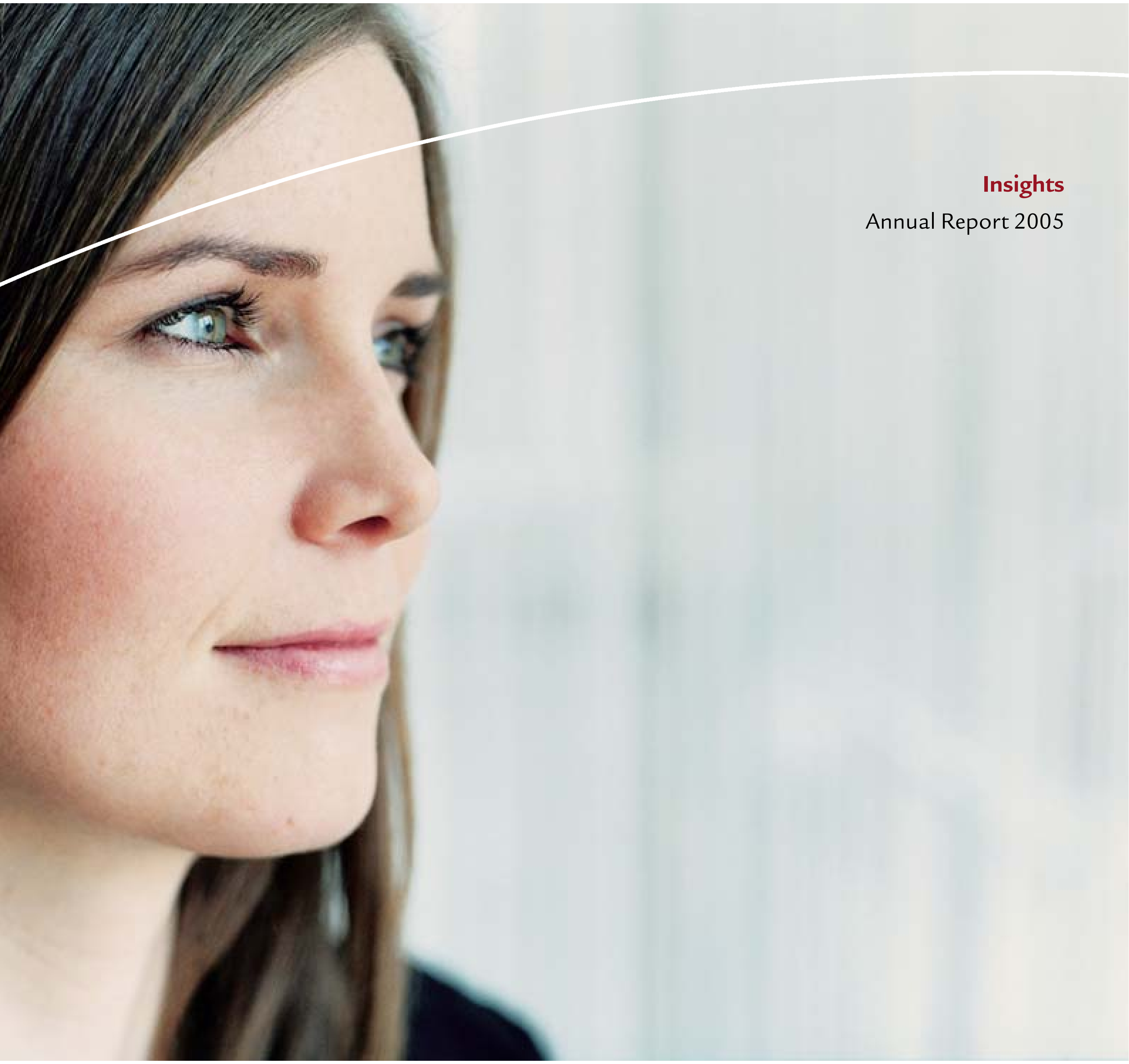
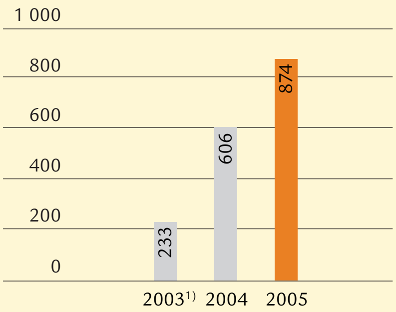
SwissLife

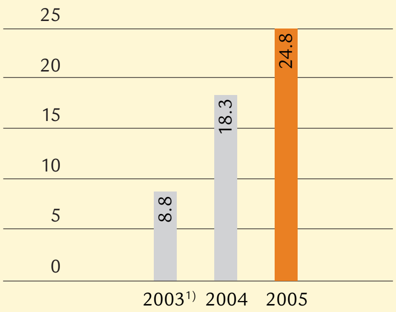


Key Figures

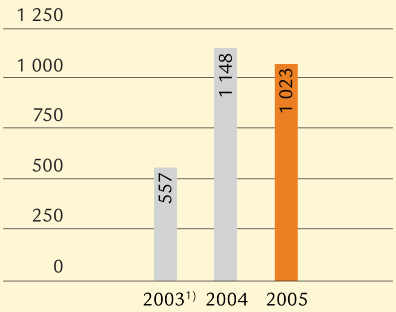
Profit for the period CHF million



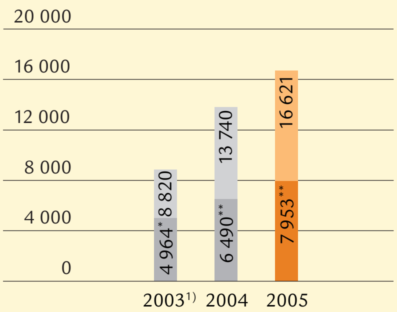
Diluted earnings per share CHF



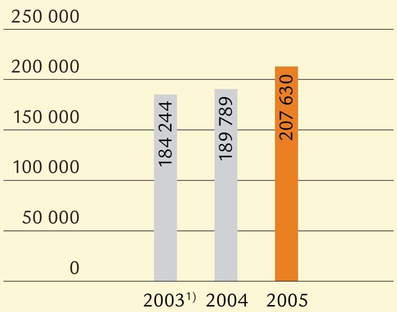
Profit from operations CHF million



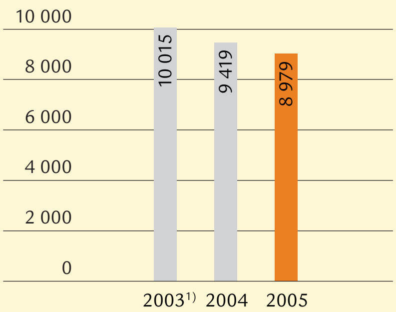
Core capital CHF million



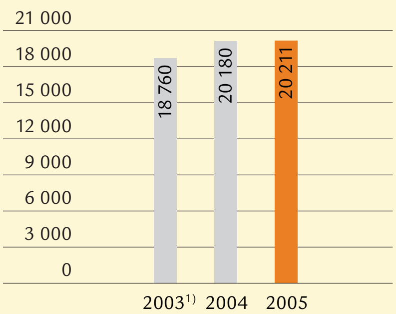
Assets under management CHF million



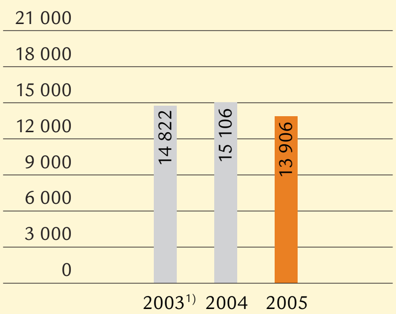
Employees (full-time equivalents)



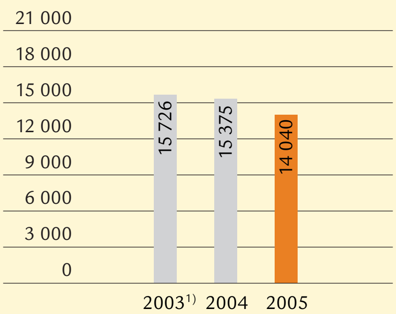
Gross written premiums, fees and deposits received CHF million



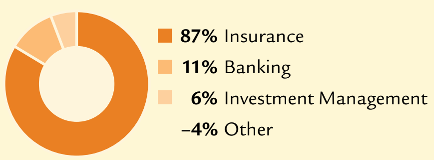
Net earned premiums and fees CHF million



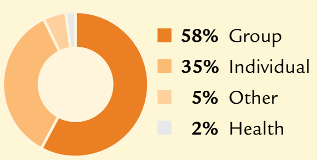
Net insurance benefits, claims and claim settlement costs CHF million



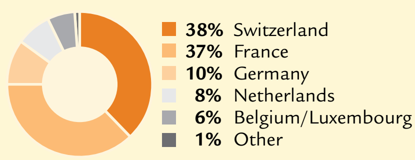
Segment result



Direct written premiums by type of insurance



Gross written premiums, fees and deposits received by country[2)



1) The 2003 figures were not adjusted to the financial reporting requirements as per 1 January 2005.
2) On consolidated basis
* Equity
** Equity (incl. minority interest)

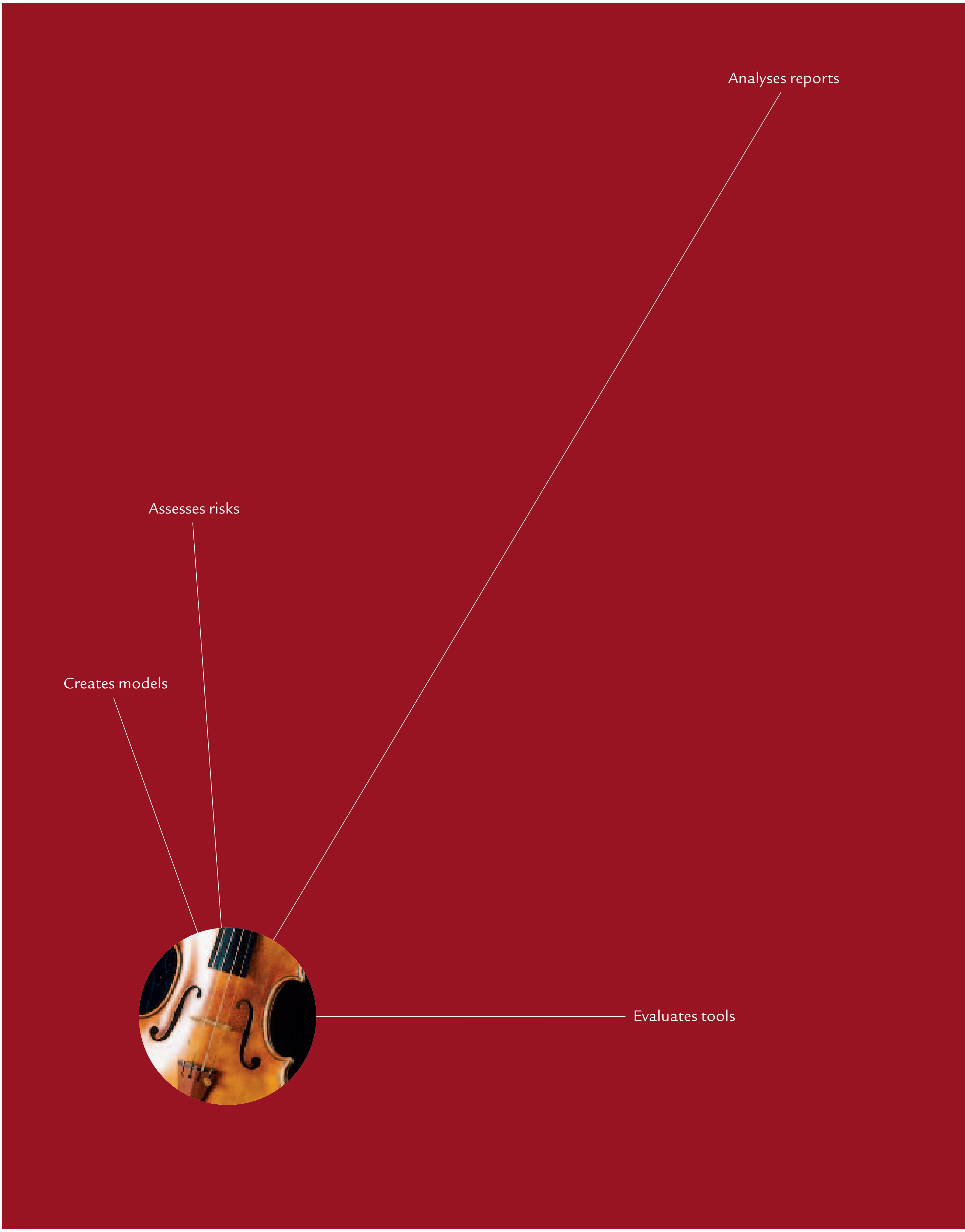
Highlights

- Profit reaches CHF 874 (+44%) for a return on equity of 12.3%
- Shareholders' equity up 22% to CHF 7.7 billion
- Growth momentum undiminished abroad (premiums: +19%)
- Basis for sustainable profitability created in Switzerland
- Operating costs reduced 2%
- Insurance and banking strategy reviewed and further developed with clear objectives for 2008

Swiss Life in brief

The Swiss Life Group is one of Europe's leading providers of pension and life insurance products. The Swiss Life Group offers individuals and companies comprehensive advice across a broad range of products via agents, brokers and banks in its domestic market, Switzerland, where it is market leader, and selected European markets. Multinational companies are serviced with tailor-made solutions by a network of partners in over 60 countries and regions. With Banca del Gottardo, the Swiss Life Group is also a provider of banking services. The Bank, with its head office in Lugano, has an extended national and international network and around CHF 40 billion in customer assets under management.

Swiss Life Holding, registered in Zurich, dates back to the Swiss Life Insurance and Pension Company founded in 1857. Shares of Swiss Life Holding are listed on the SWX Swiss Exchange (SLHN). The Swiss Life Group employs a staff of about 9000.


Analyses reports
Assesses risks
Creates models
Evaluates tools

“ Music transports me to another world. It is the balance that I need to my career. In order to be able to play in an orchestra, I have to master my instrument and also work on myself. Music has shown me what I can achieve with commitment, concentration and perseverance.”

Esther Reinhard works in Zurich and assesses financial risks.


MOZART
KONZERT

Expertise is a characteristic of our team. It's exactly the same as playing in an orchestra, as we listen to each other and work towards a common goal. For example, if we have to analyse a specific risk or develop a new model, the end result reflects both our knowledge and the experience of experts who are masters of their instruments.

(From top left to bottom right): Esther Reinhard, Res Urech, Annelis Lüscher, Tobias Grässli and Ali Lashgari Faghani work at Group Head Office in Zurich in the area of financial risk management

We are committed to helping people create a financially secure future. For life. By providing an insight into various teams this Annual Report illustrates how our employees understand this mission and implement our corporate values in their daily professional lives.

Bruno Gehrig
Chairman of the Board of Directors

Rolf Dörig
Chairman of the Corporate Executive Board

Dear Shareholders,

The Swiss Life Group again achieved a good result in 2005, and by further developing its strategy is on track for a successful future. Group profit increased by 44% to CHF 874 million compared to the previous year. All segments and markets contributed significantly to these gratifying results. The trend in earnings underscores the strategic and operational advances made by the company. The return on equity amounts to 12.3% and the profit per share to CHF 24.82. On the strength of these results, the Board of Directors will recommend an increase in the dividend from CHF 4 to CHF 5 at the General Meeting on 9 May 2006. As in the previous year, the dividend will take the form of a repayment of par value.

Growth in premiums – reduction in costs Premium income amounting to CHF 20.2 billion represents 8% growth compared to the previous year. In the home market, Switzerland, market share was maintained. In a market characterised by declining turnover, premium income was down 5% on a comparable basis. The growth momentum continued undiminished abroad. Premium growth in our European markets totalled 19%. Swiss Life thus generated around 40% of its premium volume in Switzerland and around 60% abroad in the 2005 financial year. We anticipate that the share of the amount of our premiums attributable to other countries will continue to increase due to stronger market growth and our differentiated positioning. It is also noteworthy that the share of non-traditional (e.g. unit-linked) products was significantly increased. This impressive premium growth proves convincingly that Swiss Life has an efficient distribution system and offers attractive products in its markets. This is further confirmed by the various awards for the quality of our products and services as well as for product innovations. Despite the clear premium growth it was possible to reduce our operating costs by a further 2%. Strict cost management is still a top priority in all units. The efforts to further simplify structures and processes and to realise synergies within the Group will lead to a marked increase in efficiency in the coming years.

In the period under review, Swiss Life was able to reinforce its financial strength, thereby increasing the financial flexibility of the company. Equity amounted to CHF 7.7 billion (+22%) as per 31 December 2005.

Balance sheet risks were actively steered as part of Asset and Liability Management. This ensures that Swiss Life will fulfill the capital requirements of the new Swiss Solvency Test, which is based on the Basel II directive for the European Union. The solvency margin of the Swiss Life Group came to 211% as per 31 December 2005 (2004: 192%). The total of outstanding borrowings dropped by around to CHF 4.4 billion, and the goodwill position was reduced to below CHF 700 million. This strong capitalisation led Standard & Poor’s to confirm its “A–” rating for the operating companies and to change the forecast from “negative” to “stable” in July 2005. The share price also reflects this positive business trend. Swiss Life Holding shares were up with the best in the Swiss Market Index, with a performance of 44% in 2005. Market capitalisation was CHF 8.0 billion as per 31 December 2005. It has more than tripled in the past three years.

Growing by optimising the distribution and product mix Our strategic priorities for the coming years are growth, efficiency and leadership. The growth is based on positioning Swiss Life as the provider of choice for pensions and long-term savings, and continuing to improve customer satisfaction levels. We are following a multi-channel strategy in every country and working at fine-tuning our marketing capabilities. The further development of our product range is also moving ahead briskly. We were well prepared for the changes to the legal parameters of our markets and were able to bring new, appropriate products to market in good time. The growth we achieved last year is proof of this.

The new Swiss Life brand, introduced in 2004, supports this market success. It underscores the positioning of the company as a specialist in financial provisions for the future, and as a trustworthy partner for private individuals and companies. Company-specific marketing campaigns contributed to a pronounced increase in brand recognition, a clear profile and a significantly improved image among the general public. Our sponsorship commitment to the Swiss Football Association, which started in July 2004, is particularly worthy of mention. During the extremely exciting final phase of the qualifying rounds for the 2006 world championships in Germany, Swiss Life benefited in its domestic market from the enthusiasm surrounding the Swiss national football team.

Further improving efficency In our business the overall result is made up of three components: the risk result, the cost result and the financial result. In order to realise our profit target of CHF 1 billion by 2008 we cannot simply assume that we will continue to achieve a high financial result as in the past two years. We must continue to improve our risk and cost results. These two components are fundamental to the basic insurance result. We can have a direct influence on this result. Therefore this must be an important objective for us. The growth of this figure is a very effective indication of where progress is being achieved operationally, and where it is not.

We are targeting a basic insurance result of CHF 500 million by 2008. In 2005 we achieved CHF 148 million. We have various drivers to help us achieve the necessary improvement: premium volume, pricing, underwriting policy, reserve policy and costs. Achieving our objective will not be possible by concentrating on just one of these drivers. But it is clear that an increase in efficiency has a direct, one-on-one effect on our basic insurance result. For this reason, increasing efficiency is our highest priority in all our markets.

Encouraging and promoting corporate responsibility
Our task where leadership is concerned is to develop our corporate culture further, based on our values. On the one hand, leadership means that Swiss Life as a company wants to establish itself as an authoritative voice in the political debate surrounding the framework conditions regarding pensions. As market leader, Swiss Life has always participated in the political debate in Switzerland. What is new is that we now want a say in the political discussion taking place in the other markets. Several times a year, Swiss Life invites decision-makers and leading figures from business, politics, academia and the media to the historic Palais Leopold in Munich, where they can exchange views on important social issues of the future. In June 2005, Swiss Life hosted a "National Pensions Day" in Belgium. Representatives from politics, business and academia discussed the challenges faced by retirement savings plans in Belgium and Europe as a whole during this event.

On the other hand, leadership means that we want to systematically promote the leadership skills of our management and the entrepreneurial responsibility of our staff. Measures here include the harmonisation of the employee assessment system within the Swiss Life Group based on our values and the competency model that is built upon them. Moreover, in 2005 we began systematically recording and promoting the individual talents. The annual employee survey is an important yardstick in this area. Over 80% of the Swiss Life Group employees took part in this survey last year. The key measurement in the results of this survey is Commitment. This value is a combination of employee job satisfaction and identification with the company. In 2005 this value stood at 70 out of 100 index points across the whole Group. In comparison to the previous year, this represented a an encouraging increase of 9 index points.

Banca del Gottardo as an important part of the Group
Banca del Gottardo belongs to the Swiss Life Group and is an important part of it. The bank makes a major contribution to the earning power of our Group and thus to the achievement of our strategic objectives. In future, the bank will concentrate on private banking. Geographically the emphasis will be on Switzerland for onshore and offshore business together with Italy as the most important market abroad. The first important steps in implementing our adapted strategy were the decision to outsource the IT and back-office procedures in May 2005 and to sell the Banque du Gothard (Monaco) and Dreieck Leasing SA at the beginning of 2006. Despite the various changes introduced during the period under review, the bank posted a good return for the 2005 financial year.

Personnel and organisational changes In connection with the Group's strategic priorities, we decided to fine tune the assignment of responsibilities in the Corporate Executive Board as of 1 January 2006. Bruno Pfister, formerly Chief Financial Officer (CFO), assumes responsibility for the Group's international business as CEO International. Thomas Müller, formerly CFO of Banca del Gottardo, succeeds him as CFO. Reto Himmel, formerly Chief Technology Officer, is being given a slightly different portfolio of responsibilities in his role as Chief Technology & Operations Officer. His focus will be directed entirely to the implementation of Group-wide synergies in IT and operations.

Georges Muller, member of the Board of Directors, will not be standing for another term at the General Meeting on 9 May 2006. Mr Muller was elected to the Supervisory Board of Swiss Life/Rentenanstalt in 1995 and in 1997 he became a member of the Board of Directors. Since November 2002 he has been a member of the Swiss Life Holding Board of Directors as well as Chairman of the Board of «La Suisse» and a member of the Board of Directors of Banca del Gottardo. With his comprehensive experience of internationally operating companies and his outstanding specialist knowledge, in particular in the field of financial market law and corporate governance, he has contributed a considerable amount to the successful development of the Swiss Life Group. We would like to thank Georges Muller warmly for his committed contribution as a member of the Board of Directors and for the pleasant professional relationship we enjoyed.

Martin Senn, who has been a member of the Corporate Executive Board and Chief Investment Officer of the Swiss Life Group since January 2003, has decided to leave Swiss Life. He has been appointed Chief Investment Officer and member of the Group Executive Committee of the Zurich Financial Services Group as of 1 April 2006. We would like to thank Martin Senn for his major contribution to the successful turnaround of the company and wish him every success in his new role.

Thank you We would like to thank all our customers, our shareholders and our business partners for their trust and loyalty to Swiss Life. In particular, we would like to thank our employees for their contribution to the successful development of our company in the previous year, and for their unstinting commitment. We are convinced that, with the same level of enthusiasm and commitment, we shall be able to successfully master the challenges that lie ahead and reach our ambitious goals.

Bruno Gehrig
Chairman of the
Board of Directors

Rolf Dörig
Chairman of the
Corporate Executive Board

Strategy Swiss Life wants to achieve a position of pensions leadership. Swiss Life means to be the first choice for customers, investors and employees in this sector. Based on the three strategic directions – growth, efficiency and leadership – our company is right on track to realising this ambition.

The business of providing financial benefits for the future is a sustainable growth market in the long term. With increasing life expectancy and the rising percentage of retired people in the total population, the need for individual retirement solutions in the form of pensions and long-term savings is also growing. The necessary reforms to the social security systems are far from complete and will open up new opportunities for growth. Swiss Life is assuming that, in coming years, the market growth in Europe for both private and occupational benefits will be considerably above the general economy.

With a share of around 5%, Swiss Life is the major international provider of pension solutions in its target markets. In its domestic market Switzerland it is the market leader again in terms of premium volume. More than a million customers in Switzerland have ties with Swiss Life through their private or occupational pension arrangements. Thanks to its competence, effective sales channels and strong brand, especially for affluent clients and in the group life business, Swiss Life is a preferred alternative to domestic providers in the French, German, Dutch, Belgian and Luxembourg markets.

With Banca del Gottardo, the Swiss Life Group is also a provider of banking services. The bank makes an important contribution to the Group's earning power, independent of the insurance business. Banca del Gottardo will in future concentrate more fully on private banking in the Swiss and Italian markets.

Ambition
Pensions leadership.

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 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.

Ambitious goals Swiss Life aims to be first choice for its clients, by setting standards with regard to quality of advice, products and service. This will lay the groundwork for Swiss Life to record a profit of CHF 1 billion and a sustainable return on equity above 10% by 2008. Shareholders should be adequately compensated by regular dividends for making risk capital available. Swiss Life wants to be an attractive employer for its staff – a company they are proud to work for.

To realise this ambition, Swiss Life is concentrating on growth, efficiency and leadership as its strategic directions.

Growth Swiss Life intends to benefit from the growing pensions market and position itself in its markets as the preferred provider of pension solutions for individuals and companies. Swiss Life wants to grow by at least 1% above the market average in all the countries in which it operates. This puts a high priority on the quality of products, services and customer care in every market. In the life insurance business Swiss Life wants to maintain its leading position while stepping up the development of pension products and expanding its services relating to future provisions, with products like the Life Asset Portfolios (LAP), for example, which enable clients to place whatever invested assets they wish in a life insurance policy. Swiss Life advanced across a broad front last year with the development of solutions focused on returns and a significantly increased share of non-traditional products. Distribution in the individual markets will be more strongly diversified in order to create additional possibilities for customers to make contact. Swiss Life already has a very good mix of distribution channels in France with its own sales force network, a system of tied agents and cooperation with brokers and banks. Distribution in Germany and the Netherlands, which has relied strongly on brokers up to now, is being reinforced with its own distribution channel. New sales opportunities have been created in Germany with Swiss Life's membership of the country's largest employee benefits institution, the Metall-Rente consortium. In Switzerland the emphasis is on raising the effectiveness of Swiss Life's own external sales force and strengthening of sales via banks and brokers. Moreover the new cooperation arrangements with Helsana, the leading health insurer, and Mobiliar, the leading property insurer, give Swiss Life access to new groups of customers.

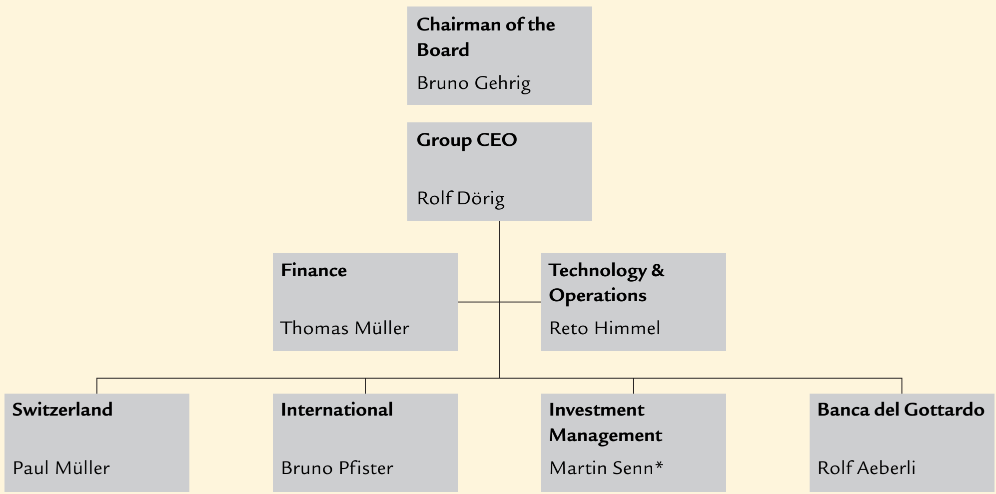
Markets

Efficiency Swiss Life intends to continue improving its basic insurance profitability and to reduce its dependence on the financial result. A basic profitability of CHF 500 million should be achieved by 2008. In 2005 the figure came to CHF 148 million. Along with the necessary increase produced by setting premiums consistent with the costs and risks, the above goal is to be achieved by simplifying and optimising operational processes, reducing the complexities across the entire value chain and sticking to strict cost management. Viewed overall, Swiss Life was able to lower operating costs another 2% despite substantial growth in premiums and the ongoing strategic initiatives. Switzerland in particular saw important progress in this direction last year. This included the clear focus on the Swiss Life brand exemplified by the integration of the «La Suisse» life business and the sale of the former subsidiary's other business lines. Swiss Life simplified the product landscape for group life as an important precondition for further cost economies in administrative and business operations. Work on reducing the number of administration systems to one single platform in group and one for individual insurance is proceeding according to plan.

