Zurich, March 30, 2004

Swiss Life reports net profit of CHF 233 million in 2003

Swiss Life plans to retain Banca del Gottardo and access capital markets to finance its transfer to Swiss Life Holding

The Swiss Life Group reports a net profit of CHF 233 million in 2003. Operating income came to CHF 557 million, demonstrating that the focus on profitability and operational progress in all areas have started yielding tangible results. In the efficiency drive, the savings of CHF 532 million in operating costs and a headcount reduction of 1800 mean that the targets set for the end of 2004 were already exceeded by the end of 2003. Premium volume stood at CHF 18.8 billion, down 4% on the previous year as a reflection of the sharp focus on profitability. Equity rose by 19% to CHF 5.0 billion, although further impairments amounting to CHF 735 million were taken on investments and goodwill declined by CHF 309 million.

Banca del Gottardo is to remain part of the Swiss Life Group. Swiss Life Holding intends to acquire the bank from Swiss Life/Rentenanstalt for the amount of approximately CHF 1340 million. This transfer is expected to be beneficial to both policyholders and shareholders. Swiss Life Holding plans to finance the transfer with internal resources of up to CHF 250 million, an equity issue of CHF 800 million and a convertible bond of up to CHF 350 million. In addition, Swiss Life may access the debt market to refinance existing debt equivalent of up to CHF 450 million maturing in 2005, taking advantage of the favourable market conditions.

Against the backdrop of its plan to raise capital for the bank's transfer, the Board of Directors will propose to the AGM that no dividend be paid for the 2003 financial year, and that available resources should be used to reduce external funding.

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

The measures to restore profitability began to take hold in 2003. Following a loss of CHF 1.7 billion in the previous year, the Swiss Life Group generated a net profit of CHF 233 million in 2003. This works out at CHF 10.83 in earnings per share. Operating income amounted to CHF 557 million in the year under review (against a loss of CHF 801 million the previous year). The Life Core segment (Switzerland, France, Germany, the Netherlands, Belgium/Luxembourg) contributed CHF 341 million to this figure. In the domestic market, Switzerland, operating income came to CHF 76 million (prior-year loss: CHF 566 million).

Decline in gross premiums reflects focus on profitability

Gross written premiums decreased by 4% to CHF 18.8 billion. This slight decline reflects measures to restore profitability and implementation of the corresponding pricing and underwriting policy measures. In the Life Core segment, 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.

Significantly better financial result

The financial result improved 24% from the previous year to stand at CHF 5.8 billion; in 2002 losses had to be realised in the process of reducing the company's equity exposure, among other factors. The duration on the bond portfolio was extended in line with the newly defined approach to asset and liability management. This narrowed the duration gap between assets and liabilities, thus reducing the economic risk of fluctuations in interest rates. The return on insurance portfolio investments came to 4.7% (previous year: 3.3%). Net equity exposure stood at 2.1% as of 31 December 2003.

Insurance benefits up

Insurance benefits including changes in insurance reserves fell by 4% to CHF 15.5 billion. This reflected both a 12% rise in insurance benefits paid, bringing them to CHF 14.5 billion, mainly due to contract terminations by certain customers in Switzerland, and a decline in the change in insurance reserves for future benefits from CHF 2.6 billion to CHF 693 million due to the lower premium volume as well as the terminations. The sum of policyholder bonuses and participation in surplus rose by more than 150% to CHF 871 million, due to higher investment income compared with the previous year's level.

Operating expenses significantly reduced - targeted reductions exceeded

As a result of the cost-reduction programme, 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 full-time-equivalent positions targeted for the end of 2004 had already been exceeded by the end of 2003, with CHF 532 million in cost savings and a headcount reduction of 1800. As of 31 December 2003 the Swiss Life Group employed a workforce of 10 015 on a full-time-equivalent basis.

