.12.2002 |
|---|---|---|
| 1 EUR | **1.5580** | 1.4570 |
| 1 GBP | **2.2010** | 2.2320 |
| 1 USD | **1.2360** | 1.3925 |

| Average | **Jan.-Dec. 2003** | Jan.-Dec. 2002 |
|---|---|---|
| 1 EUR | **1.5211** | 1.4670 |
| 1 GBP | **2.1982** | 2.3345 |
| 1 USD | **1.3452** | 1.5565 |

**Foreign currency translation** On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into Swiss francs at year-end exchange rates. Income and expense items are translated into Swiss francs at the annual average exchange rate. Goodwill is translated at historical exchange rates. The resulting translation differences are recorded directly in equity as cumulative translation adjustments. On disposal of foreign entities, such translation differences are recognised in income as part of the profit or loss on the sale.

**Foreign currency transactions** For individual Group entities, foreign currency transactions are accounted for using the approximate exchange rate at the date of the transaction. Outstanding balances in foreign currencies at year-end arising from foreign currency transactions are translated at year-end exchange rates for monetary items while historical rates are used for non-monetary items. Those non-monetary items in foreign currencies recorded at fair values are translated at the exchange rate on the revaluation date.

### Insurance operations

**Insurance income and related expenses** Premiums from traditional life insurance contracts are recognised when due from the policyholder. Reserves are established in order to recognise future benefits and expenses. Amounts collected as premiums from investment-type contracts such as universal life and unit-linked contracts are reported as deposits. Only those parts of the premiums used to cover the insured risks and associated costs are treated as premium income. These include fees for the cost of insurance, administration charges and surrender charges. Benefits recognised under expenses include claims for benefits incurred in the period under review that exceed the related deposits under policyholder contracts and interest that is credited to the appropriate insurance policy accounts.

For contracts with a short duration, premiums are recorded as written upon inception of the contract and are earned primarily on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

## 2 Summary of Significant Accounting Policies (continued)



**Deferred acquisition costs** Costs that vary with and are directly related to the acquisition of new and renewed insurance contracts including commissions, underwriting costs, agency and policy issue expenses, are deferred. Deferred acquisition costs (DAC) are periodically reviewed to ensure that they are recoverable from future revenues.

For participating life insurance contracts, where the contribution principle applies to the allocation of the policyholder bonus, the deferred acquisition costs are amortised over the life of the contract based on the present value of the estimated gross margin amounts which are expected to be realised. Expected gross margins include expected premiums and investment results less expected benefit claims and administrative expenses, anticipated changes to future life policyholder benefits and expected annual policyholder bonuses.

Deferred acquisition costs for other traditional life insurance contracts and annuities with life contingencies are amortised in proportion to the expected premiums.

Deferred acquisition costs for investment-type contracts such as universal life and unit-linked contracts are amortised over the life of the contract based on the present value of the estimated gross profits expected to be realised. The estimated gross profits are made up of margins available from mortality charges and contract-administration costs, investment earnings spreads, surrender charges and other expected assessments and credits.

Assumptions used to estimate the future value of expected gross margins and profits are evaluated regularly and adjusted if estimates change. Deviations of actual results from estimated experience are reflected in income.

The effect on the DAC assets that would result from the realisation of unrealised gains or losses on investments is recognised through an offset to unrealised gains or losses in equity at the balance sheet date.

For short-duration contracts acquisition costs are amortised over the period in which the related premiums written are earned, in proportion to premium revenue.

**Future life policy benefit liabilities, policyholder contract deposits and loss reserves** For participating life insurance contracts, where the contribution principle applies to the allocation of the policyholder bonus, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest assumptions. In most instances a liability for terminal bonuses is accrued in the liability for future policy benefits, in proportion to the estimated gross margins.

Future life policy benefit liabilities for other traditional life insurance contracts are calculated using a net-level-premium method based on actuarial assumptions as to mortality, persistency, expenses and investment return, including a margin for adverse deviation. These assumptions are based on figures at the time the policy is issued.

If the actual results indicate that the accumulated liabilities together with anticipated future revenues are not adequate to meet future obligations and to recover the unamortised DAC, the loss is recognised immediately, either by a reduction of the unamortised DAC or through an increase in reserves for future life policy benefits.

Liabilities for policyholder investment contracts and universal life contracts are not calculated actuarially; they move in line with premiums paid by the policyholders plus interest credited less expenses and mortality charges and withdrawals.

Reserves for unpaid losses and loss adjustment expenses are for future payment obligations under insurance claims, where normally either the amount of benefits to be paid or the date when payments must be made is not yet fixed. They include claims reported at the balance sheet date, claims incurred but not yet reported and claim settlement expenses. Reserves for unpaid losses and loss adjustment expenses are calculated at the estimated amount considered necessary to settle future claims in full, using actuarial methods. These methods are continually reviewed and updated. Claim reserves are not discounted except for claims with determinable and fixed payment terms.

## 2 Summary of Significant Accounting Policies (continued)

**Policyholder bonuses** Policyholder bonus liabilities are recognised in accordance with legal or contractual requirements. Policyholder bonuses are mostly based on the agreed insured amounts and on the statutory net income. For IFRS adjustments, which impact either the result or the gains/losses recognised directly in equity, net, an additional deferred bonus liability is accrued. In countries without legal or contractual requirements, such as Switzerland, there are typically consistent patterns of profit sharing driven by market practice and policyholder expectations. However, these amounts are not accrued until ratified by management.

For investment-type products bonuses are only accrued on deposits under policyholder accounts if the policyholders would be entitled to receive those bonuses upon surrender at the balance sheet date.

**Separate-account and unit-linked assets and liabilities**
These contracts represent life insurance contracts whose risk is borne according to their specific investment objectives by the policyholders. Investment income and both realised and unrealised gains and losses accrue directly to the policyholder. The assets of each account are segregated and are not subject to liabilities that arise out of any other business of the company. The assets and liabilities are carried at fair value. Deposits, withdrawals, net investment income and realised and unrealised capital gains and losses on such assets are not reflected in the consolidated statement of income or equity. The cost of insurance, administrative charges and surrender charges are included in policy fee income.

### Investment management

Revenue consists principally of investment management fees, commission revenue from distribution and sale of investment fund units and custody account fees. Such revenue is recognised when earned.

Commissions and certain operating expenses related to the sale of certain investment funds have been deferred. These costs are charged to income in relation to revenues earned on these investment funds. Certain front-end fees charged to unitholders have been deferred and amortised in proportion to the related expenses which have also been deferred. The Group periodically reviews and updates its assumptions made in determining projected revenues, with amortisation periods being adjusted as necessary.

### Reinsurance

The Group assumes and/or cedes insurance in the normal course of business. Reinsurance assets principally include receivables due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable or due under reinsurer contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented on the consolidated balance sheet on a gross basis unless a right and the intention to offset exist.

Reinsurance contracts that do not transfer insurance risk are accounted for as financial reinsurance and included in reinsurance assets or liabilities. A deposit asset or liability is recognised based on the consideration paid or received, less any explicitly identified premiums or fees to be retained by the reinsured. These contracts are primarily accounted for using the effective interest method with future cash flows being estimated to calculate the effective interest rate.

### Financial investments

Financial assets which the Group has the ability and positive intent to hold to maturity (HTM) are carried at amortised cost. Financial instruments which the Group buys with the intention to resell in the near term are classified as held for trading and carried at fair value. Realised and unrealised gains and losses are recognised in net trading income. Financial assets classified as available-for-sale (AFS) are carried at fair value. Gains and losses arising from fair value changes of available-for-sale investments are reported in equity, net of certain policyholder bonuses and other policyholder liabilities and deferred acquisition costs, deferred income taxes and minority interests. On disposal of an AFS investment, the cumulative gain or loss is transferred from equity to profit or loss for the period. Gains and losses on disposal are determined using the average cost method.

"Regular way" purchases and sales of financial assets are recorded on the trade date, net of transaction costs. The amortisation of premiums and discounts on investments is computed using the effective interest method and is recognised in income as an adjustment of yield. Dividends are recorded as revenue on the ex-dividend date. Interest income is recognised on an accrual basis.

## 2 Summary of Significant Accounting Policies (continued)



Loans originated by the enterprise are carried at amortised cost using the effective interest rate method. The computation includes all fees and points paid or received. Loans with indefinite maturities are carried at unpaid principal amounts or cost.

Sales or purchases of securities under agreements to repurchase or resell and under lending agreements are accounted for as collateralised borrowings or loans and carried at the contracted resale or repurchase amount, plus accrued interest. Interest paid or received is recognised in income over the life of each agreement.

### Investment property

Investment property consists of investments in residential, commercial and mixed-use properties primarily located within Switzerland. Property held for investment purposes includes both land and buildings.

Investment property is property held to earn rentals or for capital appreciation or both.

Property held for sale in the ordinary course of business is reported under other assets.

Investment property is carried at fair value and changes in fair values are recognised in income. Fair values are determined either on the basis of periodic independent valuations (at least every three years) or annually by using discounted cash flow projections. Rental income is recognised on a straight-line basis over the lease term.

### Derivatives and risk management activities

The Group enters into forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments for hedging risk exposures or for trading purposes. To manage the risks associated with derivative trading, the Group establishes risk levels and monitors these exposures. Exposure to price risk on both derivatives and their underlyings is managed in accordance with risk limits set by management for buying or selling instruments or closing out positions. The Group restricts its exposure to credit risk by entering into derivative contracts with counterparties that have at least an A credit rating and by entering into master netting agreements. The notional amounts or contract volumes of derivatives, which are used to express the volume of instruments outstanding and to provide a basis for comparison with other financial instruments, do not represent the amounts that are effectively exchanged by the parties and, therefore, do not measure the Group's exposure to credit risk. The amounts exchanged are calculated on the basis of the notional amounts or contract volumes and other terms of the derivatives that relate to interest or exchange rates, securities prices and the volatility of these rates and prices.

All derivative financial instruments are carried in the balance sheet at fair value as assets when favourable to the Group and liabilities when unfavourable. Realised and unrealised gains and losses on derivatives held for trading are recognised in income immediately.

Derivatives and other financial instruments are also used to hedge or modify exposures to interest rate, foreign currency and other risks if certain criteria are met. Such financial instruments are designated to offset changes in the fair value of an asset or liability (fair value hedge), or changes in future cash flows of an asset, liability, firm commitment, or forecasted transaction (cash flow hedge). In a qualifying fair value hedge, the change in fair value of a hedging derivative is recognised in income. The change in fair value of the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item and is also recognised in income.

In a qualifying cash flow hedge, the effective portion of the gain or loss on the hedging derivative is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the gain or loss is removed from equity and included in the carrying amount of the asset or liability. Otherwise, the gain or loss is recognised in income in the period during which the hedged item affects income. Any ineffective portion of the gain or loss is recognised in the income statement immediately.

When a hedge relationship is no longer effective, expires or is terminated, hedge accounting is discontinued from that point on.

## 2 Summary of Significant Accounting Policies (continued)

### Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are primarily short-term highly liquid investments with a maturity of 90 days or less from the date of acquisition.

### Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is principally calculated using the straight-line method over the asset's estimated useful life as follows: buildings 25 to 50 years; furniture and fixtures 5 to 10 years; computer hardware and software 3 to 5 years. Maintenance and repair costs are charged to income as incurred. Expenditures that enhance or extend the economic benefit of property and equipment are capitalised and depreciated. Realised gains and losses on disposals are determined by reference to the carrying amount. Borrowing costs directly attributable to the construction or acquisition of a qualifying asset are capitalised as part of the cost of that asset.

The Group primarily enters into operating leases for the rental of equipment. Payments made under such leases are generally charged to income on a straight-line basis over the period of the lease.

If the lease agreement transfers the risks and rewards of the assets, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recognised at the lower of the present value of the minimum lease payments or fair value and depreciated over its estimated useful life. The corresponding finance lease obligations are recorded as liabilities.

### Goodwill and other intangible assets

The Group's acquisitions of other companies are accounted for under the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities acquired at the date of acquisition, with any residual amount allocated to goodwill. Goodwill acquired prior to 1995 was charged directly to equity. Goodwill is amortised using the straight-line method over its estimated useful life, normally up to a maximum of 20 years. In determining the useful life, the Group considers the expected pattern of benefits to be received from the acquired company which is based on factors such as the type of business, the duration of the underlying insurance contracts, client relationships and distribution networks. The useful life of goodwill is reviewed annually and written down for impairment where necessary.

Goodwill is recorded net of negative goodwill. Negative goodwill is amortised into income over the remaining average useful life of the non-monetary assets acquired, which normally ranges from 1 to 10 years. Negative goodwill in excess of the fair value of non-monetary assets acquired is recognised as income immediately.

The present value of future profits from acquired insurance contracts is recognised as an intangible asset and amortised over the premium or gross profit recognition period of the insurance contracts acquired, which generally ranges from 20 to 30 years.

Other intangible assets primarily consist of trademarks and brand names and are amortised over their useful lives, generally 20 years, using the straight-line method.

### Impairment of assets

The Group reviews the carrying value of assets regularly for indications of impairment.

A financial asset is impaired if its carrying amount is greater than the recoverable amount. Depending on the type of financial asset the recoverable amount is estimated as follows: present value of expected future cash flows discounted at the instrument's original effective interest rate or current market rate; the fair value using an observable market price; or an amount based on the fair value of any collateral. Debt instruments carried at amortised cost are considered impaired if it is probable that the Group will not be able to collect all amounts due according to the contractual terms. Equity instruments are considered impaired if the fair value remains substantially below cost for a prolonged period, or objective evidence indicates that costs may not be recovered.

## 2 Summary of Significant Accounting Policies (continued)



For non-financial assets the recoverable amount is measured as the higher of net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, after deducting any direct disposal costs. "Value in use" is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

When an impairment loss has been incurred, the carrying amount of the asset is reduced to its recoverable amount, and the amount of the loss is recognised in the income statement. When an available-for-sale financial asset is impaired, the unrealised loss previously included in equity is removed from equity and recognised in the income statement. This includes any portion attributable to foreign currency changes in the case of non-monetary assets.

In respect of financial assets, an impairment loss is reversed if the subsequent increase in recoverable amount can be objectively related to an event occurring after the impairment was recognised. In respect of non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Impairment losses and reversals of impairment losses on investments are recognised in income as part of realised and unrealised gains and losses on investments. Impairment losses and reversals of impairment losses on goodwill are recognised as part of the amortisation of goodwill. Impairment losses and reversals on other assets are recognised in operating expenses.

### Income taxes

Current and deferred income taxes are recognised in income except when they relate to items recognised directly in equity. Income taxes are calculated using the tax rates enacted or substantively enacted as of the balance sheet date.

Deferred income taxes are recognised for all temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the tax bases of these assets and liabilities, using the liability method.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be used. For unused tax losses a deferred tax asset is recognised to the extent that it is probable that these losses can be offset against future taxable profits.

A deferred tax liability is recognised for taxable temporary differences relating to investments in subsidiaries, branches and associates and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

### Earnings per share

Basic earnings per share are calculated by dividing net income available to shareholders by the weighted average number of shares in issue during the reporting period, excluding the average number of shares purchased by the Group and held as treasury shares.

For the diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares, such as convertible debt and stock options issued. Potential or contingent share issuance is treated as dilutive when conversion to shares would decrease earnings per share.

### Employee benefits

The Swiss Life Group provides post-employment benefits under two types of arrangement: defined benefit plans and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. Defined benefit plan contributions are calculated based upon regulatory requirements and/or plan terms. The Group's defined benefit obligations and the related service costs are determined at each balance sheet date by a qualified actuary, using the Projected Unit Credit Method.

Unrecognised actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are recognised in income over the expected average remaining working lives of the employees participating in the plans.

## 2 Summary of Significant Accounting Policies (continued)

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, reduced by the fair value of plan assets and adjusted for unrecognised actuarial gains and losses and unrecognised past service costs. The recognition of a resulting asset is limited to the total of any cumulative unrecognised net actuarial losses and past service costs or the present value of any future refunds from the plans or reductions in future contributions to the plans, if lower.

Some Group companies provide healthcare benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to the retirement age and the completion of a minimum service period. The expected costs of these benefits are accounted for in the same manner as for defined benefit plans.

The Group's contributions to the defined contribution plans are charged to income in the reporting period to which they relate.

The Group recognises share-based payments based on the difference between the fair value of the shares at the grant date and the exercise price or the intrinsic value of the share option at the grant date for share option plans. All other employee benefit expenses are accrued or recognised when the related service has been rendered.

### Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction cost incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Debt instruments with embedded conversion options on shares of the Group are bifurcated into a debt and an equity component. The difference between the proceeds and fair value of the debt at issuance is recorded in equity. The fair value of the debt is determined using a market interest rate for similar instruments with no conversion rights. The Group does not recognise any change in the value of these options in subsequent reporting periods.

### Treasury shares

Treasury shares are presented in the consolidated balance sheet as a deduction from equity and are recorded at cost. The difference between the purchase price and the sales proceeds is included in share premium.

### Provisions and contingent liabilities

Provisions are liabilities with uncertainties as to the amount or timing of payments. Provisions are recognised if there is a present obligation that probably requires an outflow of resources and a reliable estimate can be made at the balance sheet date. Contingent liabilities are disclosed in the Notes if there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.

### Fair value of financial instruments

The fair value of financial instruments is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

## 2 Summary of Significant Accounting Policies (continued)

The principal methods and assumptions used by the Group in estimating the fair value of the following financial instruments are:

- Fair values for debt and equity securities are generally based upon quoted market prices.
- Fair values for derivative financial instruments are obtained from quoted market prices and/or discounted cash flow models as appropriate.
- The fair value of loans is estimated using discounted cash flows based upon the Group's current lending rates for similar loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values equal the carrying values.
- The majority of the private equity investments are classified as available-for-sale. Investments are normally valued at market if the market value represents the fair value. If no market value is available, fair value is estimated using various methods, such as discounted cash flow analysis or reference to recent comparable transactions.
- The fair value of other investments is generally based on quoted market prices.
- The fair value of financial reinsurance assets and liabilities is estimated using discounted cash flow calculations.
- Policyholder investment contracts and other funds on deposit are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. The fair values of demand or savings deposits are equal to the amount payable on demand or the carrying amount. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date.
- Borrowings are estimated using discounted cash flow calculations based upon the Group's current borrowing rates for similar borrowings with remaining maturities consistent with the debt being valued.
- The carrying amount of accrued interest and other financial liabilities approximates their fair value.

### Offsetting

Financial assets and liabilities are offset with the net amount being reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 3 Effect of Changes in Accounting Policies

No new IFRS pronouncements relevant to the Swiss Life Group for the reporting period 2003 were issued between 1 January 2003 and 31 December 2003.

The Accounting Standards Executive Committee (AcSEC) issued a Statement of Position (SOP) 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" in July 2003. This pronouncement will be relevant for the 2004 reporting period.

The International Accounting Standards Board (IASB) issued the following new or revised IFRS/IAS Standards which will be effective for periods beginning on 1 January 2005: IFRS 2 Share-based Payment, IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and Improvements to International Accounting Standards.

The financial effects of these new accounting pronouncements have not been quantified.

## 4 Acquisitions and Disposals of Subsidiaries

With regard to the implementation of the strategy of the Group and its focus on the life insurance business in some core markets, the following divestitures took place in 2003:

In June 2003, the Swiss Life Group sold STG Schweizerische Treuhandgesellschaft and all its subsidiaries to the LGT Group. The selling price was CHF 197 million minus related costs of CHF 1.4 million. The loss recognised on the sale amounted to CHF 105 million.

On 12 November 2003, the Swiss Life Group sold its life insurance business in Spain to VidaCaixa, a subsidiary of the CaiFor Group. The life insurance business in Spain was reported within the Life Non-Core segment. The selling price amounted to EUR 43 million, net of transaction costs. Additionally, VidaCaixa transferred CHF 14 million to the Swiss Life Group to redeem a loan to Swiss Life Spain. The loss recognised on the sale amounted to CHF 2.5 million.

Swiss Life Asset Management (UK) was sold on 5 November 2003 to King & Shaxson Bond Brokers. In September 2003, the equity stake in Swiss Life Partner AG, Germany, an insurance intermediary, was reduced from 77.5 % to 49.9 %. The remaining equity stake totalling CHF 1.3 million qualifies as an investment in an associate and is accounted for under the equity method. The proceeds from sale for both transactions amounted to CHF 2.5 million.

The Swiss Life Group acquired three real estate companies in Belgium in 2003. The total acquisition cost was CHF 12 million. Additionally, Banca del Gottardo acquired a subsidiary in Italy. The acquisition price was CHF 1 million.

In May 2002, Swiss Life carried out a reorganisation of its hedge fund and leveraged finance activities. The subsidiary Swiss Life Hedge Fund Partners Ltd., a joint enterprise with RMF, was fully integrated into RMF Investment Group. Total proceeds of the sale were CHF 100 million. Upon the sale of Swiss Life Hedge Fund Partners Ltd. to RMF an agreement was concluded concerning the withdrawal of Swiss Life funds managed by RMF. The original sales price of CHF 100 million shall be adjusted if a withdrawal occurs within seven years. The adjustment is calculated based on the residual term of the original seven years and the portion of the funds withdrawn. The maximum adjustment of the sales price is CHF 59 million. In December 2002, Swiss Life sold Redsafe Bank, its financial portal, to an external party, after the decision to cease the portal's operations. The sales price was CHF 25 million. Gesfid SA, Lugano, and Gesfid International, Nassau, two subsidiaries of Banca del Gottardo, were disposed of in September 2002. The proceeds from sale were CHF 52.5 million. In 2002, a real estate company in Belgium was acquired. Total purchase consideration was CHF 5.5 million. The purchase of Long Term Strategy for CHF 15 million from the members of the Corporate Executive Board is also included in the acquisitions.