Leadership Swiss Life wants to promote a performance-oriented culture and an entrepreneurial approach. Another important element in the strategy is the further improvement of employee job satisfaction and commitment by 2008. These advances will be driven by shorter decision-making processes, a performance-oriented remuneration system and the systematic recording and development of employees' skills and abilities. A central development programme with comparable rating and promotion criteria for management employees was introduced throughout the Swiss Life Group in the year under review. Further changes being introduced in personnel policy are described in the section entitled "Responsible Corporate Conduct".

Managament Structure In connection with the Group's strategic targets, as of 1 January 2006 Swiss Life decided to streamline the management structure and fine-tune the assignment of responsibilities in the Corporate Executive Board. The tasks of Head Office, the market organisation in Switzerland and the international business are being unbundled. The company is also reducing interfaces and now intends to take better account of the different priorities in Switzerland (boosting profitability) and abroad (profitable growth).

Management structure



* up to 31 March 2006

Understands four languages

Likes face-to-face discussions

Answers innumerable questions

Takes the time

Knows his clients

“Meeting face-to-face means a lot to me. E-mail and the phone are practical, but nothing beats a personal discussion. I would like to make our clients better acquainted with our products and our philosophy and to really instil confidence in them. This takes time, but it’s time I’m willing to take.”

Ronny Simon from Client Services in Luxembourg provides support to corporate clients.

Proximity to the client is important to us. It comes about if we continue to keep in contact and actively communicate.
We support all our clients on a personal, honest and direct basis.
We are always available for them.

Client Services in Luxembourg (from top left to bottom right): Alexandre Stanescot, Steve Goedert, Daniel Pascuzzo, Thomas Scheifer, Roger Braun, Pierre Dubru, Orietta Fagiani, France Delplanque, Mathilde Tassot, Ronny Simon, Dieter Putzeys

Summary of Group Results The Swiss Life Group generated a profit of CHF 874 million and a return on equity of 12.3% in 2005. The company continued its dynamic growth momentum abroad and laid the groundwork for a sustainable increase in profitability in Switzerland.

The Swiss Life Group increased profits by 44% to CHF 874 million compared to the previous year. After allowing CHF 14 million for minority interests, CHF 860 million is available for the shareholders of Swiss Life Holding. This translates into (diluted) earnings per share of CHF 24.82 and a return on equity of 12.3%, (2004: 10.7%). The strategic and operational advances are also reflected in the growth in premium income on a comparable basis by 8% to CHF 20.2 billion and a further reduction in operating costs by 2%. Swiss Life achieved growth that was sometimes well above the market average, in France (+19%), Germany (+8%), Belgium (+32%) and Luxembourg (+100%), thus gaining market share. In Switzerland, Swiss Life was able to retain its market share although premium income dropped back slightly.

Operating profit totalled CHF 1023 million. Insurance contributed CHF 918 million. The decline of CHF 123 million in the result for the insurance segment compared to the previous year is mainly attributable to a clearly higher allocation to reserves for policyholder bonuses as a result of profits realised on bonds. Swiss Life created additional risk capital on the books to provide more flexibility in its investment policy during the period of the lowest interest rates. The largest proportion of the operating profit comes from the domestic market in Switzerland, with CHF 620 million. In the European markets, Swiss Life realised an operating profit totalling CHF 302 million (France: CHF 98 million; Germany: CHF 80 million; Netherlands: CHF 111 million; Belgium/Luxembourg: CHF 18 million; other: CHF –5 million). The segment result for Banking came to CHF 117 million (2004: CHF 73 million), in Investment Management CHF 61 million (2004: CHF 59 million). The segment other and the eliminations reduced the operating profit by CHF 73 million (2004: CHF –25 million).

Revenue came to a total of CHF 21.5 billion (–4%). However, it must be noted that in the income statement, in accordance with the international accounting standards (IFRS), only the earned premiums are incorporated and not the gross premium income including investment contracts, as in the usual premium comparisons. Whilst the investment contracts rose by 40% to CHF 6.0 billion in the period under review, the net earned premiums fell by 9% to CHF 13.2 billion. Swiss Life increased its fee income on investment contracts both from banking and asset management by 16% to CHF 774 million.

The financial result for investments held at own risk amounts to CHF 7.0 billion and is thus 2% higher than the previous year's result. The slightly lower direct earnings on investments are offset by higher realised and unrealised capital gains. The direct return on insurance portfolio investments is 3.7% (2004: 4.1%). The total return is 5.5% (2004: 6.4%). Net equity exposure stood at 4.1% as per 31 December 2005.

Compared to 2004, insurance benefits declined by 9% net to CHF 14.0 billion in line with the premium income earned. The total appropriated for to policyholders increased by 43% to CHF 2.2 billion. This is primarily due to the above-mentioned allocation to the reserves for policyholder bonuses. Interest expenses (excluding borrowing costs) decreased by 5% to CHF 862 million.

Tight cost management led to a further reduction in operating costs by 2% to CHF 2.0 billion. Overall operating expenses increased by 1% to CHF 3.4 billion. The lower expenses for benefits to employees and impairment adjustments for tangible fixed assets and intangible assets were offset by an increase in fees and commissions, and expenditure on depreciation. As of 31 December 2005 the Swiss Life Group employed a workforce of 8979 on a full-time equivalent basis (end 2004: 9419). The decrease is a result of the integration of the «La Suisse» life insurance business in Swiss Life and the sale of all other «La Suisse» business lines, and the outsourcing of the Banca del Gottardo IT and back-office functions.

Income tax expense made a positive contribution of CHF 21 million due to special situations and a partial release of reserves in connection with changes in the law, whilst in the previous year income tax expense represented a total charge of CHF 337 million.

Shareholders' equity rose by 22% to CHF 7.7 billion in the period under review. As well as the profit for the period, the increase in the revaluation reserves for bonds and the conversion into shares of the mandatory convertible securities falling due December 2005 contributed to the increase. Core capital for capital adequacy purposes rose by 21% to CHF 16.6 billion. The goodwill position was reduced a further CHF 109 million and came to CHF 692 million as per 31 December 2005, which corresponds to less than 10% of equity.

Embedded value serves as an indicator of the value of the existing insurance portfolio. In the Swiss Life Group this increased by 12% to CHF 8.9 billion during the period under review. This corresponds to an embedded value per share of CHF 263. The rise can be attributed to growth in our markets abroad and the better than expected investment returns. The contribution from new business amounted to CHF 48 million.

As per 31 December 2005 the Swiss Life Group's assets under management stood at CHF 207.6 billion (+9%).

The Swiss Life Group's accounts were drawn up in compliance with the new and amended international accounting standards that came into force on 1 January 2005. The Group also reports under a simplified segment structure as of 2005, which consists of the Insurance, Banking, Investment Management and Other segments. The accounting standards used and the changes are comprehensively described and explained in the financial statements contained in this Annual Report (in the Financial Statements, from page 75).

Insurance Swiss Life consolidated its leading position in the company's home market of Switzerland and established the conditions for growth in profitability. The growth momentum continued undiminished abroad. The segment result on our insurance business came to CHF 918 million.

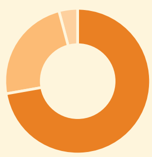
Switzerland Swiss Insurance Association (SIA) estimates for 2005 indicate that premiums dropped by 6% for the Swiss life insurance market as a whole to CHF 28.4 billion. The primary reasons were that some insurance companies spun off their occupational benefits business, and that low interest rates had a negative impact on demand for individual insurance.

For Swiss Life 2005 was a year of laying the groundwork for a successful future. Swiss Life integrated the life insurance business of «La Suisse» and the Vaudoise group life business into its own operations, entered into new sales agreements, made excellent progress on the project to simplify administrative systems and improved its product range. Gross premium income totalling CHF 7807 million represents an 11% decline from the previous year. Group insurance premiums dropped by 14% to CHF 5624 million. A large portion of this drop can be traced to the new independent status of the contingency fund. This was transferred to an autonomous foundation as at 1 January 2004 and temporarily taken over in its entirety by «La Suisse» during the 2004 transitional year. The transfer led to a single premium of CHF 554 million in the previous year. If this event is screened out, the decline in group insurance amounts to 6%, the greater portion of which is attributable to lower single premiums. As the employment market saw fewer job changes than usual, income resulting from people taking up new jobs was correspondingly lower. Voluntary purchases of additional insurance years were also below the level of the year before. Swiss Life's written premiums for individual insurance advanced 4% from the prior-year figure to stand at CHF 1831 million so that Swiss Life maintained its position as market leader in its home market. The Swiss Life market share in group business amounted to some 30% and in individual business 21%.

The financial result of CHF 2938 million was just below the result of the previous year (–2%). Investment income dropped 6% to CHF 2150 million, mainly as the result of the lower interest rate level. This drop was only partially offset by higher realised and unrealised capital gains.

Insurance benefits, including claims and claim settlement costs, net, dropped by 14% to CHF 7983 million. This reduction is due to a lower premium volume and decreased need for provisions for future risk. The drop in insurance benefits also reflected the improved claims experience. On the other hand, the increase of the minimum BVG interest rate from 2.25% to 2.5% as at 1 January 2005 increased insurance benefits by CHF 31 million. A considerable increase in policyholder bonuses was recorded, from CHF 450 million to CHF 939 million due to a significantly higher allocation being made to the bonus reserves for the formation of risk capital.

Premiums for Switzerland, by type of insurance



Key figures Insurance Switzerland

In CHF million	2005	2004 restated	+/–%
Gross written premiums, fees and deposits received	**7 807**	8 764	–10.9%
Net earned insurance premiums and policy fees	**7 421**	8 535	–13.1%
Financial result	**2 938**	3 007	–2.3%
Other income	**395**	82	n.a.
Total income	**10 754**	11 624	–7.5%
Net insurance benefits, claims and claim settlement costs	**–7 983**	–9 297	–14.1%
Policyholder participation	**–939**	–450	n.a.
Interest expense	**–106**	–151	–29.8%
Operating expense	**–1 106**	–1 039	6.4%
Result from operations	**620**	687	–9.8%
Assets under management	**70 355**	65 136	8.0%
Insurance reserves	**67 071**	64 307	4.3%
Number of employees (full-time equivalents)	**3 182**	3 553	–10.4%

Operating expenses increased by CHF 67 million. These costs contain three special factors: Restructuring costs in connection with the integration of «La Suisse», a one-off amortisation of the present value of future profits on the group insurance business acquired from Vaudoise, and the extraordinary write-downs on deferred acquisition costs due to altered actuarial assumptions. On a comparable basis, operating expenses declined by 19%. This produced an operating result of CHF 620 million (–10%).

In 2005 business development in Switzerland was substantially influenced by the integration of the «La Suisse» life portfolio and merger of the sales organisations. The 111 agencies in all were consolidated into 58 locations. By focusing on the life insurance business and concentrating on a single brand and unified sales force Swiss Life reinforced its competitive position and distribution depth in its domestic market. The non-life business lines of «La Suisse» were sold and a large portion of the corresponding positions transferred to the new owner. The short-term disability and accident insurance business went to Helsana, while the motor insurance business and property and liability lines were sold to Vaudoise. In addition, Swiss Life acquired the group business portfolio from Vaudoise and entered into a distribution agreement with that company for occupational provisions. During the reporting year, 90% of the acquired contracts had already been converted to Swiss Life conditions. In addition, Swiss Life implemented sales agreements with the leading providers in property insurance (Mobiliar) and in health insurance (Helsana).

The following themes were also prominent in 2005: increasing efficiency and profitability, launching new products in both individual and group insurance and continuing to improve customer satisfaction. The standardisation of the IT systems in individual business (2007) and group business (2008) will further lower operating expenses in the coming years. Efforts are underway to increase the quality and sales performance of our external sales force using improved distribution management and marketing programmes tailored to each region as well as by expanded training opportunities. The redesigned product range should also be a positive contribution. In the individual insurance business Swiss Life successfully launched a new investment vehicle in the autumn of 2005 which optimally combines security and attractive earnings perspectives (Swiss Life GarantiePlus). In 2006, this innovation, which has only been available on a single-premium basis to date, will be possible with periodic premiums as well. With regard to group insurance, Swiss Life remains convinced that full coverage is the best occupational benefits solution for small and medium-sized companies. Indeed, Swiss Life continues to be very successful in the market with this model. Last year the company also launched a transparent and inexpensive solution for small companies (Swiss Life Modula Basic), which was expanded by additional modules in the first quarter of 2006. But Swiss Life also offers customised solutions that allow customers to decide on the basis of their own individual risk profile whether their emphasis is security or returns (Swiss Life Prime Solution).

Satisfied customers are Swiss Life's highest aim. Here, as well, great progress was achieved in Switzerland. As surveys show, Swiss Life managed to considerably increase its customer satisfaction over the course of 2005.

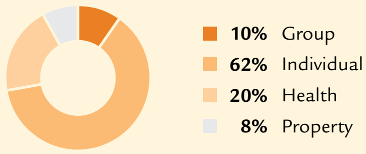
France Premium volume for individual insurance in France came to EUR 133 billion in 2005, for a growth rate of 13% over the previous year. Life insurance premium volume grew by 14%. The positive developments on the financial markets contributed especially to the strong attraction of unit-linked insurance policies (+45%). Growth in traditional life insurance policies was 8%. Health insurance premiums rose by 7% to EUR 13 billion.

In 2005 Swiss Life expanded its gross written premiums in the life insurance business by 26% to a level of CHF 5276 million, thus considerably outpacing market growth. Swiss Life's share of the French market works out at around 3%. With an increase of 74% Swiss Life also enjoyed significantly above-average growth in the market for unit-linked insurance products. The premium volume from traditional insurance products rose by 19%. Gross premiums from Swiss Life's health insurance business rose by 7% to CHF 1541 million. Premium volume in property insurance, which makes up 8% of Swiss Life's premiums, dropped by 2%. All sales channels contributed to Swiss Life's strong growth in premiums: In addition to its own sales organisation, Swiss Life has a network of sales agents working exclusively for the company in France (tied agents), outstanding relationships with brokers and sales agreements with well-known banks. The strength of the product range also contributes to the sales success. This is also underscored by the many awards garnered by Swiss Life in the year under review.

Swiss Life's income in France rose by 8% to CHF 4748 million, which can be attributed to higher premium and fee income as well as to an improved financial result. Net insurance benefits (including claims and claim settlement costs, net) increased by 4% to CHF 2198 million during the reporting year. The outlay for bonuses increased by 50% to CHF 816 million, largely reflecting the course of business but also tax provisions which were released and partially credited to policyholders. Operating expenses decreased 7% to CHF 1083 million. The drop in expenditures is largely due to the amortisation of goodwill in 2004. In total even after adjusting for this amortisation the operating result increased from CHF 14 million to CHF 98 million.

The French market offers further growth opportunities due to heightened awareness of retirement savings as an important concern and the corresponding change in legislation; Swiss Life will enjoy an above-average benefit from this due to its positioning. The company is concentrating primarily on self-employed individuals with above-average incomes and on small and medium-sized companies. Cost management continues to have a high priority.

Premiums for France, by type of insurance



Key figures Insurance France

In CHF million	2005	2004 restated	+/–%
Gross written premiums, fees and deposits received	**7 397**	6 224	18.8%
Net earned insurance premiums and policy fees	**2 711**	2 581	5.0%
Financial result	**1 702**	1 524	11.7%
Other income	**335**	278	20.5%
Total income	**4 748**	4 383	8.3%
Net insurance benefits, claims and claim settlement costs	**–2 198**	–2 106	4.4%
Policyholder participation	**–816**	–543	50.3%
Interest expense	**–553**	–559	–1.1%
Operating expense	**–1 083**	–1 161	–6.7%
Result from operations	**98**	14	n.a.
Assets under management	**41 844**	35 322	18.5%
Insurance reserves	**35 662**	31 169	14.4%
Number of employees (full-time equivalents)	**2 287**	2 311	–1.0%
Combined ratio property %	**103.5**	113.1	–9.6[1]

1) Percentage points

Germany The growth trend in the German life insurance market continued in 2005 as well. Indeed, the premium growth of 7% was unexpectedly high.

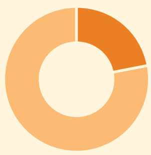
Swiss Life, which holds some 2% of the German market, increased its gross written premiums there by 8% compared with the previous year. This above-market-average premium growth was mainly possible thanks to a strong second half. The total earnings rose by 8% to CHF 2795 million compared with the previous year. This was driven above all by the increase in gross written premiums and capital gains realised on investments.

Insurance benefits paid rose in connection with premium growth by 15% to stand at CHF 2066 million. The slight reduction of participation in surplus, and the considerably lower outlay for deferred policyholder bonuses, led to a drop in the total expenditure for policyholder bonuses to CHF 231 million. The 57% increase in operating expenses over the previous year to CHF 384 million can be particularly attributed to the more conservative model assumptions used to calculate the deferred acquisition costs, which also led to a significantly higher cost for their amortisation. Additional expenditures in connection with the optimisation of internal processes also increased the operating expenses. This produced an operating result of CHF 80 million, which is CHF 16 million (+25%) more than in the previous year.

The long-anticipated reform process in Germany is being delayed against a background of political change in connection with the election. This development, together with the new tax environment (Retirement Income Act), heightened customer uncertainty and led to a re-orientation on the part of life insurance companies and agents. Into this changing environment Swiss Life introduced Rürup pension products, which offer a tax benefit to self-employed individuals above all, and came out with additional products for the government-promoted “Riester pensions”. The various honours awarded during the year were a testament to the great competence Swiss Life has achieved in the private and occupational retirement pension sectors. At the International Trade Fair for the Finance and Insurance Industry in Dortmund (DKM), Germany’s largest fair for the financial and insurance business, Swiss Life was honoured with the “bAV Award 2005” as the overall winner in the occupational retirement sector. In addition, the rating agency Morgan & Morgan confirmed Swiss Life’s leading position as a specialist in coverage for disability.

Individual retirement savings solutions will continue to gain in importance in Germany as well. With its outstanding expertise and its market position as a specialist in retirement solutions, Swiss Life is poised to profit from this development. Swiss Life sees considerable growth potential for occupational benefits through its membership in the MetallRente consortium, Germany’s largest employee benefits institution. Indeed, MetallRente has also been offering private occupational disability insurance since November 2005. The provider for this new product is Swiss Life, which presented the most convincing offer and now leads a consortium of well-known insurers for MetallRente.BU.

Premiums for Germany, by type of insurance



Key figures Insurance Germany

In CHF million	2005	2004 restated	+/–%
Gross written premiums, fees and deposits received	**2 061**	1 907	8.1%
Net earned insurance premiums and policy fees	**1 929**	1 798	7.3%
Financial result	**834**	806	3.5%
Other income	**32**	–6	n.a.
Total income	**2 795**	2 598	7.6%
Net insurance benefits, claims and claim settlement costs	**–2 066**	–1 793	15.2%
Policyholder participation	**–231**	–472	–51.1%
Interest expense	**–34**	–24	41.7%
Operating expense	**–384**	–245	56.7%
Result from operations	**80**	64	25.0%
Assets under management	**18 995**	17 667	7.5%
Insurance reserves	**19 143**	17 972	6.5%
Number of employees (full-time equivalents)	**825**	790	4.4%

Netherlands Premium growth of 1% is anticipated for 2005 in the Dutch life insurance market. Premium volume amounts to about EUR 25 billion of which two-thirds can be attributed to individual life business and one-third to the group insurance business. On the basis of premium volume, Swiss Life occupies seventh place in the Dutch market with a share of about 4%.

In 2005 Swiss Life achieved gross written premiums of CHF 1592 million, representing a drop of 19% from the previous year. This decline is explained by the acquisition, concluded in 2004, of the group business of the Dutch insurer “De Goudse” (EUR 300 million). On a comparable basis, premium volume rose by 6% over the previous year.

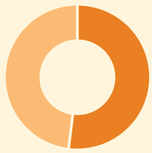
In total, income decreased by 22% to CHF 2025 million. In addition to the lower premium income, the financial result, down by CHF 140 million, also contributed to this fall, although an extraordinary profit of CHF 135 million was achieved on the sale of the mortgage business in 2004.

Net insurance benefits and losses from the insurance business dropped by CHF 542 million (–27%) to CHF 1456 million. This development reflects the disposal of a large portfolio in 2005 and the acquisition of the “De Goudse” group business in 2004. Operating expenses were reduced to CHF 212 million (–15%) mainly due to significantly lower write-downs on deferred acquisition costs. Bonuses for policyholders rose from CHF 63 million to CHF 229 million. This rise was largely the result of an increase in gains realised on investments for separate accounts. The operating result dropped from CHF 284 million to CHF 111 million, primarily due to the extraordinary gain on the sale of the mortgage portfolio in 2004.

In 2005, Swiss Life continued the process of focusing its processes more consistently on customer needs in the Netherlands. Among other things, the company introduced a system for large group contracts that makes it possible for customers to have direct administrative access to contract data.

In 2006 new laws come into effect that will have a strong influence on the life insurance market. The introduction of the new Life Course Plan (“Levensloop”) foresees special savings products for employees and will further intensify the competition between insurance companies and banks. One new law will regulate the brokering of financial services, placing greater demands on insurance brokers’ transparency, independence and quality of advice. Swiss Life is continuing its initiatives to boost efficiency and is committed to a multi-channel distribution strategy.

Premiums for the Netherlands, by type of insurance



Key figures Insurance Netherlands

In CHF million	2005	2004 restated	+/–%
Gross written premiums, fees and deposits received	**1 592**	1 963	–18.9%
Net earned insurance premiums and policy fees	**1 147**	1 584	–27.6%
Financial result	**811**	951	–14.7%
Other income	**67**	72	–6.9%
Total income	**2 025**	2 607	–22.3%
Net insurance benefits, claims and claim settlement costs	**–1 456**	–1 998	–27.1%
Policyholder participation	**–229**	–63	n.a.
Interest expense	**–17**	–12	41.7%
Operating expenses	**–212**	–250	–15.2%
Result from operations	**111**	284	–60.9%
Assets under management	**18 556**	17 059	8.8%
Insurance reserves	**14 954**	14 455	3.5%
Number of employees (full-time equivalents)	**738**	717	2.9%

Belgium/Luxembourg With some EUR 25 billion in premium volume, Belgium belongs to the medium-sized life insurance markets of Europe. Premium volume rose by about 25%. A premium tax on life insurance contributions (introduced 1 January 2006) and a new tax on bond funds increased demand for life insurance during the reporting period. The Luxembourg life insurance market was dominated by cross-border insurance business. Measured by premium volume Swiss Life is among the ten largest life insurers in both countries.

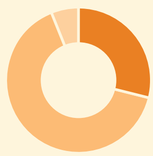
In Belgium Swiss Life had gross written premiums in the life business amounting to CHF 684 million. Thanks to the expansion of sales channels and an outstanding product range, the 37% growth achieved was considerably above the market average. The Swiss Life Group is also active in the non-life business in Belgium with Zelia. The non-life premiums, which make up 9% of Swiss Life's total premium volume in Belgium, dropped by 3% in the reporting period. In Luxembourg, Swiss Life managed to double gross written premiums to CHF 473 million. This gratifying development can be primarily attributed to the cross-border insurance business with unit-linked products.

Income increased by 10% over the previous year to CHF 592 million. This was due both to greater premium income and to a higher financial result. In the wake of expanding premiums and in connection with restructuring measures in the non-life business, net insurance benefits (including claims and claim settlement costs, net) rose by 22% to CHF 358 million. The operating expenses increased by 16% to CHF 133 million for the same reasons, and also due to IT development costs. The operating result dropped to CHF 18 million, from CHF 54 million in the previous year.

Swiss Life considerably expanded its sales channels in Belgium. In June 2005 Swiss Life held the first country-wide "National Pension Day". Political, business and academic figures discussed the various challenges faced by retirement savings plans in Belgium and Europe as a whole during the event. By holding such an event Swiss Life was able to demonstrate its competence in the field of retirement savings solutions and sensitise the Belgian to this topic. Swiss Life celebrated the 20th year of its presence in Luxembourg and accepted an award as "best provider of retirement solutions".

In February 2006 Swiss Life announced the appointment of Charles Relecom, then CEO of Zelia, as the new CEO for its entire Belgian insurance business. This designation took place within the context of a plan to merge the activities of the Belgian branch and Zelia S.A., its subsidiary, within a single legal entity under the name Swiss Life (Belgium) S.A.

Premiums for Belgium/Luxembourg, by type of insurance



Key figures Insurance Belgium/Luxembourg

In CHF million	2005	2004 restated	+/–%
Gross written premiums, fees and deposits received	**1 226**	808	51.7%
Net earned insurance premiums and policy fees	**329**	303	8.6%
Financial result	**233**	205	13.7%
Other income	**30**	28	7.1%
Total income	**592**	536	10.4%
Net insurance benefits, claims and claim settlement costs	**–358**	–294	21.8%
Policyholder participation	**–15**	–9	66.7%
Interest expense	**–68**	–64	6.3%
Operating expense	**–133**	–115	15.7%
Result from operations	**18**	54	–66.7%
Assets under management	**4 674**	4 155	12.5%
Insurance reserves	**4 171**	3 620	15.2%
Number of employees (full-time equivalents)	**391**	394	–0.8%
Non-life combined ratio %	**157.4**	110.5	+46.9[1]

1) Percentage points

Other After the sale of its business in the UK in 2004, the Swiss Life Group is still active in Liechtenstein and Italy.

Liechtenstein Swiss Life (Liechtenstein) AG was founded in November 2004 to take advantage of growth opportunities in the attractive market for structured life insurance products for high net worth individuals. In its first business year, Swiss Life already managed to achieve a premium volume of CHF 163 million.

The Liechtenstein policies from Swiss Life – the Life Asset Portfolios (LAP) – make it possible for high net worth individuals to place their existing assets in a life insurance policy and thus profit from the advantages offered by Liechtenstein as a location. Swiss Life is working successfully with a number of banks to market these products. The assets on deposit at a bank can be brought into the insurance policy as a contribution in kind.

Customers establish an investment strategy, which they may change at any time if need be. The range of investments is very broad. All normal asset categories, such as equities, bonds, hedge funds, etc. can be brought into the LAP. Customers profit from tax advantages, the privileged position policyholders have in case of bankruptcy, and effective estate planning. Customers may retain their previous investment strategy and are protected by the strict secrecy regarding policyholders in Liechtenstein.

Swiss Life (Liechtenstein) AG offers customised country-specific products for Germany, Italy and Sweden. In addition, the company has a universal product that can be offered worldwide. In order to keep up with the constantly growing demand on the part of affluent private clients, the company is constantly looking into the development of products for additional countries.

Italy In Italy Swiss Life confines itself to the writing of group risk business. Once again, no new business was written in the individual insurance sector. Swiss Life achieved gross written premiums of CHF 20 million in Italy and generated a positive operating result.

Banking In 2005 the Swiss Life Group generated a segment result of CHF 117 million in Banking. The implementation of the new strategy and the outsourcing of IT and back-office services are on track at Banca del Gottardo.

The increase in the segment result for banking, from CHF 73 million to CHF 117 million, can be attributed to operational improvements and the positive trend on the international capital markets. The banking segment of the Swiss Life Group consists primarily of Banca del Gottardo.

Banca del Gottardo The following details regarding Banca del Gottardo refer to the results under local accounting practices. In 2005 the Banca del Gottardo Group achieved a consolidated net profit of CHF 83 million (+17%) and a sound operating profit before extraordinary items and taxes of CHF 92 million (+17%).

The consolidated net income amounted to CHF 493 million (+9%). Commissions and service fees contributed CHF 262 million (+7%), the interest business CHF 146 million (+1%) and trading income CHF 76 million (+48%) to this result.