Balance sheet strengthened - equity grows 19%

Shareholders' equity stood at CHF 5.0 billion on 31 December 2003. The increase of CHF 794 million (19%) compared to the end of 2002 resulted above all from the mandatory convertible securities issued in December (CHF 320 million net) to buy out the minority interests in Swiss Life/Rentenanstalt, as well as from the profit of CHF 233 million. Operational improvements had a positive impact on shareholders' equity working out at CHF 697 million in all. Core capital for capital adequacy purposes, which includes deferred Group-related funds in addition to shareholders' equity, improved by 17% to stand at CHF 8.8 billion. Further measures to strengthen the balance sheet included additional impairments totalling CHF 735 million on investments and 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 (previous year: CHF 184.0 billion) in spite of the sale of STG Schweizerische Treuhandgesellschaft (STG).

Strong solvency position

The solvency of Swiss Life/Rentenanstalt, which accounts for more than 80% of the Group's insurance reserves, came to 179% on 31 December 2003 (previous year: 180%). Group solvency (including Banca del Gottardo), calculated in accordance with the method applied by the French regulators who are responsible for the Swiss Life Group within the European Union, came to 133% at the end of 2003 (previous year: 138%).

Banca del Gottardo to remain in Swiss Life Group

Banca del Gottardo is to remain part of the Swiss Life Group. In the words of Rolf Dörig, Chairman of the Corporate Executive Board: "We have decided to keep the bank as an important part of the Swiss Life Group. We intend to further build on Banca del

Gottardo's good market positioning, working together with the existing management." Swiss Life will increase its representation on Banca del Gottardo's Board of Directors. Chief Financial Officer Bruno Pfister will now be joined on the bank's board by Martin Senn, Chief Investment Officer, and Gerold Bührer, Vice Chairman of the Swiss Life Holding Board of Directors.

Swiss Life Holding intends to acquire Banca del Gottardo from Swiss Life/Rentenanstalt for the amount of approximately CHF 1340 million. The transfer is expected to be beneficial to both, policyholders and shareholders. The purchase of the bank by Swiss Life Holding represents a further step in the streamlining of the Group structure and the implementation of a stringent asset and liability management. It also means greater security for the policyholders, since Banca del Gottardo, as an illiquid asset in the insurance investment portfolio, will be replaced by a liquid and diversified portfolio of assets. The company believes that the risk-return profile is improved for policyholders and shareholders alike. Shareholders will have the opportunity to benefit from Banca del Gottardo's performance going forward. In addition, the bank is expected to reinforce Swiss Life Holding's ability to generate cash earnings. Overall, the transaction will further bolster the Group's capital base.

Swiss Life Holding plans to finance the transaction with internal resources of up to CHF 250 million, an equity issue of CHF 800 million and a convertible bond of up to CHF 350 million. In addition, Swiss Life may access the debt market to refinance existing debt equivalent of up to CHF 450 million maturing in 2005, taking advantage of the favourable market conditions. Following these transactions, Swiss Life does not expect to access the equity market for the foreseeable future. Swiss Life Holding has appointed Goldman Sachs International and UBS Investment Bank to assist with the financing. The shareholders of Swiss Life Holding will be asked to approve the capital increase at the AGM on May 18. The equity issue is intended to be underwritten thereafter. Further details will be provided towards the end of April.

The Federal Office of Private Insurance (FOPI) is supportive of the transaction, understanding that Swiss Life Holding does not envisage a sale of Banca del Gottardo. However, at the request of the FOPI, it will be agreed, that if, nevertheless, the bank is sold to a third party within the next three years, 50% of any realised gain above the agreed transfer price would be remitted to Swiss Life/Rentenanstalt, thereby benefitting the policyholders.

2003 results by segment

Swiss Life improved its operating result in all segments compared to the previous year. The only segment with a negative result was Private Banking, where the loss of CHF 105 million ensuing from the sale of STG led to a loss of CHF 19 million.

In the **Life Core** segment (Switzerland, France, Germany, the Netherlands and Belgium/Luxembourg), Swiss Life generated CHF 341 million in operating income in 2003 following a loss of CHF 561 million in the previous year. Written premiums decreased by 2% to CHF 16.1 billion. Operating expenses were reduced by 7%.