## 4 Acquisitions and Disposals of Subsidiaries (continued)



### Assets and liabilities from acquisitions and disposals

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | **Acquisitions** | Acquisitions | **Disposals** | Disposals |
| Investments | **38** | 6 | **1 802** | 113 |
| Cash and cash equivalents | **0** | 37 | **370** | 111 |
| Goodwill | **–6** | –13 | **202** | 46 |
| Present value of profits on acquired insurance portfolios | **–** | – | **–** | – |
| Brand names and other intangible assets | **0** | – | **–** | – |
| Other assets | **1** | 0 | **238** | 25 |
| Insurance liabilities | **–** | – | **–1 938** | – |
| Other liabilities | **–20** | –9 | **–308** | –166 |
| Minority shareholders | **–** | – | **–1** | –8 |
| **Net assets acquired/net assets disposed of** | **13** | 21 | **365** | 121 |
| Transfer to associates | | | **–1** | – |
| Gains/losses recognised directly in equity | **–** | – | **–9** | 0 |
| Currency translation differences | **–** | – | **20** | 0 |
| **Profit (+)/loss (-) on disposals** | **–** | – | **–109** | 65 |
| Cash used for acquisitions (-)/received from disposals (+) | **–13** | –21 | **266** | 186 |
| | | | | |
| **Total purchase consideration/disposal consideration** | **–13** | –21 | **266** | 186 |
| Cash and cash equivalents acquired (+)/disposed of (-) | **0** | 37 | **–370** | –111 |
| Non-cash considerations | **–** | – | **–** | – |
| **Net cash outflow (-)/inflow (+) from acquisitions/disposals** | **–13** | 16 | **–104** | 75 |

## 5 Segment Information

The Group's reportable segments are defined using the "management approach" reflecting the sources and nature of the Group's risks and returns as monitored by management in order to strategically manage the Group and make business decisions. Primary segmentation is based on product lines and services. Secondary segmentation is based on geographical areas.

Under the new strategy primary segmentation is split into six categories: Life Core, Life Non-Core, Non-Life, Private Banking, Investment Management and Other.

- Life insurance operations offer a broad range of life, pension, annuity and investment-type policies to both groups and individuals, including accident, health and disability coverage. Under the Group's new strategy, which involves refocusing on the life and pension business and a number of key European markets, some life insurance operations have been defined as core business and others as non-core business. Life operations in Switzerland (excl. «La Suisse»), France, Germany, the Netherlands and Belgium/Luxembourg are defined as core business. Life operations in the United Kingdom, Spain, Italy and «La Suisse» in Switzerland are defined as non-core business. The "Life" segment also includes a number of companies which are predominantly active in the management of investments pertaining to life insurance.
- "Non-Life" products principally include property and casualty, liability and motor insurance. As a consequence of the new strategy, non-life operations are generally regarded as non-core business.
- "Private Banking" involves the management of assets for high net worth individuals, as well as the provision of corresponding special asset management services. "Private Banking" also covers the Group's banking operations.
- "Investment Management" refers to the management of assets for institutional clients, as well as the provision of expert advice for such clients. "Investment Management" is mainly core business.
- "Other" refers principally to various service companies and general corporate functions not specifically related to any of the other segments.

Reinsurance activities are classified as belonging to the Life or Non-Life segments depending on the type of contract. Secondary segmentation is based on geographical area, covering the following segments: Switzerland, France, Germany, the Netherlands, Belgium, the United Kingdom, and other countries.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. Inter-segmental services and transfers of assets and liabilities are treated as if the transactions were with third parties, i.e. at market prices applicable at the time of the transaction. The statement of income, balance sheet and footnote disclosure for the primary segments are given on the following pages:

## 5 Segment Information (continued)



### Statement of income for the year ended 31 December 2003

| In CHF million | Life Core | Life Non-Core | Non-Life | Private Banking | Investment Management | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Net earned premiums and policy fees | 12 532 | 1 322 | 962 | – | – | – | 6 | 14 822 |
| Net investment income | 4 816 | 373 | 97 | 255 | 4 | 40 | –33 | 5 552 |
| Net realised and unrealised gains/losses on investments | 376 | 58 | 24 | –148 | 9 | 15 | 0 | 334 |
| Net trading income | –154 | 19 | –2 | 57 | 29 | – | 1 | –50 |
| Investment management, banking and other fee income | 134 | 1 | 1 | 313 | 188 | 41 | –125 | 553 |
| Other income | –184 | 17 | 4 | 27 | 8 | 30 | –25 | –123 |
| **Total revenue** | 17 520 | 1 790 | 1 086 | 504 | 238 | 126 | –176 | 21 088 |
| *of which inter-segment* | *55* | *–39* | *5* | *–1* | *91* | *65* | *–176* | |
| Benefits paid and changes in insurance reserves | –13 557 | –1 445 | –726 | – | – | – | 2 | –15 726 |
| Policyholder bonuses and participation in surplus | –805 | –49 | –18 | – | – | – | 1 | –871 |
| Interest credited to investment contracts, customer deposits and other funds on deposit | –725 | –26 | –2 | –68 | – | – | 3 | –818 |
| Interest on borrowings | –160 | –12 | –2 | –34 | 0 | –4 | 35 | –177 |
| Other interest expenses | –56 | –2 | 1 | –1 | –1 | –4 | 4 | –59 |
| **Total benefits, losses and interest expenses** | –15 303 | –1 534 | –747 | –103 | –1 | –8 | 45 | –17 651 |
| *of which inter-segment* | *–97* | *66* | *–6* | *–2* | *0* | *–6* | *45* | |
| Investment management and banking expenses | –151 | –4 | –2 | –417 | –137 | 1 | 75 | –635 |
| Insurance-underwriting and policy-acquisition costs | –1 162 | –170 | –229 | – | – | –5 | 20 | –1 546 |
| Other operating and administrative expenses | –563 | –15 | –85 | –3 | –5 | –64 | 36 | –699 |
| **Total operating expenses** | –1 876 | –189 | –316 | –420 | –142 | –68 | 131 | –2 880 |
| *of which inter-segment* | *–86* | *–12* | *–13* | *–4* | *–3* | *–13* | *131* | |
| | | | | | | | | |
| **Segment result** | 341 | 67 | 23 | –19 | 95 | 50 | – | 557 |
| *of which inter-segment* | *–128* | *15* | *–14* | *–7* | *88* | *46* | – | |
| Amortisation of goodwill | | | | | | | | –80 |
| Income tax expenses | | | | | | | | –202 |
| **Net result before minority interests** | | | | | | | | 275 |
| | | | | | | | | |
| Minority interests | | | | | | | | –42 |
| **Net result** | | | | | | | | 233 |
| | | | | | | | | |
| *Other disclosures* | | | | | | | | |
| Profit/loss on investments in associates | 17 | – | – | 1 | – | 0 | – | 18 |
| Additions of property and equipment and intangible assets | 71 | 14 | 5 | 5 | 1 | 8 | – | 104 |
| Expenses for depreciation and amortisation | 503 | 18 | 93 | 9 | 3 | 3 | – | 629 |
| Other non-cash expenses | 660 | 331 | 26 | –2 | 0 | 1 | 14 | 1 030 |

The result for the Private Banking segment includes the loss of CHF 105 million on the sale of STG Schweizerische Treuhandgesellschaft.

## 5 Segment Information (continued)

### Statement of income for the year ended 31 December 2002

| In CHF million | Life Core | Life Non-Core | Non-Life | Private Banking | Investment Management | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Net earned premiums and policy fees | 12 661 | 1 592 | 1 004 | – | – | – | 8 | 15 265 |
| Net investment income | 4 626 | 403 | 90 | 382 | 5 | 17 | –18 | 5 505 |
| Net realised and unrealised gains/losses on investments | –2 210 | –93 | –8 | –148 | 89 | 66 | 0 | –2 304 |
| Net trading income | 1 497 | 5 | 2 | 51 | –44 | 1 | 0 | 1 512 |
| Investment management, banking and other fee income | 79 | 1 | 1 | 392 | 228 | 32 | –159 | 574 |
| Other income | 28 | 16 | 14 | 27 | 1 | 22 | –36 | 72 |
| **Total revenue** | 16 681 | 1 924 | 1 103 | 704 | 279 | 138 | –205 | 20 624 |
| *of which inter-segment* | *88* | *–42* | *34* | *32* | *97* | *–4* | *–205* | |
| Benefits paid and changes in insurance reserves | –13 805 | –1 657 | –868 | – | – | – | 1 | –16 329 |
| Policyholder bonuses and participation in surplus | –349 | –20 | 25 | – | – | – | 4 | –340 |
| Interest credited to investment contracts, customer deposits and other funds on deposit | –787 | –30 | –2 | –131 | – | –2 | 6 | –946 |
| Interest on borrowings | –273 | –9 | –1 | –96 | 0 | –2 | 18 | –363 |
| Other interest expenses | –10 | 0 | –1 | 0 | –1 | –2 | 3 | –11 |
| **Total benefits, losses and interest expenses** | –15 224 | –1 716 | –847 | –227 | –1 | –6 | 32 | –17 989 |
| *of which inter-segment* | *–84* | *66* | *–5* | *–4* | *0* | *–5* | *32* | |
| Investment management and banking expenses | –223 | –6 | –2 | –582 | –170 | –48 | 114 | –917 |
| Insurance-underwriting and policy-acquisition costs | –1 246 | –232 | –227 | – | – | –3 | 18 | –1 690 |
| Other operating and administrative expenses | –549 | –127 | –122 | –4 | –3 | –65 | 41 | –829 |
| **Total operating expenses** | –2 018 | –365 | –351 | –586 | –173 | –116 | 173 | –3 436 |
| *of which inter-segment* | *–90* | *–15* | *–14* | *–10* | *–36* | *–8* | *173* | |
| | | | | | | | | |
| **Segment result** | –561 | –157 | –95 | –109 | 105 | 16 | – | –801 |
| *of which inter-segment* | *–86* | *9* | *15* | *18* | *61* | *–17* | *–* | |
| Amortisation of goodwill | | | | | | | | –1 046 |
| Income tax expenses | | | | | | | | 92 |
| **Net result before minority interests** | | | | | | | | –1 755 |
| | | | | | | | | |
| Minority interests | | | | | | | | 61 |
| **Net result** | | | | | | | | –1 694 |
| | | | | | | | | |
| *Other disclosures* | | | | | | | | |
| Profit/loss on investments in associates | 152 | – | – | –5 | –3 | 1 | – | 145 |
| Additions of property and equipment and intangible assets | 253 | 37 | 9 | 37 | 3 | 2 | – | 341 |
| Expenses for depreciation and amortisation | 516 | 99 | 34 | 61 | 3 | 7 | – | 720 |
| Other non-cash expenses | 1 965 | 371 | 90 | –1 | –3 | 6 | 0 | 2 428 |

## 5 Segment Information (continued)



### Balance sheet as of 31 December 2003

| In CHF million | Life Core | Life Non-Core | Non-Life | Private Banking | Investment Management | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Investments** | | | | | | | | |
| Held-to-maturity securities | 4 406 | – | 670 | 103 | – | 73 | – | 5 252 |
| Available-for-sale securities | 79 417 | 5 364 | 1 383 | 1 854 | 22 | 79 | –1 | 88 118 |
| Financial assets held for trading | 1 185 | 412 | 1 | 1 353 | 91 | – | –18 | 3 024 |
| Investment property | 9 845 | 918 | 74 | – | – | 245 | – | 11 082 |
| Loans originated by the enterprise | 18 199 | 1 573 | 148 | 5 691 | 191 | 423 | –625 | 25 600 |
| Investments in associates | 49 | – | 0 | 13 | – | 2 | – | 64 |
| Other investments | 764 | – | – | 89 | – | – | – | 853 |
| **Total investments** | 113 865 | 8 267 | 2 276 | 9 103 | 304 | 822 | –644 | 133 993 |
| **Other assets** | | | | | | | | |
| Cash and cash equivalents | 4 261 | 526 | 14 | 1 236 | 80 | 194 | –61 | 6 250 |
| Insurance and other receivables | 4 071 | 370 | 356 | 151 | 169 | 48 | –450 | 4 715 |
| Reinsurance assets | 857 | 593 | 444 | – | – | – | –286 | 1 608 |
| Deferred acquisition costs | 2 502 | 234 | 57 | – | – | – | – | 2 793 |
| Property and equipment | 1 123 | 128 | 12 | 177 | 3 | 25 | – | 1 468 |
| Present value of future profits and other intangible assets | 7 | 15 | 4 | 0 | – | 1 | – | 27 |
| Other assets | 1 114 | 57 | 5 | 95 | 2 | 5 | –300 | 978 |
| Separate account (unit-linked) assets | 7 607 | 1 051 | – | – | – | – | – | 8 658 |
| **Total allocated other assets** | 21 542 | 2 974 | 892 | 1 659 | 254 | 273 | –1 097 | 26 497 |
| **Total segment assets** | 135 407 | 11 241 | 3 168 | 10 762 | 558 | 1 095 | –1 741 | 160 490 |
| Goodwill | | | | | | | | 1 044 |
| Deferred tax assets | | | | | | | | 944 |
| **Total non-allocated assets** | | | | | | | | 1 988 |
| **Total assets** | | | | | | | | 162 478 |
| **Liabilities and equity** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Financial liabilities held for trading | 261 | 3 | 0 | 976 | – | – | –15 | 1 225 |
| Investment contracts, customer deposits and other funds on deposit | 23 081 | 714 | 76 | 5 605 | – | – | –124 | 29 352 |
| Insurance reserves | 93 533 | 8 225 | 2 240 | – | – | – | –136 | 103 862 |
| Borrowings | 3 737 | 170 | 15 | 2 528 | 2 | 1 | –651 | 5 802 |
| Insurance and other payables | 3 885 | 457 | 161 | 510 | 20 | 214 | –468 | 4 779 |
| Other liabilities | 1 151 | 133 | 231 | 199 | 351 | 62 | –347 | 1 780 |
| Separate account (unit-linked) liabilities | 7 623 | 1 051 | – | – | – | – | – | 8 674 |
| **Total allocated liabilities** | 133 271 | 10 753 | 2 723 | 9 818 | 373 | 277 | –1 741 | 155 474 |
| Deferred tax liabilities | | | | | | | | 1 825 |
| **Total liabilities** | | | | | | | | 157 299 |
| **Minority interests** | | | | | | | | 215 |
| **Equity** | | | | | | | | 4 964 |
| **Total liabilities and equity** | | | | | | | | 162 478 |

## 5 Segment Information (continued)

### Balance sheet as of 31 December 2002



| in CHF million | Life Core | Life Non-Core | Non-Life | Private Banking | Investment Management | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Investments** | | | | | | | | |
| Held-to-maturity securities | 3 721 | – | 529 | 167 | – | 5 | –6 | 4 416 |
| Available-for-sale securities | 70 970 | 6 264 | 1 347 | 2 130 | 49 | 82 | –21 | 80 821 |
| Financial assets held for trading | 1 091 | 400 | 0 | 2 035 | 64 | – | –38 | 3 552 |
| Investment property | 9 644 | 896 | 76 | – | – | 154 | – | 10 770 |
| Loans originated by the enterprise | 23 300 | 1 953 | 153 | 6 366 | 0 | 184 | –306 | 31 650 |
| Investments in associates | 164 | – | 0 | 13 | 0 | 4 | – | 181 |
| Other investments | 876 | 21 | – | 106 | 0 | – | 0 | 1 003 |
| **Total investments** | 109 766 | 9 534 | 2 105 | 10 817 | 113 | 429 | –371 | 132 393 |
| **Other assets** | | | | | | | | |
| Cash and cash equivalents | 1 675 | 573 | 45 | 1 230 | 142 | 631 | –79 | 4 217 |
| Insurance and other receivables | 3 495 | 380 | 342 | 254 | 184 | 84 | –480 | 4 259 |
| Reinsurance assets | 787 | 556 | 482 | – | – | – | –292 | 1 533 |
| Deferred acquisition costs | 2 349 | 166 | 61 | – | – | – | – | 2 576 |
| Property and equipment | 1 188 | 142 | 18 | 243 | 9 | 25 | – | 1 625 |
| Present value of future profits and other intangible assets | 9 | 16 | 6 | 0 | 0 | 2 | – | 33 |
| Other assets | 974 | 97 | 23 | 126 | 4 | 2 | –151 | 1 075 |
| Separate account (unit-linked) assets | 7 848 | 933 | – | – | – | – | – | 8 781 |
| **Total allocated other assets** | 18 325 | 2 863 | 977 | 1 853 | 339 | 744 | –1 002 | 24 099 |
| **Total segment assets** | 128 091 | 12 397 | 3 082 | 12 670 | 452 | 1 173 | –1 373 | 156 492 |
| Goodwill | | | | | | | | 1 353 |
| Deferred tax assets | | | | | | | | 1 721 |
| **Total non-allocated assets** | | | | | | | | 3 074 |
| **Total assets** | | | | | | | | 159 566 |
| **Liabilities and equity** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Financial liabilities held for trading | 332 | – | – | 1 291 | – | – | –38 | 1 585 |
| Investment contracts, customer deposits and other funds on deposit | 20 339 | 983 | 98 | 6 934 | – | – | –268 | 28 086 |
| Insurance reserves | 89 268 | 9 388 | 2 125 | – | – | – | –143 | 100 638 |
| Borrowings | 3 783 | 185 | 7 | 2 761 | 11 | 20 | –233 | 6 534 |
| Insurance and other payables | 3 207 | 74 | 180 | 420 | 24 | 66 | –179 | 3 792 |
| Other liabilities | 2 287 | 228 | 246 | 348 | 192 | 213 | –512 | 3 002 |
| Separate account (unit-linked) liabilities | 7 806 | 932 | – | – | – | – | – | 8 738 |
| **Total allocated liabilities** | 127 022 | 11 790 | 2 656 | 11 754 | 227 | 299 | –1 373 | 152 375 |
| Deferred tax liabilities | | | | | | | | 2 516 |
| **Total liabilities** | | | | | | | | 154 891 |
| **Minority interests** | | | | | | | | 505 |
| **Equity** | | | | | | | | 4 170 |
| **Total liabilities and equity** | | | | | | | | 159 566 |

## 5 Segment Information (continued)



### Geographical segments

| In CHF million | Segment revenues from external customers | Segment assets | Additions of property and equipment and intangible assets |
|---|---|---|---|
| **2003** | | | |
| Switzerland | **10 560** | **83 484** | **31** |
| France | **3 872** | **30 664** | **37** |
| Germany | **2 590** | **18 489** | **12** |
| Netherlands | **2 531** | **16 589** | **2** |
| Belgium | **450** | **3 777** | **8** |
| United Kingdom | **671** | **3 955** | **10** |
| Other countries | **414** | **3 532** | **4** |
| Non-allocated deferred tax assets and goodwill | – | **1 988** | – |
| **Total** | **21 088** | **162 478** | **104** |
| 2002 | | | |
| Switzerland | 12 068 | 87 271 | 241 |
| France | 3 602 | 26 834 | 38 |
| Germany | 1 895 | 16 280 | 29 |
| Netherlands | 1 429 | 13 679 | 5 |
| Belgium | 345 | 3 299 | 2 |
| United Kingdom | 666 | 3 670 | 10 |
| Other countries | 619 | 5 459 | 16 |
| Non-allocated deferred tax assets and goodwill | – | 3 074 | – |
| Total | 20 624 | 159 566 | 341 |

Revenues, assets and purchases of owner-occupied property, equipment and intangible assets are allocated to the geographical segment in which the entity reporting such assets is located.

Due to cross-border activities and the nature of operations the Group is unable to break down revenues and assets according to the location of the customers.

## 6 Details of Life Core Segment

### Statement of income Life Core segment for the year ended 31 December 2003

| In CHF million | Switzerland | France | Germany | Netherlands | Belgium/ Luxembourg | Elimi- nations | Total |
|---|---|---|---|---|---|---|---|
| Net earned premiums and policy fees | 6 460 | 2 107 | 1 673 | 2 020 | 270 | 2 | 12 532 |
| Net investment income | 2 036 | 1 136 | 951 | 596 | 128 | –31 | 4 816 |
| Net realised and unrealised gains/losses on investments | 206 | 137 | 92 | –83 | 24 | – | 376 |
| Net trading income | 122 | –139 | –112 | –10 | –15 | – | –154 |
| Investment management, banking and other fee income | 131 | 1 | 0 | 18 | 1 | –17 | 134 |
| Other income | –164 | 15 | –19 | –10 | –1 | –5 | –184 |
| **Total revenue** | 8 791 | 3 257 | 2 585 | 2 531 | 407 | –51 | 17 520 |
| Benefits paid and changes in insurance reserves | –7 448 | –1 730 | –1 821 | –2 296 | –261 | –1 | –13 557 |
| Policyholder bonuses and participation in surplus | –230 | –217 | –435 | 98 | –21 | 0 | –805 |
| Interest credited to investment contracts, customer deposits and other funds on deposit | –113 | –548 | –15 | – | –48 | –1 | –725 |
| Interest on borrowings | –131 | –31 | –1 | –25 | – | 28 | –160 |
| Other interest expenses | –39 | –3 | –6 | –8 | –2 | 2 | –56 |
| **Total benefits, losses and interest expenses** | –7 961 | –2 529 | –2 278 | –2 231 | –332 | 28 | –15 303 |
| Investment management and banking expenses | –112 | –15 | –18 | –1 | –6 | 1 | –151 |
| Insurance-underwriting and policy-acquisition costs | –498 | –405 | –164 | –70 | –30 | 5 | –1 162 |
| Other operating and administrative expenses | –144 | –185 | –85 | –128 | –38 | 17 | –563 |
| **Total operating expenses** | –754 | –605 | –267 | –199 | –74 | 23 | –1 876 |
| | | | | | | | |
| **Operating result** | 76 | 123 | 40 | 101 | 1 | – | 341 |

The income and expenses of the Life Core segment are broken down into the five core markets Switzerland, France, Germany, the Netherlands and Belgium/Luxembourg.