Consolidated business expenses in 2005 amounted to CHF 335 million (+8%). This rise is largely due to one-off costs for the extensive outsourcing of the IT and back-office services, and to ongoing projects within the context of the strategic focus of the bank.

Customer assets under management, not including custody assets entrusted by third parties for safekeeping, rose in the reporting period from CHF 34 billion to CHF 39 billion. New customer money in the private banking division grew by CHF 440 million. Thanks to additional transfers of Swiss Life Group custody assets the volume of the custody business rose in 2005 by CHF 31 billion, reaching CHF 38 billion as at 31 December 2005. This brought the value of assets under control at the end of 2005 to CHF 77 billion.

Total assets rose by 43% over the previous year to CHF 15 billion. This marked increase is primarily due to the high level of customer assets on the balance sheet date. Equity before distribution of profit amounted to CHF 1031 million (+3%) on 31 December 2005.

The year 2005 was marked by far-reaching decisions for the bank. After the resolution in the first half of the year to extensively outsource the IT and back-office services, the future strategy of Banca del Gottardo moved to the forefront in October. The bank is concentrating on private banking. Geographically the emphasis will be on Switzerland for onshore and offshore business together with Italy as the most important market abroad. The most important staffing changes were the change in the Chairmans's Committee of the Board of Directors and the handover by Claudio Generali of his duties to Felix R. Ehrat at the General Meeting in 2005. Claudio Generali was a strong presence at the bank for 15 years. At the start of 2006 Rolf Aeberli took over from Marco Netzer as CEO. The Banque du Gothard (Monaco) and Dreieck Industrie Leasing SA were both sold at the beginning of 2006 in line with the realigned strategy.

Key figures Banking

In CHF million	2005	2004 restated	+/–%
Fee income	**312**	289	8.0%
Financial result	**509**	261	95.0%
Other income	**–132**	19	n.a.
Total income	**689**	569	21.1%
Interest expense	**–94**	–53	77.4%
Operating expense	**–478**	–443	7.9%
Segment result	**117**	73	60.3%
Assets under management[1]	**77 282**	44 806	72.5%
Number of employees (full-time equivalents)	**1 120**	1 223	–8.4%

1) incl. Intragroup assets

Investment Management Swiss Life's Investment Management segment generated a segment result of CHF 61 million. Compared to the previous year, assets under management rose by 21% to CHF 80.2 billion, of which CHF 68.8 billion are accounted for by the management of insurance assets and CHF 11.4 billion by third-party mandates.

Swiss Life Asset Management manages part of the insurance assets of Swiss Life and third-party mandates. It is the fourth-largest institutional asset manager in Switzerland. The insurance assets under management rose by 17% compared to the previous year to CHF 53.2 billion. This increase is attributable to the integration of the group insurance business of Vaudoise and «La Suisse» last year, as well as to the performance-related growth in value of the portfolio. The assets under management for third-party mandates at Swiss Life Asset Management rose by 26% to CHF 2.7 billion.

Swiss Life Funds AG, which focuses on managing funds governed by Swiss law, recorded a marked increase of CHF 11.9 billion to a total of CHF 15.5 billion attributable to institutional funds for the management of insurance assets and third-party mandates. The trends in the financial markets had a positive influence on the performance of funds business. A moderate inflow of new funds was recorded in investment funds open to the general public.

The fee income for the Investment Management segment rose in comparison to the previous year by 15% to CHF 173 million. Due to an increase in business activity, operating expenses also rose by 16% to CHF 119 million. Swiss Life thus posted a segment result of CHF 61 million.

In the year under review Swiss Life continued focusing and simplifying the structures in Investment Management with the founding of Swiss Life Investment Management Holding AG. The major companies in the Investment Management segment were incorporated into the new holding company as subsidiaries. The new arrangement brought improvements in the transparency and efficiency of Swiss Life and simplified the management structure. Swiss Life Investment Management Holding AG is responsible for functions such as controlling for all the companies belonging to this segment. Swiss Life realised savings in the funds business by exploiting synergies within the group and reducing the number of external providers.

In 2005, Swiss Life was the first Swiss life insurance company to set up institutional funds for the investment of its pension assets. Those pension assets that had previously been managed via direct investments can now be invested more efficiently and cost-effectively. Swiss Life also offers this form of investment to the Swiss Life Investment Foundation and its institutional third-party clients via Swiss Life Asset Management.

Swiss Life was honoured in the funds business by being awarded the "Lipper Fund Award Switzerland 2006". Swiss Life received this award for the performance of its funds in the equity, bond and mixed-portfolio categories on a risk-adjusted basis over a period of three years.

Key figures Investment Management

In CHF million	**2005**	2004 restated	+/–%
Fee income	**173**	151	14.6%
Financial result	**1**	2	–50.0%
Other income	**6**	9	–33.3%
Total income	**180**	162	11.1%
Interest expense	**0**	–	n.a.
Operating expense	**–119**	–103	15.5%
Segment result	**61**	59	3.4%
Assets under management[1]	**80 217**	66 539	20.6%
Number of employees (full-time equivalents)	**405**	353	14.7%

1) incl. Intragroup assets

Swiss Life Network The Swiss Life Network specialises in employee benefits solutions for companies that operate internationally. The network comprises 51 partners and covers 67 countries and regions. New partners include Ping An Life Insurance Company in China, Helsana in Switzerland and Fort Dearborn Life in the US.

The Swiss Life Network offers pension plans everywhere in the world for employees of international companies. Service provision is based on the bundling or pooling of the group contracts of multinational companies. Companies of the Swiss Life Group and partnerships with leading local insurance companies guarantee global coverage. In the year under review Ping An Life Insurance Company of China joined the Network. The company is a subsidiary of the Ping An Insurance (Group) Company of China, Ltd., number two in the Chinese life insurance market with a market share of approximately 15%. In Switzerland, Helsana, the largest Swiss health insurance provider, also joined the Swiss Life Network, followed by Fort Dearborn Life in the US in January 2006. Fort Dearborn Life is one of the leading providers of group insurance for risk coverage in the US.

In spite of strong competition, the Swiss Life Network managed to strengthen its leading market position in the international employee benefits business in the year under review. Good personal relationships, excellent knowledge of local social insurance schemes, and a convincing cost/benefit ratio played a key role. Business volume amounted to CHF 1.5 billion in the year under review. The Swiss Life Network has more than 400 customers and covers 67 countries and regions.

The employee benefits solutions are customised to meet the specific requirements and risk profiles of the customers. The advantages for the customers include a better diversification of risk and the option to centrally coordinate the benefits and costs of employee benefits plans globally. If the loss experience of the pooled group contracts is favourable, the costs associated with employee benefits are also reduced.

Another service offered by the Swiss Life Network is country-specific information on social security systems, pension plans and market developments. The Employee Reference Manual, which is updated annually, provides data on around 50 of the world's most important life insurance markets. A newsletter published quarterly reports on events, Network partners and customers.

The International Employee Benefits Conference, which takes place every five years, was held in Interlaken in May 2005. The event was attended by approximately 200 customers, Network partners and brokers, who used the opportunity to exchange information and to strengthen relationships. The participants attended lectures and workshops, and received the latest information on demographic developments and the global insurance market from representatives of academia and the economy. With this event, the Swiss Life Network cemented its global reach and its leading position as a provider of employee benefits. The Asia Pacific Conference for Network partners, customers and brokers in Asia was held for the first time in Singapore in September.

Europe/Africa

Austria	Wiener Städtische
Belgium	Swiss Life
CIS	Rosgosstrakh, Russia
Cyprus	Aspis Pronia, Greece
Czech Republic	Kooperativa
Denmark	Danica Pension
	International Health Insurance (IHI)[1]
	PFA Pension
Finland	Ilmarinen
	Veritas Life Insurance
France	Swiss Life
Germany	Swiss Life
Greece	Aspis Pronia
Hungary	Union Biztosító
Ireland	Irish Life
Italy	Swiss Life
Liechtenstein	Swiss Life
Luxembourg	Swiss Life
Monaco	Swiss Life
Netherlands	Zwitserleven (Swiss Life)
Norway	Vital Forsikring
Poland	Compensa S.A.
Portugal	Groupama Seguros
Russia	Rosgosstrakh
Slovakia	Kooperativa
South Africa	Momentum Life
Spain	VidaCaixa
Sweden	Danica Fondförsäkring
Switzerland	Swiss Life (Head office)
	Helsana
United Kingdom	UnumProvident

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

North and South America

Argentina	Galicia Vida
Brazil	Icatu Hartford Seguros
Canada	Great-West Life
Chile	Cruz del Sur
Colombia	Seguros Bolívar
Costa Rica	Seguros de Occidente, Guatemala
El Salvador	Aseguradora Mundial de Panama
Guatemala	Seguros de Occidente
Honduras	Aseguradora Mundial de Panama
	Seguros de Occidente, Guatemala
Mexico	Seguros Inbursa
Nicaragua	Aseguradora Mundial de Panama
Panama	Aseguradora Mundial
Uruguay	Galicia Vida
USA	Fort Dearborn Life
	Swiss International Services
Venezuela	Seguros Comerciales Bolívar
Virgin Islands (US/GB)	Fort Dearborn Life

Asia Pacific

Australia	Hannover Life Re of Australasia
	Swiss Life Network
China	Ping An Life
Hong Kong	CMG Asia
India	Kotak Mahindra Old Mutual Life
Indonesia	NTUC Income, Singapore
	CMG Asia, Hong Kong
Japan	Meiji 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 Network
Taiwan	Kuo Hua Life
Thailand	Bangkok Life Assurance

Always learning
something new

Often on the road

Passes on knowledge

Good listener

Empathises with people

“For me, life is a journey. In my profession I deal a lot with insurance brokers. I like the fact that people are different. I’m always getting to know new people and I enjoy imagining myself in the other person’s shoes.”

Jérôme Mesnil works in Paris and supports brokers in the Paris area and in southwest France.


GARE

Openness is the key to success when selling products. The needs of our clients and the working methods of the broker firms are changing faster and faster. We are successful because we are always prepared to accommodate the most varied needs.

Our broker consultants in Paris (from top left to bottom right): Thierry Villetelle, Sandrine Tellier, Jérôme Mesnil, Patrick Oliva, Jean-Louis Remise, Anne Joly

Corporate Governance The Swiss Life Group is committed to openness and transparency in management and actively supports good corporate governance.

The Board of Directors and Corporate Executive Board of the Swiss Life Group place great importance on corporate governance. The requirements this entails are reflected in the organisation and transparency of the Group. Good corporate governance is seen as an important precondition for adding value on a sustained basis for the benefit of the shareholders, policyholders and employees. The Code of Compliance introduced by the company as of 1 January 2006 sets out rules of conduct to ensure the legally and ethically correct conduct of business based on the values of the Swiss Life Group. Further information on responsible corporate conduct can be found on page 56.

This report shows the essential features of corporate governance at the Swiss Life Group. The breakdown largely follows the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange, which came into force on 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 of that year. 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. Transparency is also improved by separating the interests of shareholders from those of policyholders.

The most important companies falling within the Group's scope of consolidation are presented in the Financial Statements (note 42). Details concerning the listing on the SWX Swiss Exchange and on market capitalisation are located on page 40 and the operational management structure is shown on page 13. The resulting allocation of functional responsibilities is reflected in the division of responsibilities in the Corporate Executive Board and can be seen in the market units. Along with the allocation of functional responsibilities across borders, each country has one person with market responsibility who is also responsible for results.

Swiss Life announced in September 2005 that it was streamlining the Group's management structures and making slight adjustments to the assignment of responsibilities within the Corporate Executive Board in connection with the Group's strategic targets. The tasks at Head Office, the international business and the market organisation in Switzerland and abroad are thus being unbundled. The company is also reducing interfaces and intends to take better account of the different priorities in Switzerland (boosting profitability) and abroad (profitable growth). The new International Division fills out the operational Group structure. The new management structure came into effect as of 1 January 2006.

Shareholders On 8 June 2004, 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 9.93% stake (3 141 026 shares) in Swiss Life Holding. From that time up to and including the balance sheet date on 31 December 2005, no further announcements were received from Premafin Finanziaria S.P.A. about exceeding or dropping below the limits in accordance with Art. 20 of the Swiss Stock Exchange Act. Subsequent to the balance sheet date, on 16 January 2006, Premafin Finanziaria S.P.A. reported that it had fallen below the 5% limit and indicated that its group no longer held any Swiss Life Holding shares.

The delivery of Swiss Life Holding shares resulting from the expiry of the MCS I (2002–2005) convertible bond (cf. section on "Convertible bonds and options" on page 40) led to a decline in holdings of own shares to below the threshold level of 5%. This was notified in accordance with stock exchange law on 27 December 2005. On the balance sheet date, Swiss Life Holding still held 1.22% of its own shares, either directly or indirectly via its subsidiaries Swiss Life/Rentenanstalt and Banca del Gottardo.

With the above-mentioned exception concerning the group of companies around Premafin Finanziaria S.P.A., no shareholders are known to Swiss Life Holding whose direct or indirect interest on the balance sheet date (31 December 2005) exceeded the threshold level of 5% of the registered shares in issue.

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

Shareholder structure On the balance sheet date a total of 199 455 shareholders and nominees were listed in the Swiss Life share register, of which about 5000 are institutional shareholders. Taken together, the shareholders entered in the share register held around 60% of the shares issued. Roughly half of these shares were owned by shareholders domiciled in Switzerland; about a quarter of these shares were in private hands.

Capital structure

Capital and changes in capital The capital structure of Swiss Life Holding was as follows on the balance sheet date:

- Ordinary share capital: CHF 1 553 699 588, divided into 33 776 078 fully paid registered shares with a par value of CHF 46 each
- Conditional share capital: CHF 168 721 652, divided into 3 667 862 registered shares with a par value of CHF 46 each
- Authorised share capital: none

Since the establishment of Swiss Life Holding 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, a number of capital market transactions have been conducted. In a first step, this included the offer presented to the then Swiss Life/Rentenanstalt shareholders to exchange their registered shares for Swiss Life Holding registered shares on a 1:1 basis. Around 92% of Swiss Life/Rentenanstalt's shareholders accepted the public exchange offer, and on 18 November 2002 the Swiss Life Holding share capital was 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).

The Swiss Life Holding General Meeting on 18 November 2004 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, each with a par value of CHF 50. The conditional capital was (and the remaining conditional capital is) at the disposal of the holders of conversion or option rights granted by the company or by companies belonging to the Group in connection with existing and new loan debentures or similar bonds issued by Swiss Life Holding and companies belonging to the Group. The shareholders are excluded from subscription rights, however their advance subscription rights remain safeguarded. The Board of Directors sets the terms of conversion and option conditions.

In December 2002, Swiss Life Holding 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 with a par value of CHF 50 per share. Also in December 2002, pursuant to the issue of the MCS I (2002–2005) mandatory convertible securities, 1 768 535 registered shares with a par value of CHF 50 per share were created from the 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. The conditional capital decreased accordingly, to CHF 182 565 850 or 3 651 137 registered shares.

At the end of 2003, Swiss Life Holding simplified its shareholder structure by making an offer to purchase the minority interests remaining in its Swiss Life/Rentenanstalt subsidiary after the exchange of Swiss Life/Rentenanstalt shares for Swiss Life Holding shares in 2002. The company issued the MSC II (2003–2004) mandatory convertible securities so as to be able to buy up these Swiss Life/Rentenanstalt shares as efficiently as possible. 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 CHF 1 251 702 050, divided into 25 034 041 fully paid registered shares of CHF 50 par value each, while conditional capital fell to CHF 103 260 950 or 2 065 219 registered shares.

To finance the purchase of Banca del Gottardo from the Swiss Life/Rentenanstalt insurance company, the Annual General Meeting of Shareholders on 18 May 2004 created CHF 417 234 000 in authorised capital and authorised the Board of Directors to increase the share capital by the issue of a maximum of 8 344 680 fully paid registered shares at a par value of CHF 50 each, at the latest by 18 May 2006. At the same General Meeting the shareholders also resolved to increase the existing conditional capital by CHF 100 000 000 or 2 000 000 registered shares with a par value of CHF 50 each, bringing it to CHF 203 260 950, divided into 4 065 219 registered shares with a par value of CHF 50 each. On 2 June 2004 the Board of Directors decided to increase the ordinary capital out of the authorised capital by CHF 417 234 000 to CHF 1 668 936 050, divided into 33 378 721 registered shares with a par value of CHF 50 each, thus reducing the authorised capital to nil.

In conjunction with the adjustments of the conversion rate of the MCS I (2002–2005) and MCS II (2003–2004) mandatory convertible securities, which were required following capital dilution as a result of the capital increase, 397 078 registered shares at a par value of CHF 50 each were created from conditional capital on 30 June 2004. The ordinary share capital consequently increased to CHF 1 688 789 950, divided into 33 775 799 registered shares at a par value of CHF 50 each, while conditional capital decreased by CHF 19 853 900 to CHF 183 407 050, divided into 3 668 141 registered shares at a par value of CHF 50 each.

Due to partial conversion of the 0.625% convertible bond issue (2004–2010) (cf. section on "Convertible bonds and options" on page 40), 19 registered shares in all were created from conditional capital in 2004. The share capital thereby rose to CHF 1 688 790 900, divided into 33 775 818 registered shares with a par value of CHF 50 each, and the conditional capital was reduced by CHF 950 to stand at CHF 183 406 100, divided into 3 668 122 registered shares with a par value of CHF 50 each.

On 10 May 2005 the Swiss Life Holding General Meeting resolved to pay a dividend of CHF 4 per registered share in the form of a return of par value. As a result of the corresponding reduction in capital, the share capital went down to CHF 1 553 687 628, divided into 33 775 818 registered shares with a par value of CHF 46 each. Conditional capital was reduced accordingly to CHF 168 733 612, divided into 3 668 122 registered shares with a par value of CHF 46 each.

Again as a result of the partial conversion of the 0.625% convertible bond issue (2004–2010), another 260 registered shares were created from conditional capital, bringing Swiss Life Holding's ordinary share capital as per the balance sheet date to CHF 1 553 699 588, divided into 33 776 078 fully paid registered shares with a par value of CHF 46 each, and its conditional capital to CHF 168 721 652, divided into 3 667 862 registered shares with a par value of CHF 46 each.

Shares As described in detail above, 33 776 078 fully paid Swiss Life Holding registered shares with a par value of CHF 46 each were outstanding on the balance sheet date. Subject to the 10% limit on voting rights set out in the Articles of Association (cf. the section below on "Shareholders' Participation Rights" on page 52), each share conveys a right to one vote at the General Meeting. No types of shares exist with either increased or limited voting rights, privileged or restricted voting rights, privileged dividend entitlements or other preferential rights. No registration restrictions apply to Swiss Life Holding shares.

There are no other equity securities besides the registered shares mentioned above, nor do any participation certificates or dividend right certificates exist.

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 at 31 December

in CHF	2005	2004	+/–%
Shares outstanding	33 776 078	33 775 818	–
Share price	237.70	165.50	+44%
Market capitalisation	8 028 573 740	5 589 894 735	+44%
Diluted earnings per share	24.82	18.27 [1]	+36%

1) restated

Limitations on transferability and nominee registrations Swiss Life Holding shares are not subject to any limitations on transferability. According to the Articles of Association, resolutions for the introduction, amendment or repeal of restrictions on transferability must be put before the General Meeting of Shareholders and must be approved by at least two-thirds of the voting shares represented and by at least an absolute majority of the share par value represented. Swiss and foreign banks, securities brokers and companies acting on their behalf may be entered in the share register as nominees if they are holding shares of Swiss Life Holding in their custody for the account of the beneficial owners. Professional asset managers may also be registered as such if, in a fiduciary capacity, they have deposited Swiss Life Holding shares for 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. A request must be filed to register as a nominee. 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 Only one convertible bond issue was outstanding on the balance sheet date, the Swiss Life Holding 0.625% issue (2004–2010) amounting to more than CHF 317 000 000. The specific conditions attached to these convertible securities can be found in the Financial Statements (note 23) as well as in the issue prospectus of 8 June 2004. The MCS II (2002–2005) mandatory convertible securities issued by Swiss Life Cayman Finance Ltd. expired on 19 December 2005.

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 the Financial Statements (note 25).

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 by 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 determination of strategy as well as supervision of 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. The members of the Board are elected by the General Meeting of Shareholders for a term of office not exceeding three years, and as a rule individually. 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 the member reaches the age of 70.

Staggered terms of office When the Board of Directors was reconstituted at the General Meeting of Shareholders in 2003, the new members were given staggered terms of office to ensure that, as far as possible, an equal number of members will come up for re-election every year. If a member steps down during his or her term of office, the successor will serve only for the rest of that term. This ensures that the continuity of the Board of Directors is maintained.

Composition The Board of Directors of Swiss Life Holding consists entirely of non-executive directors with no duties related to operational management within the Swiss Life Group, 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 Group or any other 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. Acceptance of an appointment to the board of directors of other companies by members of the Swiss Life Holding Board of Directors requires the permission of the Board of Directors. Information on additional board mandates held by individual members of the Board of Directors is presented in the following pages.

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/reelected	Elected until
Bruno Gehrig	Chairman	2003	2006
	Chairman's Committee, Chairman Investment and Risk Committee		
Gerold Bührer	Vice Chairman	2002/2003/2005 [1]	2008
	Chairman's Committee Investment and Risk Committee, Chairman		
Volker Bremkamp	Member	2003/2004	2007
	Audit Committee, Chairman		
Paul Embrechts	Member	2003/2005	2008
	Audit Committee		
Rudolf Kellenberger	Member	2003/2004	2007
	Chairman's Committee		
Georges Muller	Member	2002/2003 [2]	2006
	Audit Committee		
Peter Quadri	Member	2003/2004	2007
	Audit Committee		
Pierfranco Riva	Member	2003	2006
	Investment and Risk Committee		
Franziska Tschudi	Member	2003/2005	2008
	Investment and Risk Committee		

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 and 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 Berne where, following studies at the University of Rochester, New York, he also qualified as a lecturer in 1978 with a paper on monetary policy. From 1971 to 1980 Mr Gehrig was an assistant and lecturer at the University of Berne, 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 Mr Gehrig 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 Mr 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.

Bruno Gehrig will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 9 May 2006.

Other appointments:
- Roche Holding AG, Basel, Vice Chairman of the Board of Directors and Independent Lead Director
- SWISS Luftfahrtstiftung, Chairman of the Board of Trustees

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 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 as 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
- Züblin Immobilien Holding AG, Zurich, Member of the Board of Directors

Political activities:
- 1982 to 1991 Member of the Grand Council of the Canton of Schaffhausen
- Member of the Swiss Parliament since 1991

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 2000 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 at the same time 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 BeteiligungsGmbH.

Other appointments:
- Everpublic AG, Hamburg, Chairman of the Supervisory Board
- K 1 F Knowledge One Fonds AG, Hamburg, Chairman of the Supervisory Board
- WAVE Management AG, Hamburg, Deputy Chairman of the Supervisory Board
- AON International Insurance Broker, Hamburg, Member 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 he was appointed Professor of Mathematics at the Swiss Federal Institute of Technology (ETH) in Zurich.

Other appointment:
- Julius Bär Holding AZ, Zurich, Member of the Board of Directors

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 bridge construction industry, including three years in the United Kingdom. He joined Swiss Re in 1978, where he served as Head of the Engineering Department from 1990 to 1992. In 1993 he was appointed Member of the Executive Board with responsibility for Europe. From 2000 to the end of December 2004 Mr Kellenberger served as Deputy Chief Executive Officer at Swiss Re. He has exercised various advisory functions in the area of insurance since retiring in March 2005.

Other appointments:
- Swiss Pool for Aviation Insurance, Chairman of the Board of Directors
- Converium Holding AG, Zug, Member of the Board of Directors

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 a Doctor of Law from the University of Lausanne. Mr Muller joined the Swiss Federal Tax Administration in 1964 and has been a partner with the law office of BMP Associés since 1975. From 1984 to 2000 he was an Extraordinary Professor at the University of Lausanne. He has been an Honorary Professor since 2000.

Georges Muller's term of office terminates with the Annual General Meeting of Swiss Life Holding on 9 May 2006. Georges Muller has decided not to stand for another term.

Other appointments:
- Serono SA, Coinsins, Chairman of the Board of Directors
- SGS SA, Geneva, Chairman of the Board of Directors
- Bertarelli Biotech S. A., Chéserex, Vice Chairman of the Board of Directors
- Schindler Elevator Limited, Ebikon, Member of the Board of Directors

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 (lic. oec. publ.) 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.

Other appointments:
- IBM Switzerland, Zurich, Chairman of the Board of Directors
- Vontobel Holding AG, Zurich, Member of the Board of Directors
- Swiss-American Chamber of Commerce, Member of the Board
- economiesuisse, Zurich, Member of the Board
- Zurich Chamber of Commerce, Member of the Board of Directors

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 law 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.

Pierfranco Riva will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 9 May 2006.

Other appointments:
- Finter Bank Zürich, Zurich, Vice Chairman 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, 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 Berne 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., 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 to1993), receiving an Executive MBA. After initially working as an Assistant for Media Law at the Institute for Constitutional and Administrative Law at the University of Berne and practising business and media law in Zurich, Geneva and Washington, DC, she served as Secretary General at SIG Holding AG from 1992 to 1995. Ms Tschudi then became a member of the Executive Board of WICOR Holding AG ("Weidmann Group"), Rapperswil 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-American Chamber of Commerce, Member of the Executive Committee
- Chamber of Commerce Germany-Switzerland, Member of the Executive Committee
- St. Gallen – Appenzell Chamber of Commerce and Industry, Member of the Executive Committee

Resignations There were no resignations from the Corporate Executive Board during the review period. The term of office of Georges Muller expires with the Annual General Meeting of Swiss Life Holding on 9 May 2006. Georges Muller has decided not to stand for re-election. The shareholders will be asked to vote on the appointment of Henry Peter to the Board of Directors in his stead. Henry Peter is a professor at the law school of the University of Geneva, and is Head of the Master in Business Law (MBL) postgraduate programme of the universities of Geneva and Lausanne. He is also a lawyer and partner in the law firm Bernasconi Peter Gaggini in Lugano. Due to his nomination to the Swiss Life Holding Board of Directors, Henry Peter will be resigning from the Banca del Gottardo Board of Directors, which he has been a member of since 1994.

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 are reviewed regularly in line with current practice and developments in national and international best practice, and are updated whenever necessary. They 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.

The Chairman coordinates the work of the Board and the committees, and ensures reporting from the Corporate Executive Board to the Board of Directors. In urgent situations, the Chairman may also determine the necessary measures and take 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 at least six times a year as a rule. Meetings are generally called by the Chairman of the Board of Directors. However any member of the Board of Directors may request that a meeting be called, as can the Corporate Executive Board. In addition to the members of the Board of Directors, the Group CEO, as well as other members of the Corporate Executive Board as required, shall normally attend the meetings or parts of meetings in an advisory capacity. The Board of Directors met seven times during the year under review, with the meetings lasting around four and a half hours on average.

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.

The committees of the Board of Directors sometimes call in external consultants for their work and assess their work themselves once a year. The Board of Directors also performs a self-assessment once a year, while discussions take place regularly between the Chairman of the Board and its members on an individual basis.

All the Board members took part in all the meetings of the Board of Directors in the year under review as well as all meetings of the Board's committees to which they belonged, with the single exception of one meeting of the Audit Committee which one member missed, as well as the absences of the Chairman of the Board in the closing weeks of 2005 due to illness.

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 strategy and 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 Group CEO and the other members of the Corporate Executive Board (compensation function).

The Chairman's Committee meets at least six times a year. It held thirteen meetings during the year under review. The average time per meeting was around two half hours.

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 on the principle features of asset and liability management for the Group to the Board of Directors, assessing capital adequacy, submitting proposals on the definition of the Group's investment policy to the Board of Directors, verifying compliance with Group guidelines on investments, and establishing the risk tolerance in insurance and investment operations.

The Investment and Risk Committee meets at least four times a year. Six meetings of the Investment and Risk Committee were held in the year under review, with an average length of around three hours.

Audit Committee 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. It monitors the activities of Corporate Internal Audit and the external audit services, and takes due note of their reports and recommendations.