In the **Life Non-Core** segment («La Suisse», United Kingdom, Spain, Italy) the operating result came to CHF 67 million, in contrast to the loss of CHF 157 million registered the previous year. «La Suisse» saw its premiums grow 14% to stand at CHF 780 million and produced a good result. Premium income in this segment fell by 23% overall to CHF 1417 million, as Swiss Life sold its company in Spain and stopped writing new business in the UK in line with its concentration on core business. Operating expenses decreased by 48% to CHF 189 million.

In the **Non Life** segment Swiss Life generated CHF 23 million in operating income in 2003 (after a loss of CHF 95 million the year before). The main contributing factors to this significant improvement were the lowering of the claims ratio and the cost-cutting measures taken. The combined ratio improved from 121% to 108%. Conservative underwriting practices and the restructuring of the insurance portfolio led premium volume to decline to CHF 962 million, 4% less than the previous year. The financial result rose from CHF 84 million to CHF 119 million.

The result for the **Private Banking** segment was affected by the sale of STG to the LGT Group for CHF 197 million. The loss of CHF 105 million on the sale resulted in a loss of CHF 19 million in this 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. Without the loss from the STG transaction the segment would have registered a profit of CHF 86 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.

In the **Investment Management** segment Swiss Life generated CHF 95 million in operating income. This represented a decline of 10% from the previous year, when an exceptional profit of CHF 92 million was recorded on the sale of Swiss Life Hedge Fund Partners Ltd. The decline in fee income to CHF 188 million (a drop of 17%) is 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. Compared to the previous year, assets under management rose by 7% to CHF 99.4 billion.

Progress in implementation of strategy

The focus on core business was systematically pursued in 2003. Divestments included STG, the operations in Spain, Swiss Life Asset Management in the UK, the equity stake in Crédit Agricole (Belgium) and the Profitline funds business. A solution was also found for Swiss Life (UK). Swiss Life spun off its third-party private equity business in the first quarter of 2004.

The redefined asset and liability management process provides a valuable foundation for optimally harmonising both sides of the balance sheet, thereby ensuring that 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. In the current year Swiss Life extended the maturities of its fixed-income investments on the assets side and thus narrowed the duration gap between the assets and liabilities sides.

Improvements continued to be made in 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.

The corporate structure was simplified by the delisting of Swiss Life/Rentenanstalt shares and subsequent reduction in minority interests, as well as the transfer of the Swiss Life Asset Management units to Swiss Life Holding. The advantages of the holding organisation can now be better utilised.

To convey the new orientation more clearly both internally and externally, Swiss Life took the further step of streamlining its brand architecture and adapting its image in the course of implementing its strategy. The 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. Use of the name "Rentenanstalt" will be phased out. The new image will gradually be introduced in all markets by the end of 2005. Marketing activities will be stepped up for the positioning of the new brand. This will include sponsorship of the Swiss Football Association and the Swiss national teams from the end of the European football championships in 2004 up to and including the European football championships in Switzerland in 2008.

Priorities and Outlook

The Swiss Life Group is targeting further significant improvements in profitability and a return to premium growth in 2004. Swiss Life is assuming that it will declare a dividend in 2005 amounting to 25% to 30% of the net profit for the current year. Rolf Dörig, Chairman of the Corporate Executive Board, stated: "We aim to gain market share in all our core markets, while adhering to our strict profitability targets. This growth should primarily be organic and come from focusing systematically on benefits for our customers when designing products and providing services, as well as from making better use of the capabilities of our distribution channels. Swiss Life especially wants to distinguish itself from competitors in the quality of its advice and services. Improving service quality thus is a high priority for us in 2004, and corresponding programmes are under way in all our markets."

Transmission of today's event and further documentation

Today's events scheduled for 08.00 (presentation to analysts and investors, in English) and 10.30 (presentation for the media, in German) will be transmitted via www.swisslife.com. All additional documentation concerning the annual results can likewise be found there.

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Swiss Life

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Swiss Life Holding, registered in Zurich, was founded in 1857 as the Swiss Life Insurance and Pension Company. Shares of Swiss Life Holding are listed on the SWX Swiss Exchange (SLHN). The enterprise employs around 10 000 people worldwide.