## 6 Details of Life Core Segment (continued)



### Statement of income Life Core segment for the year ended 31 December 2002

| In CHF million | Switzerland | France | Germany | Netherlands | Belgium/ Luxembourg | Elimi- nations | Total |
|---|---|---|---|---|---|---|---|
| Net earned premiums and policy fees | 7 848 | 1 934 | 1 539 | 1 074 | 265 | 1 | 12 661 |
| Net investment income | 2 235 | 1 023 | 743 | 535 | 134 | –44 | 4 626 |
| Net realised and unrealised gains/losses on investments | –1 513 | –83 | –394 | –123 | –97 | – | –2 210 |
| Net trading income | 1 575 | –19 | 6 | –69 | 4 | – | 1 497 |
| Investment management, banking and other fee income | 80 | 1 | 0 | 13 | 2 | –17 | 79 |
| Other income | 29 | 24 | –12 | – | –11 | –2 | 28 |
| **Total revenue** | 10 254 | 2 880 | 1 882 | 1 430 | 297 | –62 | 16 681 |
| Benefits paid and changes in insurance reserves | –9 158 | –1 498 | –1 580 | –1 307 | –262 | 0 | –13 805 |
| Policyholder bonuses and participation in surplus | –288 | –153 | –22 | 129 | –15 | 0 | –349 |
| Interest credited to investment contracts, customer deposits and other funds on deposit | –183 | –539 | –28 | – | –37 | 0 | –787 |
| Interest on borrowings | –247 | –40 | –1 | –27 | – | 42 | –273 |
| Other interest expenses | 0 | 4 | – | –12 | –2 | 0 | –10 |
| **Total benefits, losses and interest expenses** | –9 876 | –2 226 | –1 631 | –1 217 | –316 | 42 | –15 224 |
| Investment management and banking expenses | –172 | –26 | –21 | – | –4 | – | –223 |
| Insurance-underwriting and policy-acquisition costs | –619 | –365 | –145 | –57 | –62 | 2 | –1 246 |
| Other operating and administrative expenses | –153 | –157 | –94 | –122 | –41 | 18 | –549 |
| **Total operating expenses** | –944 | –548 | –260 | –179 | –107 | 20 | –2 018 |
| | | | | | | | |
| **Operating result** | –566 | 106 | –9 | 34 | –126 | – | –561 |

## 7 Earnings per Share

Basic earnings per share (EPS) are calculated on the weighted average number of shares outstanding during the reporting period, excluding the average number of shares purchased by the Group and held as treasury shares. Diluted earnings per share include the dilutive effect of convertible bonds and share options issued to employees and other dilutive effects. In the diluted EPS calculation, the convertible debt is assumed to have been converted into shares and the net result is adjusted for the applicable interest expenses minus the related taxes. Share options are dilutive when they would result in the issuance of shares for less than fair value. The number of dilutive shares is determined as the difference between the weighted average number of shares under option during the period and the number of shares that would be issued based on the average fair value for the period. The resulting number of shares is considered to have been issued for no consideration.

### Earnings per share

| Amounts in CHF | 2003 | 2002 |
|---|---|---|
| Net result for the period | **232 987 881** | –1 693 503 186 |
| Elimination of interest expenses on convertible bonds, net of taxes | **–** | – |
| **Net result used to determine diluted earnings per share** | **232 987 881** | –1 693 503 186 |
| Weighted average number of shares outstanding | **21 515 729** | 16 186 778 |
| *Adjustments* | | |
| Assumed conversion of convertible bonds | **–** | – |
| Share options | **–** | – |
| Mandatory convertible securities | **471 608** | – |
| **Weighted average number of shares for diluted earnings per share** | **21 987 337** | 16 186 778 |
| **Diluted earnings per share** [1] | **10.6** | –104.6 |

1) Due to the negative net result in 2002 the effect of additional potential shares was antidilutive, as their conversion would decrease loss per share. Therefore, as of 31 December 2002 basic earnings per share equalled diluted earnings per share.

## 8 Details for Certain Items in the Income Statement

### Net investment income

| In CHF million | 2003 | 2002 |
|---|---|---|
| Interest income on debt securities | **3 495** | 3 260 |
| Dividend income on equity securities, investment fund units, private equity and hedge funds | **491** | 465 |
| Interest income on loans | **936** | 1 060 |
| Income on investment property | **488** | 498 |
| Income on investments in associates | **6** | –73 |
| Income on other investments | **51** | 188 |
| Other | **85** | 107 |
| **Total net investment income** | **5 552** | 5 505 |

## 8 Details for Certain Items in the Income Statement (continued)



### Net realised and unrealised gains/losses on investments

| In CHF million | 2003 | 2002 |
|---|---|---|
| *Sale of* | | |
| Held-to-maturity investments | – | – |
| Available-for-sale investments | **885** | –1 326 |
| Investment property | **21** | –5 |
| Loans | **–1** | –1 |
| Investments in associates | **12** | 218 |
| Other investments | **–104** | 140 |
| **Net realised gains/losses** | **813** | –974 |
| Fair value gains/losses on investment property | **–27** | 96 |
| Foreign currency gains/losses on investments | **181** | –786 |
| Impairment losses on investments | **–735** | –1 074 |
| Reversals of impairment losses on investments | **102** | 434 |
| **Total net realised and unrealised gains/losses on investments** | **334** | –2 304 |

### Net trading income

| In CHF million | 2003 | 2002 |
|---|---|---|
| Interest and dividend income | **163** | 85 |
| Fair value gains/losses – debt instruments | **–117** | 109 |
| Fair value gains/losses – equity instruments, investment fund units and hedge funds | **–510** | 449 |
| Fair value gains/losses – foreign currency instruments and other | **414** | 869 |
| **Total net trading income** | **–50** | 1 512 |

### Investment management, banking and other fee income

| In CHF million | 2003 | 2002 |
|---|---|---|
| Fiduciary and portfolio management fees | **269** | 303 |
| Brokerage fees | **82** | 108 |
| Other service fees and commissions | **202** | 163 |
| **Total investment management, banking and other fee income** | **553** | 574 |

### Other income

| In CHF million | 2003 | 2002 |
|---|---|---|
| Realised gains/losses on sales of other assets | **1** | 1 |
| Other foreign currency gains/losses | **–196** | 59 |
| Other | **72** | 12 |
| **Total other income** | **–123** | 72 |

### Benefits paid and changes in insurance reserves

| In CHF million | 2003 | 2002 |
|---|---|---|
| Claims and life benefits paid | **14 528** | 12 917 |
| Loss adjustment expenses and change in reserves for losses and loss adjustment expenses | **505** | 793 |
| Change in reserves for future life benefits | **693** | 2 619 |
| **Total benefits paid and changes in insurance reserves** | **15 726** | 16 329 |

The amount of foreign currency differences recognised in income represented a gain of CHF 63 million for 2003 and a loss of CHF 705 million for 2002.

## 8 Details for Certain Items in the Income Statement (continued)

### Interest credited to investment contracts, customer deposits and other funds on deposit

| In CHF million | 2003 | 2002 |
|---|---|---|
| Interest on customer deposits | **68** | 133 |
| Interest on investment contracts | **712** | 752 |
| Other | **38** | 61 |
| **Total interest credited to investment contracts, customer deposits and other funds on deposit** | **818** | 946 |

### Investment management and banking expenses

| In CHF million | 2003 | 2002 |
|---|---|---|
| Commission expenses – banking activity | **29** | 31 |
| Investment management expenses | **25** | 30 |
| Staff costs | **341** | 472 |
| Marketing and advertising | **11** | 17 |
| Depreciation and amortisation | **53** | 87 |
| Impairment losses on property and equipment and other intangible assets | **–** | 0 |
| Information technology and systems | **25** | 41 |
| Rental, maintenance and repair expenses | **58** | 68 |
| Other | **93** | 171 |
| **Total investment management and banking expenses** | **635** | 917 |

### Insurance-underwriting and policy-acquisition costs

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| Agent/broker commissions | | **784** | 752 |
| Staff costs | | **552** | 578 |
| Marketing and advertising | | **22** | 47 |
| Depreciation and amortisation | | **45** | 60 |
| Impairment losses on property and equipment and other intangible assets | | **0** | 0 |
| Information technology and systems | | **49** | 62 |
| Rental, maintenance and repair expenses | | **32** | 41 |
| Other | | **196** | 218 |
| Acquisition costs deferred | 17 | **–569** | –361 |
| Assumed underwriting and acquisition expenses | | **12** | 33 |
| Ceded underwriting and acquisition expenses | | **–57** | –97 |
| Retroceded underwriting and acquisition expenses | | **0** | 0 |
| Net amortisation of DAC | 17 | **480** | 357 |
| **Total insurance-underwriting and policy-acquisition costs** | | **1 546** | 1 690 |

### Other operating and administrative expenses

| In CHF million | 2003 | 2002 |
|---|---|---|
| Staff costs | **299** | 392 |
| Marketing and advertising | **25** | 36 |
| Depreciation and amortisation | **40** | 40 |
| Impairment losses on property and equipment and other intangible assets | **6** | 2 |
| Information technology and systems | **48** | 74 |
| Rental, maintenance and repair expenses | **29** | 25 |
| Other | **252** | 260 |
| **Total other operating and administrative expenses** | **699** | 829 |

## 9 Held-to-Maturity Securities and Available-for-Sale Securities



### Held-to-maturity securities as of 31 December

| In CHF million | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| | **Amortised cost** | Amortised cost | **Net unrecognised gains/losses** | Net unrecognised gains/losses | **Fair value** | Fair value |
| Held-to-maturity securities | **5 252** | 4 416 | **259** | 280 | **5 511** | 4 696 |
| **Total held-to-maturity securities, net of impairment losses** | **5 252** | 4 416 | **259** | 280 | **5 511** | 4 696 |

| **Impairment losses** | | |
|---|---|---|
| Balance at the beginning of the reporting period | **–1** | –1 |
| Recognition of impairment losses | **–** | – |
| Reversal of impairment losses | **–** | – |
| Write-off due to disposals | **–** | – |
| Foreign currency translation differences | **0** | 0 |
| **Total impairment losses at the end of the reporting period** | **–1** | –1 |

### Available-for-sale securities as of 31 December

| In CHF million | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| | **Cost/ Amortised cost** | Cost/ Amortised cost | **Net unrealised gains/losses** | Net unrealised gains/losses | **Fair value** | Fair value |
| Debt securities | **71 307** | 64 648 | **2 681** | 3 376 | **73 988** | 68 024 |
| Equity securities | **5 481** | 5 832 | **402** | –548 | **5 883** | 5 284 |
| Investment fund units – debt | **1 543** | 897 | **56** | 30 | **1 599** | 927 |
| Investment fund units – equity | **2 019** | 2 341 | **–24** | –401 | **1 995** | 1 940 |
| Investment fund units – mixed | **763** | 853 | **–63** | –98 | **700** | 755 |
| Private equity | **418** | 556 | **–19** | –155 | **399** | 401 |
| Hedge funds | **3 673** | 3 729 | **–119** | –239 | **3 554** | 3 490 |
| **Total available-for-sale securities, net of impairment losses** | **85 204** | 78 856 | **2 914** | 1 965 | **88 118** | 80 821 |

| **Impairment losses** | | |
|---|---|---|
| Balance at the beginning of the reporting period | **–1 014** | –724 |
| Recognition of impairment losses | **–628** | –928 |
| Reversal of impairment losses | **102** | 371 |
| Write-off due to disposals | **120** | 265 |
| Foreign currency translation differences | **–20** | 2 |
| **Total impairment losses at the end of the reporting period** | **–1 440** | –1 014 |

The Group monitors the investment portfolio risks by establishing mandatory risk limits. The investment portfolio is adequately diversified and there was only one investment exceeding 10% of shareholders' equity: HSBC totalling CHF 1.1 billion. Debt securities with a fair value of CHF 1.7 billion had a BBB rating or lower at 31 December 2003 and at 31 December 2002, respectively.

No held-to-maturity securities were transferred to the available-for-sale category and no available-for-sale securities were transferred to the held-to-maturity category.

## 10 Financial Assets and Liabilities Held for Trading

The Group held the following positions in financial instruments used for trading purposes as well as derivative financial instruments that do not qualify for hedge accounting. The fair values of these assets and liabilities are shown in the following table for the years ended 31 December:

### Financial assets held for trading

| In CHF million | | **2003** | 2002 |
|---|---|---|---|
| | Notes | **Fair value** | Fair value |
| Debt securities | | **963** | 1 105 |
| Equity securities | | **271** | 279 |
| Investment fund units – debt | | **–** | – |
| Investment fund units – equity | | **–** | 2 |
| Investment fund units – mixed | | **–** | 0 |
| Private equity | | **88** | 64 |
| Hedge funds | | **–** | – |
| Loans | | **2** | 3 |
| Derivatives | 11 | **1 622** | 2 005 |
| Other | | **78** | 94 |
| **Total financial assets held for trading** | | **3 024** | 3 552 |

### Financial liabilities held for trading

| In CHF million | | **2003** | 2002 |
|---|---|---|---|
| | Notes | **Fair value** | Fair value |
| Derivatives | 11 | **744** | 1 281 |
| Other | | **481** | 304 |
| **Total financial liabilities held for trading** | | **1 225** | 1 585 |

## 11 Trading Account Assets and Liabilities by Type of Derivative



Derivative financial instruments not qualifying for hedge accounting were as follows as of 31 December:

### Currency-related instruments

| In CHF million | **2003** | 2002 | **2003** | 2002 |
|---|---|---|---|---|
| | **Contract/ notional amount** | Contract/ notional amount | **Fair value** | Fair value |
| Currency forwards – assets | **9 983** | 19 632 | **380** | 901 |
| Currency forwards – liabilities | **9 486** | 9 478 | **264** | 606 |
| Currency swaps – assets | **313** | – | **64** | – |
| Currency swaps – liabilities | **707** | – | **74** | – |
| Currency futures – assets | **–** | – | **–** | – |
| Currency futures – liabilities | **–** | – | **–** | – |
| Currency options (over-the-counter) – assets | **1 222** | 955 | **37** | 20 |
| Currency options (over-the-counter) – liabilities | **1 309** | 1 223 | **38** | 20 |
| Currency options (exchange-traded) – assets | **–** | – | **–** | – |
| Currency options (exchange-traded) – liabilities | **–** | – | **–** | – |
| Other – assets | **–** | – | **–** | – |
| Other – liabilities | **–** | – | **–** | – |
| **Total currency-related derivative instruments – assets** | **11 518** | 20 587 | **481** | 921 |
| **Total currency-related derivative instruments – liabilities** | **11 502** | 10 701 | **376** | 626 |

### Interest-related instruments

| In CHF million | **2003** | 2002 | **2003** | 2002 |
|---|---|---|---|---|
| | **Contract/ notional amount** | Contract/ notional amount | **Fair value** | Fair value |
| Interest rate swaps – assets | **8 110** | 7 594 | **284** | 462 |
| Interest rate swaps – liabilities | **6 037** | 5 417 | **182** | 298 |
| Forward rate agreements – assets | **20** | 73 | **0** | 0 |
| Forward rate agreements – liabilities | **20** | 288 | **0** | 0 |
| Interest rate options (over-the-counter) – assets | **968** | 1 293 | **7** | 11 |
| Interest rate options (over-the-counter) – liabilities | **979** | 1 595 | **9** | 12 |
| Interest rate options (exchange-traded) – assets | **–** | – | **–** | – |
| Interest rate options (exchange-traded) – liabilities | **–** | – | **–** | – |
| Interest rate futures – assets | **331** | 74 | **0** | 0 |
| Interest rate futures – liabilities | **794** | 18 | **0** | 0 |
| Other – assets | **–** | – | **–** | – |
| Other – liabilities | **–** | – | **–** | – |
| **Total interest-related derivative instruments – assets** | **9 429** | 9 034 | **291** | 473 |
| **Total interest-related derivative instruments – liabilities** | **7 830** | 7 318 | **191** | 310 |

## 11 Trading Account Assets and Liabilities by Type of Derivative (continued)

### Equity and equity-index-related instruments

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Contract/ notional amount | Contract/ notional amount | Fair value | Fair value |
| Forwards – assets | 155 | 113 | 2 | 5 |
| Forwards – liabilities | 159 | – | 3 | – |
| Futures – assets | 120 | 796 | 0 | 34 |
| Futures – liabilities | 2 354 | – | 67 | – |
| Options (over-the-counter) – assets | 122 | 1 320 | 28 | 290 |
| Options (over-the-counter) – liabilities | 1 037 | 2 981 | 32 | 212 |
| Options (exchange-traded) – assets | 1 214 | 1 068 | 179 | 197 |
| Options (exchange-traded) – liabilities | 743 | 1 425 | 66 | 126 |
| Other – assets | 64 | – | 35 | – |
| Other – liabilities | – | – | – | – |
| **Total equity and equity-index-related derivative instruments – assets** | 1 675 | 3 297 | 244 | 526 |
| **Total equity and equity-index-related derivative instruments – liabilities** | 4 293 | 4 406 | 168 | 338 |

### Precious-metal-related instruments

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Contract/ notional amount | Contract/ notional amount | Fair value | Fair value |
| Forwards – assets | 36 | 23 | 2 | 2 |
| Forwards – liabilities | 82 | 83 | 7 | 6 |
| Futures – assets | – | – | – | – |
| Futures – liabilities | – | – | – | – |
| Options (over-the-counter) – assets | 33 | 14 | 1 | 0 |
| Options (over-the-counter) – liabilities | 28 | 10 | 2 | 1 |
| Options (exchange-traded) – assets | – | – | – | – |
| Options (exchange-traded) – liabilities | – | – | – | – |
| Other – assets | – | – | – | – |
| Other – liabilities | – | – | – | – |
| **Total precious-metal-related derivative instruments – assets** | 69 | 37 | 3 | 2 |
| **Total precious-metal-related derivative instruments – liabilities** | 110 | 93 | 9 | 7 |

## 11 Trading Account Assets and Liabilities by Type of Derivative (continued)



### Other trading account assets and liabilities

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Contract/ notional amount | Contract/ notional amount | Fair value | Fair value |
| **Other derivative instruments – assets** | **695** | 94 | **603** | 83 |
| **Other derivative instruments – liabilities** | **–** | – | **–** | – |

### Total trading account assets and liabilities

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Contract/ notional amount | Contract/ notional amount | Fair value | Fair value |
| **Total derivatives – assets** | **23 386** | 33 049 | **1 622** | 2 005 |
| | | | | |
| **Total derivatives – liabilities** | **23 735** | 22 518 | **744** | 1 281 |

The Group writes covered call options through various brokers. The underlying securities are placed in a blocked account. The options are typically written for a period of 6 to 24 months. The Group receives an option premium at the beginning of the contract period and bears the risk associated with the writing of options. Future cash requirements for options written are equal to the fair value of the options. Options are carried in the consolidated balance sheet at fair value. Option premiums are recognised in income through the change in fair value of the option.

## 12 Investment Property

Investment property consists of investments in residential, commercial and mixed-use properties primarily located within Switzerland. Property held for investment purposes comprises land and buildings owned by the Group to earn rentals and/or for capital appreciation. Property that is used by the Group itself or leased to, and occupied by, another entity of the Group is classified as owner-occupied property. Property acquired with a view to its subsequent disposal in the near future is classified as sundry assets.

### Investment property

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| Carrying value as of 1 January | | **10 770** | 9 815 |
| Additions | | **288** | 642 |
| Additions arising from acquisitions | | **37** | 6 |
| Capitalised subsequent expenditure | | **38** | 57 |
| Disposals | | **–238** | –62 |
| Gains/losses from fair value adjustments | | **–27** | 96 |
| Transfers from/to property and equipment | 18 | **120** | 239 |
| Other movements | | **–** | 0 |
| Foreign currency translation differences | | **94** | –23 |
| **Carrying value as of 31 December** | | **11 082** | 10 770 |

## 12 Investment Property (continued)

Rental income from investment property was CHF 685 million and CHF 672 million for the periods ended 31 December 2003 and 2002, respectively. Operating expenses arising from investment property that generated rental income stood at CHF 182 million and CHF 174 million for the periods ended 31 December 2003 and 2002, respectively. Operating expenses arising from investment property that did not generate rental income during the period stood at CHF 15 million and CHF 0 million for the periods ended 31 December 2003 and 2002, respectively.

## 13 Future Minimum Lease Payments under Non-Cancellable Operating Leases – Lessor

| In CHF million | **2003** | 2002 |
|---|---|---|
| Not later than 1 year | **65** | 42 |
| Later than 1 year not later than 5 years | **378** | 349 |
| Later than 5 years | **148** | 164 |
| **Total** | **591** | 555 |

Leased assets where the Group is a lessor primarily relate to investment property leased to third parties under operating leases.

## 14 Loans Originated by the Enterprise

### Loans originated by the enterprise as of 31 December

| In CHF million | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
|---|---|---|---|---|---|---|---|---|
| | **Receivables** | Receivables | **Allowance for loan losses** | Allowance for loan losses | **Carrying value** | Carrying value | **Fair value** | Fair value |
| Mortgages | **12 107** | 11 524 | **–69** | –95 | **12 038** | 11 429 | **12 075** | 11 576 |
| Policy loans | **1 368** | 1 822 | **–** | – | **1 368** | 1 822 | **1 380** | 1 833 |
| Other loans | **11 867** | 17 659 | **–131** | –196 | **11 736** | 17 463 | **12 003** | 17 805 |
| Repurchase agreements | **458** | 936 | **–** | – | **458** | 936 | **458** | 936 |
| **Total loans originated by the enterprise** | **25 800** | 31 941 | **–200** | –291 | **25 600** | 31 650 | **25 916** | 32 150 |

The Group accepted securities at a fair value of CHF 515 million as collateral under repurchase agreements and CHF 1510 million under securities borrowing arrangements which it is permitted to sell or repledge. CHF 687 million of this was either repledged or sold to third parties.