The Audit Committee meets at least four times a year. The frequency of meetings depends on the financial budgeting and reporting process. The Audit Committee met six times during the year under review, with the meetings lasting around four hours on average.

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 Group CEO and 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 approval or a decision is not reserved exclusively to the delegating body.

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 Group CEO keeps the Chairman of the Board of Directors as well as the Board of Directors and its committees regularly informed about the conduct of business, new business activities and significant projects. The Group CEO informs the Chairman of the Board of Directors immediately about extraordinary matters. The Chairman of the Board of Directors may participate in the meetings of the Corporate Executive Board in an advisory role and receives all the minutes of the meetings of the Corporate Executive Board. 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. The performance of the Corporate Executive Board and the contributions made by its members are regularly discussed and evaluated by the Chairman's Committee and the Board of Directors with no members of the Corporate Executive Board being present. The acceptance of directorships and senior political or military roles by members of the Board of Directors is subject to the consent of the Chairman of the Board of Directors.

Corporate Executive Board

The Group CEO directs the business operations of the Group. The Group CEO, together with the Corporate Executive Board, works out the long-term objectives and strategic orientation of the Group for consideration by the Board of Directors and, based on the resolutions of the Board of Directors, ensures the goal-oriented leadership and development of the Group. The Corporate Executive Board can form committees to address specific areas and can delegate competencies to such a Corporate Executive Board committee.

Each member of the Corporate Executive Board has responsibility for a Group division. The members of the Corporate Executive Board are responsible for setting 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	Since
Rolf Dörig	Group Chief Executive Officer	06.11.2002
Reto Himmel	Group Chief Technology & Operations Officer	20.01.2003
Paul Müller	Chief Executive Officer Switzerland	15.01.2003
Bruno Pfister	Group Chief Financial Officer	01.08.2002
	Chief Executive Officer International	01.01.2006
Martin Senn	Group Chief Investment Officer	01.01.2003[1]
Thomas Müller	Group Chief Financial Officer	01.01.2006

1) up to 31.03.2006

Rolf Dörig

Born 1957, Swiss national

Group Chief Executive Officer (Group CEO)

Rolf Dörig laid the groundwork for his professional career by obtaining a Doctorate in Law (Dr. iur.) 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, he was assigned responsibility for Swiss Corporate and Retail Banking from 2000 onwards. In spring 2002 he became Chairman Switzerland for the Credit Suisse Group.

Rolf Dörig has been Group Chief Executive Officer (Group CEO) of the Swiss Life Group since 6 November 2002.

Other appointments:

- Swiss Insurance Association, Member of the Board
- economiesuisse, Zurich, Member of the Board Committee
- Kaba Holding AG, Rümlang, Member of the Board of Directors
- Danzer AG, Baar, Member of the Board of Directors
- Zurich Chamber of Commerce, Member of the Board of Directors
- Grasshopper-Club Zürich, Chairman of the Board of Directors

Reto Himmel

Born 1956, Swiss national

Group Chief Technology & Operations Officer (Group 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, where he was also in charge of Corporate Planning. He then served as Chief of Staff of the Investment and Trading division at Credit Suisse. In 1997 Mr Himmel became a member of the Executive Board at ABN AMRO (Switzerland), assuming responsibility for the bank's logistics operations. He became Head of Operations at UBS Warburg Switzerland in August 2001.

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

Other appointment:
- SWX Swiss Exchange, Member of the Board of Directors and Audit Committee

Paul Müller
Born 1950, Swiss national
Chief Executive Officer Switzerland (CEO Switzerland)

Paul Müller studied Economics at the University of St. Gallen. After graduating with a Master's degree (lic. oec. HSG) in 1975 he launched his career by joining Winterthur 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 ultimately assigned responsibility for the German, Austrian, French, Belgian and Luxembourg markets. From 1995 Mr Müller served as CEO of Helvetia Patria Assurances' Swiss Division in Basel.

He took up his new position as Chief Executive Officer Switzerland (CEO Switzerland) for the Swiss Life Group in January 2003.

Other appointments:
- Chamber of Commerce Germany-Switzerland, Member of the Executive Committee
- Society for the Promotion of the Institute of Insurance Economics of the University of St. Gallen, Member of the Board

Bruno Pfister
Born 1959, Swiss national
Group Chief Financial Officer (Group CFO) up to 31 December 2005,
Chief Executive Officer International (CEO International) as of 1 January 2006

Bruno Pfister graduated from the University of Geneva with a Master's Degree in Law before being called to the Bar of Geneva. Following completion of his business management studies (MBA from the UCLA Graduate School of Management in Los Angeles), the initial stages of his career saw him working for Chase Manhattan 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 the LGT Group and LGT Bank in Liechtenstein in 1998. In 1999, as a member of the Credit Suisse Corporate Executive Board, he took over as Head of Customer Segment Management and Product Management at Credit Suisse.

He has been with the Swiss Life Group since August 2002, first as Chief Financial Officer (Group CFO) and then as Chief Executive Officer International (CEO International) as of 1 January 2006.

Other appointments:
- Castle Alternative Invest AG, Freienbach, Member of the Board of Directors
- Member of the Admission Board and Executive Committee of the Admission Board of the SWX Swiss Exchange

Martin Senn
Born 1957, Swiss national
Group Chief Investment Officer (Group CIO) up to 31 March 2006

Martin Senn graduated from INSEAD in Fontainebleau and the Harvard Business School having studied commerce and management. 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. Mr Senn is honorary counsel for the Republic of Korea.

Mr Senn has been Group Chief Investment Officer (Group CIO) of the Swiss Life Group since 1 January 2003.

Other appointments:
- Maerki Baumann & Co. AG, Zurich, Member of the Board of Directors
- Castle Alternative Invest AG, Freienbach, Member of the Board of Directors

Thomas Müller
Born 1965, Swiss national
as of 1 January 2006 Group Chief Financial Officer (Group CFO)

Thomas Müller studied economics and business administration (lic. rer. pol.) at the University of Berne and earned an MBA from the IMD in Lausanne. His professional career began in 1991 at Swiss Volksbank where he was responsible for asset and liability management. Up to and after the integration of Swiss Volksbank into the Credit Suisse Group, he headed the treasury department at Credit Suisse from 1994 to 1997. In 1997 he moved to Marc Rich Holding where he was responsible for the group's trading in interest rate instruments. Thomas Müller joined Banca del Gottardo in 2002 as Chief Financial & Risk Officer and Member of the Executive Board.

He became Group Chief Financial Officer (Group CFO) for the Swiss Life Group as of 1 January 2006.

Resignations No members of the Corporate Executive Board resigned in 2005.

As the Swiss Life Group announced on 9 January, Martin Senn, Group Chief Investment Officer (Group CIO), is leaving the company as of 31 March 2006 at his own request.

Transfer of management tasks

No management tasks have been contractually delegated 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 and informs the entire Board of Directors accordingly.

The share option programme for Swiss Life Group management, which was introduced in 2000, was discontinued at the end of 2002. Accordingly, no more share options were allocated in 2003, 2004 or 2005. The share options issued in the year 2000 expired worthless at the end of March 2004.

Within the framework of the compensation arrangements for the members of the Corporate Executive Board and other key performers within the Swiss Life Group, set by the Corporate Executive Board with the concurrence of the Chairman's Committee, a long-term remuneration component was introduced in 2004 under a corresponding directive. The equity compensation programme was adjusted slightly in the year under review by defining specific performance criteria. These take account of both the performance of the Swiss Life Holding share and its performance against the market using the Dow Jones STOXX insurance index. Participants in the equity compensation plan are granted future subscription rights, in the form of Performance Share Units (PSU) on Swiss Life Holding shares, entitling them to receive Swiss Life Holding shares free of charge after a period of three years has elapsed to the extent that the relevant prerequisites have been satisfied. The number of PSU can increase no more than by a factor of 1.5, or drop by a factor of 0.5 within three years, depending on how the criteria develop.

During the review period 37 members of the Swiss Life Group senior management participated in this programme. A total of 67 412 PSU were allocated.

Further details on compensation and benefit expenditure for the Swiss Life Group management and employees can be found in the Financial Statements (note 25).

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:

In CHF	2005	2004
Board of Directors	**1 367 000**	1 391 000
Corporate Executive Board	**7 633 850**	7 826 686

The following compensation was received by incumbent members of the Board of Directors of Swiss Life Holding as per 31 December 2005 during the year under review.

Name	Remuneration in cash	Shares[1]
Bruno Gehrig	CHF 555 000	308
Gerold Bührer	CHF 128 000 CHF 140 000[2]	255
Volker Bremkamp	CHF 96 000	191
Paul Embrechts	CHF 72 000	143
Rudolf Kellenberger	CHF 88 000	176
Georges Muller	CHF 72 000	143
Peter Quadri	CHF 72 000	143
Pierfranco Riva	CHF 72 000	143
Franziska Tschudi	CHF 72 000	143

1) c.f. also the section on share allotment
2) for his role as Vice Chairman of the Board of Directors of the Board of Banca del Gottardo

There were no resignations from the Board of Directors or the Corporate Executive Board during the review period.

Compensation paid to former members of governing bodies Two former members of the Corporate Executive Board who left the Corporate Executive Board in 2004 were paid remuneration in cash totalling CHF 1 084 899 as well as receiving 971 shares at a price of CHF 179.80 in the period under review.

Share allotment in the year under review Swiss Life Holding shares were allocated to members of the Board of Directors and the Corporate Executive Board as follows during the 2005 financial year:

Board of Directors	1 645 shares allocated at values of CHF 191.00, 150.96 and 142.55. They are subject to a three-year vesting period.
Corporate Executive Board	6 797 shares[1] allocated at a value of CHF 160.02. They are subject to a two-year vesting period.

1) The 6797 shares were allocated under the 2004 regulations governing the long-term remuneration component.

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 as follows:

Board of Directors	9 055 Shares
Corporate Executive Board	49 476 Shares

Options No more share options were granted in the Swiss Life Group in 2003, 2004 or 2005. Options on shares of Swiss Life/Rentenanstalt were allocated to the members of the Board of Directors and Corporate Executive Board in 2000, 2001 and 2002 in the context of the share option plan introduced in 2000 for the entire senior management of the Swiss Life Group, and were subsequently converted into options on Swiss Life Holding shares. At the end of 2002 this share option programme was discontinued as of 2003. The share options allocated in the year 2000 expired worthless at the end of March 2004. In connection with the exchange of Swiss Life/Rentenanstalt shares for shares of Swiss Life Holding and the capital increases in autumn 2002 and spring 2004 as well as the reduction in par value of the Swiss Life Holding shares as of 3 August 2005, the parameters of the options allocated in 2001 and 2002 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	
2005	No share options issued
2004	No share options issued
2003	No share options issued
2002	11 400 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.58
	Exercise price: CHF 224.90
2001	11 250 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.58
	Exercise price: CHF 686.50

Corporate Executive Board	
Allotment year	
2005	No share options issued
2004	No share options issued
2003	No share options issued
2002	22 000 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.58
	Exercise price: CHF 224.90
2001	23 500 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.58
	Exercise price: CHF 686.50

Additional honorariums and remunerations During the period under review there were no additional honorarium or remuneration payments to members of the Board of Directors or the Corporate 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 or members of the Corporate Executive Board that would have been subject to disclosure requirements.

Board of Directors	none
Corporate Executive Board	none

Highest total compensation, Board of Directors

The highest total compensation for a member of the Board of Directors in 2005 was paid to Bruno Gehrig as Chairman of the Board. The total compensation paid in the year under review is as follows:

Compensation	CHF 555 000	
Shares[1)]	CHF 46 496	308 SLHN shares at CHF 150.96
Share options	none	
Total compensation 2005	CHF 601 496	
Total compensation 2004	CHF 604 245	

1) The 308 allocated shares are subject to a blocking period of three years. The allocation, subject to a three-year blocking period, took place at an economic value of CHF 150.96, which corresponds to the tax value; the share price at the time of distribution was CHF 179.80.

Highest total compensation, Corporate Executive Board

The highest total compensation for a member of the Corporate Executive Board was paid to Rolf Dörig as Group CEO. The total compensation paid in 2005 was as follows:

Compensation[1)]	CHF 3 049 465	
Shares[2)]	CHF 271 874	1699 SLHN shares at CHF 160.02
Share options	none	
Total compensation 2005	CHF 3 321 339	
Total compensation 2004	CHF 3 183 773	

1) Including bonus in cash.

2) In accordance with the 2004 regulations, these shares are allocated via the long-term remuneration component and blocked for two years until the end of March 2007. The allocation, subject to a blocking period, took place at an economic value of CHF 160.02, which corresponds to the tax value; the share price at the time of distribution was CHF 179.80.

Shareholders' participation rights

Restrictions 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 own shares and those he 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. The Board of Directors can permit exceptions to this limit on the basis of its discretionary powers; however, during the year under review no exceptions were granted.

Right of representation The Articles of Association stipulate that a shareholder may be represented by another shareholder, a legal representative, a management representative, an 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. Shareholders representing shares with a par value of at least one million francs can submit a written request within a time limit published in advance by Swiss Life Holding for the inclusion on the agenda of an item for discussion, together with the relevant motions. The written application must he accompanied by a certificate issued by a bank to confirm that the shares are deposited with it until after the general meeting of shareholders is held.

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. 685, cl. G of the Swiss Code of Obligations. For administrative reasons (postal delivery times) the deadline for registering to participate in the General Meeting of Shareholders is usually seven calendar days before the event takes place.

Voting system and procedures Voting at Swiss Life Holding is generally by a 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 to permit balloting with remote-controlled handsets and to record the exact number of voting shares represented.

Changes of control and 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 BEHG (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 74% 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 (12%) and other auditing firms (14%).

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

Duration of the mandats and term of office of the lead auditor 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. At the time Swiss Life Holding was established in 2002, PwC was named as Group Auditor. Since then PwC has been re-elected without fail, most recently for the year 2005 at Swiss Life Holding's Annual General Meeting of Shareholders in May 2005. PwC has also been acting as Group Auditor for Swiss Life/Rentenanstalt since 1994. The partner in charge of auditing the Swiss Life Holding consolidated financial statements at PwC (lead auditor) has held that function since the 2004 financial year.

Auditing fees In 2005 the auditing fees credited to PwC by the Swiss Life Group came to CHF 11.3 million (2004: CHF 14.1 million). This includes the fees for reviewing Swiss Life's half-year accounts.

Additional auditing fees In 2005 PwC received additional payments totalling CHF 1.2 million for advisory services of which about half was for financial advice and a quarter each for legal and other advisory services (2004: a total of CHF 1.6 million).

Supervisory and control instruments vis-à-vis the auditors The Audit Committee maintains regular contact with the external auditors. It assesses the quality of the external reporting, ascertains the independence of the statutory auditors and identifies possible conflicts of interest. Representatives from the external auditing firms may be called upon by the Audit Committee to attend any meetings it may hold. The Audit Committee held six meetings during the year under review. Representatives from the external auditors took part in all or some of these meetings, with one exception.

Information policy

In addition to its comprehensive Annual Report and Financial Statements, Swiss Life Holding also publishes its half-year results. All the Swiss Life annual and half-year reports since 1997 can be accessed on the www.swisslife.com website. Twice a year, a report with important facts and figures is sent to all those recorded in the share register. In addition, the third Investor's Day was held on 1 December 2005.

Contact addresses can be found on at the end of the Annual Report.

Board of Directors

From top left to bottom right: Bruno Gehrig, Peter Quadri, Gerold Bührer, Volker Bremkamp, Pierfranco Riva, Georges Muller, Franziska Tschudi, Paul Embrechts, Rudolf Kellenberger

Corporate Executive Board

From top left to bottom right: Rolf Dörig, Bruno Pfister, Thomas Müller, Reto Himmel, Paul Müller

Responsible Corporate Conduct Customers, shareholders and employees alike place their confidence in Swiss Life. The Group feels honour bound to justify this confidence and therefore acts in a responsible manner.

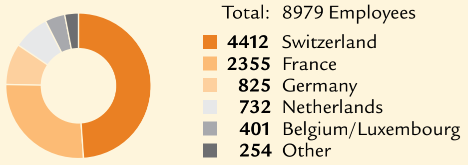
At Swiss Life, mutual values, the Code of Compliance, a progressive HR policy, an active approach to communication and support for the concerns of society and environmental protection form the foundation for responsible corporate management.

Values and Code of Compliance At Swiss Life, the values expertise, proximity, openness, clarity and commitment shape our conduct in our dealings with customers, partners and employees. These values put our corporate culture on a strong footing. The stories told by the photos in this Annual Report show how our employees interpret these values and implement them in their daily working lives. The Code of Compliance introduced in January 2006 supplements these values with specific rules of conduct. Adherence to these rules is a prerequisite for legally and ethically correct business conduct and for economic profitability. The Code of Compliance applies to the employees of the Swiss Life Group in Switzerland and in Liechtenstein. In the other markets it is implemented in compliance with local legislation.

Employees The second Group-wide employee survey was carried out in the year under review. The fact that more than 80% of employees took part in the survey that they are greatly interested in assessing and actively influencing their working environment. The value given to commitment in the survey is key. This value shows how strongly the employees identify with their employer and their work, and reflects their level of satisfaction. In the year under review, the value given to commitment was 70 out of 100 index points on average, up from 61 points in 2004. The strategic target is to achieve a value of 80 index points in all units by the year 2008.

In the 2005 survey employees gave a particularly positive rating to the questions regarding acceptance in their teams and the opportunity to take on more responsibility. However, the survey also demonstrated that employees suffer from a lack of development perspectives. Targeted offers in this area serve to continuously improve their working situation. These measures include annual

Employees (full-time equivalents) by country as at 31.12.2005



meetings to agree objectives and the process of assessing the attainment of targets. This is paired with customised development programmes and performance-related and results-oriented salaries.

Swiss Life identifies employees with high potential and actively fosters their talents in an effort to steer their development towards a responsible position as manager, specialist or project manager. A central development programme with comparable rating and promotion criteria for management employees was introduced in the year under review.

Our collaboration with the representatives of our employees takes central importance and is actively managed. In Switzerland, for example, the Group has introduced a plan of action for employees who need to find other employment as a result of restructuring measures. During their reorientation phase, they are advised and assisted by a team of specialists. The Europa Forum represents the interests of employees at the international level.

In addition, employees also benefit, among other things, from the Group's sports and cultural programmes, health promotion programmes, favourable conditions for insurance products, partnerships with day care facilities, contributions to public transport subscriptions, and internal HR and legal advisory services.

Society Swiss Life supports professional associations, education, sport and culture. Swiss Life employees serve on various committees of the Swiss Insurance Association. The Group also supports projects and courses at several universities and collaborates with professional and specialist associations. Swiss Life is a member of, among others, The Sustainability Forum in Zurich and the Standard Setting Board of the Federal Office of Private Insurance. Its subsidiary Swiss Life Asset Management, which manages the assets of institutional investors, has concluded a cooperation agreement with Sustainable Asset Management (SAM).

In the Netherlands, Swiss Life underlines its commitment to society by supporting volunteer work. Employees are involved in the "Help with Your Heart" project and went shopping with the inhabitants of retirement homes or supported the severely handicapped during relaxation sessions in the swimming pool. In France, Swiss Life supports the annual solidarity event in favour of the Curie Institute, which is both a hospital and a cancer research institution. Employees also take part in the "Courir pour la vie, courir pour Curie" run, where money is collected for every metre that is run. These funds are used to finance cancer research.

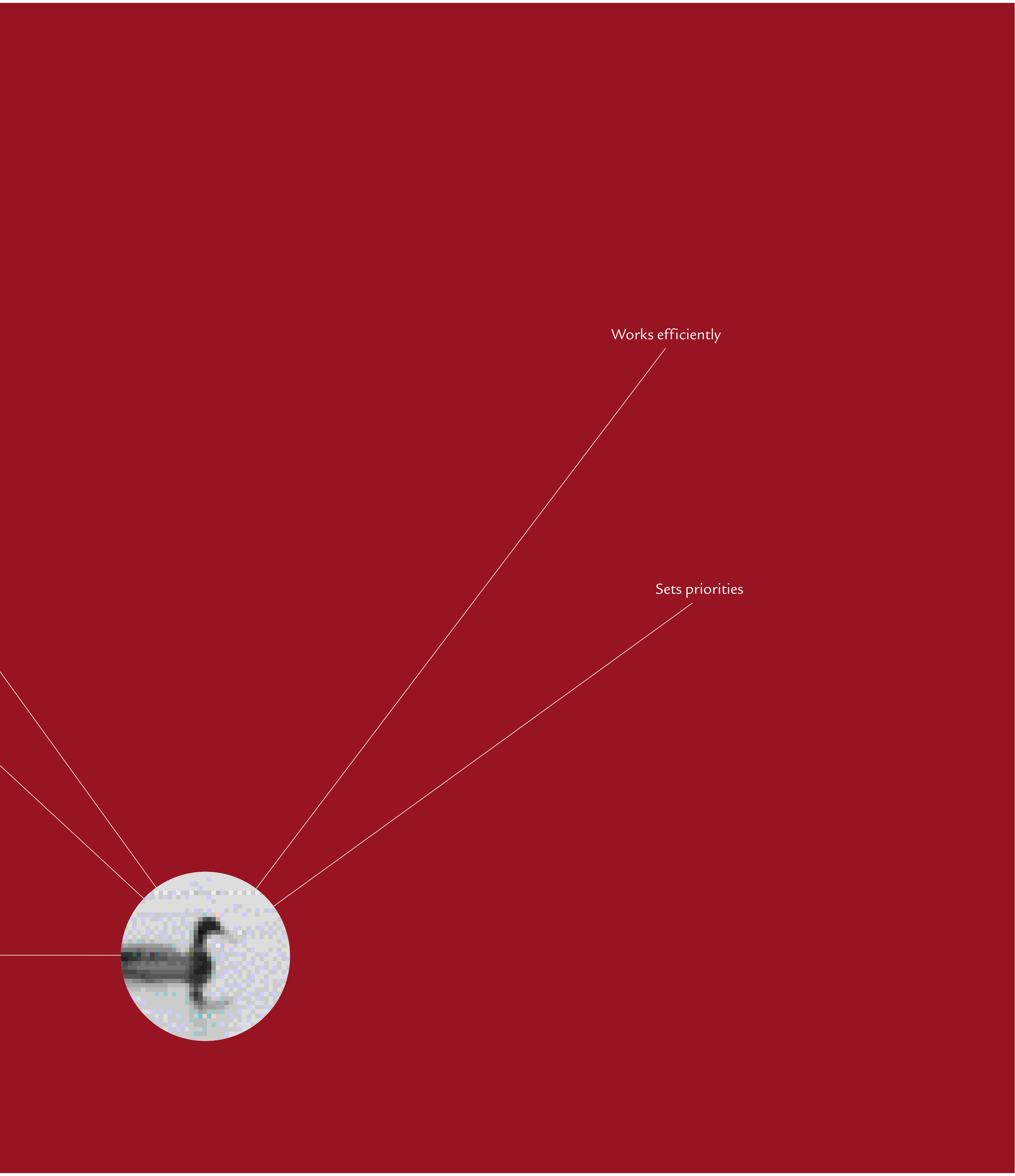
Communication Swiss Life communicates actively and openly both, internally and to outside world. Public Relations and Investor Relations serve the interests of private and institutional investors, financial analysts, journalists and the public by providing up-to-date reports. These reports are also available at www.swisslife.com. The aim of the internal communication processes is to provide employees with transparent information on the development of the company. "Life", the Group-wide staff magazine, is published five times a year in three languages, with a circulation of 11 000 copies. The intranet provides country-specific and Group-wide information and is designed on the same lines as the Swiss Life Group's internet website, which has won several web competitions.

Environment In Switzerland, Swiss Life aims to cut its energy consumption by 15% between 2000 and 2010. To this end, energy efficiency at the Zurich locations should be increased by at least 1.5% per year, and energy consumption and emissions reduced continuously. Swiss Life adopted these targets as part of its obligations as a member of Energy Model Zurich. As one of the largest private owners of real estate in Switzerland, Swiss Life pays particular attention to ecological issues and, to mention just one example, instigates measures to enhance awareness of water as a valuable resource. Swiss Life also signed the financial institutions' declaration of commitment to the environment and sustainable development as part of the United Nations Environment Programme (UNEP).

Sifts information

Thinks quickly

Maintains an overview


Works efficiently
Sets priorities

"In order to achieve success I need clarity about both my personal and professional goals. This was enormously helpful to me when I had to tighten up and streamline the group insurance product range in a short time. I had to set priorities, make clear decisions and then carry them out."

Monika Behr heads the product design team for group life insurance in Zurich.

Clarity and transparency were the aims when restructuring our product landscape. Our team clarifies the needs of clients, develops the appropriate products and ensures what we offer is comprehensible and clear.

The product design team for group life insurance in Switzerland (from top left to bottom right): Christine Ruckstuhl, Paul Pardamec, Andreas Epper, Hugo Pfister, Monika Behr

Embedded Value The embedded value of the Swiss Life Group rose to CHF 8.9 billion as at 31 December 2005.

Embedded value serves as an indicator of the value of the existing insurance portfolio. It is composed of two components: the present value of future profits (PVFP) and the adjusted net asset value attributable to shareholders (ANAV). Future new business is not included. All calculations relating to the embedded value are based on the statutory accounts. The information published here has been reviewed and checked 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) and the current cost ratios – adjusted for inflation – are thus assumed to hold good for the future as well. Future costs of the traditional solvency capital underpinning the insurance business are charged to the PVFP and accordingly reported separately in the embedded value table (cost of capital).

Shareholders' equity in future – the statutory equity adjusted for the shareholders' interest in the revaluation reserve – 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 2005 Embedded value for the Swiss Life Group came to CHF 8887 million as of 31 December 2005. This corresponds to an increase of CHF 951 million over the prior-year figure and an embedded value per share of CHF 263. This increase can be attributed to growth in our markets abroad and the better than expected investment returns. A compilation of other changes in embedded value is given in the "analysis of change" table on the next page.

Embedded Value Swiss Life Group as at 31 December

In CHF million	2005	2004	+/–%
Switzerland	**3 614**	3 601	**+0.4%**
Europe without Switzerland	**3 460**	2 819	**+22.7%**
ANAV of Swiss Life Holding[1,2]	**1 813**	1 516	
Swiss Life Group	**8 887**	7 936	**+12.0%**
of which ANAV[1]	**5 942**	4 909	
of which PVFP[3]	**4 809**	4 507	
of which cost of capital	**–1 864**	–1 480	

1) Adjusted Net Asset Value
2) Equity of Swiss Life Holding less book value of Swiss Life/Rentenanstalt
3) Present Value of Future Profits

Economic assumptions

	Switzerland		Europe without Switzerland	
	Current	**In 5 years**	**Current**	**In 5 years**
Risk discount rate	**7.0%**	7.0%	**8.0%**	8.0%
Total weighted new money return	**3.2%**	3.5%	**3.8%**	4.0%
Return assumptions per asset class				
Bonds & loans return	**2.1%**	2.4%	**3.6%**	3.8%
Real estate return	**4.5%**	5.0%	**5.2%**	5.4%
Equities return	**6.5%**	6.5%	**7.5%**	7.5%
Return on participations/alternative investments	**6.5%**	6.5%	**7.5%**	7.5%

Analysis of change

In CHF million	
Swiss Life Group embedded value at end of 2004	**7 936**
Dividend	**–135**
Unwind 2005	**+580**
Actual investment return 2005	**+622**
Future investment return	**–239**
Persistency	**+41**
Value of new business 2005	**+48**
Various	**+34**
Swiss Life Group embedded value at end of 2005	**8 887**

Economic sensitivities

In CHF million	**Switzerland**	**Europe without Switzerland**	**Other effects**	**Total**
Swiss Life Group embedded value at end of 2005	**3 614**	**3 460**	**1 813**	**8 887**
Impact of 100 bp increase in investment return	**+657**	**+697**		**+1 354**
Impact of 100 bp decrease in investment return	**–985**	**–842**		**–1 827**
Impact of 100 bp decrease in risk discount rate	**+375**	**+294**		**+669**
Impact of 100 bp increase in return on new bond investments	**+216**	**+386**		**+602**
Impact of 10% decrease in asset values (property only)	**–481**	**–36**		**–517**

Deloitte & Touche LLP ("Deloitte") 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 that the methodology is appropriate, the Group's assumptions are altogether 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 by Swiss Life, but have not verified it themselves and have relied on financial information underlying the Group's financial statements.

Risk Management As with any life insurance company, risk management is one of Swiss Life's core tasks. Swiss Life follows an integrated approach, and for many years now has been using an internal risk model that basically corresponds with the new risk-based solvency regulations in Switzerland.

Swiss Life follows an integrated approach in the area of risk management. The economic perspective serves as a basis for all the processes in risk management. However, there are further relevant aspects when making decisions on risk: first and foremost statutory considerations such as solvency, statutory accounts and stipulations governing the security reserves. Then the possible implications for the Group consolidated results in accordance with the "International Financial Reporting Standards" (IFRS) and considerations about the conceivable impacts on the rating capital are also part of the risk analysis.

The Investment and Risk Committee of the Board of Directors receives regular reports on the overall risk situation of the individual companies and also of the Swiss Life Group as a whole. It assesses the situation and determines appropriate measures. It also ensures that the risk management processes are up to the above-mentioned requirements.

In addition to integration with the Group-wide risk management process, the local risk management units are also responsible for ensuring compliance with the specific regulatory and statutory requirements in their respective countries, and support the local management teams in all risk management matters.

The basic principles and measurement methods are developed by the risk management team at Group level in conjunction with the local units, and are then approved by the Investment and Risk Committee of the Board of Directors.

The various risk categories are measured and monitored as part of Swiss Life's risk policy. The Investment and Risk Committee of the Board of Directors determines Swiss Life's risk appetite based on the preset risk capacity parameters, and this forms the basis for deriving the individual limits for the various risk categories at each Group company. It is the responsibility of the risk management units at the individual companies to ensure that these limits are complied with at all times. A central risk management system tracks the limits currently being used; this system is also available to individual companies.

Market risks Monitoring and steering market risks is essential for a life insurance company. Market risk refers to the risk of changes in the value of securities or real estate holdings, as well as to fluctuations in foreign exchange rates. The extreme volatility of the financial markets in past years shows clearly that it is necessary to steer these market risks actively.

Life insurers are also exposed to market risks on the liabilities side of their balance sheets, especially interest-rate risks stemming from the sale of long-term insurance policies with interest guarantees. Three elements – guarantees, bonuses and options – determine the financial risk of classical life insurance policies. Because clients have often taken on a long-term commitment, they expect to profit from uptrends on the financial markets in the form of bonuses in addition to the guarantees. Options embedded in the insurance contracts, such as the right to early surrender, provide the client with the necessary flexibility required for long-term contracts.

Such interest-rate risks are reduced by purchasing corresponding interest instruments, in particular bonds. Exchange rate hedges steer the exchange rate risks. Swiss Life also seeks to reduce market risks by ensuring a high level of diversification both in its investment portfolio and direct investments. You will find details on Group-wide Asset and Liability Management, i.e. on harmonising the fit between assets and liabilities, in the next chapter on page 67.

Credit risk Credit risk involves the possibility that a debtor may no longer be able to meet his obligations. Responsibility for monitoring credit risks lies with the individual units, which follow stringent, Group-wide guidelines with regard to minimum borrower ratings and the diversification of credit risks. Swiss Life is exposed to such risks, in particular in the investment and reinsurance segments. To avoid concentrations of risk across the Group as a whole, the credit positions are regularly collated at Group level and where necessary reduced at the individual units. All in all, this strict credit risk management process ensures a broadly diversified credit portfolio with low risk exposure.

Underwriting risks In the life insurance business a distinction is drawn between three types of underwriting risk: longevity, death and disability. Swiss Life conducts an annual review and analysis of the structure of its customer portfolio with regard to mortality, cancellations and reinstatements. To manage disability risk and stabilise risk performance, individual evaluations are used along with portfolio analyses for disability risk to allow a better assessment of the exposure structure. The information gained is used in setting appropriate prices and rates as well as ensuring that reserves are sufficient for future insurance obligations to be met at all times. It also forms the basis for determining the risk capital that will be required to offset unexpected deviations in the economic value of the liabilities.

Operational risks The operational risks include process risks, risks relating to moral hazard, technology risks and risks resulting from changes in the economic, fiscal or legal environment. In order to pre-empt such risks, a review based on uniform criteria is carried out periodically throughout the Group. The consolidated report highlights any potential need for action at an early stage, and the effectiveness of the measures introduced is subsequently checked.

Risk based solvency check Since 2004 Swiss insurers have been subject to the new regulatory requirements in the form of the Swiss Solvency Test, which become binding as of 2010. Swiss Life has been using these rules since 2004.

The new rules ensure risk-based and economically focused compliance from an accounting and thus static perspective. In this context, companies' own models are permitted. The internal processes and systems are checked in the test, in preparation for the new solvency regulations.

The risk categories that Swiss Life has been using for several years for steering economic risk are congruent with the corresponding categories of the Swiss Solvency Test. In 2005, Swiss Life expanded the test to include the Swiss Life/Rentenanstalt and its branches. The successful trial runs show that the definitive introduction of the Swiss Solvency Test will not have any risk management implications. Operational risks are not included in the capital requirements of the test. However, the new Swiss Insurance Supervisory Law (VAG) which came into effect on 1 January 2006 requires appropriate risk management.

The European Solvency II Project also has the aim of checking solvency based on risk monitoring. Swiss Life anticipates being involved in shaping the Solvency II guidelines together with the Swiss Insurance Association (SIA) and the Comité Européen des Assurances (CEA). Harmonising the Solvency II principles with those of the Swiss Solvency Test is extremely important for the Swiss Life Group as a market leader in Europe. As the use of the internal model is permitted, Swiss Life does not foresee any significant new challenges for risk management here either.

Reference to each risk class with page numbers in Financial Statements

Risk	Page
Economic risk of interest rate fluctuation	119
Equity price risk	121
Credit risk	122
Currency risk	123
Liquidity risk	125

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 can be paid when due and that core capital will always be available to absorb fluctuations in the value of assets and liabilities.

Asset and liability management (ALM) is aimed at systematically getting the right match of assets and liabilities, to make sure that commitments to policyholders can be met at all times. Another objective is to adequately compensate shareholders for making risk capital available.

Based on the economic principles of risk management, the ALM process at Swiss Life defines the answers to the following four questions:

- How high is Swiss Life's risk capacity and its corresponding appetite for risk (risk budget)?
- How are the policyholders' funds and the company's free reserves to be invested (asset allocation)?
- What principles apply with regard to the distribution of the surplus generated on investments (distribution policy)?
- What guarantees and benefits are being promised to policyholders and what would be the ideal pricing (product design)?

Risk budget The risk capital available is determined by way of an economic valuation of the assets and liabilities, and is matched against the economic risk capital employed. The risk capital available to Swiss Life sets the parameters for the risk appetite within the Group. There are two types of limits in this regard:

- risk capital limits: These limits apply for the market risk capital, the interest-rate risk capital and the credit risk capital.
- exposure limits: These limits apply primarily to foreign currencies and on a net basis to equity positions.

Both types of limits set the parameters for the asset allocation. The risk budget is based on a purely economic perspective, and additional non-economic restrictions such as regulatory and accounting aspects are not taken into account. These are considered in the asset allocation itself.

Asset Allocation On the asset side the portfolio is managed in such a way that economic risk capital deployment is consistent with Swiss Life's risk appetite. The responsible bodies, the Investment and Risk Committee and the Asset and Liability Committee, prescribe limits for market, interest and credit risk as well as currency limits. Within these broad parameters, the individual market units determine their asset allocation themselves.

Given that developments on the liabilities side can be dynamic, a static asset allocation approach is unsuitable. If the liabilities are split into a guaranteed segment and a non-guaranteed segment (bonus component), the guaranteed segment can be presented as the guaranteed minimum interest rate. The bonus is subject to change over the course of time, because the amounts to be distributed are directly influenced by developments on the financial markets. If the market interest rate increases, so too do policyholders' expectations with regard to bonus payments. This is evident in the interest sensitivity (duration) on the liabilities side. While the guarantees have a fixed duration, the duration of the non-guaranteed segment behaves inversely to the interest level. The duration is highest when the guaranteed interest corresponds to the actual current interest level. The effect described above means that rising interest rates lead to a disproportionate reduction in the average duration of the liabilities. The latter is weakened, however, when the interest level is relatively high.

In addition to the purely economic considerations, there are other factors that have to be taken into account (regulatory requirements, funding ratio, solvency, local and international accounting standards, liquidity requirements, requirements by the rating agencies), 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 promulgated (International Financial Reporting Standards, IFRS). Under the current accounting treatment liabilities are not carried at fair value. Valuations are not adjusted following interest-rate movements, although the value of future commitments will obviously have changed. However, the focus on managing assets and liabilities according to economic criteria does make sense, this being highlighted by the fact that accounting standards are clearly moving in the direction of the fair-value valuation of liabilities. Moreover, the introduction of the Basel II solvency guidelines and the Swiss Solvency Test (SST) is leading to more attention being paid to economic principles.

Up to the third quarter of the year under review, Swiss Life continued the efforts it began in 2003 to narrow the duration gap and thus reduce its balance sheet risk. In the fourth quarter Swiss Life took profits on the bond portfolio in order to strengthen its statutory risk capital. In anticipation of rising interest rates, the corresponding amount of cash and cash equivalents was not reinvested. This measure was taken within the framework of the risk limits set by the Investment and Risk Committee. The strategic asset allocation established in 2004 continues to apply.

Distribution policy The distribution policy at Swiss Life seeks to harmonise the interests of the different groups of 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. Meanwhile, 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 company's point of view, the focus is on sustainability: Its business model has to remain successful in the long run, and a lasting balance must be found between the divergent interests of policyholders and shareholders. In this regard, ALM needs to concentrate for the financial year on refining the long-term crediting policy and setting priorities for the distribution of income to the individual stakeholder groups. A guideline to this effect as well as a discussion and decision process in the same direction were implemented.

Asset Allocation as at 31 December (insurance portfolio)

In CHF million	**2005**		2004	
			restated	
Equity securities and equity funds	**14 197**	**9.7%**	12 545	9.2%
Alternative investments	**4 677**	**3.2%**	3 688	2.7%
Real estate	**11 435**	**7.8%**	11 514	8.5%
Mortgages	**6 721**	**4.6%**	6 929	5.1%
Loans	**16 881**	**11.5%**	16 875	12.4%
Debt securities	**79 765**	**54.2%**	77 182	56.4%
Cash and cash equivalents	**14 752**	**10.0%**	6 404	4.7%
Other investments	**–1 438**	**–1.0%**	1 739	1.3%
Total	**146 990**		136 876	
Net equity exposure	***4.1%***		*5.0%*	
Duration of debt securities	***7.8 years***		*9.0 years*	
Duration of loans originated by the enterprise	***3.3 years***		*3.2 years*	

The parameters for the long-term crediting policy have an impact on the modelling of liabilities and their valuations, which in turn are included in risk management and ALM.

As regards the actual distributions, the bonus policies of the other market participants (insurers) also have to be taken into account, and a certain bandwidth of market expectations can be anticipated in this regard. Distributing more to policyholders does not automatically lead to the desired increase in business volume. However, if bonus payments were pitched below the average, this could lead to a clear drop in volume.

The crediting rates are determined on an annual basis, whereas the underlying principles are defined only once. To ensure a balance is maintained between the expectations of the policyholders and the shareholders, the Group's perspective is included in the decision-making process.

Product design The overriding objective of product design is to develop a product range tailored to clients' requirements with binding guarantee commitments and simultaneous participation in positive market trends.

The underlying calculation is aimed at generating positive contribution margins for every single product. This makes it possible to avoid cross-subsidisation between products. The options for policy surrender and waiver of premium are also reflected in the calculation, together with the costs of the capital tied up in the contracts. Product design, ALM and bonus policy are coordinated in such a way that the influence of capital market developments on profitability is reduced to a minimum.

To ensure these product design principles are observed, Group-wide guidelines on underwriting and reinsurance have been introduced to coordinate and provide an overlaying structure for the local guidelines. In writing business, the responsibility does not rest exclusively with the local business unit, and Head Office must also be involved as circumstances require.

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 internal estimates concerning specific types of risk must also be taken into consideration.

The product design principles are reviewed twice a year while the economic viability of new business is examined quarterly, so that Swiss Life can adapt the conditions of sale for the individual products in line with ongoing changes.

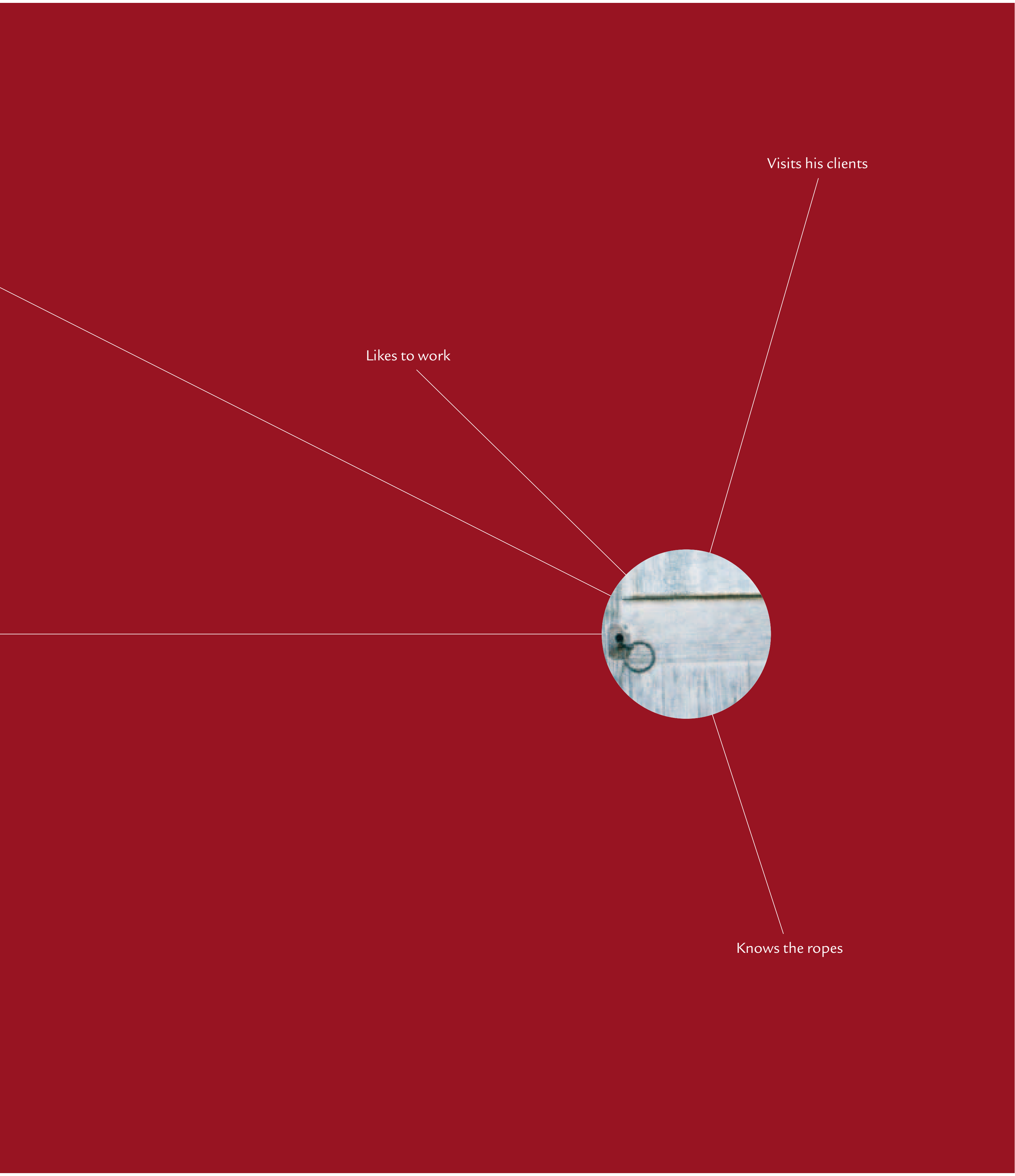
Process management The ALM process is managed centrally, with responsibility for the Group-wide ALM process resting with the Group Chief Financial Officer (Group CFO). At local level, the competent bodies implement the decisions reached at Group level in collaboration with the local Asset and Liability Committee at their business unit. All the relevant functions are represented in the ALM process: risk management, investments, actuarial services, product management and finance.

The process is designed to add value with the support of these areas. In the case of investment decisions, the contractual and non-contractual obligations towards policyholders must be heeded. Products and their prices should be in line with the investment returns that can actually be achieved, so that the promises to policyholders are fulfilled and the expectations of shareholders met. The approaches adopted by the competition must also be taken into account.

In 2005 Swiss Life consolidated the gains achieved in the ALM process at country level and developed them further. The ALM and risk budgeting processes are an integral part of the Swiss Life Group's medium-term planning.

Gets up with the lark

Pulls with the team


Visits his clients
Likes to work
Knows the ropes

"I admire people who get involved and dare to do something. Maria and Christoph Koch have turned their parental farm into a successful business in the space of a few years. They realised their dreams of an asparagus farm, then a farm shop, and finally their own restaurant – and are extremely successful."

Hans Langenegger from the general agency in Herisau (Switzerland) in discussion with Maria Koch.

Commitment is more than a word. It requires a personal effort and is based on closeness to your fellow man. In the general agency in Herisau we feel it is our duty to find the best solution every time. Our clients show their gratitude by remaining loyal to us over the years and thus contributing to our success.

Employees at the general agency in Herisau (from top left to bottom right): Thomas Rechsteiner, Patrik Lüthi, Willi Niedermann, Marcel Mathis, Daniel Jnglin, Hanspeter Fuchs, Peter Müller, Remo Eugster, Othmar Ammann, Markus Brülisauer, Hans Langenegger, Peter Graf, Heinz Gähler, Jürg Renggli

Consolidated Statement of Income

Consolidated statement of income for the years ended 31 December

In CHF million	Notes	2005	2004 restated
Income			
Insurance premiums earned	8	**13 519**	15 520
Insurance premiums ceded to reinsurers	8	**–240**	–863
Net earned insurance premiums		**13 279**	14 657
Policy fees arising from insurance contracts	8	**114**	167
Premiums earned on investment contracts with discretionary participation	8	**233**	58
Fee income	9	**774**	670
Investment income	6, 9	**5 185**	5 378
Net gains/losses on financial assets	6, 9	**2 582**	1 087
Net gains/losses on financial instruments at fair value through profit or loss	6, 9	**–687**	513
Net gains/losses on investment property	6, 16	**–24**	–47
Other income	9	**86**	–155
Total income		**21 542**	22 328
Expenses			
Insurance benefits, claims and claim settlement costs		**–14 184**	–16 013
Insurance benefits, claims and claim settlement costs ceded to reinsurers		**144**	638
Net insurance benefits, claims and claim settlement costs	9	**–14 040**	–15 375
Policyholder participation		**–2 227**	–1 553
Interest expense	9	**–862**	–911
Commission expense	9	**–1 055**	–970
Employee benefits expense	9	**–1 208**	–1 257
Depreciation and amortisation expense	18, 19	**–750**	–687
Impairment of property and equipment and intangible assets	18, 19	**–119**	–174
Acquisition and origination costs deferred	19	**572**	576
Other expenses	9	**–830**	–829
Total expenses		**–20 519**	–21 180
Profit from operations		**1 023**	1 148
Borrowing costs		**–173**	–208
Share of results of associates	6, 17	**3**	3
Profit before income tax		**853**	943
Income tax expense	26	**21**	–337
Profit for the period		**874**	606
Profit for the period attributable to			
equity holders of Swiss Life Holding		**860**	579
minority interest		**14**	27
Profit for the period		**874**	606
Basic earnings per share for the profit attributable to equity holders of Swiss Life Holding (in CHF)	7	**25.67**	18.57
Diluted earnings per share for the profit attributable to equity holders of Swiss Life Holding (in CHF)	7	**24.82**	18.27

Consolidated Balance Sheet

Consolidated balance sheet as at 31 December

In CHF million	Notes	2005	2004 restated
Assets			
Cash and cash equivalents		**14 170**	8 649
Insurance receivables and other receivables	10	**4 175**	4 669
Derivatives	11	**777**	1 643
Financial assets at fair value through profit or loss	12	**23 653**	19 363
Financial assets available for sale	13	**80 031**	77 978
Loans	14, 35	**30 280**	29 655
Financial assets held to maturity	15, 35	**4 256**	4 147
Financial assets pledged as collateral	12, 13	**1 232**	878
Investment property	16	**11 439**	11 518
Investments in associates	17	**76**	58
Reinsurance assets	24	**923**	1 031
Property and equipment	18	**1 263**	1 237
Intangible assets including intangible insurance assets	19	**3 075**	3 407
Current income tax assets		**53**	14
Deferred income tax assets	26	**79**	30
Assets held for sale	32	**1 409**	–
Other assets	20	**706**	459
Total assets		**177 597**	164 736

Consolidated balance sheet as at 31 December

In CHF million	Notes	**2005**	2004 restated
Liabilities and equity			
Liabilities			
Insurance payables and other payables	10	**4 455**	4 225
Derivatives	11	**1 881**	930
Financial liabilities at fair value through profit or loss	12	**6 919**	4 939
Investment contracts with discretionary participation	21	**23 652**	19 988
Investment contracts and deposits at amortised cost	22, 35	**7 307**	8 181
Borrowings	23, 35	**4 388**	6 313
Insurance liabilities	24	**106 909**	103 068
Discretionary participation liabilities		**7 714**	5 680
Defined benefit liabilities	25	**2 558**	2 594
Current income tax liabilities		**273**	287
Deferred income tax liabilities	26	**1 136**	1 155
Provisions	27	**212**	193
Liabilities associated with assets held for sale	32	**1 734**	–
Other liabilities	20	**506**	693
Total liabilities		**169 644**	158 246
Equity			
Share capital		**1 554**	1 689
Share premium		**2 467**	2 213
Less: treasury shares		**–42**	–38
Foreign currency translation differences		**–11**	–115
Gains/losses recognised directly in equity, net	28	**1 185**	890
Retained earnings		**2 502**	1 638
Total shareholders' equity		**7 655**	6 277
Minority interest		**298**	213
Total equity	29	**7 953**	6 490
Total liabilities and equity		**177 597**	164 736

Consolidated Statement of Cash Flow

Consolidated statement of cash flow for the years ended 31 December

In CHF million	Notes	2005	2004 restated
Cash flow from operating activities			
Profit before income tax		**853**	943
Adjustments			
Net realised and unrealised gains (–)/losses (+)		**–1 685**	–486
Depreciation and amortisation expense		**750**	687
Impairment of property and equipment and intangible assets		**119**	174
Interest and bonuses credited to contract holders		**935**	433
Equity-settled share-based payments		**4**	6
Borrowing costs		**173**	208
Other non-cash items, net		**1 095**	1 283
Profit before income tax after adjustments		**2 244**	3 248
Net cash flows from			
derivatives		**–1 436**	112
financial instruments at fair value through profit or loss		**–1 330**	–2 321
financial assets available for sale		**4 007**	–2 704
loans		**–552**	1 998
financial assets held to maturity		**–77**	–230
investment property		**139**	–204
deferred acquisition and origination costs		**–572**	–576
reinsurance assets		**7**	248
deposits under investment contracts with discretionary participation		**2 797**	1 420
investment contracts and deposits at amortised cost		**105**	–57
insurance liabilities		**1 475**	269
other operating assets and liabilities		**568**	–310
Cash generated from operations		**7 375**	893
Income taxes paid		**–179**	–72
Total net cash flow from operating activities		**7 196**	821
Cash flow from investing activities			
Purchases of investments in associates		**–20**	0
Sales of investments in associates		**0**	0
Purchases of property and equipment		**–200**	–137
Sales of property and equipment		**16**	24
Acquisitions of minority interest		**–9**	–9
Cash received on sale of UK life business		**289**	–
Acquisition of insurance portfolio	31	**11**	–
Acquisitions of subsidiaries, net of cash and cash equivalents	30	**2**	–28
Disposals of subsidiaries, net of cash and cash equivalents	30	**18**	–142
Total net cash flow from investing activities		**107**	–292
Balance carried forward to next page		**7 303**	529

Consolidated statement of cash flow for the years ended 31 December

In CHF million	2005	2004 restated
Balance carried forward from previous page	**7 303**	529
Cash flow from financing activities		
Issuance of fixed/floating rate subordinated perpetual notes	**535**	–
Issuance of convertible debt	**–**	310
Issuance of guaranteed bonds	**–**	454
Issuance of other debt instruments	**245**	563
Repayment of Guaranteed Exchangeable Monetisations of Multiple Shares (GEMMS)	**–870**	–
Repurchase of hybrid debt	**–317**	–
Redemption of other debt instruments	**–1 250**	–370
Issuance of shares	**–**	800
Reduction in par value	**–126**	–
Premiums paid/received for options on own shares	**0**	6
Sales of subscription rights on own shares	**–**	61
Purchases of treasury shares	**–133**	–262
Sales of treasury shares	**130**	235
Capital contributions from minority interest	**44**	6
Borrowing costs paid	**–174**	–220
Dividends paid to minority interest	**–9**	–11
Total net cash flow from financing activities	**–1 925**	1 572
Total change in cash and cash equivalents	**5 378**	2 101
Cash and cash equivalents as at 1 January	**8 304**	6 250
Effect of exchange rate differences	**80**	–47
Total change in cash and cash equivalents	**5 378**	2 101
Cash and cash equivalents as at 31 December	**13 762**	8 304
Cash and cash equivalents as at 1 January	**8 304**	6 250
Cash and cash equivalents for the account and risk of customers (not available for use)	**345**	364
Total cash and cash equivalents as at 1 January	**8 649**	6 614
Cash and cash equivalents as at 31 December	**13 762**	8 304
Cash and cash equivalents for the account and risk of customers (not available for use)	**408**	345
Total cash and cash equivalents as at 31 December	**14 170**	8 649
Components of cash and cash equivalents		
Cash on hand and demand deposits	**6 923**	3 263
Cash equivalents	**6 839**	5 041
Cash and cash equivalents for the account and risk of customers (not available for use)	**408**	345
Total cash and cash equivalents as at 31 December	**14 170**	8 649
Supplemental disclosures on cash flow from operating activities		
Interest received	**4 663**	4 502
Dividends received	**268**	372

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity for the year ended 31 December 2005

In CHF million	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation differences	Gains/losses recognised directly in equity, net	Retained earnings	Total shareholders' equity	Minority interest	Total equity
Balance as at 1 January		1 689	2 213	–38	–115	890	1 638	6 277	213	6 490
Changes in accounting policies	19	–	–	–	–	–	4	4	–	4
Balance as at 1 January restated		1 689	2 213	–38	–115	890	1 642	6 281	213	6 494
Changes in foreign currency translation differences		–	–	–	100	–	–	100	–3	97
Changes in gains/losses recognised directly in equity		–	–	–	–	297	–	297	3	300
Disposals of subsidiaries		–	–	–	4	–2	–	2	43	45
Profit for the period		–	–	–	–	–	860	860	14	874
Total recognised income and expense for the period		–	–	–	104	295	860	1 259	57	1 316
Reduction in par value	28	–135	9	–	–	–	–	–126	–	–126
Conversion of mandatory convertible securities (MCS)	28	–	250	–	–	–	–	250	–	250
Conversion of convertible debt	28	0	0	–	–	–	–	0	–	0
Options on own shares		–	0	–	–	–	–	0	–	0
Obligation to purchase own shares		–	–10	–	–	–	–	–10	–	–10
Equity-settled share-based payments		–	4	–	–	–	–	4	–	4
Purchases of treasury shares		–	–	–133	–	–	–	–133	–	–133
Sales of treasury shares		–	1	129	–	–	–	130	0	130
Acquisitions of minority interest		–	–	–	–	–	–	–	–7	–7
Capital contributions from minority interest		–	–	–	–	–	–	–	44	44
Dividends		–	–	–	–	–	–	–	–9	–9
Balance as at 31 December		1 554	2 467	–42	–11	1 185	2 502	7 655	298	7 953

Consolidated statement of changes in equity for the year ended 31 December 2004 (restated)

In CHF million	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation differences	Gains/losses recognised directly in equity, net	Retained earnings	Total shareholders' equity	Minority interest	Total equity
Balance as at 1 January		1 252	1 948	–21	–117	714	1 188	4 964	215	5 179
Changes in accounting policies	40	–	–216	–	–	–58	–129	–403	0	–403
Balance as at 1 January restated		1 252	1 732	–21	–117	656	1 059	4 561	215	4 776
Changes in foreign currency translation differences		–	–	–	–9	–5	–	–14	–1	–15
Changes in gains/losses recognised directly in equity		–	–	–	–	263	–	263	5	268
Disposals of subsidiaries		–	–	–	11	–24	–	–13	–3	–16
Profit for the period	40	–	–	–	–	–	579	579	27	606
Total recognised income and expense for the period		–	–	–	2	234	579	815	28	843
Issuance of shares	28	417	417	–	–	–	–	834	–	834
Issuance of MCS (adjustment)		20	–20	–	–	–	–	–	–	–
Issuance of convertible debt, equity element		–	57	–	–	–	–	57	–	57
Conversion of convertible debt		0	0	–	–	–	–	0	–	0
Equity transaction costs (capital increase), net of taxes		–	–34	–	–	–	–	–34	–	–34
Equity transaction costs (convertible debt), net of taxes		–	–1	–	–	–	–	–1	–	–1
Sales of subscription rights on own shares		–	61	–	–	–	–	61	–	61
Options on own shares		–	4	–	–	–	–	4	0	4
Equity-settled share-based payments		–	6	–	–	–	–	6	0	6
Purchases of treasury shares		–	–	–262	–	–	–	–262	–	–262
Sales of treasury shares		–	–9	245	–	–	–	236	–1	235
Acquisitions of minority interest		–	–	–	–	–	–	–	–24	–24
Capital contributions from minority interest		–	–	–	–	–	–	–	6	6
Dividends		–	–	–	–	–	–	–	–11	–11
Balance as at 31 December		1 689	2 213	–38	–115	890	1 638	6 277	213	6 490

Notes to the Consolidated Financial Statements

1 General Information

The Swiss Life Group is one of Europe's leading providers of pension and life insurance products. The Swiss Life Group offers individuals and companies comprehensive advice across a broad range of products via agents, brokers and banks in its domestic market, Switzerland, where it is market leader, and selected European markets. Multinational companies are serviced with tailor-made solutions by a network of partners in over 60 countries and regions. With Banca del Gottardo, the Swiss Life Group is also a provider of banking services. The bank, headquartered in Lugano, has an extended national and international network of offices and significant customer assets under management. Additionally, the Group offers non-life insurance products and investment management services in selected countries.