An allowance for loan losses is set aside for management's estimate of loan losses as soon as objective evidence exists that the loan amount may not be fully recoverable. An allowance is recognised for the difference between the carrying value and the estimated recoverable amount, if lower.

## 14 Loans Originated by the Enterprise (continued)



### Allowance for loan losses

| In CHF million | 2003 | 2002 |
|---|---|---|
| Balance as of 1 January | **–291** | –324 |
| Amounts recognised as expense | **–32** | –20 |
| Write-offs | **125** | 53 |
| Recoveries | **0** | – |
| Effect of disposals | **–** | – |
| Foreign currency translation differences | **–2** | 0 |
| **Balance as of 31 December** | **–200** | –291 |

Accrued interest of CHF 22 million and CHF 23 million on impaired loans was recognised but not yet received in cash as of 31 December 2003 and 2002, respectively. Property acquired through foreclosure with the intent to sell in the near future is included in sundry assets and was CHF 10 million and CHF 13 million for the years ended 31 December 2003 and 2002. The Group's loan portfolio is monitored closely through the review of information such as debt service, annual reports and assessments. This information is evaluated in light of current economic conditions and other factors such as diversification of the property portfolio. This evaluation is part of the regular review to determine whether the allowance for potential loan losses is warranted. Management believes the allowance for loan losses is sufficient. However, management cannot predict with assurance the impact of future economic circumstances or how the mortgage and real estate portfolios would be affected by various economic circumstances.

It is the Group's policy to generally obtain a first mortgage on properties for which the loan-to-value ratio is less than 75%. The geographical risk concentrations correlate with the risks associated with the foreign currency risks (note 38).

### Finance lease receivables as of 31 December

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | **Minimum lease payments** | Minimum lease payments | **Present value of minimum lease payments** | Present value of minimum lease payments |
| Not later than 1 year | **200** | 174 | **185** | 159 |
| Later than 1 year and not later than 5 years | **363** | 310 | **337** | 291 |
| Later than 5 years | **74** | 14 | **67** | 14 |
| **Total** | **637** | 498 | **589** | 464 |
| *Future finance income* | ***48*** | *34* | | |

The Group leases equipment to third parties under finance leases. The average contractual period of leasing arrangements is between four and five years. The average interest rate is 5%. Finance lease receivables are included in other loans.

## 15 Investments in Associates

| In CHF million | 2003 | 2002 |
|---|---|---|
| Balance as of 1 January | **181** | 410 |
| Additions | **1** | 83 |
| Additions due to partial sale of subsidiaries | **1** | – |
| Disposals | **–142** | –448 |
| Realised gains/losses on disposals | **12** | 218 |
| Income | **6** | –73 |
| Dividends paid | **–1** | –7 |
| Impairment losses | **0** | 0 |
| Foreign currency translation differences | **6** | –2 |
| **Balance as of 31 December, net of impairment losses** | **64** | 181 |
| | | |
| **Impairment losses** | | |
| Impairment losses at the beginning of the reporting period | **–1** | –1 |
| Recognition of impairment losses | **0** | 0 |
| Reversal of impairment losses | **–** | 0 |
| Write-off due to disposals | **0** | – |
| Foreign currency translation differences | **0** | 0 |
| **Impairment losses at the end of the reporting period** | **–1** | –1 |

On 31 July 2003, the Swiss Life Group sold its 22.9% stake in Tuxedo Invest Ltd, Zug. The gain recognised on the sale amounted to CHF 11.7 million. On 7 July 2003, the Swiss Life Group announced the sale of its 33.3% stake in Crédit Agricole S.A. (Belgium) for a price of EUR 48 million. The realised gain on the sale amounted to CHF 0.5 million. The realised gains on sales in 2002 mainly related to the disposal of the investment in RMF. A listing of major investments in associates accounted for under the equity method is set out in note 43.

## 16 Other Investments

### Other investments held to maturity and available for sale as of 31 December

| In CHF million | 2003 Cost/ Amortised cost | 2002 Cost/ Amortised cost | 2003 Net unrealised gains/losses | 2002 Net unrealised gains/losses | 2003 Fair value | 2002 Fair value |
|---|---|---|---|---|---|---|
| **Other held-to-maturity investments** | | | | | | |
| Money market instruments | **65** | 84 | **0** | 0 | **65** | 84 |
| Other | **–** | 1 | **–** | – | **–** | 1 |
| **Total other held-to-maturity investments** | **65** | 85 | **0** | 0 | **65** | 85 |
| **Other available-for-sale investments** | | | | | | |
| Money market instruments | **32** | 27 | **0** | 0 | **32** | 27 |
| Purchased loans | **–** | 13 | **–** | 7 | **–** | 20 |
| Cash deposit obligations | **749** | 925 | **–** | –54 | **749** | 871 |
| Other | **7** | 0 | **0** | – | **7** | 0 |
| **Total other available-for-sale investments** | **788** | 965 | **0** | –47 | **788** | 918 |
| **Total other investments, net of impairment losses** | **853** | 1 050 | **0** | –47 | **853** | 1 003 |

| In CHF million | 2003 Available-for-sale | 2002 Available-for-sale | 2003 Held-to-maturity | 2002 Held-to-maturity |
|---|---|---|---|---|
| **Impairment losses** | | | | |
| Balance at the beginning of the reporting period | **–63** | 0 | **–** | – |
| Recognition of impairment losses | **–75** | –63 | **–** | – |
| Reversal of impairment losses | **0** | – | **–** | – |
| Write-off due to disposals | **–** | – | **–** | – |
| Foreign currency translation differences | **1** | – | **–** | – |
| **Total impairment losses at the end of the reporting period** | **–137** | –63 | **–** | – |

## 17 Deferred Acquisition Costs

| In CHF million | 2003 | 2002 |
|---|---|---|
| Balance as of 1 January | **2 576** | 2 815 |
| Acquisition costs deferred | **569** | 361 |
| Amortisation and interest charged to income, including adjustments due to new actuarial assumptions | **–455** | –355 |
| Decrease due to premium deficiencies | **–25** | –2 |
| Increase/decrease due to unrealised gains/losses on investments | **5** | –208 |
| Decrease due to disposal of subsidiaries | **–3** | – |
| Foreign currency translation differences | **126** | –35 |
| **Balance as of 31 December** | **2 793** | 2 576 |

## 18 Property and Equipment

| In CHF million | 2003 | | | | | | 2002 |
|---|---|---|---|---|---|---|---|
| | **Land and buildings** | **Buildings under construction** | **Furniture and fixtures** | **Hardware and software** | **Other equipment** | **Total** | Total |
| **Cost** | | | | | | | |
| Balance as of 1 January | **1 185** | **295** | **232** | **510** | **126** | **2 348** | 2 476 |
| Additions | **24** | **21** | **5** | **43** | **10** | **103** | 340 |
| Additions arising from acquisitions | **–** | **–** | **0** | **–** | **0** | **0** | 0 |
| Disposals | **–16** | **–** | **–25** | **–99** | **–12** | **–152** | –210 |
| Transfers from/to investment property | **–3** | **–117** | **–** | **–** | **–** | **–120** | –239 |
| Revaluation surplus on transfers to investment property | **31** | **–** | **–** | **–** | **–** | **31** | – |
| Transfers to assets held for sale | **–26** | **–** | **–** | **–** | **–** | **–26** | – |
| Splitting-up of assets under finance lease by class | **45** | **–** | **–** | **32** | **–77** | **–** | – |
| Foreign currency translation differences | **27** | **1** | **2** | **18** | **4** | **52** | –19 |
| **Balance as of 31 December** | **1 267** | **200** | **214** | **504** | **51** | **2 236** | 2 348 |
| **Accumulated depreciation** | | | | | | | |
| Balance as of 1 January | **–178** | **–** | **–135** | **–357** | **–46** | **–716** | –715 |
| Depreciation | **–26** | **–** | **–28** | **–78** | **–7** | **–139** | –184 |
| Disposals | **7** | **–** | **15** | **88** | **4** | **114** | 177 |
| Splitting-up of assets under finance lease by class | **–2** | **–** | **–** | **–19** | **21** | **–** | – |
| Foreign currency translation differences | **–3** | **–** | **–2** | **–12** | **–1** | **–18** | 6 |
| **Balance as of 31 December** | **–202** | **–** | **–150** | **–378** | **–29** | **–759** | –716 |
| **Impairment losses** | | | | | | | |
| Balance as of 1 January | **–1** | **–4** | **–1** | **–1** | **0** | **–7** | –6 |
| Recognition of impairment losses | **–** | **–** | **–** | **–4** | **–1** | **–5** | –1 |
| Reversal of impairment losses | **1** | **–** | **1** | **1** | **0** | **3** | 0 |
| Foreign currency translation differences | **0** | **–** | **–** | **0** | **0** | **0** | 0 |
| **Balance as of 31 December** | **0** | **–4** | **0** | **–4** | **–1** | **–9** | –7 |
| **Total property and equipment as of 31 December** | **1 065** | **196** | **64** | **122** | **21** | **1 468** | 1 625 |
| *of which assets under finance leases* | ***44*** | ***–*** | ***–*** | ***8*** | ***1*** | ***53*** | *56* |

## 19 Goodwill and Other Intangible Assets

| In CHF million | | | | | **2003** | 2002 |
|---|---|---|---|---|---|---|
| | **Goodwill (positive)** | **Goodwill (negative)** | **Present value of future profits** | **Other intangible assets** | **Total** | Total |
| **Cost** | | | | | | |
| Balance as of 1 January | **2 932** | **–20** | **67** | **15** | **2 994** | 3 045 |
| Additions | **–** | **–** | **0** | **1** | **1** | 1 |
| Additions arising from acquisitions | **1** | **–28** | **–** | **0** | **–27** | –1 |
| Internal developments | **–** | **–** | **–** | **–** | **–** | – |
| Disposals | **–380** | **–2** | **–** | **–2** | **–384** | –49 |
| Foreign currency translation differences | **0** | **–** | **3** | **0** | **3** | –2 |
| **Balance as of 31 December** | **2 553** | **–50** | **70** | **14** | **2 587** | 2 994 |
| **Accumulated amortisation** | | | | | | |
| Balance as of 1 January | **–1 574** | **15** | **–38** | **–11** | **–1 608** | –544 |
| Amortisation | **–108** | **28** | **–5** | **–2** | **–87** | –1 059 |
| Disposals | **177** | **2** | **–** | **2** | **181** | –6 |
| Foreign currency translation differences | **0** | **1** | **–2** | **–1** | **–2** | 1 |
| **Balance as of 31 December** | **–1 505** | **46** | **–45** | **–12** | **–1 516** | –1 608 |
| **Total goodwill and other intangible assets as of 31 December** | **1 048** | **–4** | **25** | **2** | **1 071** | 1 386 |
| **Impairment losses (included in the accumulated amortisation)** | | | | | | |
| Balance as of 1 January | **–832** | | **–** | **–3** | **–835** | –4 |
| Recognition of impairment losses | **–1** | | **–** | **–1** | **–2** | –834 |
| Reversal of impairment losses | **–** | | **–** | **–** | **–** | 3 |
| Effect of disposals | **95** | | **–** | **1** | **96** | – |
| Foreign currency translation differences | **–** | | **–** | **1** | **1** | 0 |
| **Balance as of 31 December** | **–738** | | **–** | **–2** | **–740** | –835 |

In 2003, Swiss Life Holding acquired an additional 878 978 SL/RA shares and increased the equity stake held in its subsidiary Swiss Life/Rentenanstalt from 92.23 % as of 31 December 2002 to 99.72 % as of 31 December 2003. The related negative goodwill on these transactions amounted to CHF 21 million and was recognised in net income.

The carrying amount of positive goodwill of CHF 1048 million includes goodwill on the following acquisitions:

- Banca del Gottardo CHF 560 million
- Lloyd Continental CHF 437 million
- Other CHF 51 million

In 2002, a detailed review of the impairment policy of the Group resulted in a considerable increase of impairment charges. Impairment losses on goodwill were estimated at CHF 832 million for 2002 and mainly related to the private banking business. Valuation in respect of goodwill impairment is based on discounted cash flow projections (Banca del Gottardo and Schweizerische Treuhandgesellschaft) as well as on methods used for embedded value calculation (Lloyd Continental).

Annual amortisation charges on the present value of future profits relating to acquired insurance portfolios totalling CHF 25 million are estimated as ranging from CHF 5 million to CHF 6 million for the years 2004 to 2007.

## 20 Separate Account (Unit-Linked) Assets

### Separate account (unit-linked) assets as of 31 December

| In CHF million | **2003** | 2002 |
|---|---|---|
| Debt securities | **2 073** | 2 306 |
| Equity securities | **5 723** | 5 367 |
| Derivative financial instruments | **0** | 0 |
| Investment property | **4** | 83 |
| Loans | **21** | 85 |
| Other investments | **473** | 449 |
| Cash and cash equivalents | **364** | 491 |
| **Total separate account (unit-linked) assets** | **8 658** | 8 781 |

## 21 Investment Contracts, Customer Deposits and Other Funds on Deposit

### Investment contracts, customer deposits and other funds on deposit as of 31 December

| In CHF million | **2003** | 2002 |
|---|---|---|
| Investment-type, universal life and annuity contracts | **21 968** | 19 587 |
| Other policyholder deposits and bonus accumulations | **1 085** | 1 065 |
| Deposits held under reinsurance contracts | **625** | 567 |
| Demand deposits | **3 213** | 2 694 |
| Savings deposits | **176** | 145 |
| Time deposits | **2 285** | 4 028 |
| **Total investment contracts, customer deposits and other funds on deposit** | **29 352** | 28 086 |

### Deposit assets and liabilities for insurance and reinsurance contracts not transferring risk as of 31 December

| In CHF million | **2003** | 2002 |
|---|---|---|
| Deposit assets | **–** | – |
| Deposit liabilities | **34** | 41 |

## 22 Insurance Reserves

### Insurance reserves as of 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| Reserves for losses and loss adjustment expenses | 25 | **9 896** | 9 330 |
| Reserves for unearned premiums | 25 | **378** | 386 |
| Reserves for future life policyholder benefits | 22, 25 | **88 743** | 86 516 |
| Reserves for policyholder bonuses and other reserves | 25 | **4 845** | 4 406 |
| **Total insurance reserves** | | **103 862** | 100 638 |

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date.

The reserves for unpaid losses and loss adjustment expenses are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The following analysis provides a reconciliation of the movement in the reserves for losses and loss adjustment expenses for the years ended 31 December:

### Movement in reserves for losses and loss adjustment expenses

| In CHF million | 2003 | 2002 |
|---|---|---|
| As of 1 January | | |
| Gross reserves for losses and loss adjustment expenses | **9 330** | 8 804 |
| Less: Reinsurance recoverable on losses | **–737** | –732 |
| **Net reserves for losses and loss adjustment expenses** | **8 593** | 8 072 |
| | | |
| **Losses and loss adjustment expenses incurred** | | |
| Reporting period | **2 470** | 2 383 |
| Prior reporting periods | **–20** | 159 |
| **Total losses and loss adjustment expenses incurred** | **2 450** | 2 542 |
| | | |
| **Losses and loss adjustment expenses paid** | | |
| Reporting period | **–1 173** | –1 213 |
| Prior reporting periods | **–932** | –731 |
| **Total losses and loss adjustment expenses paid** | **–2 105** | –1 944 |
| **Acquisitions and disposals of companies and insurance business** | **–26** | – |
| **Foreign currency translation differences** | **193** | –77 |
| | | |
| As of 31 December | | |
| **Net reserves for losses and loss adjustment expenses** | **9 105** | 8 593 |
| Plus: Reinsurance recoverable on losses | **791** | 737 |
| **Total gross reserves for losses and loss adjustment expenses** | **9 896** | 9 330 |

## 22 Insurance Reserves (continued)

**Future life policyholder benefits** Long-duration contract liabilities included in future life policyholder benefits result from traditional participating and non-participating life products with mortality and morbidity risk. Short-duration contract liabilities are primarily accident and health products. The liability for future life policyholder benefits has been estimated using actuarial techniques, generally based on present values of future net cash flows and the following parameters:

- Interest rates vary by country, year of issuance and product.
- Mortality and surrender rates are based upon actual experience, geographical area and product type.
- The average rate of assumed investment yield used for estimating gross margins ranges from 0.8% to 8%.
- Experience adjustments relating to future life policyholder benefits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

### Liabilities for future life policyholder benefits as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Long-duration contracts | 88 407 | 86 049 |
| Short-duration contracts | 336 | 467 |
| **Total liabilities for future life policyholder benefits** | **88 743** | 86 516 |

## 23 Reinsurance

The Group limits its exposures to loss within its insurance operations through participation in reinsurance agreements. Reinsurance arrangements do not relieve the Group of its direct obligations to the parties insured. Thus, a credit exposure exists with respect to both non-life and life reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. A provision has been recorded for estimated unrecoverable reinsurance. In addition, the Group holds substantial collateral under related reinsurance agreements in the form of deposited funds and securities. No single reinsurer is a material reinsurer to the Group, nor is the Group's business substantially dependent upon any reinsurance contract.

The life operations limit exposure to loss on any single life. Retention limits vary by country. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented in the balance sheet as a component of reinsurance assets. Approximately 2% and 8% of life insurance in force was ceded at 31 December 2003 and 2002, respectively.

## 24 Premiums

### Written premiums and policy fees

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Short-duration contracts | Short-duration contracts | Long-duration contracts | Long-duration contracts |
| Direct | 2 933 | 2 710 | 12 234 | 12 623 |
| Assumed | 191 | 400 | 20 | 24 |
| **Gross written premiums and policy fees** | 3 124 | 3 110 | 12 254 | 12 647 |
| Ceded | –363 | –378 | –169 | –116 |
| **Net written premiums and policy fees** | 2 761 | 2 732 | 12 085 | 12 531 |

### Earned premiums and policy fees

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Short-duration contracts | Short-duration contracts | Long-duration contracts | Long-duration contracts |
| Direct | 2 921 | 2 736 | 12 222 | 12 598 |
| Assumed | 191 | 400 | 22 | 24 |
| Ceded | –371 | –377 | –163 | –116 |
| **Net earned premiums and policy fees** | 2 741 | 2 759 | 12 081 | 12 506 |

## 25 Insurance Liabilities and Reinsurance Assets

### Insurance liabilities and reinsurance assets as of 31 December

| In CHF million | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance assets | Net | Gross | Reinsurance assets | Net |
| Reserves for losses and loss adjustment expenses | 9 896 | 791 | 9 105 | 9 330 | 737 | 8 593 |
| Reserves for unearned premiums | 378 | 14 | 364 | 386 | 16 | 370 |
| Reserves for future life policyholder benefits | 88 743 | 614 | 88 129 | 86 516 | 554 | 85 962 |
| Reserves for policyholder bonuses and other reserves | 4 845 | 5 | 4 840 | 4 406 | 9 | 4 397 |
| **Total insurance reserves** | 103 862 | 1 424 | 102 438 | 100 638 | 1 316 | 99 322 |
| Premiums and other receivables | | 69 | | | 102 | |
| Investment contracts and financial reinsurance deposits | | 4 | | | 1 | |
| Funds-held arrangements | | 111 | | | 114 | |
| Other reinsurance assets | | – | | | – | |
| **Total reinsurance assets** | | 1 608 | | | 1 533 | |
| *Of which accumulated impairment* | | 5 | | | 5 | |

Reinsurance liabilities consisted of CHF 703 million and CHF 651 million as of 31 December 2003 and 2002, respectively.

## 26 Employee Benefits

The Group had 10 015 and 11 541 full time equivalents as of 31 December 2003 and 2002, respectively.

**Defined benefit pension plans** Employees are covered under various funded and unfunded pension plans. When a third party will reimburse some or all of the expenditure for employee benefits and the rights to reimbursement do not qualify as plan assets, they are treated as a separate asset rather than as a deduction from the obligation. In all other respects the treatment is the same as for plan assets.

Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. Benefits are based on the employee's credited years of service and average compensation in the years preceding retirement. Annual funding requirements are determined based on actuarial methods or local requirements.

Due to changes in post-employment benefits payable under an existing plan negative past service costs totalling CHF 26 million were recognised in 2003.