The following events had an influence on the period under review:

Restructuring of investment management activities
In 2005, the Swiss Life Group restructured its investment management activities. Investment management activities relating to investment property have been separated. For this purpose, a new company, Swiss Life Real Estate Management Holding, has been set up. The minority shareholders of Swiss Life/Rentenanstalt, representing a 0.15% interest in Swiss Life/Rentenanstalt, Zurich, were given 6.7% of the Swiss Life Real Estate Management Holding shares in exchange for their Swiss Life/Rentenanstalt shares. Therefore, Swiss Life Holding now holds a 100% interest in Swiss Life/Rentenanstalt.

Reduction in par value As approved by the shareholders at the General Meeting of Swiss Life Holding on 10 May 2005, a reduction in par value of CHF 4 per registered share was effected in 2005. The payout took place at the beginning of August 2005 and led to a reduction in the share capital of Swiss Life Holding of CHF 135 million.

Conversion of mandatory convertible securities
On 19 December 2005, the mandatory convertible securities (MCS I, 2002–2005) matured and the liability component totalling CHF 250 million was reclassified to share premium. As at 31 December 2005, no mandatory convertible securities were outstanding.

Conversion of convertible debt In 2005, convertible bonds were converted into 260 Swiss Life Holding shares in total with a corresponding increase of share capital and share premium (2004: conversion into 19 Swiss Life Holding shares).

Approval of financial statements On 27 March 2006, 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 principal accounting policies are set out below. These policies have been applied consistently to all the periods presented unless otherwise stated.

Basis of preparation

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 have been prepared on a historical cost basis, except for the following assets and liabilities which are stated at their fair value: derivatives, financial assets and liabilities at fair value through profit or loss, financial assets classified as available for sale and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Changes in accounting policies

In 2005, the Swiss Life Group adopted the IAS/IFRS as listed below. The 2004 accounts have been restated as required, in accordance with the relevant standards:

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 28 (revised 2003)	Investments in Associates
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IAS 40 (revised 2003)	Investment Property
IFRS 2 (issued 2004)	Share-based Payment
IFRS 3 (issued 2004)	Business Combinations
IFRS 4 (issued 2004)	Insurance Contracts
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards.

The adoption of IAS 8, IAS 10, IAS 16, IAS 17, IAS 27, IAS 40 (all revised in 2003) as well as IFRS 2 and IFRS 5 (both issued in 2004) did not result in substantial changes to the Swiss Life Group's accounting policies.

The changes attributable to the other standards were as follows:

IFRS 4 Insurance Contracts The adoption of IFRS 4 (issued in 2004) has resulted in the following changes:

New definition of insurance contracts Some insurance products previously considered as insurance contracts have been reclassified to investment contracts as they do not contain significant insurance risk.

Discretionary participation features Discretionary participation features (DPF) are defined in IFRS 4 Insurance Contracts as contractual rights to receive, as a supplement to guaranteed benefits, certain additional benefits. Amounts identified as DPF are accounted for as liabilities.

2 Summary of Significant Accounting Policies (continued)

Defined benefit plans covering own employees
Insurance contracts issued to a defined benefit plan covering own employees have been eliminated. The liabilities relating to these contracts are no longer included in the insurance liabilities. They are now reflected in the defined benefit liabilities.

Separate account/unit-linked assets and liabilities
The separate account/unit-linked assets and liabilities have been reclassified to other line items in the balance sheet. Separate account/unit-linked assets have been reclassified to financial assets designated as at fair value through profit or loss, investment property, derivatives and cash and cash equivalents. Separate account liabilities have been reclassified to insurance liabilities. A derivative embedded in separate account contracts has been separated for the right of the policyholder to participate in the performance of the underlying assets. These derivatives are separately recognised under derivatives. The deposit components of unit-linked liabilities have been reclassified to financial liabilities designated as at fair value through profit or loss.

IAS 39 (revised) Financial Instruments: Recognition and Measurement

Financial assets at fair value through profit or loss
The standard permits an entity to designate any financial asset or financial liability on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss (fair value option). The adoption of IAS 39 (revised) resulted in the reclassification of certain financial assets and financial liabilities as at fair value through profit or loss.

Impairment of financial assets With regard to impairment of financial assets, clarification is given that an impairment loss is recognised only when it has been incurred. IAS 39 also provides additional guidance on what events provide objective evidence of impairment for investments in equity instruments. An impairment loss on available-for-sale equity instruments cannot be reversed through profit or loss. Any subsequent increase in fair value is recognised in equity. As a Group policy, available-for-sale investments in equity securities and investment funds are assessed for impairment when the market value as at the balance sheet date is 30% or more below cost, or the market value remained below cost for the previous 12 months or longer.

The previous Group policy was as follows: Available-for-sale investments in equity securities and investment funds were assessed for impairment when the market value as at the balance sheet date was 20% or more below cost for the previous 12 months or longer.

Other new/revised standards

IAS 1 (revised) Presentation of Financial Statements
IAS 1 has affected the presentation of minority interest and other disclosures. Minority interest is now presented within equity. On the face of the income statement, minority interest is presented as an allocation of profit or loss.

IAS 21 (revised) The Effects of Changes in Foreign Exchange Rates With the adoption of this standard, the functional currencies of all entities of the Swiss Life Group have been re-evaluated. Goodwill that has arisen since 1 January 2005 has been translated at closing rates.

IAS 24 (revised) Related Party Disclosures IAS 24 has affected the identification of related parties and some other related party disclosures.

IAS 28 (revised) Investments in Associates IAS 28 has resulted in new disclosures relating to investments in associates.

IAS 32 (revised) Financial Instruments: Disclosure and Presentation IAS 32 has resulted in the re-evaluation of whether a financial instrument qualifies as a liability or as an equity instrument and in the adoption of new and expanded disclosure requirements relating to financial instruments. Due to these requirements, the mandatory convertible securities totalling CHF 250 million issued in 2002 (MCS I, 2002–2005) were retrospectively split into an equity component and a liability component.

IAS 33 (revised) Earnings per Share With the adoption of IAS 33 (revised) basic earnings per share and diluted earnings per share have been recalculated. The effect of the issuance of the mandatory convertible securities has been included in the calculation of basic earnings per share. As at 31 December 2005, no mandatory convertible securities were outstanding.

2 Summary of Significant Accounting Policies (continued)

IFRS 3 Business Combinations, IAS 36 (revised) Impairment of Assets, IAS 38 (revised) Intangible Assets
The accounting policy for goodwill has changed due to the adoption of IFRS 3, IAS 36 and IAS 38. As from 2005, goodwill is no longer amortised and accumulated amortisation as at 31 December 2004 has been eliminated. With effect from 1 January 2005 goodwill is tested for impairment on an annual basis. The carrying amount of negative goodwill as at 1 January 2005 was derecognised with a corresponding adjustment to the opening balance of retained earnings.

The effects of the changes in accounting policies are shown in note 40.

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 such transactions have been eliminated. A listing of the Group's principal subsidiaries is set out in note 42. The financial effect of acquisitions and disposals of subsidiaries is shown in note 30. 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 a share of results of associates and the ownership interest in the investment is recorded in the balance sheet at an amount that reflects its share of the net assets. The Group's share of net income is included from the date that significant influence begins until the date that significant influence ceases. Unrealised gains arising from transactions with associates, partnerships and joint ventures are eliminated to the extent of the Group's interest. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The carrying amount includes goodwill on the acquisition. A listing of the Group's principal associates, partnerships and joint ventures is shown in note 42.

Foreign currency translation and transactions

Functional and presentation currency Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group's entities operate (the "functional currency"). The consolidated financial statements are presented in millions of Swiss francs (CHF), which is the Group's presentation currency.

Foreign currency exchange rates

	31.12.2005	31.12.2004
1 EUR	**1.5550**	1.5430
1 GBP	**2.2640**	2.1820
1 USD	**1.3100**	1.1310

	Average 2005	Average 2004
1 EUR	**1.5484**	1.5438
1 GBP	**2.2647**	2.2762
1 USD	**1.2456**	1.2429

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 reported before 1 January 2005 is translated at historical exchange rates. Goodwill for which the agreement date is on or after 1 January 2005 is carried in the foreign operation's functional currency and is translated into Swiss francs at year-end 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.

2 Summary of Significant Accounting Policies (continued)

Foreign currency transactions For individual Group entities, foreign currency transactions are accounted for using the 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.

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.

Derivatives

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. 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 as liabilities when unfavourable. Gains and losses arising on remeasurement to fair value are recognised immediately in the income statement, except for derivatives that are used for cash flow hedging.

Derivatives embedded in other financial instruments or in insurance contracts which are not closely related to the host contract are separated and measured at fair value. Changes in the fair value are included in income. Derivatives embedded in insurance contracts which are closely related or which are insurance contracts themselves, such as guaranteed annuity options or guaranteed interest rates, are reflected in the measurement of the insurance liabilities. Options, guarantees and other derivatives embedded in an insurance contract that do not carry any insurance risk are separately recognised as derivatives.

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 and unrecognised firm commitments (fair value hedge), or changes in future cash flows of an asset, liability or a highly probable forecast 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. For a hedged forecast transaction that results in the recognition of a financial asset or liability, the associated gain or loss recognised in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. Any ineffective portion of the gain or loss is recognised immediately in the income statement.

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

Financial assets

"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.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset have expired or all substantially risks and rewards of ownership have been transferred or the risks and rewards have neither been transferred nor retained, but control of the asset has been transferred.

2 Summary of Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss (FVPL) Financial assets at fair value through profit or loss comprise financial assets held for trading and financial assets designated as at fair value through profit or loss. Financial assets which the Group buys with the intention to resell in the near term are classified as held for trading. Financial assets designated as at fair value through profit or loss are irrevocably designated as such when initially recognised. Financial assets are primarily designated as at fair value through profit or loss in the following instances:

- Financial assets backing insurance liabilities and liabilities arising from investment contracts for the account and risk of the Swiss Life Group's customers (contracts with unit-linked features, separate accounts).
- Certain equity instruments with a quoted price in an active market which are managed on a fair value basis.
- Certain financial assets with embedded derivatives which otherwise would have to be separated.
- Certain financial assets which share a risk with other financial instruments and give rise to opposite changes in fair value that tend to offset each other ("economic hedges").

Interest, dividend income and realised and unrealised gains and losses are included in net gains/losses on financial instruments at fair value through profit or loss.

Financial assets available for sale (AFS) Financial assets classified as available for sale are carried at fair value. Financial assets are classified as available for sale if they do not qualify as held to maturity, held for trading, loans and receivables or if they are not designated as at fair value through profit or loss. Gains and losses arising from fair value changes of AFS investments, being the difference between fair value and cost/amortised cost, are reported in equity. On disposal of an AFS investment, the cumulative gain or loss is transferred from equity to income for the period. Gains and losses on disposal are determined using the average cost method.

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments. Loans include loans originated by the Group and investments in debt instruments which are not quoted in an active market and for which no intention of sale in the near term exists. Loans are initially recognised at fair value, net of transaction costs or direct origination costs. Subsequent measurement is at amortised cost using the effective interest method.

Financial assets held to maturity (HTM) Financial assets which the Group has the ability and positive intent to hold to maturity are carried at amortised cost, using the effective interest method.

Financial assets pledged as collateral Sales or purchases of financial assets under agreements to repurchase or resell and under lending agreements are accounted for as collateralised borrowings or loans and are 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.

Financial assets that have been sold under a repurchase agreement or lent under an agreement to return them, and where the transferee has the right to sell or repledge the securities given as collateral, are reclassified to financial assets pledged as collateral.

Measurement rules are consistent with the ones for corresponding unrestricted financial assets.

Impairment of financial assets

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

Financial assets at amortised cost The Group assesses at each balance sheet date if there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is objective evidence that an impairment

2 Summary of Significant Accounting Policies (continued)

loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows from groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the asset being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in income.

Financial assets carried at fair value At each balance sheet date, an assessment is made whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of an equity instrument classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. As a Group policy, available-for-sale investments in equity securities and investment funds are assessed for impairment when the market value as at the balance sheet date is 30% or more below cost, or the market value remained below cost for the previous 12 months or longer. Impairment losses on equity instruments recognised in the income statement are not reversed through income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event after the impairment loss was recognised, the impairment loss is reversed through the income statement.

Impairment losses are recognised in income as part of net gains and losses on financial assets.

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.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for administrative purposes. If these portions could be sold separately, they are accounted for separately. If these portions could not be sold separately, the portion is investment property only if an insignificant portion is held for administrative purposes.

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 or by using discounted cash flow projections. The valuation of each investment property is reviewed by an independent recognised valuer at least every three years. Rental income is recognised on a straight-line basis over the lease term.

Investment property being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

If an item of property and equipment becomes an investment property because its use has changed, the positive difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation surplus. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Any resulting decrease in the carrying amount of the property is recognised in net profit or loss for the period. Upon the disposal of such

2 Summary of Significant Accounting Policies (continued)

investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through income.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

Insurance operations

Definition of insurance contracts Insurance contracts are contracts under which one party accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the Group issues and reinsurance contracts that the Group holds. As a Group policy, Swiss Life considers those contracts to be insurance contracts that require the payment of additional benefits in excess of 10% of the benefits that would be payable if the insured event had not occurred, excluding scenarios that lack commercial substance.

The Group has assessed the significance of insurance risk on a contract-by-contract basis. Contracts that do not transfer insurance risk at inception but that transfer insurance risk at a later date are classified as insurance from inception unless the Group remains free to price the insurance premium at a later date. In this case, the contract is classified as insurance when the insurance premiums are specified. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Investment contracts with and without discretionary participation features For investment contracts that contain discretionary participation features the same recognition and measurement principles as for insurance contracts apply. For investment contracts without discretionary participation features the recognition and measurement rules for financial instruments apply.

Recognition and measurement principles Subject to certain limitations, the Group uses its existing accounting policies for the recognition and measurement of insurance contracts and investment contracts with discretionary participation features that it issues (including related deferred acquisition costs and related intangible assets) and reinsurance contracts that it holds. The existing accounting policies for recognition and measurement have been based on the requirements of the Generally Accepted Accounting Principles in the United States (US GAAP). The accounting policies for insurance contracts and investment contracts with discretionary participation features have been modified as appropriate to be consistent with the IFRS requirements. Guidance dealing with similar and related issues, definitions, recognition and measurement criteria for assets, liabilities, income and expenses as set out in the IASB Framework for the Preparation and Presentation of Financial Statements has been considered.

Discretionary participation features (DPF) Discretionary participation features are defined in IFRS 4 Insurance Contracts as contractual rights to receive, as a supplement to guaranteed benefits, additional benefits which are likely to be a significant portion of the total contractual benefits and whose amount or timing is contractually at the discretion of the issuer. These DPF are contractually based on the performance of a specified pool of contracts or a specified type of contract or on the realised and unrealised investment returns on a specified pool of assets held by the issuer or on the profit or loss of the company. The unrealised investment returns comprise gains/losses recognised directly in equity.

The bonuses which are allocated to the policyholders in the participating insurance business (insurance and investment contracts) in Switzerland, France, Germany, Belgium, Luxembourg, Italy and partially in the Netherlands generally follow the definition of DPF as set out in IFRS 4 Insurance Contracts.

IFRS 4 Insurance Contracts is silent on the measurement of the amounts identified as DPF. This topic will be solved in phase II of the project of the International Accounting Standards Board on insurance contracts.

2 Summary of Significant Accounting Policies (continued)

The accounting for the amounts identified as DPF has been done as follows:

In some jurisdictions, a statutory minimum distribution ratio ("legal quote") exists for certain types of business. Geographical areas in which the Swiss Life Group is present and in which such a statutory minimum distribution ratio ("legal quote") exists are as follows: Switzerland (only group business subject to "legal quote"), France, Germany, the Netherlands and Italy. For these contracts, the contractual right to receive as a supplement to guaranteed benefits, additional benefits which are likely to be a significant portion of the total contractual benefits, arises

- when such additional benefits which arise from the application of the statutory minimum distribution ratios are allocated to the policyholders. These amounts are accounted for as liabilities.
- when valuation differences arise on the assets and liabilities relating to the respective insurance portfolio. To the extent a statutory minimum distribution ratio ("legal quote") exists, the rights arising from DPF relating to valuation differences in respect of the relevant assets and liabilities are accounted for as liabilities ("shadow accounting"). The liabilities are measured using the statutory minimum distribution ratio ("legal quote").

In jurisdictions where no statutory minimum distribution ratio ("legal quote") exists, no amounts identified as DPF relating to valuation differences on the assets and liabilities on the respective insurance portfolios have been separated. Such amounts have been included within shareholders' equity. For these contracts, the contractual right to receive, as a supplement to guaranteed benefits, additional benefits which are likely to be a significant portion of the total contractual benefits, arises when management ratifies the allocation of policyholder bonuses. When ratified by management, a corresponding liability is set up. To the extent discretion with regard to amount and/or timing is involved, these amounts are included within discretionary participation liabilities. In that respect the policyholder bonus reserve set up in the statutory accounts for these contracts is regarded as discretionary.

As the liabilities to policyholders arising from the insurance business are fully recognised, no further liabilities relating to the rights arising from DPF have been set up.

The statutory minimum distribution ratios ("legal quote") relating to the Swiss Life Group's operations are as follows:

Switzerland Group business subject to "legal quote": At least 90% of the calculated income on the savings, risk and cost components minus the expenses thereof must be allocated to the policyholders.

All other business: No "legal quote".

France 85% of the investment result and 90% of any other result are allocated to the policyholders at the minimum.

Germany 90% of the after-income-tax pre-refund statutory surplus is allocated to the policyholders.

The Netherlands Several systems for policyholder participation, such as systems based on guaranteed interest rates and proportional profit sharing, are in place.

Belgium/Luxembourg No statutory minimum distribution ratios are in place.

Non-discretionary participation features Certain policyholder participation systems do not satisfy the criteria for discretionary participation features. These policyholder bonuses might be guaranteed elements. Some policyholder bonuses are based on benchmark interest rates which are credited to the policyholders. For certain products, policyholder bonuses are based on the development of biometric parameters such as mortality and morbidity. These policyholder bonuses are allocated based on the risk result of the contracts involved. These amounts are accrued as liabilities when ratified by management.

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

Non-discretionary participation features are included in insurance liabilities.

2 Summary of Significant Accounting Policies (continued)

Income and related expenses from insurance contracts and investment contracts with discretionary participation features Premiums from traditional life insurance contracts are recognised when due from the policyholder. Insurance liabilities 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, administrative 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.

Insurance liabilities and liabilities from investment contracts with discretionary participation features

Future life policyholder benefit liabilities For participating life insurance contracts for which the contribution principle applies to the allocation of the policyholder bonus, future life policyholder 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 policyholder benefits, in proportion to the estimated gross margins.

Future life policyholder benefit liabilities for other traditional life insurance contracts and investment contracts with discretionary participation features 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 show that the carrying amount of the insurance liabilities together with anticipated future revenues (less related deferred acquisition costs (DAC) and related intangible assets) are not adequate to meet the future obligations and to recover the unamortised DAC or intangible assets, the entire deficiency is recognised in profit or loss, initially by reducing the unamortised DAC or intangible assets and subsequently by increasing the insurance liabilities. The liability adequacy test is performed at each reporting date in accordance with the loss recognition test under US GAAP and considers current estimates of future cash flows including those resulting from embedded options and guarantees.

Policyholder deposits For certain investment-type contracts, savings premiums collected are reported as deposits (deposit accounting). The liabilities relating to these 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. Deposit accounting is used for investment contracts at amortised cost without DPF, investment contracts at fair value without DPF, certain investment contracts with DPF and universal life contracts.

Liabilities for claims and claim settlement costs Liabilities for unpaid claims and claim settlement costs are for future payment obligations under insurance claims for which 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. Liabilities for unpaid claims and claim settlement costs 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)

Embedded options and guarantees in insurance contracts Insurance contracts often contain embedded derivatives. Embedded derivatives which are not closely related to their host insurance contracts are separated and measured separately at fair value. Exposure to embedded options and guarantees in insurance contracts which are closely related or which are insurance contracts themselves, such as guaranteed annuity options or guaranteed interest rates, are reflected in the measurement of the insurance liabilities.

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 in the consolidated balance sheet and income statement 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 are included in financial assets or liabilities. A deposit asset or liability is recognised based on the consideration paid or received, less any explicitly identified premiums or fees retained by the reinsured. These contracts are primarily measured at amortised cost using the effective interest method with future cash flows being estimated to calculate the effective interest rate.

Separate account/unit-linked contracts

These contracts represent life insurance and investment contracts whose risk is borne according to their specific investment objectives by the policyholders. Separate account/unit-linked assets are managed for the account and risk of the Swiss Life Group's customers. Unit-linked contracts are insurance or investment contracts where the insurance benefits are linked to the unit values of investment funds. Certain unit-linked contracts contain guaranteed minimum insurance benefits. Separate account contracts are insurance contracts with a separated part that is managed for the account and risk of the customer.

Assets associated with separate account/unit-linked contracts are included in financial assets designated as at fair value through profit or loss, investment property, derivatives and cash and cash equivalents. The related income and gains and losses are included in the income statement under the respective line items. Separate account liabilities are included in insurance liabilities. A derivative embedded in separate account contracts has been separated for the right of the policyholder to participate in the performance of the underlying assets and is included in derivatives. The deposit components of unit-linked liabilities are included in financial liabilities designated as at fair value through profit or loss ("unbundling of deposit components"). The components of the unit-linked liabilities that cover insurance risk, if any, are carried under insurance liabilities. Administrative and surrender charges are included in policy fee income.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Land is carried at cost and not depreciated. Depreciation is principally calculated using the straight-line method to allocate their cost to their residual values over the assets' estimated useful life as follows: buildings 25 to 50 years; furniture and fixtures five to ten years; computer hardware three to five years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred. Borrowing costs directly attributable to the construction or acquisition of a qualifying asset are capitalised as part of the cost of that asset. Realised gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

2 Summary of Significant Accounting Policies (continued)

Leases

Operating Lease The Group primarily enters into operating leases for the rental of equipment. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period the lease becomes onerous.

Finance 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 is depreciated over its estimated useful life. The corresponding finance lease obligations are recorded as liabilities.

Investment management

Revenue consists principally of investment management fees, commission revenue from distribution, sales of investment fund units and custody account fees. Such revenue is recognised when earned, i.e. when the services are rendered.

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 unit holders 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.

Incremental costs that are directly attributable to securing an investment management contract are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. Such deferred origination costs are included in intangible assets. Deferred investment management fees are included in other liabilities.

Intangible assets

Goodwill The Group's acquisitions of other companies are accounted for under the purchase method. Goodwill acquired prior to 1995 was charged directly to equity.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities, if applicable, at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on associates and joint ventures is included in the carrying amount of the investment.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill is immediately recognised in profit and loss.

Present value of future profits (PVP) arising from acquired insurance contracts and investment contracts with discretionary participation features On acquisition of a portfolio of insurance contracts or a portfolio of investment contracts with discretionary participation features (DPF), either directly from another insurer or through the acquisition of a subsidiary undertaking, the group recognises an intangible asset representing the present value of future profits (PVP) embedded in these contracts acquired. The PVP is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. For acquired insurance and investment contracts with DPF, future positive cash flows generally include net valuation premiums while future negative cash flows include policyholders' benefits and certain maintenance expenses.

PVP is amortised in proportion to gross profits or gross margins over the effective life of the acquired contracts, which generally ranges from 20 to 30 years. Realised gains/losses are thereby taken into account as well as gains/losses recognised directly in equity (unrealised gains/losses). If these gains/losses were to be realised, the gross profits or gross margins used to amortise PVP would be affected.

2 Summary of Significant Accounting Policies (continued)

Therefore, an adjustment relating to these unrealised gains/losses is recognised in equity and is also reflected in the amount of PVP in the balance sheet ("shadow accounting").

PVP is subject to recoverability tests. The effect of changes in estimated gross profits or margins on unamortised PVP is reflected in "expenses for amortisation and impairment write-downs of PVP" in the period in which such estimates of expected future profits or margins are revised.

Deferred acquisition costs (DAC) Costs that vary with and are directly related to the acquisition of new and renewed insurance contracts and investment contracts with discretionary participation features, including commissions, underwriting costs, agency and policy issue expenses, are deferred. Deferred acquisition costs 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 and investment contracts with DPF are amortised in proportion to the expected premiums.

Deferred acquisition costs for investment-type contracts such as universal life contracts are amortised over the life of the contract based on the present value of the estimated gross profits or gross margins 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.

When DAC is amortised in proportion to gross profits or gross margins on the acquired contracts, realised gains/losses are taken into account as well as gains/losses recognised directly in equity (unrealised gains/losses). If these gains/losses were to be realised, the gross profits or gross margins used to amortise DAC would be affected. Therefore, an adjustment relating to these unrealised gains/losses is recognised in equity and is also reflected in the amount of DAC in the balance sheet ("shadow accounting").

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.

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

Deferred origination costs (DOC) Incremental costs directly attributable to securing investment management contracts are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

Deferred origination costs are generally amortised on a straight-line basis over the life of the contracts unless another method is more appropriate.

Customer relationships Customer relationships consist of established relationships with customers through contracts that have been acquired in a business combination or non-contractual customer relationships that meet the requirement for separate recognition. They have a definite useful life of generally 5 to 20 years. Amortisation is calculated using the straight-line method over their useful lives.

Computer software Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis of the expected useful life up to three years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development team's employee costs and an appropriate portion of relevant overheads.

2 Summary of Significant Accounting Policies (continued)

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of three years.

Other intangible assets Other intangible assets primarily consist of contractual trademarks and brand names. They have a definite useful life of generally 5 to 20 years. Amortisation is calculated using the straight-line method over their useful lives to allocate the cost of trademarks and brand names.

Impairment of non-financial assets

For non-financial assets the recoverable amount is measured as the higher of the fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. "Value in use" is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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 balance sheet liability method. Current income taxes and deferred income taxes are charged or credited directly to equity, if the income taxes relate to items that are credited or charged in the same or a different period, directly to equity.

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. Deferred tax liabilities represent income taxes payable in the future in respect of taxable temporary differences.

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.

Where the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority, the corresponding assets and liabilities are presented on a net basis.

Assets held for sale and associated liabilities

A disposal group consists of a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with these assets. Non-current assets classified as held for sale and disposal groups are measured at the lower of the carrying amount and the fair value less costs to sell. The carrying amount will be recovered through a highly probable sale transaction rather than through continuing use. Assets held for sale and the associated liabilities are presented separately in the balance sheet.

Financial liabilities

Financial liabilities are recognised in the balance sheet when the Swiss Life Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities at fair value through profit or loss Financial liabilities at fair value are irrevocably designated as at fair value at initial recognition. Financial liabilities are designated as at fair value through profit or loss in the following instances:

- Financial liabilities for the account and risk of the Swiss Life Group's customers where the insurance benefits are linked to unit values of investment funds.
- Financial liabilities backing assets in order to reduce or eliminate a measurement or recognition inconsistency.

2 Summary of Significant Accounting Policies (continued)

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 method. Any difference between the 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 separated 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 at issuance 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.

Investment contracts and deposits at amortised cost For investment contracts and deposits with fixed and guaranteed terms the amortised cost basis is used. Initial recognition is at the proceeds received, net of transaction cost incurred. Subsequently, they are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the deposits.

Employee benefits

Post-employment 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.

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.

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.

Insurance contracts issued to a defined benefit pension plan covering own employees have been eliminated. These plans are typically partially funded as certain assets relating to these plans qualify as plan assets and are not required to be eliminated.

The Group recognises the contribution payable to a defined contribution plan in exchange for the services of the employees rendered during the period as an expense and as a liability after deducting any contribution already paid.

Healthcare benefits 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.

Share-based payments The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares is recognised in income with a corresponding increase in equity. As the fair value of the services received cannot reliably be measured, the value is measured by reference to the fair value of the equity instruments granted and the price the employees are required to pay.

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

2 Summary of Significant Accounting Policies (continued)

obligation that may, but probably will not, require an outflow of resources or the amount of the obligation cannot be measured with sufficient reliability.

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.

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. The effect of mandatorily convertible securities is included in the calculation of basic earnings per share.

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 share options issued. Potential or contingent share issuance is treated as dilutive when conversion to shares would decrease earnings per share.

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.

Forthcoming changes in accounting policies

In December 2004, the International Accounting Standards Board issued IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease. The interpretation explains that the requirements of IAS 17 Leases have wider applicability than just those agreements described as leases. Elements of some supply and outsourcing agreements may need to be treated as leases. The Interpretation will be adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. The Swiss Life Group expects that the impact from the adoption of this Interpretation will not be material as the Swiss Life Group does not have significant supply and outsourcing agreements.

In December 2004, an amendment to IAS 19 Employee Benefits, covering actuarial gains and losses, group plans and disclosures, was issued by the International Accounting Standards Board. The amendment introduces an additional recognition option for actuarial gains and losses arising in post-employment defined benefit plans. The amendment clarifies that a contractual agreement between a multi-employer plan and participating employers that determines how a surplus is to be distributed or a deficit funded will give rise to an asset or liability. The amendment also requires additional disclosures. The Swiss Life Group will adopt this amendment for annual periods beginning on 1 January 2006. No financial impact is expected from the adoption of this amendment as the Swiss Life Group does not intend to change the accounting policy for the recognition of actuarial gains and losses and does not participate in any multi-employer plans. The adoption of this amendment will impact the disclosures presented in the consolidated financial statements.

In April 2005, the International Accounting Standards Board issued an amendment to IAS 39 Financial Instruments: Recognition and Measurement covering the hedge accounting provisions. The foreign currency risk of a highly probable forecast intragroup transaction can qualify as a hedged item in the consolidated financial statements. The amendment will be adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. No material financial impact is expected from the adoption of this amendment as the Swiss Life Group does not currently have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements.

In June 2005, the International Accounting Standards Board issued an amendment to the fair value option in IAS 39 Financial Instruments: Recognition and Measurement. The amendment limits the use of the fair value option to those financial instruments that meet certain conditions. The Swiss Life Group will adopt this amendment for annual periods beginning on 1 January 2006. No material financial impact is expected from the adoption of this amendment as the Group believes that it is compliant with the amended criteria for the designation of financial instruments at fair value through profit or loss.

In August 2005, the International Accounting Standards Board issued an amendment to IAS 39 Financial Instruments: Recognition and Measurement dealing with requirements associated with financial guarantee contracts. The

2 Summary of Significant Accounting Policies (continued)

amendment is intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. The amendment will be adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. No material financial impact is expected from the adoption of this amendment as the Group believes that it is compliant with the new requirements.

In August 2005, the International Accounting Standards Board issued IFRS 7 Financial Instruments: Disclosures and a complementary amendment to IAS 1 Presentation of Financial Statements. The IFRS introduces new requirements to improve the information on financial instruments. The amendment to IAS 1 introduces requirements for disclosures about capital. IFRS 7 Financial Instruments: Disclosures and the amendment to IAS 1 Presentation of Financial Statements will be adopted by the Swiss Life Group for annual periods beginning on 1 January 2007. The adoption of the IFRS and the amendment will result in expanded disclosures associated with financial instruments such as a sensitivity analysis to market risk and the new capital disclosures required by IAS 1 Presentation of Financial Statements.

In December 2005, an amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates was issued by the International Accounting Standards Board. The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. The amendment will be adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. No material financial impact is expected from the adoption of this amendment as the Group currently does not have monetary items that form part of a net investment in a foreign operation with differences to be recognised in equity as required by the amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates.

In January 2006, the International Accounting Standards Board issued IFRIC Interpretation 8 Scope of IFRS 2. The interpretation clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The Swiss Life Group will adopt the IFRIC Interpretation for annual periods beginning on 1 January 2007. No material financial impact is expected from the adoption of this amendment as the Group currently does not have any transactions that fall under the scope of the IFRIC Interpretation.

The following new International Financial Reporting Standards, Interpretations or amendments to International Financial Reporting Standards, issued but not yet effective, are not relevant to the Swiss Life Group:

IFRS 1 (amendment) First-time Adoption of International Financial Reporting Standards. The Swiss Life Group is not a first-time adopter of International Financial Reporting Standards.

IFRS 6 (amendment) Exploration for and Evaluation of Mineral Resources. The IFRS is not relevant to the Group's operations.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The IFRS is not relevant to the Group's operations.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. The IFRS is not relevant to the Group's operations.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. The Swiss Life Group does not have any operations in hyperinflationary economies.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

Certain reported amounts of assets and liabilities are subject to estimates and assumptions. Estimates and judgements by management are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

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

- 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 majority of the private equity investments are classified as available for sale or as at fair value through profit or loss. Investments are normally valued at market if the market value represents the fair value. If no market value is available, fair value is estimated considering various factors such as purchase price, estimated liquidation value, restrictions on transferability, prices received in recent significant private placements of the same issuer, prices of investments relating to comparable companies engaged in similar business, and changes in the financial condition and prospects of the issuer.
- The fair values of loans, which are carried at amortised cost, are 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 fair value of other investments is generally based on quoted market prices.
- The fair value of financial reinsurance assets and liabilities, which are carried at amortised cost, is estimated using discounted cash flow calculations.
- The fair value of investment contracts and deposits, which are carried at amortised cost, is 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.
- The fair value of borrowings, which are carried at amortised cost, is 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 fair value of liabilities arising from insurance and investment contracts for the account and risk of the Swiss Life Group's customers is calculated based on the valuation of the underlying assets.
- The fair value of investment contracts with discretionary participation features cannot reliably be determined. It is impracticable to determine the fair value of such instruments due to the lack of a reliable basis to measure such supplemental discretionary returns. IFRS 4 Insurance Contracts is silent on the measurement of the amounts identified as DPF.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Fair value of non-financial instruments

The fair value of investment property is based on current prices in an active market for properties of a similar nature, condition or location – suitably adjusted. Recent prices for similar properties on less active markets, with suitable adjustments for differences, are also used for the estimation of the fair values. Furthermore, investment property is valued using discounted cash flow projections if reliable estimates and reasonable assumptions can be made, based on external evidence. Future expenditure that will improve the property is not included in the fair value. The risk-adjusted discount rates used in the cash flow projections reflect the specific nature and location of the individual properties. The cash flows used in the projections are based on actual rental income on a sustainable basis. Cost is reflected in the cash flows based on experience and budgets approved by management. The cash flows include inflation. External valuations for individual real estate assets are performed on a rotating basis, but at a minimum each property is evaluated every three years.

Impairment of available-for-sale equity instruments

At each balance sheet date, an assessment is made whether there is objective evidence that an available-for-sale equity instrument is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. Judgement is used in determining what a significant or prolonged decline is. As a Group policy, available-for-sale investments in equity securities and investment funds are assessed for impairment when the market value as at the balance sheet date is 30% or more below cost, or the market value remained below cost for the previous 12 months or longer.

Insurance liabilities

Past experience, adjusted for the effect of current developments and probable trends, is assumed to be an appropriate basis for predicting future events. Management's estimates for incurred but not reported losses are continually reviewed and updated and adjustments resulting from this review are reflected in income.

Insurance liabilities are established by using appropriate estimates and assumptions on mortality, morbidity and interest rates. With regard to mortality these estimates are typically based on standard industry tables. Management makes allowance for expected improvements due to continued advances in medical science and social conditions. An increase in morbidity results in higher benefits for contracts where disability is the insured risk. The most significant factors which could increase the frequency of such claims are epidemics (such as AIDS or SARS) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in more claims than expected.

For long-term insurance contracts and investment contracts with discretionary participation features with fixed and guaranteed terms, the definition of estimates occurs in two stages. At inception of the contract, estimates of future deaths, surrender, investment returns, and administrative expenses are made and form the assumptions used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty (adverse deviation) is added to these assumptions. These assumptions are "locked-in" for the duration of the contract. Subsequently, new estimates are made each year in order to determine whether the liabilities so established are adequate in the light of these latest estimates. If the liabilities are considered adequate the assumptions are not altered. If the liabilities are not adequate, the assumptions for the calculation of the liabilities are altered ("unlocked") to reflect the latest estimates; no margin is added to the assumptions in this event. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

For insurance contracts and investment contracts with discretionary participation features without fixed and guaranteed terms, future premiums can be increased in line with experience. The assumptions used to determine the liabilities do not contain margins and are not locked-in but are updated at each reporting date to reflect the latest estimates.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Mortality and longevity
The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which significant exposure to mortality risk exists. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where exposure to longevity risk exists.

Tables based on statistics by national insurance associations, national and standard industry tables or internal generation tables reflecting own company records are used for the life business with regard to mortality and longevity.

The mortality and annuity tables used generally reflect the experience in the market or reflect own company records. Recent historical mortality experience as well as expected future trends in mortality are reflected. For longevity, the trend of the recent decades is considered.

In Switzerland, mortality tables are usually reviewed every five years when new statistics from the Swiss Insurance Association become available. The tables are updated for significant changes.

For the mandatory part of the group life insurance business in Switzerland (BVG, Swiss occupational plans), the legally stipulated conversion rate is applied whereas in the non-mandatory part of the BVG business a reduced conversion rate calculated using actuarial assumptions is applied.

Morbidity and disability
For individual and group life business in Switzerland internal tables are in place. In the individual life business, for certain contracts tariffs can be adjusted with regard to disability. The internal tables reflect the loss experience of the past. In the individual life business, reactivation is considered whereas in the group life business also increased mortality is taken into account. In the individual business the disability tables reflect the average situation of the past in the Swiss market based on Swiss Insurance Association statistics. In the individual life business disability tables are usually reviewed every five years when new statistics from the Swiss Insurance Association become available. The tables are updated for significant changes.

In the group life business, tariffs can be adjusted due to loss experience with regard to disability each year. In the group life business, the tables are based on own company records reflecting loss experience. Especially in the group life business changes in the labour market may have a significant influence on disability. The tables are updated for significant changes.

In other markets, standard industry disability tables, national statistics and own company records are applied. Standard pricing principles are typically validated against the client-specific disability experience.

Disability coverage comprises annuities and waiver of premiums. Benefits are typically paid after a waiting period. In certain countries, the benefits are paid based on medical examinations and on different levels of disability (ranging from fully disabled with no expectations of recovery to partially disabled with full recovery expected).

Surrender
In certain contracts the policyholder has the option to surrender the contract for a specified cash surrender value or a value which varies in response to the change in a financial variable such as an equity price or index. In certain countries and markets, surrender is not explicitly taken into account for the pricing of insurance contracts and investment contracts with discretionary participation. In other businesses assumptions based on own company records are used. The assumptions vary by product type and policy duration.

Expense base and inflation
In Switzerland, expenses are taken into account in the pricing of the contracts using internal statistics. Such calculated amounts are allocated to the different lines of business. Inflation is reflected in these calculations.

In certain markets, expense allocation is based on an activity-based cost methodology. Recurrent costs are subdivided into four main cost categories: acquisition costs, administration costs, pay out costs and asset management costs.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Investment returns

Assumptions relating to investment returns are based on the strategic asset allocation. For certain asset classes, a fixed return is used, centrally set by the Group. From this gross investment return, projected asset management fees are deducted to obtain a net investment return.

The technical interest rates in Switzerland are based on assumptions with regard to guaranteed benefits and discount rates. In certain countries, the insurance liabilities are based on the guaranteed interest rates.

Impairment of goodwill

Goodwill is tested for impairment annually (in autumn), or more frequently, if events or changes in circumstances indicate that goodwill might be impaired. The recoverable amounts of the business relating to the goodwill have been determined based on value-in-use calculations. These calculations require the use of estimates which are set out in note 19.

Defined benefit liabilities

The Swiss Life Group uses certain assumptions relating to the calculation of the defined benefit liabilities. These assumptions comprise the expected return on plan assets which is based on estimates relating to the projection of the returns of the investments held, as well as future salary increases and future pension increases which have been derived from estimates based on past experience. The assumptions are set out in note 25.

Income taxes

Deferred tax assets are recognised for unused tax-loss carryforwards and unused tax credits to the extent that realisation of the related tax benefit is probable. The assessment of the probability with regard to the realisation of the tax benefit involves assumptions based on the history of the entity and budgeted data for the future.

Provisions

The recognition of provisions involves assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits. To the extent an outflow of resources embodying economic benefits is probable and a reliable estimate can be made, a provision is recognised.

4 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 four categories: Insurance, Banking, Investment Management and Other. The organisational and management structure within the "Insurance" segment is based on geography whereas the organisational and management structure of other segments is primarily based on products/services.

- The "Insurance" segment consists of life and non-life insurance operations. 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. Non-life operations principally include property and casualty, liability and motor insurance. The Group's strategy focuses primarily on the life and pension business in a number of key European markets, such as Switzerland, France, Germany, the Netherlands, Belgium, Luxembourg, Liechtenstein and Italy. Non-life operations include operations in France, Belgium and Italy. The non-life operations in Switzerland («La Suisse») were sold in July 2005 (accident & health business) and in August 2005 (motor insurance business and property and liability lines). Non-life operations are no longer disclosed as a separate segment as these operations are no longer strategically relevant to the Group and do not fulfill the critical thresholds for separate disclosure. The "Insurance" segment also includes a number of companies which hold investments primarily pertaining to life insurance.
- "Banking" involves the management of assets for high net worth individuals, as well as the provision of corresponding special asset management services. "Banking" covers the Group's banking operations.
- "Investment Management" refers to the management of assets for institutional clients and the Group's insurance business, as well as the provision of expert advice for such clients.
- "Other" refers principally to various service companies and general corporate functions not specifically related to any of the other segments.

Secondary segmentation is based on geographical areas, covering the following segments: Switzerland, France, Germany, the Netherlands, Belgium 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 and balance sheet for the primary segments are given on the pages below:

4 Segment Information (continued)

Statement of income for the year ended 31 December 2005

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Income						
Insurance premiums earned	13 559	–	–	–	–40	13 519
Insurance premiums ceded to reinsurers	–240	–	–	–	–	–240
Net earned insurance premiums	13 319	–	–	–	–40	13 279
Policy fees arising from insurance contracts	114	–	–	–	–	114
Premiums earned on investment contracts with discretionary participation	233	–	–	–	–	233
Fee income	419	312	173	9	–139	774
Investment income	4 892	282	1	31	–21	5 185
Net gains/losses on financial assets	2 435	146	0	0	1	2 582
Net gains/losses on financial instruments at fair value through profit or loss	–779	81	–	12	–1	–687
Net gains/losses on investment property	–24	–	–	–	–	–24
Other income	312	–132	6	–89	–11	86
Total income	20 921	689	180	–37	–211	21 542
of which inter-segment	*–46*	*130*	*91*	*36*	*–211*	
Expenses						
Insurance benefits, claims and claim settlement costs	–14 231	–	–	–	47	–14 184
Insurance benefits, claims and claim settlement costs ceded to reinsurers	144	–	–	–	–	144
Net insurance benefits, claims and claim settlement costs	–14 087	–	–	–	47	–14 040
Policyholder participation	–2 228	–	–	–	1	–2 227
Interest expense	–778	–94	0	0	10	–862
Commission expense	–1 035	–17	–27	0	24	–1 055
Employee benefits expense	–950	–195	–55	0	–8	–1 208
Depreciation and amortisation expense	–729	–20	–1	–	–	–750
Impairment of property and equipment and intangible assets	–53	–66	–	–	–	–119
Acquisition and origination costs deferred	572	–	–	–	–	572
Other expenses	–715	–180	–36	–9	110	–830
Total expenses	–20 003	–572	–119	–9	184	–20 519
of which inter-segment	*–147*	*–1*	*–29*	*–7*	*184*	
Segment result	918	117	61	–46	–27	1 023
of which inter-segment	*–193*	*129*	*62*	*29*	*–27*	
Borrowing costs	–108	–42	0	–50	27	–173
Share of results of associates	2	–2	0	3	–	3
Income tax expense						21
Profit for the period						874
Additions of property and equipment and intangible assets	844	7	0	–	–	851

4 Segment Information (continued)

Statement of income for the year ended 31 December 2004 (restated)

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Income						
Insurance premiums earned	15 547	–	–	–	–27	15 520
Insurance premiums ceded to reinsurers	–863	–	–	–	–	–863
Net earned insurance premiums	14 684	–	–	–	–27	14 657
Policy fees arising from insurance contracts	167	–	–	–	–	167
Premiums earned on investment contracts with discretionary participation	58	–	–	–	–	58
Fee income	325	289	151	6	–101	670
Investment income	5 130	240	1	31	–24	5 378
Net gains/losses on financial assets	1 110	–25	0	2	–	1 087
Net gains/losses on financial instruments at fair value through profit or loss	467	46	1	–1	–	513
Net gains/losses on investment property	–47	–	–	–	–	–47
Other income	–166	19	9	–2	–15	–155
Total income	21 728	569	162	36	–167	22 328
of which inter-segment	*60*	*11*	*66*	*30*	*–167*	
Expenses						
Insurance benefits, claims and claim settlement costs	–16 044	–	–	–	31	–16 013
Insurance benefits, claims and claim settlement costs ceded to reinsurers	638	–	–	–	–	638
Net insurance benefits, claims and claim settlement costs	–15 406	–	–	–	31	–15 375
Policyholder participation	–1 555	–	–	–	2	–1 553
Interest expense	–860	–53	–	0	2	–911
Commission expense	–956	–15	–21	0	22	–970
Employee benefits expense	–997	–205	–49	–	–6	–1 257
Depreciation and amortisation expense	–617	–70	0	0	–	–687
Impairment of property and equipment and intangible assets	–174	–	–	–	–	–174
Acquisition and origination costs deferred	576	–	–	–	–	576
Other expenses	–698	–153	–33	–33	88	–829
Total expenses	–20 687	–496	–103	–33	139	–21 180
of which inter-segment	*–116*	*–2*	*–16*	*–5*	*139*	
Segment result	1 041	73	59	3	–28	1 148
of which inter-segment	*–56*	*9*	*50*	*25*	*–28*	
Borrowing costs	–171	–33	0	–32	28	–208
Share of results of associates	3	0	0	–	–	3
Income tax expense						–337
Profit for the period						606
Additions of property and equipment and intangible assets	715	30	0	0	–	745

4 Segment Information (continued)

Balance sheet as at 31 December 2005

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Assets						
Cash and cash equivalents	15 159	2 889	73	733	–4 684	14 170
Insurance receivables and other receivables	4 055	144	32	28	–84	4 175
Derivatives	518	242	–	28	–11	777
Financial assets at fair value through profit or loss	21 892	1 761	–	–	–	23 653
Financial assets available for sale	79 413	595	11	12	–	80 031
Loans	23 601	6 996	9	777	–1 103	30 280
Financial assets held to maturity	4 203	44	9	–	–	4 256
Financial assets pledged as collateral	–	1 232	–	–	–	1 232
Investment property	11 439	–	–	–	–	11 439
Reinsurance assets	923	–	–	–	–	923
Property and equipment	1 118	143	2	–	–	1 263
Intangible assets including intangible insurance assets	2 660	415	0	–	–	3 075
Assets held for sale	2	1 407	–	–	–	1 409
Other assets	702	289	24	8	–317	706
Segment assets	165 685	16 157	160	1 586	–6 199	177 389
Investments in associates						76
Income tax assets						132
Total assets						177 597
Liabilities and equity						
Liabilities						
Insurance payables and other payables	4 119	346	19	34	–63	4 455
Derivatives	1 571	321	–	–	–11	1 881
Financial liabilities at fair value through profit or loss	6 204	715	–	–	–	6 919
Investment contracts with discretionary participation	23 652	–	–	–	–	23 652
Investment contracts and deposits at amortised cost	2 661	9 439	–	–	–4 793	7 307
Insurance liabilities	107 243	–	–	–	–334	106 909
Discretionary participation liabilities	7 714	–	–	–	–	7 714
Defined benefit liabilities	2 226	298	34	–	–	2 558
Provisions	169	34	9	–	–	212
Liabilities associated with assets held for sale	–	1 734	–	–	–	1 734
Other liabilities	464	19	2	24	–3	506
Segment liabilities	156 023	12 906	64	58	–5 204	163 847
Borrowings						4 388
Income tax liabilities						1 409
Equity						7 953
Total liabilities and equity						177 597

4 Segment Information (continued)

Balance sheet as at 31 December 2004 (restated)

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Assets						
Cash and cash equivalents	6 750	1 285	47	607	–40	8 649
Insurance receivables and other receivables	4 302	132	42	295	–102	4 669
Derivatives	1 316	346	–	–	–19	1 643
Financial assets at fair value through profit or loss	18 168	1 195	–	–	–	19 363
Financial assets available for sale	76 946	1 023	11	0	–2	77 978
Loans	23 805	5 681	1	390	–222	29 655
Financial assets held to maturity	4 076	71	–	–	–	4 147
Financial assets pledged as collateral	–	878	–	–	–	878
Investment property	11 518	–	–	–	–	11 518
Reinsurance assets	1 031	–	–	–	–	1 031
Property and equipment	1 074	161	2	–	–	1 237
Intangible assets including intangible insurance assets	2 876	531	0	–	–	3 407
Assets held for sale	–	–	–	–	–	–
Other assets	433	325	22	9	–330	459
Segment assets	152 295	11 628	125	1 301	–715	164 634
Investments in associates						58
Income tax assets						44
Total assets						164 736
Liabilities and equity						
Liabilities						
Insurance payables and other payables	3 847	388	12	24	–46	4 225
Derivatives	519	430	–	–	–19	930
Financial liabilities at fair value through profit or loss	4 286	653	–	–	–	4 939
Investment contracts with discretionary participation	19 988	–	–	–	–	19 988
Investment contracts and deposits at amortised cost	2 790	5 407	–	–	–16	8 181
Insurance liabilities	103 388	–	–	–	–320	103 068
Discretionary participation liabilities	5 680	–	–	–	–	5 680
Defined benefit liabilities	2 247	315	32	–	–	2 594
Provisions	79	82	12	20	–	193
Liabilities associated with assets held for sale	–	–	–	–	–	–
Other liabilities	679	25	1	56	–68	693
Segment liabilities	143 503	7 300	57	100	–469	150 491
Borrowings						6 313
Income tax liabilities						1 442
Equity						6 490
Total liabilities and equity						164 736

4 Segment Information (continued)

Geographical segments

In CHF million	Segment income	Segment assets	Additions of property and equipment and intangible assets
2005			
Switzerland	**11 274**	**88 971**	**342**
France	**4 768**	**40 492**	**272**
Germany	**2 799**	**20 415**	**164**
Netherlands	**2 007**	**18 674**	**38**
Belgium	**524**	**4 937**	**31**
Other countries	**170**	**3 900**	**4**
Total	**21 542**	**177 389**	**851**
2004 (restated)			
Switzerland	11 952	84 589	211
France	4 403	34 825	264
Germany	2 601	19 172	198
Netherlands	2 562	17 331	28
Belgium	477	4 193	25
Other countries	333	4 524	19
Total	22 328	164 634	745

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 locations of the customers.

5 Details of Insurance Segment

Statement of income insurance segment for the year ended 31 December 2005

In CHF million	Switzerland	France	Germany	Netherlands	Belgium/ Luxembourg	Other	Eliminations	Total
Income								
Insurance premiums earned	7 243	2 816	1 999	1 155	342	20	–16	13 559
Insurance premiums ceded to reinsurers	–43	–117	–70	–8	–13	–5	16	–240
Net earned insurance premiums	7 200	2 699	1 929	1 147	329	15	0	13 319
Policy fees arising from insurance contracts	15	68	–	30	1	–	0	114
Premiums earned on investment contracts with discretionary participation	221	12	–	–	–	–	–	233
Fee income	109	256	28	25	25	1	–25	419
Investment income	2 150	1 280	714	577	165	11	–5	4 892
Net gains/losses on financial assets	1 820	126	224	211	54	0	–	2 435
Net gains/losses on financial instruments at fair value through profit or loss	–985	263	–96	22	17	0	–	–779
Net gains/losses on investment property	–47	33	–8	1	–3	–	–	–24
Other income	271	11	4	12	4	2	8	312
Total income	10 754	4 748	2 795	2 025	592	29	–22	20 921
of which inter-subsegment	*38*	*–3*	*–3*	*–3*	*–5*	*–2*	*–22*	
Expenses								
Insurance benefits, claims and claim settlement costs	–7 989	–2 251	–2 137	–1 458	–373	–21	–2	–14 231
Insurance benefits, claims and claim settlement costs ceded to reinsurers	6	53	71	2	15	3	–6	144
Net insurance benefits, claims and claim settlement costs	–7 983	–2 198	–2 066	–1 456	–358	–18	–8	–14 087
Policyholder participation	–939	–816	–231	–229	–15	–	2	–2 228
Interest expense	–106	–553	–34	–17	–68	0	0	–778
Commission expense	–127	–605	–194	–59	–48	–2	–	–1 035
Employee benefits expense	–462	–237	–105	–86	–54	–6	–	–950
Depreciation and amortisation expense	–250	–290	–138	–39	–12	0	–	–729
Impairment of property and equipment and intangible assets	–48	–	–4	–	–1	–	–	–53
Acquisition and origination costs deferred	110	262	134	37	29	–	–	572
Other expenses	–329	–213	–77	–65	–47	–8	24	–715
Total expenses	–10 134	–4 650	–2 715	–1 914	–574	–34	18	–20 003
of which inter-subsegment	*–10*	*0*	*–2*	*–7*	*1*	*0*	*18*	
Result from operations	620	98	80	111	18	–5	–4	918
of which inter-subsegment	*28*	*–3*	*–5*	*–10*	*–4*	*–2*	*–4*	

5 Details of Insurance Segment (continued)

Statement of income insurance segment for the year ended 31 December 2004 (restated)

In CHF million	Switzerland	France	Germany	Netherlands	Belgium/ Luxembourg	Other	Eliminations	Total
Income								
Insurance premiums earned	8 548	2 698	1 863	1 593	321	553	–29	15 547
Insurance premiums ceded to reinsurers	–57	–131	–65	–9	–18	–615	32	–863
Net earned insurance premiums	8 491	2 567	1 798	1 584	303	–62	3	14 684
Policy fees arising from insurance contracts	8	89	–	47	1	8	14	167
Premiums earned on investment contracts with discretionary participation	44	14	–	–	–	–	–	58
Fee income	106	188	14	17	28	9	–37	325
Investment income	2 277	1 241	785	605	143	96	–17	5 130
Net gains/losses on financial assets	531	186	124	196	59	14	–	1 110
Net gains/losses on financial instruments at fair value through profit or loss	272	64	–92	152	–1	72	–	467
Net gains/losses on investment property	–73	33	–11	–2	4	2	–	–47
Other income	–32	1	–20	8	–1	–118	–4	–166
Total income	11 624	4 383	2 598	2 607	536	21	–41	21 728
of which inter-subsegment	*71*	*–5*	*–1*	*–3*	*–9*	*–12*	*–41*	
Expenses								
Insurance benefits, claims and claim settlement costs	–9 319	–2 223	–1 861	–2 002	–299	–341	1	–16 044
Insurance benefits, claims and claim settlement costs ceded to reinsurers	22	117	68	4	5	423	–1	638
Net insurance benefits, claims and claim settlement costs	–9 297	–2 106	–1 793	–1 998	–294	82	0	–15 406
Policyholder participation	–450	–543	–472	–63	–9	–18	0	–1 555
Interest expense	–151	–559	–24	–12	–64	–50	0	–860
Commission expense	–112	–517	–245	–45	–41	2	2	–956
Employee benefits expense	–511	–230	–98	–81	–51	–26	–	–997
Depreciation and amortisation expense	–159	–292	–43	–85	–11	–27	–	–617
Impairment of property and equipment and intangible assets	–35	–140	1	–	–	–	–	–174
Acquisition and origination costs deferred	93	240	185	27	19	12	–	576
Other expenses	–315	–222	–45	–66	–31	–41	22	–698
Total expenses	–10 937	–4 369	–2 534	–2 323	–482	–66	24	–20 687
of which inter-subsegment	*–6*	*1*	*–3*	*–5*	*2*	*–13*	*24*	
Result from operations	687	14	64	284	54	–45	–17	1 041
of which inter-subsegment	*65*	*–4*	*–4*	*–8*	*–7*	*–25*	*–17*	

6 Risk Management Policies and Procedures

The Group's core business is life insurance and pensions. A life insurance and pensions contract represents a long-term promise to the policyholder. To fulfil its future payment obligations to the policyholders, the insurance entities of the Group must be financially sound over an extended period of time. The ability to remain financially healthy and strong depends on a number of risk factors. The Group risk map can be broadly divided into financial, insurance and operational risks. All of these risk categories can impact the financial stability of the Group.