### Amounts recognised in the consolidated balance sheet as of 31 December

| In CHF million | **2003** | 2002 |
|---|---|---|
| Present value of funded obligations | **–2 625** | –2 898 |
| Fair value of plan assets | **2 258** | 2 294 |
| Present value of unfunded obligations | **–239** | –193 |
| Unrecognised actuarial gains (-)/losses (+) | **303** | 488 |
| Unrecognised past service costs | **–9** | –10 |
| Amounts not recognised as assets | **–** | – |
| **Net asset/liability** | **–312** | –319 |
| | | |
| *The net asset/liability consists of* | | |
| Gross defined benefit liabilities | **–518** | –517 |
| Gross defined benefit assets | **206** | 198 |

The net asset/liability position does not incorporate any reimbursement rights. Plan assets included own financial instruments issued by the Group with a fair value of CHF 72 million and CHF 33 million as of 31 December 2003 and 2002, respectively. Plan assets do not include any property occupied by the Group. The amounts recognised in the consolidated statement of income for the years ended 31 December were as follows:

### Amounts recognised in the consolidated statement of income

| In CHF million | **2003** | 2002 |
|---|---|---|
| Current service costs | **121** | 170 |
| Interest costs | **110** | 113 |
| Employer's contribution to purchases | **–2** | 0 |
| Expected return on plan assets | **–93** | –113 |
| Expected return on reimbursement rights | **–** | – |
| Net actuarial gains (-)/losses (+) | **21** | 50 |
| Past service costs | **–26** | 3 |
| Change in amounts not recognised as assets | **–** | –7 |
| Employee contributions | **–32** | –24 |
| Effect of curtailments or settlements | **–24** | 1 |
| **Total defined benefit expenses** | **75** | 193 |
| *Actual return on plan assets* | ***–100*** | *–30* |
| *Actual return on reimbursement rights* | ***–*** | *–* |

## 26 Employee Benefits (continued)



### Change in net asset/liability recognised in the balance sheet

| In CHF million | 2003 | 2002 |
|---|---|---|
| As of 1 January | –319 | –246 |
| Expenses recognised in the income statement | –75 | –193 |
| Contributions | 99 | 115 |
| Assets/liabilities from acquisitions/disposals | 0 | – |
| Foreign currency translation differences | –17 | 5 |
| **Net liability as of 31 December** | –312 | –319 |

### Principal actuarial assumptions (weighted averages) as of 31 December

| | 2003 | 2002 |
|---|---|---|
| Discount rate | 3.7% | 4.0% |
| Expected rate of return on plan assets | 4.1% | 4.7% |
| Expected rate of return on reimbursement rights | n. a. | n. a. |
| Future salary increases | 1.9% | 2.2% |
| Future pension increases | 0.9% | 1.1% |

**Defined contribution pension plans** Certain subsidiaries sponsor various defined contribution plans. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. The plans stipulate contributions by both employers and employees. The Group's expenses under these plans amounted to CHF 1 million and CHF 8 million in 2003 and 2002, respectively.

**Other long-term employee benefits** A liability of CHF 12 million was recognised in 2003 which relates to part-time employment contracts prior to retirement and to profit-sharing arrangements for certain employees.

**Termination benefits** Termination benefits totalling CHF 15 million and CHF 27 million for the years ending 31 December 2003 and 2002, respectively, arose as a result of early retirements and voluntary redundancies.

**Equity compensation plan** In the income statement the Group recognises compensation at the measurement date as the difference between fair value and the price at which the shares are allocated. The average fair value of the shares allocated amounted to CHF 83 in 2003 and CHF 378 in 2002, respectively. Shares allocated under the plans are repurchased on the SWX Swiss Exchange.

**Share options** The Group offers share options to directors and managers in Switzerland and abroad. No new share options were allocated in 2003. In 2002, 124 918 new shares under options were allocated. Due to the capital increase, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.718232. The outstanding share options did not have an intrinsic value as of 31 December 2003. Movements in the number of share options outstanding were as follows:

## 26 Employee Benefits (continued)

### Movements in the number of shares under option



| Amounts in CHF (if not noted otherwise) | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| | **Number of shares** | Number of shares | **Exercise date** | Exercise date | **Expiry date** | Expiry date | **Weighted average exercise price** | Weighted average exercise price |
| As of 1 January | **395 373** | 276 999 | | | | | **680** | 876 |
| Granted/issued | **–** | 124 918 | **–** | 01.07.05 | **–** | 30.06.07 | **–** | 257 |
| Exercised | **–** | – | **–** | – | **–** | – | **–** | – |
| Lapsed | **–25 884** | –6 544 | **–** | – | **–** | – | **–615** | 908 |
| **As of 31 December** | **369 489** | 395 373 | | | | | **684** | 680 |

**Other benefits** The Swiss Life Group maintains incentive programmes for certain management and other employees. Related expenses in 2003 and 2002 were CHF 15 million and CHF 34 million, respectively.

## 27 Borrowings

### Borrowings as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Money market instruments | **118** | 107 |
| Repurchase agreements | **1 152** | 1 223 |
| Debentures and loans | | |
| Exchangeable debt (GEMMS) | **829** | 1 185 |
| Hybrid debt | **1 461** | 1 384 |
| Subordinated debt | **216** | 213 |
| Other debentures | **712** | 1 001 |
| Bank loans | **1 222** | 1 234 |
| Finance lease obligations | **30** | 38 |
| Other | **62** | 149 |
| **Total borrowings** | **5 802** | 6 534 |
| *of which unsecured* | ***2 921*** | *3 595* |

## 27 Borrowings (continued)



**Repurchase agreements** Securities sold under agreements to repurchase the same or substantially the same securities at a specific future date at a fixed price are generally treated as collateralised borrowing. Securities pledged as collateral under repurchase agreements are not derecognised from the balance sheet unless control of these securities is transferred. As of 31 December 2003 securities to a value of CHF 1177 million were provided as collateral in respect of repurchase agreements and CHF 1054 million in respect of securities lending arrangements.

**Exchangeable debt (GEMMS)** The GEMMS (Guaranteed Exchangeable Monetisations of Multiple Shares) were issued by the Group on 15 May 1998 and are exchangeable at the option of the holder into shares of the designated company until the maturity date of the issue. The Group may redeem some of the issues on or after a specific redemption date at an early redemption price. The Group called a USD 250 million Vodafone tranche of the GEMMS bond for premature redemption on 20 May 2001. The USD 300 million 2% bond exchangeable into GlaxoSmithKline shares was called on 20 March 2002. On 20 May 2003, the remaining EUR 200 million debt exchangeable into Unilever shares matured and was repaid. During 2003 GEMMS with a nominal amount of CHF 81 million were repurchased in the market. The loss on the repurchased debt was CHF 2 million.

As of 31 December 2003 and 2002, respectively, issues with the following terms were outstanding:

| Outstanding principal | In CHF million **Carrying amount 2003** | In CHF million Carrying amount 2002 | Interest rate | Maturity date | Final redemption price | Exchange ratio (face value/shares) | Designated company |
|---|---|---|---|---|---|---|---|
| – | – | 285 | 2.00% | 20 May 2003 | 100.00% | EUR 1 000 = 9.9808 | Unilever |
| USD 166 939 000 | **219** | 279 | 2.00% | 20 May 2005 | 113.86% | USD 1 000 = 13.6141 | Royal Dutch Petroleum |
| CHF 332 550 000 | **318** | 335 | 0.75% | 20 May 2005 | 100.00% | CHF 10 000 = 2.915451 | Novartis/Syngenta |
| CHF 304 610 000 | **292** | 286 | 1.00% | 20 May 2005 | 100.00% | CHF 10 000 = 86.95653 | UBS AG |
| **Total** | **829** | 1 185 | | | | | |

**Hybrid debt** In March 1999, Swiss Life privately placed a subordinated perpetual step-up loan comprising three simultaneous advances of EUR 442.5 million (at a rate of interest of Euribor plus a margin of 1.05%, increasing by 100 basis points as from March 2009), EUR 215 million (at a rate of interest of 5.3655%, increasing by 100 basis points as from September 2009) and CHF 290 million (at a rate of interest of Libor plus a margin of 1.05%, increasing by 100 basis points as from March 2009). Swiss Life can call the floating-rate loans at the earliest on 31 March 2009 and the fixed-rate loan at the earliest on 30 September 2009 or at five-year intervals thereafter, upon notice and subject to the consent of the Federal Office of Private Insurance.

No interest may be paid on the loans if at the time, or as a result of the payment of interest, the solvency margin of Swiss Life would be at, or would fall below, the threshold of 150% of the applicable minimum solvency margin which Swiss Life is required to maintain under the Swiss regulatory regime.

In 2001, the Group issued a subordinated step-up loan of EUR 100 million with a time to maturity of 20 years that can be repaid by the Group after 10 years. The interest rate equals that of Euribor plus a margin which is 1.75% for the first ten years and 2.75% thereafter.

## 27 Borrowings (continued)

**Subordinated debt** As of 31 December 2003 and 2002, respectively, the Group had outstanding subordinated debts with the following terms:

| Issuer | Currency | Interest rate | Year of issue | Maturity | In CHF million **Carrying amount 2003** | In CHF million Carrying amount 2002 |
|---|---|---|---|---|---|---|
| Banca del Gottardo | CHF | 5.375% | 1995 | 2005 | **39** | 44 |
| Banca del Gottardo | CHF | 4.000% | 2001 | 2008 | **55** | 53 |
| Banca del Gottardo | EUR | 5.500% | 2001 | 2008 | **23** | 20 |
| Banca del Gottardo | USD | 5.750% | 2001 | 2008 | **6** | 7 |
| Banca del Gottardo, ex-warrants | USD | 3.375% | 1997 | 2004 | **16** | 13 |
| ERISA | EUR | Pibor +0.800% | 1998 | 2008 | **18** | 17 |
| ERISA | EUR | Euribor +1.000% | 2001 | 2011 | **31** | 29 |
| SwAFE B.V. - Mezzanine Class B mortgage-backed notes | EUR | Euribor +0.650% | 2002 | 2079 | **23** | 21 |
| SwAFE B.V. - Junior Class C mortgage-backed notes | EUR | Euribor +1.200% | 2002 | 2079 | **5** | 9 |
| **Total** | | | | | **216** | 213 |

**Other debentures** In 2002 SwAFE B.V., a special purpose entity (SPE) in the Netherlands, issued notes totalling EUR 800 million backed by a portfolio of first-ranking mortgages originated by Zwitserse Maatschappij van Levensverzekering en Lijfrente. As of 31 December 2003, notes representing EUR 621 million were outstanding, of which Swiss Life held a stake of EUR 202 million. The remaining amount of EUR 419 million is included in other debentures (EUR 401 million) and in subordinated debt (EUR 18 million).

As of 31 December 2003 and 2002, respectively, other debentures with the following terms were outstanding:

| Issuer/Instrument | Currency | Interest rate | Year of issue | Maturity | In CHF million **Carrying amount 2003** | In CHF million Carrying amount 2002 |
|---|---|---|---|---|---|---|
| Banca del Gottardo - bond | CHF | 5.75% | 1993 | 2003 | **–** | 62 |
| Banca del Gottardo - bond, ex-warrants | CHF | 3.00% | 1996 | 2003 | **–** | 66 |
| Banca del Gottardo - bond | CHF | 3.25% | 1998 | 2005 | **72** | 67 |
| Banca del Gottardo - medium-term notes [1)] | CHF | 2.90% | n.a. | n.a. | **5** | 8 |
| Dreieck Leasing - bond | CHF | variable | 2003 | 2005 | **10** | – |
| Swiss Life Prévoyance et Santé - bond | EUR | 5.56% | 1998 | 2003 | **–** | 48 |
| SwAFE B.V. - Senior Class A1 mortgage-backed notes | EUR | Euribor +0.24% | 2002 | 2032 | **614** | 740 |
| SwAFE B.V. - Senior Class A2 mortgage-backed notes | EUR | 5.32% | 2002 | 2079 | **11** | 10 |
| **Total** | | | | | **712** | 1 001 |

1) Medium-term notes are fixed-rate debentures issued continuously by Banca del Gottardo on demand with a maturity of 2 to 8 years. As of 31 December 2003, the average interest was 2.9% and the average remaining time to maturity 24 months.

## 27 Borrowings (continued)



**Bank loans** Bank loans outstanding as of 31 December 2003 and 2002, respectively, are repayable as follows:

| In CHF million | **Carrying amount 2003** | Carrying amount 2002 |
|---|---|---|
| On demand and within 1 year | **1 099** | 1 084 |
| After 1 year up to 5 years | **39** | 64 |
| After 5 years | **84** | 86 |
| **Total** | **1 222** | 1 234 |

Medium and long-term bank loans include various mortgage loans with the following terms and maturities:

| Currency | Interest rate | Maturity | In CHF million **Carrying amount 2003** | In CHF million Carrying amount 2002 |
|---|---|---|---|---|
| CHF | 4.200% | 2003 | – | 34 |
| CHF | 4.420% | 2004 | **25** | 25 |
| CHF | 4.400% | 2005 | **15** | 15 |
| CHF | 4.050% | 2006 | **16** | 16 |
| CHF | variable | 2009 | **50** | 51 |
| CHF | 5.080% | 2010 | **44** | 44 |
| **Total** | | | **150** | 185 |

### Finance lease obligations as of 31 December

| In CHF million | **2003** | 2002 | **2003** | 2002 |
|---|---|---|---|---|
| | **Minimum lease payments** | Minimum lease payments | **Present value of minimum lease payments** | Present value of minimum lease payments |
| Not later than 1 year | **6** | 8 | **5** | 7 |
| Later than 1 year and not later than 5 years | **28** | 31 | **25** | 28 |
| Later than 5 years | – | 3 | – | 3 |
| **Total** | **34** | 42 | **30** | 38 |
| *Future finance charges* | ***4*** | *4* | | |

## 28 Income Taxes



### Income tax expenses

| In CHF million | 2003 | 2002 |
|---|---|---|
| Current taxes for the current period | **135** | 49 |
| Adjustments recognised in the period for current taxes of prior periods | **–2** | 1 |
| Tax benefits reducing current period tax expenses | **–** | –1 |
| **Total current tax expenses** | **133** | 49 |
| Deferred tax expenses arising from the current period | **80** | –141 |
| Deferred tax expenses arising from changes in tax rates | **–11** | 0 |
| **Total deferred tax expenses** | **69** | –141 |
| | | |
| **Total income tax expenses** | **202** | –92 |

The expected weighted-average tax rates for the Group were 19.37% and 24.22% in 2003 and 2002, respectively. These rates were derived by obtaining a weighted average of the expected income tax rates in the various jurisdictions in which the Group operates. The actual income tax expenses differ from the expected amounts as follows:

### Actual tax expenses

| In CHF million | 2003 | 2002 |
|---|---|---|
| Expected tax expenses | **92** | –447 |
| *Increase/reduction in taxes resulting from* | | |
| Tax-exempt interest | **–1** | 2 |
| Tax-exempt dividends | **–40** | –23 |
| Other non-taxable income | **–9** | –49 |
| Non-deductible expenses | **174** | 72 |
| State and local income taxes | **–32** | 26 |
| Unrecognised tax losses | **9** | 256 |
| Use of previously unrecognised tax losses | **–14** | –17 |
| Other | **23** | 88 |
| **Actual tax expenses** | **202** | –92 |

## 28 Income Taxes (continued)

### Net deferred income tax assets and liabilities as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| **Deferred tax assets** | | |
| Reserves for future life policyholder benefits | **113** | 180 |
| Reserves for losses and loss adjustment expenses | **139** | 220 |
| Reserves for unearned premiums | **23** | 18 |
| Deferred acquisition costs | **72** | 76 |
| Employee benefits | **65** | 74 |
| Investments | **59** | 480 |
| Net tax-loss carryforwards and tax credits | **189** | 348 |
| Depreciable and amortisable assets | **47** | 42 |
| Other | **237** | 295 |
| **Total deferred tax assets, gross** | **944** | 1 733 |
| Valuation allowance | **–** | –12 |
| **Total deferred tax assets, net** | **944** | 1 721 |
| **Deferred tax liabilities** | | |
| Reserves for future life policyholder benefits | **159** | 93 |
| Reserves for losses and loss adjustment expenses | **19** | 24 |
| Reserves for unearned premiums | **15** | 14 |
| Deferred acquisition costs | **339** | 319 |
| Employee benefits | **45** | 48 |
| Investments | **1 125** | 1 302 |
| Depreciable and amortisable assets | **8** | 7 |
| Other | **115** | 709 |
| **Total deferred tax liabilities** | **1 825** | 2 516 |

Deferred tax assets are recognised for tax-loss carryforwards and unused tax credits only to the extent that realisation of the related tax benefit is probable. The uncertainty of the recoverability of tax losses and tax credits is taken into account in establishing the valuation allowance. For the following tax-loss carryforwards and tax credits no deferred tax asset has been recognised as of 31 December 2003 and 2002, respectively, which will expire as follows:

### Tax-loss carryforwards and tax credits

| In CHF million | 2003 | 2002 |
|---|---|---|
| 2003 | **–** | 59 |
| 2004 | **–** | – |
| 2005 | **–** | 9 |
| 2006 | **–** | 6 |
| Thereafter | **743** | 994 |
| **Total** | **743** | 1 068 |

Deferred tax liabilities have not been established for withholding tax and other taxes that would be payable on the unremitted income of certain subsidiaries, as such amounts are always retained.

## 29 Insurance and Other Receivables and Payables

### Insurance and other receivables as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Receivables from agents, brokers and policyholders | **1 900** | 1 733 |
| Accrued investment income | **2 029** | 1 928 |
| Accrued other income | **14** | 12 |
| Other | **772** | 586 |
| **Total insurance and other receivables** | **4 715** | 4 259 |

### Insurance and other payables as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Amounts due to agents, brokers and policyholders | **2 792** | 2 673 |
| Bank overdrafts | **495** | 411 |
| Accrued expenses | **481** | 440 |
| Other | **1 011** | 268 |
| **Total insurance and other payables** | **4 779** | 3 792 |

## 30 Other Assets and Liabilities

### Other assets as of 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| Derivatives held for hedging purposes | 38 | **111** | 302 |
| Deferred charges and prepaid expenses | | **497** | 396 |
| Current tax assets | | **121** | 162 |
| Pension assets | 26 | **206** | 198 |
| Sundry assets | | **43** | 17 |
| **Total other assets** | | **978** | 1 075 |

### Other liabilities as of 31 December

| In CHF million | Notes | 2003 | 2002 |
|---|---|---|---|
| Derivatives held for hedging purposes | 38 | **49** | 144 |
| Current tax liabilities | | **254** | 156 |
| Pension liabilities | 26 | **518** | 517 |
| Deferred revenues | | **409** | 339 |
| Provisions | 35 | **258** | 287 |
| Sundry liabilities | | **292** | 1 559 |
| **Total other liabilities** | | **1 780** | 3 002 |

## 31 Equity



In 2003, the Swiss Life Group simplified its shareholder structure by reducing the minority stake in its Swiss Life/Rentenanstalt subsidiary following the exchange of Swiss Life/Rentenanstalt shares (SL/RA shares) for Swiss Life Holding shares (SLH shares) which took place in 2002. Swiss Life Holding acquired an additional 878 978 SL/RA shares and increased the equity stake held in its subsidiary Swiss Life/Rentenanstalt from 92.23% as of 31 December 2002 to 99.72% as of 31 December 2003. This transaction was financed through the issuance of mandatory convertible securities (MCS II, 2003-2004) totalling CHF 341 million on 30 December 2003. 341 011 MCS II were issued in denominations of CHF 1000 each with a maturity date of 30 December 2004. The MCS II may at the option of the holder or at the option of the issuer be converted into SLH shares at any time between 9 February 2004 and 15 December 2004. Unless converted by 15 December 2004, or purchased by the issuer and cancelled, each MCS II will be mandatorily converted on 30 December 2004 into such number of shares as is equal to the maturity conversion ratio (4.65116 SLH shares per MCS II, subject to adjustment). The holders of the MCS II are entitled to annual interest payments per MCS II at 1.0% of the nominal value and certain payments in the event of any dividends or other cash distributions made by Swiss Life Holding to its shareholders. The MCS II are accounted for as equity, as they represent a forward sale of Swiss Life Holding shares, except for the present value of the interest payments totalling CHF 3.4 million which is deferred and recognised as a liability. Share premium increased by CHF 240 million due to the issuance of the MCS II. Subsequently, 1 586 098 SLH shares equal to the number of SLH shares required under the conversion ratio were created from the conditional capital of Swiss Life Holding and transferred to the MCS Share Trust. These SLH shares are accounted for as treasury shares acquired for no consideration. With the issuance of these SLH shares, the ordinary share capital of Swiss Life Holding increased by CHF 79 304 900 and amounted to CHF 1 251 702 050 as of 31 December 2003. As of 31 December 2003, Swiss Life Holding had 25 034 041 registered shares with a nominal value of CHF 50 per share. Conditional share capital was CHF 103 260 950 as of 31 December 2003.

In 2002, Swiss Life/Rentenanstalt established a holding structure and created a company for this purpose as a wholly-owned subsidiary on 17 September 2002. This company, Swiss Life Holding, had an initial share capital of CHF 250 000 (5000 shares at a nominal value of CHF 50 per share) owned by Swiss Life/Rentenanstalt. On 23 September 2002, Swiss Life Holding launched an exchange offer to the holders of SL/RA shares to exchange SL/RA shares for an equal number of SLH shares. As at the end of the exchange offer period, a total of 10 834 704 SL/RA shares or 92.23% of the total SL/RA shares had been tendered and were transferred on 18 November 2002 to Swiss Life Holding by way of a contribution in kind. The share capital of Swiss Life Holding following the exchange offer amounted to CHF 541 985 200 as of 18 November 2002 (10 839 704 shares with a nominal value of CHF 50 each). The 912 296 non-exchanged SL/RA shares represented minority interests in the consolidated financial statements of the Swiss Life Group.

Following the exchange offer, a capital increase of 10 839 704 new Swiss Life Holding shares with a nominal value of CHF 50 each was effected on 2 December 2002. One subscription right granted its holder the right to purchase one offered share at the offer price of CHF 79 per share.

On 19 December 2002, the Group issued mandatory convertible securities (MCS I, 2002-2005) totalling CHF 250 million. 250 000 mandatory convertible securities (MCS I) were issued in denominations of CHF 1000 each. The MCS I may at the option of the holder be converted into Swiss Life Holding shares at any time from 27 December 2002 to 19 December 2005. Holders exercising such early conversion rights are entitled to initially receive 7.07414 shares, subject to adjustment, for each MCS. The holders of the MCS I are entitled to annual interest payments per MCS at 5.25% of the nominal value of CHF 1000 and certain payments in the event of any dividends or other cash distributions made by Swiss Life Holding to the holders of its shares. Unless previously converted, or purchased by the issuer and cancelled, each MCS will be mandatorily converted on 19 December 2005 into such number of shares as is equal to a maturity conversion

## 31 Equity (continued)

ratio (max. 8.96057 shares per MCS I). The maturity conversion ratio equals CHF 1000 divided by the arithmetic average of the closing prices of the SLH shares for the period of 15 consecutive trading days prior to 19 December 2005. If the closing price is less than or equal to the minimum conversion price of initially CHF 111.60, the conversion ratio is equal to the maximum conversion ratio of initially 8.96057 shares per MCS I. If the closing price is greater than or equal to the maximum conversion price of initially CHF 141.36, the conversion ratio is equal to the minimum conversion ratio of initially 7.07414 shares per MCS I. The MCS I are accounted for as equity, as they represent a forward sale of Swiss Life Holding shares, except for the present value of the interest payments of 5.25% p.a., which is deferred and recognised as a liability. Subsequent to the MCS I issue, 1 768 535 SLH shares (a number equal to the minimum number of shares required under the conversion ratio) were created and are held by the Swiss Life Group as treasury shares acquired for no consideration.

The Group's insurance subsidiaries are subject to regulatory restrictions on the amount of dividends, cash loans and advances which can be remitted to the Group. Certain foreign jurisdictions have restrictions that allow the payment of dividends but may cause a delay in their remittance. Dividends payable are not accrued for until they have been ratified at the General Meeting.

The changes in gains and losses not recognised in the income statement were as follows:

### Gains/losses recognised directly in equity

| In CHF million | 01.01.2003 | Change during the period | 31.12.2003 |
|---|---|---|---|
| Available-for-sale investments | 1 918 | 996 | 2 914 |
| Cash flow hedges | –32 | 4 | –28 |
| Other | – | 31 | 31 |
| **Gains/losses recognised directly in equity, gross** | 1 886 | 1 031 | 2 917 |
| *Less amounts relating to* | | | |
| Excess DAC amortisation | –247 | 1 | –246 |
| Policyholder bonuses and other policyholder liabilities | –793 | –906 | –1 699 |
| Deferred income tax | –262 | 9 | –253 |
| Minority interests | –47 | 42 | –5 |
| **Total gains/losses recognised directly in equity, net of taxes and other items** | 537 | 177 | 714 |

## 31 Equity (continued)



### Gains/losses recognised directly in equity

| In CHF million | 2003 | | | | 2002 |
|---|---|---|---|---|---|
| | **Available-for-sale investments** | **Cash flow hedges** | **Other** | **Total** | Total |
| **Details on change during the period** | | | | | |
| Unrealised gains/losses arising during the period | **1 386** | **21** | **–** | **1 407** | –1 494 |
| Revaluation surplus on owner-occupied property transferred to investment property | **–** | **–** | **31** | **31** | – |
| Gains reclassified to the income statement | **–1 146** | **–19** | **–** | **–1 165** | –1 576 |
| Losses reclassified to the income statement | **261** | **–** | **–** | **261** | 2 898 |
| Foreign currency gains/losses reclassified to the income statement | **66** | **–** | **–** | **66** | 331 |
| Impairment losses reclassified to the income statement | **601** | **–** | **–** | **601** | 620 |
| Net gains/losses included in the carrying amount of hedged assets and liabilities | **–** | **–** | **–** | **–** | – |
| Effect of disposals | **–246** | **0** | **–** | **–246** | 0 |
| Foreign currency translation differences | **74** | **2** | **–** | **76** | –15 |
| **Change during the period, gross** | **996** | **4** | **31** | **1 031** | 764 |
| *Less changes in* | | | | | |
| Excess DAC amortisation | | | | **1** | –208 |
| Policyholder bonuses and other policyholder liabilities | | | | **–906** | –173 |
| Deferred income tax | | | | **9** | –112 |
| Minority interests | | | | **42** | –110 |
| Reclassification to minority interests due to new structure | | | | **–** | 29 |
| **Change during the period, net of taxes and other items** | | | | **177** | 190 |

**Reserves and appropriations** As of 31 December 2003 and 2002, respectively, the Swiss Life Group was in substantial compliance with all applicable regulatory capital adequacy requirements.

## 32 Core Capital for Capital Adequacy Purposes

The Group's capital can perform several important functions, such as funding future growth and providing a protective cushion for shareholders and policyholders as well as hedging future risks. Because of the importance of adequate capital levels, the Corporate Executive Board has set certain internal capital requirements which are both qualitative and quantitative in nature. For the purposes of measuring capital adequacy, the defined Group core capital includes certain liabilities with equity characteristics (deferred Group-related funds) and minority interests. Apart from equity and minority interests, total core capital also includes hybrid debt, subordinated debt, theoretical policyholder participation in surplus under consideration of additional DAC amortisation and deferred taxes.

## 33 Related-Party Transactions

In the normal course of business, the Group enters into various transactions with affiliated companies, including reinsurance and cost sharing arrangements. Related-party transactions include transactions with associates, partnerships, joint ventures, major shareholders, key management and companies significantly controlled by major shareholders or key management. Transactions with related parties are summarised below:

### Consolidated statement of income for the years ended 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Net investment income | **232** | 41 |
| Net realised and unrealised gains/losses on investments | **5** | 85 |
| Net trading income | – | – |
| Investment management, banking and other fee income | **0** | – |
| Insurance premiums and policy fees | – | – |
| Other income | – | – |
| Benefits, losses and interest expenses | **0** | –1 |
| Operating and other expenses | **–3** | –3 |

### Consolidated balance sheet as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Investments | **546** | 488 |
| Other assets | **2** | 13 |
| Investment contracts, customer deposits and other funds on deposit | **–28** | –28 |
| Borrowings | – | –11 |
| Other liabilities | **0** | 0 |
| | | |
| Shares acquired from related parties/institutions | – | 5 |
| | | |
| SLH shares issued to key management under equity compensation plan (number) | **42 492** | 800 |

Between January 2001 and July 2002 the relevant members of the Corporate Executive Board sold their shares in LTS to Swiss Life/Rentenanstalt at the net asset value of those shares in accordance with the terms of a shareholders' agreement concluded with Swiss Life/Rentenanstalt in connection with the LTS capital increases.

The repurchase of the shares was disclosed as acquired shares from related parties/related institutions and amounted to CHF 5 million for the year 2002.

## 34 Assets under Management



### Assets under management as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Held-to-maturity securities | **5 252** | 4 416 |
| Available-for-sale debt securities | **73 988** | 68 024 |
| Available-for-sale equity securities | **5 883** | 5 284 |
| Available-for-sale investment fund units | **4 294** | 3 622 |
| Available-for-sale private equity investments | **399** | 401 |
| Available-for-sale hedge funds | **3 554** | 3 490 |
| Financial assets held for trading | **3 024** | 3 552 |
| Investment property | **11 082** | 10 770 |
| Loans originated by the enterprise | **25 600** | 31 650 |
| Investments in associates | **64** | 181 |
| Other investments | **853** | 1 003 |
| Cash and cash equivalents | **6 250** | 4 217 |
| **Total cash and investments** | **140 243** | 136 610 |
| | | |
| Separate account (unit-linked) assets | **8 658** | 8 781 |
| | | |
| **Total on-balance-sheet assets** | **148 901** | 145 391 |
| | | |
| *Plus fair value adjustments of assets reported at amortised cost* | | |
| Held-to-maturity investments | **259** | 280 |
| Loans originated by the enterprise | **316** | 500 |
| | | |
| *Minus externally managed on-balance-sheet assets* | | |
| Assets of unit-linked business | **–3 250** | –4 006 |
| Externally managed alternative investments | **–4 990** | –5 184 |
| Externally managed other assets | **–1 322** | –606 |
| **Total on-balance-sheet assets managed by the enterprise** | **139 914** | 136 375 |
| | | |
| **Third-party off-balance-sheet assets** | **44 330** | 47 638 |
| | | |
| **Total assets under management** | **184 244** | 184 013 |

Assets under management are taken to comprise:

- assets stated as investments in the balance sheet and cash and cash equivalents
- assets stated in the balance sheet as separate account (unit-linked) investments
- assets managed for third parties by the Group
- minus insurance assets managed by third parties and alternative investments managed by third parties

## 35 Provisions

| In CHF million | | | 2003 | 2002 |
|---|---|---|---|---|
| | Restructuring | Other | Total | Total |
| As of 1 January | 113 | 174 | 287 | 147 |
| Additional provisions during the reporting period | 17 | 86 | 103 | 213 |
| Amounts used during the reporting period | –58 | –71 | –129 | –57 |
| Unused amounts reversed during the reporting period | –2 | –8 | –10 | –7 |
| Increase in the discounted amounts during the reporting period | – | – | – | – |
| Effect of acquisitions/disposals | – | 0 | 0 | –8 |
| Foreign currency translation differences | 3 | 4 | 7 | –1 |
| **As of 31 December** | 73 | 185 | 258 | 287 |

**Restructuring costs** Due to a restructuring programme in the United Kingdom, additional amounts for redundancies totalling CHF 8 million were provided in 2003.

Further provisions were set up for termination benefits which mainly relate to the private banking business and to the life insurance business in Germany.

## 36 Contingent Liabilities and Commitments

### Contingent liabilities and commitments as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Guarantees, letters of credit and surety bonds | 791 | 760 |
| Documentary credits | 46 | 54 |
| Commitments to extend credit | 278 | 411 |
| Capital commitments | 81 | 76 |
| Private equity commitments | 452 | 623 |
| Operating lease commitments | 155 | 203 |
| Other contingencies and commitments | 14 | 29 |
| **Total** | 1 817 | 2 156 |

**Guarantees, letters of credit and surety bonds**
The Group has issued financial guarantees and transaction-related guarantees and similar instruments. Financial guarantees provide for specified payments to be made to reimburse the holder for a loss incurred in the event that a client fails to make payment when due. Transaction-related guarantees such as performance bonds and bid bonds protect the holder against loss in the event of non-performance of a contract. Irrevocable letters of credit and surety bonds have been issued to secure certain reinsurance contracts.

**Commitments to extend credit** The Group has also entered into irrevocable commitments to extend credit in the form of loans and other instruments. They represent undrawn credit lines which are available to clients to secure their liquidity needs. With respect to credit risk, these commitments are contingent upon clients maintaining certain credit standards, and the Group monitors its exposure on a regular basis.

The total amount of credit commitments includes commitments to lend at fixed rates which expose the Group to interest rate risk. These commitments are entered into for restricted periods of time. As of 31 December 2003, committed principal amounts stood at EUR 76 million. The periods for which these commitments were made extend from one year to two years, and the range of committed interest rates is 4.1% to 6.8%.

**Capital commitments** As of 31 December 2003, the Group had commitments to purchase investments of CHF 55 million (excluding private equity). Contractual obligations to purchase or construct investment property amounted to CHF 26 million.

## 36 Contingent Liabilities and Commitments (continued)

**Private equity commitments** Private equity commitments represent unfunded commitments to make investments in direct private equity or private equity funds. Such commitments do not involve credit or market risk, as the Group purchases investments at market value at the time the commitments are invoked.

**Operating lease commitments** The Group has entered into various operating leases as a lessee. Rental expenses recognised in income for these items totalled CHF 73 million and CHF 80 million for the years ending 31 December 2003 and 2002, respectively. Of these amounts, minimum lease payments totalled CHF 71 million in 2003 and CHF 80 million in 2002, while contingent rents totalled CHF 2 million in 2003.

### Future minimum lease payments under non-cancellable operating leases – lessee

| In CHF million | 2003 | 2002 |
|---|---|---|
| Not later than 1 year | 13 | 16 |
| Later than 1 year and not later than 5 years | 42 | 51 |
| Later than 5 years | 100 | 136 |
| **Total** | **155** | 203 |

**Other contingencies and commitments** Contractual obligations for repairs and maintenance of investment property amounted to CHF 8 million as of 31 December 2003, which are included in this line item.

**Legal proceedings** The Group is involved in various legal proceedings, claims and litigation generally relating to its insurance operations.

The outcome of such current legal proceedings, claims and litigation could have a material effect on operating results or cash flows when resolved in a future period. However, in the opinion of management these matters will not materially affect the Group's consolidated financial position.

The Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Group believes that it has meritorious legal defences to those purported deficiencies and believes that the ultimate outcome of the cases will not result in a material impact on the Group's consolidated results, operations or financial position.

## 37 Assets Pledged

Assets are pledged as security for credit lines, for liabilities under repurchase agreements and mortgages on the Group's property. The following table shows assets pledged as security for liabilities and assets subject to restriction of title as of 31 December:

| In CHF million | 2003 | 2002 |
|---|---|---|
| Securities | 2 406 | 1 993 |
| Loans | 658 | 781 |
| Investment property | 199 | 263 |
| Other | – | – |
| **Total** | **3 263** | 3 037 |

Total assets pledged include collateral provided under repurchase agreements and securities lending arrangements of CHF 2231 million and CHF 1072 million as of 31 December 2003 and 2002, respectively.

## 38 Risk Management Activities

As the Group operates internationally, it is exposed to fluctuations in prices, interest rates and foreign exchange rates. The Group uses various investment strategies and derivatives to mitigate these risks and optimise its investment performance. The following tables present total derivatives held for hedging purposes by risk category as of 31 December:

### Fair value hedges

| In CHF million | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | Contract/ notional amount | Contract/ notional amount | Fair value | Fair value |
| Interest-related instruments – assets | – | – | – | – |
| Interest-related instruments – liabilities | – | – | – | – |
| Currency-related instruments – assets | 630 | 696 | 12 | 28 |
| Currency-related instruments – liabilities | – | – | – | – |
| Market risk instruments – assets | 1 302 | 1 484 | 85 | 201 |
| Market risk instruments – liabilities | – | 750 | – | 24 |
| Other – assets | – | – | – | – |
| Other – liabilities | – | – | – | – |
| **Total instruments held for fair value hedging purposes – assets** | **1 932** | 2 180 | **97** | 229 |
| **Total instruments held for fair value hedging purposes – liabilities** | – | 750 | – | 24 |

### Cash flow hedges

| In CHF million | Contract/ notional amount | Fair value assets | Fair value liabilities | Gains/ losses recognised in equity | Gains/ losses transferred to income | Expected occurrence of hedged transactions | Periods expected to affect income |
|---|---|---|---|---|---|---|---|
| **31 December 2003** | | | | | | | |
| Interest-related instruments | **3 134** | **14** | **49** | **21** | **–19** | **2004-2015** | **2004-2015** |
| Currency-related instruments | – | – | – | – | – | – | – |
| Market risk instruments | – | – | – | – | – | – | – |
| Other | – | – | – | – | – | – | – |
| **Total instruments held for cash flow hedging purposes** | **3 134** | **14** | **49** | **21** | **–19** | **n. a.** | **n. a.** |
| 31 December 2002 | | | | | | | |
| Interest-related instruments | 5 107 | 73 | 120 | –24 | – | 2003-2012 | 2003-2012 |
| Currency-related instruments | – | – | – | – | – | – | – |
| Market risk instruments | 59 | – | 0 | – | –3 | 2003 | 2003 |
| Other | – | – | – | – | – | – | – |
| **Total instruments held for cash flow hedging purposes** | 5 166 | 73 | 120 | –24 | –3 | n. a. | n. a. |

## 38 Risk Management Activities (continued)



**Interest rate risk** The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its assets, liabilities and cash flows. Matching of assets and liabilities is utilised as the main method of hedging the interest rate risk associated with interest-sensitive insurance liabilities. To the extent this is not practicable, swap contracts and other instruments are used to hedge interest rate risk. The table below summarises the Group's exposure to interest rate risks:

| In CHF million | Earlier of expected repricing or maturity | | | | |
|---|---|---|---|---|---|
| | Not later than 1 year | 1-5 years | Later than 5 years | Non-interest bearing | Total |
| **Carrying value as of 31 December 2003** | | | | | |
| **Assets** | | | | | |
| Fixed-rate financial instruments | **11 935** | **30 766** | **58 967** | – | **101 668** |
| Variable-rate financial instruments | **8 853** | **907** | – | – | **9 760** |
| Non-interest bearing financial instruments | – | – | – | **22 679** | **22 679** |
| Non-financial instruments | – | – | – | **19 713** | **19 713** |
| Separate account (unit-linked) assets | – | – | – | **8 658** | **8 658** |
| **Total assets** | **20 788** | **31 673** | **58 967** | **51 050** | **162 478** |
| **Liabilities** | | | | | |
| Fixed-rate financial instruments | **–6 773** | **–20 022** | **–2 890** | – | **–29 685** |
| Variable-rate financial instruments | **–1 816** | **–236** | **–42** | – | **–2 094** |
| Non-interest bearing financial instruments | – | – | – | **–9 330** | **–9 330** |
| Non-financial instruments | – | – | – | **–107 516** | **–107 516** |
| Separate account (unit-linked) liabilities | – | – | – | **–8 674** | **–8 674** |
| **Total liabilities** | **–8 589** | **–20 258** | **–2 932** | **–125 520** | **–157 299** |
| **Balance sheet interest rate sensitivity gap** | **12 199** | **11 415** | **56 035** | **–74 470** | **5 179** |
| Carrying value as of 31 December 2002 | | | | | |
| Total assets | 26 208 | 32 115 | 50 497 | 50 746 | 159 566 |
| Total liabilities | –11 372 | –17 647 | –2 058 | –123 814 | –154 891 |
| **Balance sheet interest rate sensitivity gap** | 14 836 | 14 468 | 48 439 | –73 068 | 4 675 |

In addition, the Group is exposed to the risk of prepayment on loans; however, management believes the information provided is a reasonably reliable prediction of contractual maturities and repricing based on management's expectations related to prepayment risk.

The carrying amounts of financial assets with variable interest rates were CHF 9760 million and CHF 9041 million as of 31 December 2003 and 2002, respectively. Financial liabilities with variable interest rates had carrying amounts of CHF 2094 million and CHF 8685 million as of 31 December 2003 and 2002, respectively.

The weighted average effective interest rates vary by major currencies and products for interest-bearing assets and liabilities.

The Group enters into interest rate swaps, caps, floors and collar agreements to manage interest rate risk on its financial instruments. These measures are taken in order to effectively convert the portfolio into an acceptable fixed, variable and capped rate mix. The swap agreements are contracts to exchange floating or fixed-rate interest payments periodically over the life of the agreements without exchanging the underlying notional amounts.

## 38 Risk Management Activities (continued)

**Foreign currency risk** As the Group operates internationally, it is exposed to risks associated with changes in foreign exchange rates. The Group had the following significant currency balance sheet items:

### Currency positions

| In CHF million | CHF | EUR | GBP | USD | JPY | Other | Total |
|---|---|---|---|---|---|---|---|
| **Carrying value as of 31 December 2003** | | | | | | | |
| **Assets** | | | | | | | |
| Held-to-maturity securities | **25** | **5 227** | **–** | **–** | **–** | **–** | **5 252** |
| Available-for-sale securities | **27 133** | **52 481** | **2 214** | **6 042** | **159** | **89** | **88 118** |
| Financial assets held for trading | **835** | **1 413** | **601** | **165** | **4** | **6** | **3 024** |
| Investment property | **9 597** | **1 484** | **1** | **–** | **–** | **–** | **11 082** |
| Loans originated by the enterprise | **18 659** | **6 125** | **35** | **555** | **70** | **156** | **25 600** |
| Investments in associates | **28** | **36** | **–** | **–** | **–** | **–** | **64** |
| Other investments | **168** | **72** | **–** | **613** | **–** | **–** | **853** |
| Cash and cash equivalents | **3 516** | **1 923** | **246** | **445** | **42** | **78** | **6 250** |
| Insurance and other receivables | **1 795** | **2 662** | **183** | **73** | **–** | **2** | **4 715** |
| Other | **5 867** | **9 129** | **1 714** | **795** | **13** | **2** | **17 520** |
| **Total assets** | **67 623** | **80 552** | **4 994** | **8 688** | **288** | **333** | **162 478** |
| **Liabilities** | | | | | | | |
| Financial liabilities held for trading | **–705** | **–367** | **–25** | **–113** | **–14** | **–1** | **–1 225** |
| Investment contracts, customer deposits and other funds on deposit | **–5 470** | **–22 201** | **–307** | **–1 178** | **–80** | **–116** | **–29 352** |
| Insurance reserves | **–61 589** | **–40 077** | **–2 100** | **–95** | **–** | **–1** | **–103 862** |
| Borrowings | **–2 855** | **–2 440** | **–131** | **–269** | **–78** | **–29** | **–5 802** |
| Other | **–7 177** | **–7 821** | **–1 354** | **–651** | **0** | **–55** | **–17 058** |
| **Total liabilities** | **–77 796** | **–72 906** | **–3 917** | **–2 306** | **–172** | **–202** | **–157 299** |
| **Net balance sheet currency gap** | **–10 173** | **7 646** | **1 077** | **6 382** | **116** | **131** | **5 179** |
| Carrying value as of 31 December 2002 | | | | | | | |
| Total assets | 71 352 | 72 993 | 4 847 | 9 653 | 266 | 455 | 159 566 |
| Total liabilities | –81 040 | –66 987 | –3 518 | –3 023 | –175 | –148 | –154 891 |
| **Net balance sheet currency gap** | –9 688 | 6 006 | 1 329 | 6 630 | 91 | 307 | 4 675 |

The main method of hedging the foreign currency risks associated with insurance and other liabilities is by using forward exchange and option contracts.

The foreign currency gains and losses on derivatives designated as hedges for currency risks are recognised in the consolidated statement of income in the same period that the gains or losses are recognised on the related assets, liabilities and anticipated transactions. For 2003 and 2002, respectively, gains of CHF 78 million and CHF 167 million were recognised in income.

## 38 Risk Management Activities (continued)



**Liquidity risk** The Group has formal asset/liability matching practices and monitors liquidity on a regular basis. There are no options or individual contracts or policyholders with the potential to prompt an outflow of liquidity through cancellation or early termination which would be material for the Group as a whole.

| In CHF million | Contractual maturity dates | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Subject to notice | Not later than 1 year | 1-5 years | Later than 5 years | No maturity date | Total |
| **31 December 2003** | | | | | | | |
| **Assets** | | | | | | | |
| Fixed-rate financial instruments | **–** | **–** | **11 745** | **30 926** | **58 766** | **231** | **101 668** |
| Variable-rate financial instruments | **921** | **345** | **7 507** | **749** | **176** | **62** | **9 760** |
| Non-interest bearing financial instruments | **750** | **0** | **4 619** | **31** | **54** | **15 492** | **20 946** |
| Derivative instruments | **1** | **–** | **615** | **200** | **917** | **–** | **1 733** |
| Non-financial assets | **–** | **–** | **–** | **–** | **–** | **19 713** | **19 713** |
| Separate account (unit-linked) assets | **–** | **–** | **–** | **–** | **–** | **8 658** | **8 658** |
| **Total assets** | **1 672** | **345** | **24 486** | **31 906** | **59 913** | **44 156** | **162 478** |
| **Liabilities** | | | | | | | |
| Fixed-rate financial instruments | **–** | **–** | **–6 773** | **–20 022** | **–2 890** | **–** | **–29 685** |
| Variable-rate financial instruments | **–945** | **–** | **–401** | **–253** | **–495** | **–** | **–2 094** |
| Non-interest bearing financial instruments | **–2 897** | **–404** | **–2 387** | **–1 589** | **–1 150** | **–110** | **–8 537** |
| Derivative instruments | **–** | **–** | **–620** | **–78** | **–95** | **–** | **–793** |
| Non-financial liabilities | **–** | **–** | **–** | **–** | **–** | **–107 516** | **–107 516** |
| Separate account (unit-linked) liabilities | **–** | **–** | **–** | **–** | **–** | **–8 674** | **–8 674** |
| **Total liabilities** | **–3 842** | **–404** | **–10 181** | **–21 942** | **–4 630** | **–116 300** | **–157 299** |
| **Net balance sheet liquidity gap** | **–2 170** | **–59** | **14 305** | **9 964** | **55 283** | **–72 144** | **5 179** |
| 31 December 2002 | | | | | | | |
| Total assets | 1 300 | 1 369 | 30 150 | 32 666 | 51 258 | 42 823 | 159 566 |
| Total liabilities | –3 092 | –599 | –10 613 | –19 052 | –5 455 | –116 080 | –154 891 |
| **Net balance sheet liquidity gap** | –1 792 | 770 | 19 537 | 13 614 | 45 803 | –73 257 | 4 675 |

Put or call provisions on certain instruments may affect the timing, amount and certainty of cash flows.

## 38 Risk Management Activities (continued)

**Market risk** The Group is exposed to various risks associated with the effects of changes in the market prices of assets and liabilities recognised in the balance sheet. The Group manages its exposure to market risk through asset allocation limits, duration limits (as appropriate) and stress tests. To manage risks associated with changes in the market price of assets and liabilities, the Group also enters into fair value hedges using mainly options and futures to offset the market behaviour of existing assets or liabilities.

Fair value changes of both the derivative financial instruments designated as fair value hedges and the underlying assets and liabilities are recognised in income. The realised losses recognised on the derivatives designated as fair value hedges for the year ended 31 December 2003 were CHF 180 million and the realised gains on derivatives for the year ended 31 December 2002 were CHF 66 million.

**Credit risk** The Group mainly operates throughout Europe with a large percentage of business transacted in Switzerland. However, credit risk is well spread over a diversity of individual and commercial clients. The Group has no significant exposure to any particular client or counterparty.

As an active participant in the international capital markets, the Group has a significant concentration of credit risk with financial institutions. The risk that counterparties to both derivative and cash instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with a diverse group of counterparties with good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral.

In most cases, the Group's exposure to credit risk is reflected in the amounts shown on the balance sheet. The Group enters into master netting agreements which mitigate the overall exposure to credit risk but do not qualify the assets and liabilities for offsetting under IAS 32.

## 39 Fair Value of Financial Instruments Not Presented in the Balance Sheet at Fair Value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the Group's balance sheet at fair value as of 31 December:

| In CHF million | **2003** | 2002 | **2003** | 2002 |
|---|---|---|---|---|
| | **Carrying value** | Carrying value | **Fair value** | Fair value |
| Held-to-maturity securities | **5 252** | 4 416 | **5 511** | 4 696 |
| Loans originated by the enterprise | **25 600** | 31 650 | **25 916** | 32 150 |
| Other held-to-maturity investments | **65** | 85 | **65** | 85 |
| Deposits held under financial reinsurance contracts | **4** | 1 | **4** | 1 |
| Liabilities under investment contracts, customer deposits and other funds on deposit | **29 352** | 28 086 | **29 353** | 28 009 |
| Borrowings | **5 802** | 6 534 | **5 807** | 6 536 |
| Other financial liabilities | **4 298** | 4 894 | **4 301** | 4 894 |

## 40 Reclassifications in the Statement of Income



Amortisation of other intangible assets which was previously carried under amortisation of goodwill and other intangible assets has been reclassified to the operating expenses.

Impairment losses on other assets have been reclassified from other operating and administrative expenses to other income.

| In CHF million | 2002 | Reclas-sification | 2002 |
|---|---|---|---|
| | as disclosed | | reclassified |
| Amortisation of goodwill and other intangible assets | –1 059 | 13 | |
| Amortisation of goodwill | | | –1 046 |
| | | | |
| Insurance-underwriting and policy-acquisition costs | –1 680 | –10 | |
| Insurance-underwriting and policy-acquisition costs | | | –1 690 |
| | | | |
| Other operating and administrative expenses | –858 | 29 | |
| Other operating and administrative expenses | | | –829 |
| | | | |
| Other income | 104 | –32 | |
| Other income | | | 72 |

## 41 Branches, Subsidiaries, Associates, Partnerships and Joint Ventures

A list of the principal branches, subsidiaries, associates, partnerships and joint ventures together with the country of registration and the Group's ownership interest and voting interest, if different, is shown in note 43.

## 42 Events after the Balance Sheet Date

On 20 February 2004 the Swiss Life Group announced the spin-off of the third-party private equity business. Existing mandates are taken over by ALPHA Associates, a new company established by the former management of Swiss Life Private Equity Partners.

In 2003 the Swiss Life Group announced the closure of new business for the UK operations. On 16 December 2003, Swiss Life UK entered into a reinsurance arrangement with UnumProvident, which cedes 100% of the retained risk in respect of the claim portfolio of the group income protection business. Additionally, the administration of these claims is outsourced to UnumProvident. The agreements take effect as of 1 January 2004.

The Swiss Federal Council aims to introduce a new model in the Swiss BVG business (second pillar) for the participation of policyholders (minimum payout ratio) with effect from 1 January 2004. The enactment of this new regulation will result in a decrease in the shareholders' equity. The effect of this expected change has not been determined.

On 29 March 2004 the Board of Directors approved the annual financial statements and the financial report and authorised them for publication on 30 March 2004.

## 43 Scope of Consolidation

| | Segment [1] | Core = ● Non-Core = ○ | Consolidation period | Group share | Direct share | Method of consolidation | Currency | Authorised share capital in 1000 |
|---|---|---|---|---|---|---|---|---|
| **Switzerland** | | | | | | | | |
| Adamant, Basel | IM | ● | | 51.0% | 51.0% | full | CHF | 250 |
| Adamed, Basel | IM | ● | | 72.7% | 72.9% | full | CHF | 23 018 |
| Adroit Investment, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 5 000 |
| Adroit Private Equity, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 5 000 |
| Advisory Services Network, Zürich | Other | – | until 30.09.2002 | – | – | full | CHF | 8 000 |
| Alvetern, Pfäffikon | IM | ● | | 99.7% | 100.0% | full | CHF | 100 |
| Banca del Gottardo, Lugano | PB | ○ | | 99.5% | 99.7% | full | CHF | 170 000 |
| Dreieck Equipment Leasing, Zürich | PB | ○ | | 42.8% | 43.0% | full | CHF | 100 |
| Dreieck Fiduciaria, Lugano | PB | ○ | | 99.5% | 100.0% | full | CHF | 500 |
| Dreieck Leasing, Lausanne | PB | ○ | | 99.5% | 100.0% | full | CHF | 15 000 |
| Eaux-Vives 2000, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 1 000 |
| Eaux-Vives Office, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 100 |
| Geschäftshaus Spitalgasse, Bern | – | – | until 25.06.2003 | – | – | equity | CHF | 1 500 |
| Gesfid, Lugano | PB | – | until 16.10.2002 | – | – | full | CHF | 10 000 |
| Jungfraubahn Holding, Interlaken | – | – | until 24.09.2002 | – | – | equity | CHF | 11 670 |
| Kuhn & Seal, Nyon | Other | ● | | 99.7% | 100.0% | full | CHF | 100 |
| Kuhn & Seal Services, Nyon | Other | ● | | 99.7% | 100.0% | full | CHF | 100 |
| «La Suisse» Accidents, Lausanne | Non-Life | ○ | | 99.7% | 100.0% | full | CHF | 50 000 |
| «La Suisse» Vie, Lausanne | Life | ○ | | 99.7% | 100.0% | full | CHF | 24 000 |
| Livit, Zürich | IM | ● | | 99.7% | 100.0% | full | CHF | 3 000 |
| Löwenschanze, Zürich | Life | – | until 30.06.2002 | – | – | full | CHF | 400 |
| Long Term Strategy in liquidation, Zug | Other | ○ | from 01.01.2002 | 99.7% | 100.0% | full | CHF | 2 000 |
| Neue Warenhaus AG, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 5 000 |
| Oscar Weber AG, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 5 000 |
| Pendia Associates, Zürich | Other | ● | | 99.7% | 100.0% | full | CHF | 500 |
| Redsafe Bank, Zürich | Other | – | until 23.12.2002 | – | – | full | CHF | 30 000 |
| Rentenanstalt Holding, Zürich | Other | ● | | 99.7% | 100.0% | full | CHF | 25 000 |
| RMF, Pfäffikon | – | – | until 23.05.2002 | – | – | equity | CHF | 1 350 |
| Schweizerische Treuhandgesellschaft, Zug | PB | ○ | until 25.06.2003 | – | – | full | CHF | 12 000 |
| STG Schweizerische Treuhandgesellschaft, Basel | PB | ○ | until 25.06.2003 | – | – | full | CHF | 8 000 |
| STG Asset Management, Basel | PB | ○ | until 25.06.2003 | – | – | full | CHF | 32 000 |
| STG Management, Basel | PB | ○ | until 25.06.2003 | – | – | full | CHF | 250 |
| STG Management Services, Basel | PB | ○ | until 25.06.2003 | – | – | full | CHF | 250 |
| Swiss Life Asset Management, Zürich | IM | ● | | 100.0% | 100.0% | full | CHF | 250 |
| Swiss Life Capital Holding, Zürich | IM | ● | | 99.7% | 100.0% | full | CHF | 5 514 |
| Swiss Life Capital Partners, Pfäffikon | IM | ● | | 99.7% | 100.0% | full | CHF | 100 |
| Swiss Life Fund Master, Zürich | IM | ● | until 19.06.2003 | – | – | full | CHF | 250 |
| Swiss Life Funds, Zürich | IM | ● | | 100.0% | 100.0% | full | CHF | 10 000 |
| Swiss Life Funds Business, Zürich | IM | ● | from 16.12.2003 | 100.0% | 100.0% | full | CHF | 250 |
| Swiss Life General Partners, Zürich | IM | ● | | 99.7% | 100.0% | full | CHF | 100 |
| Swiss Life Hedge Fund Partners, Pfäffikon | IM | – | until 01.05.2002 | – | – | full | CHF | 1 500 |
| Swiss Life Holding, Zürich | Other | ● | from 17.09.2002 | – | – | full | CHF | 1 251 702 |
| Swiss Life Pension Services, Zürich | Life | ● | from 17.12.2003 | 99.7% | 100.0% | full | CHF | 250 |
| Swiss Life Private Equity Partners, Zürich | IM | ● | | 99.7% | 100.0% | full | CHF | 250 |
| Swiss Life Real Estate Partners, Zug | IM | ● | until 30.09.2003 | – | – | full | CHF | 250 |
| Swiss Life/Rentenanstalt, Zürich | Life | ● | | 99.7% | 99.7% | full | CHF | 587 350 |

1) Segment (IM = Investment Management, PB = Private Banking)

## 43 Scope of Consolidation (continued)

| | Segment [1] | Core = ● Non-Core = ○ | Consolidation period | Group share | Direct share | Method of consolidation | Currency | Authorised share capital in 1000 |
|---|---|---|---|---|---|---|---|---|
| **Switzerland (continued)** | | | | | | | | |
| Swiss Life Selection, Zürich | Other | ● | | 99.7% | 100.0% | full | CHF | 250 |
| Swissville Centers, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 2 500 |
| Swissville Centers Holding, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 7 100 |
| Swissville Commerce, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 150 900 |
| Swissville Commerce Holding, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 147 100 |
| Swissville Europe Holding, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 11 500 |
| Swissville Private, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 50 000 |
| Swissville Private Holding, Zürich | Life | ● | | 99.7% | 100.0% | full | CHF | 50 000 |
| Technopark Immobilien, Zürich | – | – | | 33.2% | 33.3% | equity | CHF | 40 000 |
| Tenium, Zürich | IM | ● | until 31.08.2003 | – | – | full | CHF | 100 |
| Tuxedo Invest, Zug | – | – | until 31.07.2003 | – | – | equity | CHF | 162 995 |
| Ultrafin, Lugano | PB | ○ | | 99.5% | 100.0% | full | CHF | 5 000 |
| **Liechtenstein** | | | | | | | | |
| LGT Swiss Life Non Traditional Advisers, Vaduz | IM | ● | | 57.8% | 58.0% | full | CHF | 1 000 |
| **France** | | | | | | | | |
| AGAMI, Lille | Other | ○ | | 99.7% | 100.0% | full | EUR | 500 |
| Carte Blanche TP, Paris | – | – | from 25.11.2003 | 43.5% | 44.0% | equity | EUR | 40 |
| CEAT, Paris | Non-Life | ○ | | 99.6% | 100.0% | full | EUR | 2 400 |
| CEGEMA, Villeneuve-Loubet | Other | ○ | | 50.5% | 50.6% | full | EUR | 300 |
| Crédit et services financiers (CRESERFI), Paris | – | – | | 33.3% | 33.4% | equity | EUR | 56 406 |
| Daunou Investissements, Paris | – | – | until 28.09.2002 | – | – | equity | EUR | 153 |
| Domical Santé, Paris | Other | ○ | | 94.3% | 95.1% | full | EUR | 2 300 |
| ERISA, Paris | Life | ● | | 49.9% | 50.0% | full | EUR | 65 000 |
| ERISA IARD, Paris | Non-Life | ● | | 49.9% | 50.0% | full | EUR | 7 500 |
| Garantie Assistance, Paris | Non-Life | ○ | | 99.2% | 100.0% | full | EUR | 1 850 |
| Oudart, Paris | – | – | | 39.1% | 39.3% | equity | EUR | 5 000 |
| Placement Financier du Midi, Paris | – | – | until 04.08.2002 | – | – | equity | EUR | 76 |
| Premium Consulting SAS, Paris | – | – | from 27.07.2003 | 19.9% | 20.0% | equity | EUR | 40 |
| SA LABOR, Paris | Other | – | until 01.10.2002 | – | – | full | EUR | 39 |
| SACAT, Paris | Other | ○ | until 05.08.2003 | – | – | full | EUR | 50 |
| SC Labor sur Saône, Roubaix | Other | – | until 20.11.2002 | – | – | full | EUR | 900 |
| SCI Armengaud, Paris | Other | – | until 20.11.2002 | – | – | full | EUR | 16 769 |
| SCI DYNAPIERRE, Paris | Other | ● | | 99.0% | 100.0% | full | EUR | 7 317 |
| SCI ERISA IMMO 1, Paris | Other | ● | | 49.9% | 100.0% | full | EUR | 39 980 |
| SCI Paris Dammartin, Roubaix | Other | ○ | | 98.9% | 100.0% | full | EUR | 15 |
| SCI Uniphénix, Paris | Other | ● | | 99.0% | 100.0% | full | EUR | 7 398 |
| Sociafrance, Lille | Non-Life | – | until 01.07.2002 | – | – | full | EUR | 8 400 |
| Société financière de dépôts et de placements (SOFIDEP), Paris | PB | ○ | until 01.01.2002 | – | – | full | EUR | 8 000 |
| Société suisse Banque, Paris | PB | ○ | | 99.5% | 100.0% | full | EUR | 20 000 |
| Société suisse de gestion immobilière, Paris | Other | ● | | 99.6% | 100.0% | full | EUR | 22 860 |
| Société suisse de participations d'assurance, Paris | Other | ● | | 99.7% | 100.0% | full | EUR | 792 296 |
| Société suisse vie, Paris (branch) | Life | ● | | – | – | full | – | – |
| Swiss Life Asset Management (France) (formerly Société suisse de gestion financière), Paris | IM | ● | | 99.5% | 100.0% | full | EUR | 3 000 |

1) Segment (IM = Investment Management, PB = Private Banking)

## 43 Scope of Consolidation (continued)

| | Segment [1] | Core = ● Non-Core = ○ | Consolidation period | Group share | Direct share | Method of consolidation | Currency | Authorised share capital in 1000 |
|---|---|---|---|---|---|---|---|---|
| **France (continued)** | | | | | | | | |
| Swiss Life Asset Management (France), Paris | IM | ● | until 23.12.2003 | – | – | full | EUR | 4 950 |
| Swiss Life Assurance et Patrimoine (formerly Société suisse ADG), Paris | Life | ● | | 99.0% | 99.7% | full | EUR | 75 000 |
| Swiss Life Assurances de Biens (formerly Société suisse Accidents), Paris | Non-Life | ○ | | 99.6% | 100.0% | full | EUR | 135 000 |
| Swiss Life Holding (France), Paris | Other | – | until 11.10.2002 | – | – | full | EUR | 37 |
| Swiss Life Prévoyance et Santé (formerly Société suisse santé), Paris | Life | ● | | 98.9% | 99.2% | full | EUR | 150 000 |
| **Germany** | | | | | | | | |
| Münchner Tor, München | Life | ● | | 99.7% | 100.0% | full | EUR | 61 735 |
| Schweizerische Rentenanstalt, München (branch) | Life | ● | | – | – | full | – | – |
| Seko, München | Other | ● | | 89.7% | 90.0% | full | EUR | 30 |
| Sepis, München | Life | ● | | 99.7% | 100.0% | full | EUR | 30 |
| Schweizer Leben Pensions Management, München | Other | ● | | 99.7% | 100.0% | full | EUR | 150 |
| Swiss Life Asset Management, Unterföhring | IM | ● | | 99.7% | 100.0% | full | EUR | 5 250 |
| Swiss Life Beteiligungs GmbH, München | Other | ● | from 18.10.2002 | 99.7% | 100.0% | full | EUR | 25 |
| Swiss Life Grundstücksmanagement, München | Life | ● | | 99.7% | 100.0% | full | EUR | 26 |
| Swiss Life Partner AG, München | – | – | | 49.8% | 49.9% | equity | EUR | 3 500 |
| Swiss Life Partner Service und Finanzvermittlung, München | Other | ● | | 99.7% | 100.0% | full | EUR | 1 800 |
| Swiss Life Pensionsfonds, München | Life | ● | from 08.05.2002 | 99.7% | 100.0% | full | EUR | 3 000 |
| Swiss Life Pensionskasse, München | Life | ● | from 08.05.2002 | 99.7% | 100.0% | full | EUR | 3 000 |
| **Netherlands** | | | | | | | | |
| Swiss Life Asset Management (Nederland), Amstelveen | IM | ● | | 100.0% | 100.0% | full | EUR | 250 |
| Zwitserleven, Amstelveen (branch) | Life | ● | | – | – | full | – | – |
| Zwitserleven Vermogensbeheer (formerly Zwitserleven Ziekte- en Ongevallenverzekering), Amstelveen | Life | ● | | 99.7% | 100.0% | full | EUR | 2 269 |
| **Belgium** | | | | | | | | |
| AIA Pool, Bruxelles | – | – | | 13.0% | 13.0% | equity | EUR | 18 |
| Crédit Agricole, Bruxelles | – | – | until 25.08.2003 | – | – | equity | EUR | 191 259 |
| Demoisy & Cie, Montigny le Tilleul | – | – | from 01.01.2003 | 24.9% | 25.0% | equity | EUR | 31 |
| European District Properties Three, Sint Stevens Woluwe | – | – | from 01.01.2002 | 49.9% | 50.0% | equity | EUR | 62 |
| Swiss Life Asset Management (Belgium), Vilvoorde | IM | ● | from 19.04.2002 | 99.7% | 100.0% | full | EUR | 500 |
| Swiss Life (Belgium), Bruxelles (branch) | Life | ● | | – | – | full | – | – |
| Swiss Life Immo-Commerce (Belgium), Bruxelles | Other | ● | | 99.7% | 100.0% | full | EUR | 9 965 |
| Swiss Life Immo-Cross Roads, Bruxelles | Other | ● | from 31.07.2002 | 99.7% | 100.0% | full | EUR | 64 |
| Swiss Life Immo-Midi (Belgium), Bruxelles | Other | ● | | 99.7% | 100.0% | full | EUR | 2 200 |
| Swiss Life Immo-Techno Center I, Bruxelles | Other | ● | from 01.01.2003 | 99.7% | 100.0% | full | EUR | 583 |
| Swiss Life Immo-Techno Center II, Bruxelles | Other | ● | from 01.01.2003 | 99.7% | 100.0% | full | EUR | 285 |
| Swiss Life Immo-Techno Center III, Bruxelles | Other | ● | from 01.01.2003 | 99.7% | 100.0% | full | EUR | 500 |
| Swiss Life Informations Systems, Sint-Genesius-Rode | Other | ● | from 22.01.2002 | 99.7% | 100.0% | full | EUR | 62 |
| Swiss Life Invest (Belgium), Bruxelles | Other | ● | | 99.7% | 100.0% | full | EUR | 646 |
| Swissville Europe (Belgium), Bruxelles | Life | ● | | 99.7% | 100.0% | full | EUR | 8 087 |
| ZELIA, Bruxelles | Life<br>Non-Life | ●<br>○ | | 99.7% | 100.0% | full | EUR | 32 227 |

1) Segment (IM = Investment Management, PB = Private Banking)

## 43 Scope of Consolidation (continued)

| | Segment [1] | Core = ● Non-Core = ○ | Consolidation period | Group share | Direct share | Method of consolidation | Currency | Authorised share capital in 1000 |
|---|---|---|---|---|---|---|---|---|
| **Luxembourg** | | | | | | | | |
| Apenso, Luxembourg | – | – | | 49.9% | 50.0% | equity | EUR | 625 |
| Banque du Gothard (Luxembourg), Luxembourg | PB | ○ | | 99.5% | 100.0% | full | CHF | 14 000 |
| Esofac, Luxembourg | – | – | | 29.9% | 30.0% | equity | EUR | 125 |
| Gottardo Equity Fund (Lux) Management, Luxembourg | PB | ○ | | 99.5% | 100.0% | full | CHF | 200 |
| Gottardo Money Market Fund (Lux) Management, Luxembourg | PB | ○ | | 99.5% | 100.0% | full | CHF | 200 |
| Gottardo Strategy Fund Management, Luxembourg | PB | ○ | | 99.5% | 100.0% | full | CHF | 200 |
| Gottardo Tower Fund Management, Luxembourg | PB | ○ | | 99.5% | 100.0% | full | EUR | 125 |
| Heralux, Luxembourg | Non-Life | ○ | | 98.9% | 100.0% | full | EUR | 1 250 |
| SB-Gotthard I Fund Management, Luxembourg | PB | ○ | | 99.5% | 100.0% | full | CHF | 650 |
| SLGB Management, Luxembourg | Other | ● | from 17.01.2002 | 99.7% | 100.0% | full | EUR | 125 |
| Swiss Life Asset Management Holding, Strassen | IM | ● | | 99.7% | 100.0% | full | CHF | 8 380 |
| Swiss Life (Luxembourg), Strassen | Life | ● | | 99.7% | 100.0% | full | EUR | 15 000 |
| Swiss Life Immo-Arlon, Strassen | Other | ● | | 99.7% | 100.0% | full | EUR | 1 000 |
| Swiss Life Investment Advisers, Luxembourg | IM | ● | until 27.01.2003 | – | – | full | EUR | 75 |
| Swiss Life Multi Funds (Luxembourg) Management, Luxembourg | PB | ○ | | 99.5% | 100.0% | full | CHF | 200 |
| **United Kingdom** | | | | | | | | |
| Alpine Holdings, St. Peter Port-Guernsey | PB | ○ | | 99.5% | 100.0% | full | USD | 600 |
| Dom-James in liquidation, Sevenoaks | Other | ○ | | 99.7% | 100.0% | full | GBP | 5 016 |
| Swiss Life Asset Management (UK), London | IM | ● | until 22.12.2003 | – | – | full | GBP | 10 000 |
| Swiss Life (UK), Sevenoaks | Life | ○ | | 99.7% | 100.0% | full | GBP | 200 000 |
| Swiss Life (UK) Group, Sevenoaks | Life | ○ | | 99.7% | 100.0% | full | GBP | 200 000 |
| Swiss Life (UK) Services, Sevenoaks | Life | ○ | | 99.7% | 100.0% | full | GBP | 100 |
| **Spain** | | | | | | | | |
| Swiss Life Asset Management (España), Madrid | IM | ● | until 04.12.2003 | – | – | full | EUR | 2 110 |
| Swiss Life (España), Madrid | Life | ○ | until 12.11.2003 | – | – | full | EUR | 39 066 |
| Swiss Life Gestion, Madrid | IM | ○ | until 12.11.2003 | – | – | full | EUR | 751 |
| **Italy** | | | | | | | | |
| Banca del Gottardo Italia, Bergamo | PB | ○ | | 70.6% | 71.0% | full | EUR | 50 000 |
| Fafid, Milano | PB | ○ | from 11.03.2003 | 79.6% | 80.0% | full | EUR | 20 |
| Gottardo Asset Management SGR, Milano | PB | ○ | from 01.01.2003 | 96.6% | 100.0% | full | EUR | 2 500 |
| Swiss Life (Italia), Milano | Life | ○ | | 99.7% | 100.0% | full | EUR | 5 170 |
| Swiss Life (Italia) Infortuni e Malattie, Milano | Non-Life | ○ | | 99.7% | 100.0% | full | EUR | 2 500 |
| **Ireland** | | | | | | | | |
| Swiss Life Investment Management, Dublin | IM | ● | until 19.12.2002 | – | – | full | IEP | 10 000 |
| **Austria** | | | | | | | | |
| Gottardo Asset Management, Wien | PB | ○ | until 01.05.2003 | – | – | full | EUR | 363 |

1) Segment (IM = Investment Management, PB = Private Banking)

## 43 Scope of Consolidation (continued)

| | Segment [1] | Core = ● Non-Core = ○ | Consolidation period | Group share | Direct share | Method of consolidation | Currency | Authorised share capital in 1000 |
|---|---|---|---|---|---|---|---|---|
| **Bahamas** | | | | | | | | |
| Gesfid International, Nassau | PB | – | until 16.10.2002 | – | – | full | USD | 10 000 |
| Gottardo Trust Company, Nassau | PB | ○ | | 99.5% | 100.0% | full | USD | 3 000 |
| Gotthardfin, Nassau | PB | ○ | until 27.08.2003 | – | – | full | CHF | 10 000 |
| MFT Multifin Transactions, Nassau | PB | ○ | until 17.01.2003 | – | – | full | CHF | 1 000 |
| **British Virgin Islands** | | | | | | | | |
| Swiss Life Finance, Tortola | Life | ● | | 99.7% | 100.0% | full | USD | 50 |
| Swiss Life International Finance, Tortola | IM | ● | until 30.05.2003 | – | – | full | USD | 10 |
| **Cayman Islands** | | | | | | | | |
| Adamed Investments, George Town | IM | ● | from 01.01.2002 | 72.7% | 100.0% | full | USD | 0 |
| Adroit Investment Offshore (AIO), Grand Cayman | Life | ○ | | 99.7% | 100.0% | full | CHF | 0 |
| | | | | | | | EUR | 0 |
| Adroit Private Equity Offshore (APEO), Grand Cayman | Life | ○ | | 99.7% | 100.0% | full | CHF | 0 |
| | | | | | | | USD | 0 |
| SL Absolute Return Strategies I, Grand Cayman | IM | – | until 01.05.2002 | – | – | full | USD | 50 |
| Swiss Life Cayman Finance, Grand Cayman | Other | ● | from 12.09.2002 | 100.0% | 100.0% | full | CHF | 0 |
| | | | | | | | USD | 50 |
| Swiss Life Credo Fund I, Grand Cayman | IM | – | until 01.05.2002 | – | – | full | USD | 50 |
| Swiss Life Financial Services (formerly SLPEP CI), Grand Cayman | IM | ● | | 99.7% | 100.0% | full | CHF | 50 |
| Swiss Life Flex, Grand Cayman | IM | – | until 01.05.2002 | – | – | full | EUR | 49 |
| | | | | | | | USD | 99 |
| Swiss Life High Yield Strategies, Grand Cayman | IM | – | until 01.05.2002 | – | – | full | USD | 50 |
| Swiss Life Investment Strategies, Grand Cayman | IM | – | until 01.05.2002 | – | – | full | USD | 55 |
| Swiss Life Private Equity Partners (Cayman), Grand Cayman | IM | ● | | 99.7% | 100.0% | full | CHF | 60 |
| **Greece** | | | | | | | | |
| Gottardo A.E.P.E.Y, Athens | PB | ○ | from 15.05.2002 | 95.8% | 96.3% | full | EUR | 2 100 |
| Mettagottardo, Ano Glyfada | PB | – | until 15.11.2002 | – | – | full | EUR | 586 |
| **Hong Kong** | | | | | | | | |
| Gottardo Asset Management (H.K.), Hong Kong | PB | ○ | until 02.09.2003 | – | – | full | HKD | 5 000 |
| Gottardo Forex (H.K.), Hong Kong | PB | – | until 26.03.2002 | – | – | full | HKD | 30 000 |
| **Monaco** | | | | | | | | |
| Banque du Gothard, Monaco | PB | ○ | | 99.5% | 100.0% | full | EUR | 40 000 |
| Financial Strategy (Sam), Monaco | – | – | | 19.9% | 20.0% | equity | EUR | 750 |
| Gothard Gestion, Monaco | PB | ○ | | 99.5% | 100.0% | full | EUR | 160 |
| Gottim Sam, Monaco | PB | ○ | | 99.5% | 100.0% | full | EUR | 150 |
| **Netherlands Antilles** | | | | | | | | |
| N.V. Pensioen ESC, Willemstad | Life | ● | | 99.7% | 100.0% | full | ANG | 1 000 |
| **Uruguay** | | | | | | | | |
| CAASU, Montevideo | PB | ○ | until 25.06.2003 | – | – | full | UYP | 1 000 |

1) Segment (IM = Investment Management, PB = Private Banking)

# Report of the Group Auditors

Report of the Group Auditors 
to the General Meeting of Shareholders,
Swiss Life Holding, Zurich

As auditors of the group, we have audited the consolidated financial statements (consolidated statement of income, consolidated balance sheet, consolidated statement of cash flow, consolidated statement of changes in equity and notes to the consolidated financial statements, pages 71 to 143) of the Swiss Life Group for the year ended 31 December 2003.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Brand Enrico Strozzi

Zurich, 29 March 2004

## Review of Operations 2003



**In its second financial year, Swiss Life Holding generated a profit of CHF 29.3 million as opposed to a loss of CHF 2.2 million in the prior period from 17 September to 31 December 2002.**

Income for the 2003 financial year largely came from interest on loans made to Group companies and fees generated within the Group. Offsetting this income, the company incurred management expenses and capital taxes.

On 5 December 2003 the two companies, Swiss Life Asset Management, Zurich, and Swiss Life Asset Management (Nederland), Amstelveen, were transferred to Swiss Life Holding.

On 30 December 2003 the Swiss Life Group issued mandatory convertible securities (MCS II) with a total value of CHF 341 million. Given the exchange ratio, this resulted in a capital increase of 1 586 098 Swiss Life Holding shares.

Swiss Life Holding has also purchased 878 978 Swiss Life/Rentenanstalt shares, thereby increasing its equity interest from 92.23 % to 99.72 % as of 31 December 2003.

# Statement of Income

## Statement of income



| In CHF million | 2003 | 17.09.2002 to 31.12.2002 |
|---|---|---|
| Investment income | **33.0** | 0.5 |
| Foreign currency gains/losses | **0.7** | –2.1 |
| **Net investment income** | **33.7** | –1.6 |
| | | |
| **Operating expenses** | **–8.1** | –0.4 |
| | | |
| **Other income** | **5.8** | 0 |
| **Other charges** | **–2.1** | –0.2 |
| | | |
| **Net result for the year** | **29.3** | –2.2 |

# Balance Sheet



## Assets as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Liquid funds | **78.0** | 2.2 |
| Time deposits and similar investments | **23.6** | 536.6 |
| Receivables from Group companies | **13.2** | 3.6 |
| Other receivables | **2.5** | 0.3 |
| Prepayments and accrued income | **5.8** | 0.8 |
| **Current assets** | **123.1** | 543.5 |
| | | |
| Shares | **3.1** | – |
| Participations | **1 217.8** | 729.2 |
| Loans to Group companies | **705.0** | 473.5 |
| **Non-current assets** | **1 925.9** | 1 202.7 |
| | | |
| **Total assets** | **2 049.0** | 1 746.2 |

## Equity and liabilities as of 31 December

| In CHF million | 2003 | 2002 |
|---|---|---|
| Payables to Group companies | **37.9** | 72.7 |
| Other payables | **9.6** | 2.8 |
| **Total short-term liabilities** | **47.5** | 75.5 |
| | | |
| **Total liabilities** | **47.5** | 75.5 |
| | | |
| Corporate capital | **1 251.7** | 1 172.4 |
| *General reserves* | ***497.2*** | *464.7* |
| *Reserve for own shares* | ***27.8*** | *35.8* |
| Legal reserves | **525.0** | 500.5 |
| Free reserves | **195.5** | – |
| *Balance carried forward from previous year* | ***–*** | *–* |
| *Net result for the year* | ***29.3*** | *–2.2* |
| Result shown in the balance sheet | **29.3** | –2.2 |
| **Equity** | **2 001.5** | 1 670.7 |
| | | |
| **Total equity and liabilities** | **2 049.0** | 1 746.2 |

# Notes to the Financial Statements

## Accounting Rules



Assets and liabilities are stated in the balance sheet in accordance with the provisions of the Swiss Code of Obligations (OR). Swiss Life Holding was founded in 2002. The figures in the statement of income for the previous year reflect the period from 17 September 2002 to 31 December 2002.

## Explanations on the Balance Sheet and Statement of Income

### Participations

| In CHF thousand | 2003 Currency | 2003 Share capital | 2003 Direct share | 2002 Currency | 2002 Share capital | 2002 Direct share |
|---|---|---|---|---|---|---|
| Swiss Life/Rentenanstalt, Zurich | **CHF** | **587 350** | **99.716%** | CHF | 587 350 | 92.234% |
| Swiss Life Funds, Zurich | **CHF** | **10 000** | **100.000%** | CHF | 10 000 | 100.000% |
| Swiss Life Cayman Finance, Grand Cayman | **CHF** | **0** | **100.000%** | CHF | 0 | 100.000% |
| | **USD** | **50** | | USD | 50 | |
| Swiss Life Asset Management, Zurich | **CHF** | **250** | **100.000%** | CHF | – | – |
| Swiss Life Asset Management (Nederland), Amstelveen | **EUR** | **250** | **100.000%** | EUR | – | – |

**Loans to Group companies** CHF 39 million of the loans to Group companies are classified as subordinated loans.

**Major shareholders** In accordance with documents at Swiss Life's disposal, the following shareholders or groups of shareholders connected to one another held more than 5% of Swiss Life Holding's registered share capital of 23 447 943 shares at 31 December 2003.

| | Shares (entered in the share register) | Voting rights |
|---|---|---|
| Premafin Group (Italy) | **2 356 112** | **10.048%** |
| Queensgate Bank & Trust Company Ltd. | **1 586 098** | **6.764%** |
| Threadneedle Investments | **1 245 370** | **5.311%** |
| Fidelity | **1 224 098** | **5.220%** |

## Explanations on the Balance Sheet and Statement of Income (continued)



In 2003, the Swiss Life Group simplified its shareholder structure by reducing the minority stake in its Swiss Life/Rentenanstalt subsidiary following the exchange of Swiss Life/Rentenanstalt shares (SL/RA shares) for Swiss Life Holding shares (SLH shares) which took place in 2002. Swiss Life Holding acquired an additional 878 978 SL/RA shares and increased the equity stake held in its subsidiary Swiss Life/Rentenanstalt from 92.23% as of 31 December 2002 to 99.72% as of 31 December 2003. This transaction was financed through the issuance of mandatory convertible securities (MCS II, 2003-2004) totalling CHF 341 million on 30 December 2003. 341 011 MCS II were issued in denominations of CHF 1000 each with a maturity date of 30 December 2004.

Subsequently, 1 586 098 SLH shares equal to the number of SLH shares required under the conversion ratio were created from the conditional capital of Swiss Life Holding and transferred to the MCS Share Trust. These SLH shares are accounted for as own shares acquired for no consideration. With the issuance of these SLH shares, the ordinary share capital of Swiss Life Holding increased by CHF 79 304 900 and amounted to CHF 1 251 702 050 as of 31 December 2003. As of 31 December 2003, Swiss Life Holding had 25 034 041 registered shares with a nominal value of CHF 50 per share. Conditional share capital was CHF 103 260 950 as of 31 December 2003.

**Share capital, capital increase** In accordance with the agreement dated 15 November 2002 concerning contributions in kind, Swiss Life Holding acquired 10 822 084 shares of Swiss Life Insurance and Pension Company, Zurich, at a par value of CHF 50 each. 10 834 704 Swiss Life Holding registered shares were issued in return. Thus, 10 839 704 registered shares were issued prior to the capital increase. The company's ordinary share capital came to CHF 1 083 970 400 (21 679 408 shares) following the capital increase. Conditional capital in existence at this point in time came to an aggregate par value of CHF 270 992 600 (5 419 852 shares). On 19 December 2002 Swiss Life Cayman Finance Ltd, Cayman Islands, issued mandatory convertible securities to the amount of CHF 250 million. Swiss Life Cayman Finance Ltd then converted the minimum number of deliverable securities. Ordinary share capital amounted to CHF 1 172 397 150 (23 447 943 shares) following this transaction, and conditional share capital came to CHF 182 565 850 (3 651 317 shares).

**Own shares** In the final quarter of the year under review the companies in the Swiss Life Group purchased a total of 1 365 921 Swiss Life shares at an average price of CHF 126.01. In the same period, they sold 1 369 571 shares at an average price of CHF 127.60.

**Personnel expenses** No direct staff costs are included under operating expenses.

**Contingencies** Swiss Life Holding guarantees the interest payments, conversion into Swiss Life Holding shares, and declared dividends or other distributions in cash by Swiss Life Cayman Finance Ltd in connection with the mandatory convertible securities. In addition, Swiss Life Holding acts as warrantor for all Swiss Life/Rentenanstalt liabilities with regard to the various tranches of the subordinated perpetual step-up loan (hybrid debt), which amounted to an equivalent value of CHF 1306 million at the balance sheet date.

## Explanations on the Balance Sheet and Statement of Income (continued)

### Total equity



| In CHF | 31.12.2003 | 31.12.2002 |
|---|---|---|
| **Corporate capital** | | |
| Balance as of 1 January | **1 172 397 150** | |
| Swiss Life Holding shares at inception | – | 250 000 |
| Converted Swiss Life/Rentenanstalt shares | – | 541 735 200 |
| Issuance of shares | – | 541 985 200 |
| Issuance of mandatory convertible securities | **79 304 900** | 88 426 750 |
| **Total corporate capital** | **1 251 702 050** | 1 172 397 150 |
| | | |
| **Legal reserves** | | |
| **General reserves** | | |
| Balance as of 1 January | **464 675 815** | |
| Withdrawal from legal reserves in accordance with the General Meeting | **–225 479 735** | – |
| Contribution in kind from Swiss Life/Rentenanstalt | – | 161 700 260 |
| Issuance of shares | – | 314 351 416 |
| Issuance of mandatory convertible securities | **240 230 403** | 90 471 735 |
| Equity transaction costs | **–18 021 186** | –66 047 596 |
| Change in own shares | **35 800 000** | –35 800 000 |
| **Total general reserves** | **497 205 297** | 464 675 815 |
| | | |
| **Reserve for own shares** | | |
| Balance as of 1 January | **35 800 000** | |
| Reserve for own shares | **–8 000 000** | 35 800 000 |
| **Total reserve for own shares** | **27 800 000** | 35 800 000 |
| **Total legal reserves** | **525 005 297** | 500 475 815 |
| | | |
| **Free reserves** | | |
| Balance as of 1 January | – | |
| Addition to free reserves | **223 291 459** | – |
| Reserve for own shares | **–27 800 000** | – |
| **Total free reserves** | **195 491 459** | – |
| | | |
| **Result shown in the balance sheet** | | |
| Balance as of 1 January | **–2 188 276** | – |
| Withdrawal from legal reserves | **225 479 735** | – |
| Addition to free reserves | **–223 291 459** | – |
| Net result for the year | **29 346 454** | –2 188 276 |
| **Total result shown in the balance sheet** | **29 346 454** | –2 188 276 |
| | | |
| **Total equity** | **2 001 545 260** | 1 670 684 689 |

# Appropriation of Net Result

## Net Result and Appropriation of Result



The net result for the year amounts to CHF 29 346 454. The Board of Directors proposes to the General Meeting of Shareholders to appropriate the available earnings in accordance with the table below. No dividend is proposed to be paid out for 2003.

### Appropriation of result

| In CHF | 2003 |
|---|---|
| Balance brought forward | – |
| Net result for the year | **29 346 454** |
| **Balance carried forward to new account** | **29 346 454** |

Zurich, 29 March 2004

For Swiss Life Holding Board of Directors

Bruno Gehrig Gerold Bührer

# Report of the Statutory Auditors



Report of the Statutory Auditors
to the General Meeting of Shareholders,
Swiss Life Holding, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (statement of income, balance sheet and notes, pages 147 to 151) of Swiss Life Holding for the year ended 31 December 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of the result shown in the balance sheet comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Brand Enrico Strozzi

Zurich, 29 March 2004

## Important dates

Annual General Meeting
18 May 2004 (Hallenstadion Zurich)

Presentation of half-year figures
7 September 2004

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Read the Swiss Life Annual Report
on the Internet at
http://www.swisslife.com/report

## Caution regarding forward-looking statements

This Annual Report contains forward-looking statements about Swiss Life which involve certain risks and uncertainties. The reader should be aware that such statements represent projections which could differ materially from actual outcomes and results. All forward-looking statements are based on the data available to Swiss Life at the time the present Annual Report was compiled.

The Annual Report is also available in German and French. The German text is definitive.

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