Risks must be identified, assessed, managed and monitored locally. On a consolidated basis, half-yearly reports covering interest rate risk, equity price risk, currency risk, credit risk and insurance risk are prepared. Additionally, market risks and risk limits are reported on a monthly basis for the largest operations in the insurance business. Strategic and operational risks are assessed and reported on an annual basis.

The risk appetite for the largest operations in the insurance business is defined with the help of local risk budgets which are used as a basis for the determination of the individual risk limits. These limits are used as a framework for the asset and liability management process, the objective of which is to define a strategic asset allocation and distribution scheme for all stakeholders.

Risk management functions are fulfilled at several levels by different bodies within the Swiss Life Group, such as the Investment and Risk Committee, Group Risk Committee and Group Investment Committee. The risk management functions at the level of the individual operations of the Swiss Life Group are organised appropriately.

The risk management of Banca del Gottardo, which functions as an independent entity within the Group, is described separately.

Group risk management produces a consolidated risk report which consolidates the main elements of the risk management of the Swiss Life Group's insurance operations and of the risk management of Banca del Gottardo.

The information below focuses first on the risk budgeting and asset and liability management process before covering in an extensive way the principal risk categories faced by the Swiss Life Group.

Contracts for the account and risk of the Swiss Life Group's customers

Certain life insurance and investment contracts are managed for the account and risk of the Swiss Life Group's customers (separate account/unit-linked contracts). The assets relating to these contracts are segregated and managed to meet specific investment objectives of the policyholders. These assets back the insurance liabilities and the financial liabilities arising from these contracts. The fair values of the liabilities reflect the fair values of the assets. Certain contracts with unit-linking features contain guaranteed minimum insurance benefits. The liabilities relating to this part are included in the insurance liabilities.

The assets and liabilities from separate account/unit-linked contracts are generally excluded from the Swiss Life Group's financial risk management considerations to the extent that the risks are borne by the customers.

Assets for the account and risk of the Swiss Life Group's customers as at 31 December

In CHF million	**2005**	2004 restated
Cash and cash equivalents	**408**	345
Derivatives	**2**	0
Financial assets at fair value through profit or loss		
Debt instruments	**1 930**	1 572
Equity securities	**1 925**	1 552
Investment fund units	**2 140**	1 739
Other	**323**	190
Investment property	**4**	3
Total assets for the account and risk of the Swiss Life Group's customers	**6 732**	5 401

6 Risk Management Policies and Procedures (continued)

The financial result for the years ended 31 December for the account and risk of the Swiss Life Group and the Swiss Life Group's customers was as follows:

Financial result

In CHF million	2005	2004	2005	2004	2005	2004
	For the account and risk of the Swiss Life Group	For the account and risk of the Swiss Life Group	For the account and risk of the Swiss Life Group's customers	For the account and risk of the Swiss Life Group's customers	Total	Total
		restated		restated		restated
Investment income	5 185	5 378	0	0	5 185	5 378
Net gains/losses on financial assets	2 582	1 087	–	–	2 582	1 087
Net gains/losses on financial instruments at fair value through profit or loss	–780	423	93	90	–687	513
Net gains/losses on investment property	–24	–47	0	0	–24	–47
Share of results of associates	3	3	–	–	3	3
Financial result	**6 966**	6 844	**93**	90	**7 059**	6 934

Risk budgeting and limit setting

The risk capacity and the risk appetite of the Swiss Life Group's insurance operations are primarily defined based on economic principles. Consequently, the market values or best estimates of both the assets and the liabilities are obtained by discounting the cash flows generated by these assets and liabilities with an appropriate discount rate. The risk capital available is defined as the excess of the economic values of the assets compared to that of the liabilities. The available risk capital is used to cover the different risks to which the Swiss Life Group's insurance operations are exposed by the nature of their activities. The final decision on the risk appetite for each insurance operation is with the Board of Directors.

Risk and exposure limits are defined to control and limit the exposure to these risks. The limits are set in a way that the maximum exposure to risk resulting from the utilisation of the limits is always below the total available risk capital defined in the risk budgeting process.

The main focus of these limits is on overall market risk, credit risk and more specifically on interest rate risk as well as on foreign currency exposures and equity exposure.

Asset and liability management (ALM)

The main objective of the ALM process is to ensure that the Swiss Life Group's insurance operations can meet their commitments to policyholders at all times while also adequately compensating shareholders for making risk capital available. Based on the economic principles of risk management and on the risk appetite definition applied in the risk budgeting process, the ALM comprises the following main activities: strategic asset allocation, distribution policy with regard to surplus generated on investments and product design.

The ALM process is centrally coordinated at Group level by means of an Asset and Liability Management Committee with representatives from senior management, both at Group level and at the level of the individual insurance operations. The competent bodies are in charge of implementing the decisions. The process requires all relevant functions within the Swiss Life Group, such as investment management, finance, actuarial functions, product management and marketing, to be involved.

Compliance with external constraints Aspects other than the purely economic view must also be considered in the ALM process, such as regulatory requirements including statutory minimum distribution ratios ("legal quote"), funding ratios, solvency, local accounting rules and international financial reporting standards, liquidity requirements and rating targets. Some of these views may lead to results that are not aligned with the economic approach, but nevertheless need to be taken into account.

6 Risk Management Policies and Procedures (continued)

Depending on the regulatory framework in which the Swiss Life Group's insurance operations evolve, the asset portfolios might need to be split to reflect the different categories of insurance products. The asset portfolios of the insurance operations in Switzerland have been separated to distinguish between individual life and group life. As a consequence, such separation is also reflected in the ALM process.

Strategic asset allocation Strategic asset allocation is the first major task of the ALM process and aims at minimising risk exposure while optimising the returns on the asset portfolio for the risk defined within the risk budgeting process, taking into account all known constraints.

The cash flows resulting from the liabilities up to a certain maturity of the Swiss Life Group's insurance operations are matched with the cash flows from the assets in the investment portfolios. For the cash flows resulting from the liabilities beyond this maturity, a duration matching approach is applied. The matching approach should ensure that the Swiss Life Group's insurance operations always meet their contractual commitments to policyholders. Since the majority of the liabilities are largely predefined in terms of amount and timing of the payments, the corresponding asset portfolios mainly comprise fixed-income instruments. This way, the impact of interest rate fluctuations is minimised, thus ensuring that the policyholders receive the benefits they were promised.

Subject to the risk constraints and external constraints the remaining risk capital is used for investments in higher-yielding assets. Policyholders benefit from the ensuing investment returns in the form of discretionary participation, while shareholders benefit from an increase in the value of their investment in the Swiss Life Group.

The strategic asset allocation is therefore determined on the basis of the individual existing commitments and the risk capacity of the Swiss Life Group's insurance operations. The strategic asset allocation is reviewed at least once a year and adjusted if necessary.

The ALM process has successfully been implemented in all relevant insurance operations of the Swiss Life Group.

Distribution policy The distribution policy seeks to harmonise the interests of the different groups of stakeholders. Policyholders favour a minimum interest rate coupled with regular and appropriate discretionary participation whereas shareholders place greater emphasis on returns commensurate with the level of risk they are exposed to. Internal guidelines have been developed which define the policies for the allocation of policyholder participation with regard to annual bonus and terminal bonus. The focus of the Swiss Life Group lies on the sustainability of the business model and should balance the policyholders' and shareholders' expectations.

External constraints must be considered in the definition of the distribution policy. Important elements which influence such policy are minimum guaranteed interest rates and statutory minimum distribution ratios ("legal quote"), which strongly depend on the regulatory environments of the Swiss Life Group's insurance operations.

Product design Product design defines which guarantees and benefits are built into a specific product to respond to the demand from and expectations of customers. The actuarial bases used for this purpose should guarantee that each individual product will generate a sufficient contribution margin. To ensure that the Group's principles are observed, guidelines on underwriting have been introduced to harmonise the local guidelines and to ensure that they are in line with the guidelines of the Group.

Financial risk management objectives and policies

The Group is exposed to financial risk through its financial assets, financial liabilities (primarily investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from the financial assets are not sufficient to fund the obligations arising from the insurance and investment contracts, as well as from borrowings and other liabilities. The most important components of the financial risk are interest rate risk, equity price risk, credit risk, currency risk and liquidity risk.

The risk budgeting and limit setting described above ensure that interest rate risk, equity price risk, currency risk and credit risk remain under control. The corresponding market risk capital, credit risk capital and interest rate risk capital limits as well as exposure limits for currencies and net equity for each relevant Group entity have been defined and these limits are assessed and reported on a regular basis.

6 Risk Management Policies and Procedures (continued)

Carrying amount of insurance liabilities as at 31 December

In CHF million	2005	2004
		restated
Interest rate risk	**98 869**	94 545
Risk of equity price movement	**207**	177
Currency risk	**–**	–
Elimination of duplications	**–**	–
Total insurance liabilities with embedded derivatives sensitive to interest rate, market and foreign exchange risks that are not separated and fair valued	**99 076**	94 722
Other insurance liabilities	**7 833**	8 346
Total insurance liabilities	**106 909**	103 068

Hedging The Swiss Life Group uses derivatives within the strict limits set by the applicable insurance legislation and by internal guidelines. Derivatives are primarily used to manage the exposure to equity securities, interest rates and foreign exchange rates. The main instruments include index futures and option structures in stock markets, bond futures and swaps in order to manage duration, and currency forwards in order to manage foreign currency risk. Within certain limits, derivatives are used to enhance returns on the existing portfolio. The types of derivatives generally permitted for usage within the Swiss Life Group have been approved by management.

Hedging strategies involve hedge accounting as well as "economic hedging". "Economic hedges" comprise financial assets and financial liabilities which share a risk with derivatives and give rise to opposite changes in fair value that tend to offset each other.

Interest rate risk relating to financial instruments and insurance contracts The Group's primary interest rate exposure is on contracts with guaranteed benefits and the risk that the interest rates of the financial assets purchased with the consideration received from the contract holders is insufficient to fund the guaranteed benefits and expected discretionary participation payable to them.

6 Risk Management Policies and Procedures (continued)

The following table summarises across all applicable Group financial assets and financial liabilities the effective interest rate at the balance sheet date by major currencies.

Average effective interest rates

	CHF	EUR	USD	GBP
Financial assets not at fair value through profit or loss as at 31 December 2005				
Cash and cash equivalents	**0.1–0.9%**	**0.3–2.4%**	**1.1–4.0%**	**3.1–4.4%**
Loans	**2.4–4.6%**	**2.0–5.5%**	**2.7–4.8%**	**–**
Financial assets available for sale	**2.6–3.3%**	**2.4–5.4%**	**2.5–4.9%**	**3.3–5.4%**
Financial assets held to maturity	**2.5–3.9%**	**4.9–5.9%**	**4.7%**	**–**
Financial liabilities not at fair value through profit or loss as at 31 December 2005				
Investment contracts with discretionary participation	**2.3%**	**2.8–3.8%**	**3.7%**	**4.8%**
Investment contracts and deposits at amortised cost	**0.3–4.3%**	**1.4–3.8%**	**1.9–4.0%**	**3.3–4.1%**
Debentures and loans	**2.2–4.5%**	**2.9–5.4%**	**5.7%**	**–**
Financial assets not at fair value through profit or loss as at 31 December 2004 (restated)				
Cash and cash equivalents	0.1–0.7%	0.2–2.9%	0.3–1.9%	0.6–3.3%
Loans	2.6–5.1%	2.0–5.6%	3.4–4.5%	5.1–7.4%
Financial assets available for sale	2.6–3.5%	1.8–6.9%	4.4–5.3%	5.5–9.1%
Financial assets held to maturity	2.4–2.9%	3.9–5.9%	3.8%	4.8%
Financial liabilities not at fair value through profit or loss as at 31 December 2004 (restated)				
Investment contracts with discretionary participation	2.2%	2.6–3.2%	3.7%	4.8%
Investment contracts and deposits at amortised cost	0.3–4.2%	1.0–4.4%	1.3–2.7%	2.7–4.1%
Debentures and loans	1.6–5.1%	2.7–5.5%	2.2–6.6%	4.7%

6 Risk Management Policies and Procedures (continued)

The minimum interest rates which are guaranteed and the proportion of insurance liabilities that are interest-sensitive are as follows:

Interest-sensitivity of insurance liabilities as at 31 December

In CHF millon	2005	2004
		restated
Interest-sensitive insurance liabilities		
Minimum guaranteed interest rate 0 – < 2%	**4 763**	4 431
Minimum guaranteed interest rate 2 – < 3%	**34 218**	28 921
Minimum guaranteed interest rate 3 – < 4%	**38 902**	39 594
Minimum guaranteed interest rate 4 – < 5%	**20 922**	21 497
Minimum guaranteed interest rate 5 – < 6%	**40**	64
Minimum guaranteed interest rate 6 – 8%	**24**	38
Minimum guaranteed interest rate > 8%	**–**	–
Total interest-sensitive insurance liabilities	**98 869**	94 545
Non-interest-sensitive insurance liabilities	**6 509**	7 318
Insurance liabilities with interest rate risk borne by the policyholder	**1 531**	1 205
Total insurance liabilities	**106 909**	103 068

Most life insurance products with a savings component and investment contracts are subject to minimum guaranteed interest rates. The guaranteed rate differs according to the type of contract.

In addition to these fixed and guaranteed payments which are exposed to interest rate risk, contractual rights exist for certain contracts to receive additional benefits whose amount and/or timing is contractually at the discretion of the issuer. The determination of the discretionary participation is highly dependent on future investment returns.

The Group manages interest rate risk by managing the interest rate sensitivity of key rate exposures of its investment portfolio against the interest sensitivity of key rate exposures of liabilities issued. The key rate exposure of the liabilities is determined by projecting the expected cash flows from the contracts using best estimates of mortality, disability, expenses and surrender. The ALM process defines the strategic asset allocation minimising the net interest rate sensitivity of the combined investment and liability portfolios. To the extent that this is not practicable, swap contracts and other instruments are used to hedge interest risk. In certain markets receiver swaptions are used to hedge the risk of interest rates decreasing below guaranteed interest rates. Payer swaptions are used to hedge the risk of fair value changes of interest-sensitive financial assets.

6 Risk Management Policies and Procedures (continued)

Exposure to interest rate risk

In CHF million	Earlier of contractual repricing or maturity dates					
	Up to 1 year	1–5 years	5–10 years	More than 10 years	For the account and risk of the Swiss Life Group's customers	Total
Carrying amounts as at 31 December 2005						
Financial assets						
Fixed rate	**14 356**	**23 435**	**26 938**	**38 843**	**–**	**103 572**
Variable rate	**16 884**	**2 541**	**–**	**–**	**–**	**19 425**
Non-interest-bearing	**17 257**	**8 419**	**545**	**2 628**	**–**	**28 849**
Assets for the account and risk of the Swiss Life Group's customers	**–**	**–**	**–**	**–**	**6 728**	**6 728**
Total financial assets	**48 497**	**34 395**	**27 483**	**41 471**	**6 728**	**158 574**
Financial liabilities						
Fixed rate	**–4 102**	**–22 188**	**–6 090**	**–721**	**–**	**–33 101**
Variable rate	**–6 860**	**–388**	**–**	**–**	**–**	**–7 248**
Non-interest-bearing	**–2 409**	**–553**	**–54**	**–19**	**–**	**–3 035**
Liabilities for the account and risk of the Swiss Life Group's customers	**–**	**–**	**–**	**–**	**–5 218**	**–5 218**
Total financial liabilities	**–13 371**	**–23 129**	**–6 144**	**–740**	**–5 218**	**–48 602**
Balance sheet interest rate sensitivity gap	**35 126**	**11 266**	**21 339**	**40 731**	**1 510**	**109 972**
Carrying amounts as at 31 December 2004 (restated)						
Total financial assets	37 533	35 224	34 567	34 260	5 398	146 982
Total financial liabilities	–14 752	–21 035	–4 551	–638	–3 600	–44 576
Balance sheet interest rate sensitivity gap	22 781	14 189	30 016	33 622	1 798	102 406

In addition to the minimisation of the net interest rate risk exposure at an economic level, the Group has designated a portion of assets to be held to maturity and matching the maturity profile of the associated liabilities to minimise the interest risk arising from these positions. The assets to be held to maturity fund the insurance and investment contracts that will not be surrendered or will not require the payment of a death benefit.

In Switzerland, the Swiss occupational pensions business in the group life insurance (BVG) is subject to guaranteed minimum interest and annuity conversion rates. Following the decision of the Swiss Federal Council on 10 September 2003, a reduction in the guaranteed interest rate for the mandatory BVG business from 3.25% to 2.25% took effect on 1 January 2004. The rate was subsequently raised to 2.50% with effect from 1 January 2005 and confirmed at this level for 2006.

Interest rate risk exposure existing on contracts with guaranteed benefits where the risk is that the interest rates earned on the assets are insufficient to fund the guaranteed payments puttable bonds are used to counter the impact of falling interest rates. To increase the convexity of interest-rate-sensitive assets, which is generally lower than the convexity of the insurance liabilities, receiver bonds are part of the asset portfolios in certain countries.

In certain businesses, a large part of the impact of interest rate changes is for the account and risk of the policyholders based on the specific profit sharing systems.

Equity price risk A decline in the equity market may lead to a reduction of the Swiss Life Group's realised and unrealised gains/losses, which may also negatively affect the Swiss Life Group's results of operations and financial condition.

6 Risk Management Policies and Procedures (continued)

Hedges in place with respect to the Swiss Life Group's equity investments are designed to reduce the exposure to declines in equity values but would not prevent an impairment loss in the event the impairment criteria were met.

A portion of Swiss Life's investment portfolio is comprised of investments in funds which hold securities issued by non-public companies (private equity). These investments may be illiquid or may only be disposed of over time or at a loss, and they may not produce adequate returns or capital gains. If Swiss Life were required to liquidate some or all of the investments in its private equity portfolio, the proceeds of such liquidation may be significantly less than the amount paid for, or the carrying amount of, such investments.

Swiss Life's investment portfolios also include investments in hedge funds. The liquidity of such investments can vary according to market conditions, and the investment styles of such hedge funds could amplify any factors affecting the performance of any particular class of funds or investments.

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 0.8 billion (2004: CHF 0.9 billion).

Credit risk The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Counterparty risk with respect to bonds purchased
- Counterparty risk with respect to loans and mortgages granted
- Counterparty risk with respect to money market and cash positions
- Counterparty risk with respect to derivative transactions
- Reinsurance share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

The Swiss Life Group has no significant concentrations of risk with regard to exposures to a single debtor or to groups of debtors having similar characteristics.

To reduce the credit exposure relating to derivatives a collateral management process has been established. As soon as the market value of the derivatives per counterparty exceeds a certain threshold the Swiss Life Group calls collateral from the counterparty. The threshold increases with the rating of the counterparty. The minimum rating for a counterparty is A– (Standard & Poor's or equivalent). If a counterparty falls below this level, outstanding positions must be fully collateralised or closed out. The collateral is called at least weekly, but in times of turbulent markets the frequency would be increased. As leverage is not allowed, certain coverage rules apply with regard to cash or long positions. A list of the counterparties for derivative transactions, over-the-counter and exchange-traded, is approved by senior management.

The Group is also exposed to credit risk associated with reinsurance recoverables. As a consequence, the financial strength of reinsurers is monitored. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to any contract being signed. The general policy of the Swiss Life Group is to reinsure its insurance risks only with counterparties rated A– or above (Standard & Poor's or equivalent). In exceptional cases, reinsurers with a lower rating may be considered. Additionally, 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 one single reinsurer.

For fixed-income assets (including money market and cash positions) the total exposure per counterparty is aggregated and reported to management. The individual operations maintain records of the payment history for the significant contract holders with whom they conduct regular business. Ratings and single positions above a certain level with regard to fixed-income assets are reported to management on a regular basis. The exposure to individual counterparties is also managed by other mechanisms such as the right to offset where counterparties are both debtors and creditors of the Group. Information reported to management includes assessment of bad debts. Where there exists a certain exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out.

6 Risk Management Policies and Procedures (continued)

Exposure to credit risk of the financial assets as at 31 December 2005

In CHF million	AAA	AA	A	BBB and below	Non-rated	For the account and risk of the Swiss Life Group's customers	Total
Cash and cash equivalents	7 617	1 665	1 117	3	3 360	408	14 170
Derivatives	277	194	45	28	231	2	777
Reinsurance assets and reinsurance receivables	0	533	464	57	3	–	1 057
Debt instruments at fair value through profit or loss	1 229	2 654	431	55	351	1 930	6 650
Loans	7 658	3 868	3 930	415	14 409	–	30 280
Debt instruments available for sale	50 685	12 817	5 552	647	1 170	–	70 871
Debt instruments held to maturity	3 557	482	155	–	62	–	4 256
Debt instruments pledged as collateral	209	217	146	–	4	–	576
Total assets bearing credit risk	71 232	22 430	11 840	1 205	19 590	2 340	128 637
of which collateralised	*8 098*	*916*	*204*	*464*	*10 848*		*20 530*

In certain countries, specific additional guidelines and rules have been defined locally to monitor credit risk. Such guidelines cover investments in fixed-income securities whereby the average rating of the fixed-income portfolio (calculated by weighting in accordance with the Standard & Poor's method) must be AA– or higher (Standard & Poor's or equivalent). Minimum and maximum thresholds apply with regard to permitted investments in non-government bonds. For these investments additional exposure limits are in place. For certain businesses, credit risk is monitored and controlled with a risk limit framework whereby maximum limits are reviewed and approved annually. Ratings are monitored on a daily basis and a weekly rating migration report is submitted to the local risk department. All investments in bonds are at or above investment grade. The majority of the bond portfolio is invested in government bonds (including supranationals and sovereign) and in bonds issued by the financial sector (generally covered by collateral or government guarantees).

Currency risk The Swiss Life Group operates internationally and its exposures to foreign currency risk primarily arise with respect to the euro and the US dollar. Most of the investments and liabilities are denominated in Swiss francs, euros and US dollars, the value of which is subject to exchange rate fluctuations. The Group operates with various functional currencies (predominantly Swiss francs and euros). Its financial position and earnings could be significantly affected by a weakening of such currencies against the Swiss franc.

The Swiss Life Group's European insurance and investment operations (excluding Switzerland) generally invest in assets denominated in the same currency as their insurance and investment liabilities, which mitigates the foreign-currency-exchange-rate risk for these operations. As a result, foreign currency risk arises from recognised assets and liabilities denominated in other currencies and net investments in foreign operations. Although Swiss Life actively engages in currency management to reduce the effect of exchange rate fluctuations on its assets and liabilities, particularly by hedging against the risk of such movements in relation to part of its investments denominated in euros and in US dollars, significant movements in exchange rates could adversely affect Swiss Life's earnings and financial position, including the value of its investment portfolio. Foreign exchange exposure is hedged to a large extent in line with the strategic asset allocation. The Group's hedging arrangements are directed at covering its exposure from an economic perspective. The instruments which the Swiss Life Group uses to hedge exposure may not be perfectly correlated to the related assets, so the Group will still be exposed to losses if the value of the hedge and the value of the underlying asset or liability do not correspond appropriately. The Swiss Life Group is further required to bear expenses and costs in establishing such hedging arrangements.

6 Risk Management Policies and Procedures (continued)

Exposure to currency risk

In CHF million	CHF	EUR	USD	GBP	Other	For the account and risk of the Swiss Life Group's customers	Total
Carrying amounts as at 31 December 2005							
Assets							
Cash and cash equivalents	9 996	2 581	818	42	325	408	14 170
Insurance receivables and other receivables	979	3 108	65	17	6	–	4 175
Derivatives	485	250	14	–	26	2	777
Financial assets at fair value through profit or loss	2 948	13 110	857	163	257	6 318	23 653
Financial assets available for sale	18 231	53 081	7 245	1 364	110	–	80 031
Loans	16 156	13 437	478	0	209	–	30 280
Financial assets held to maturity	42	4 203	11	–	–	–	4 256
Financial assets pledged as collateral	355	477	394	–	6	–	1 232
Investment property	9 459	1 976	–	–	–	4	11 439
Investments in associates	37	39	–	–	–	–	76
Reinsurance assets	19	904	–	–	–	–	923
Other	3 471	3 010	93	6	5	–	6 585
Total assets	62 178	96 176	9 975	1 592	944	6 732	177 597
Liabilities							
Insurance payables and other payables	–1 994	–1 593	–854	–3	–11	–	–4 455
Derivatives	–361	–939	–258	–24	–38	–261	–1 881
Financial liabilities at fair value through profit or loss	–165	–1 615	–136	–	–46	–4 957	–6 919
Investment contracts with discretionary participation	–597	–23 009	–43	–3	–	–	–23 652
Investment contracts and deposits at amortised cost	–3 242	–2 735	–967	–4	–359	–	–7 307
Borrowings	–2 031	–2 241	–93	–	–23	–	–4 388
Insurance liabilities	–62 861	–43 301	–136	–90	–521	–	–106 909
Other	–4 925	–8 910	–250	–33	–15	–	–14 133
Total liabilities	–76 176	–84 343	–2 737	–157	–1 013	–5 218	–169 644
Balance sheet currency gap	–13 998	11 833	7 238	1 435	–69	1 514	7 953
Carrying amounts as at 31 December 2004 (restated)							
Total assets	58 722	88 884	9 812	1 285	632	5 401	164 736
Total liabilities	–74 828	–76 588	–2 351	–188	–691	–3 600	–158 246
Balance sheet currency gap	–16 106	12 296	7 461	1 097	–59	1 801	6 490

Due to the limitations of the Swiss capital market with regard to liquidity, investments in Switzerland are also made in currencies other than the Swiss franc. The exposure is to a large extent hedged on an economic basis using foreign currency derivatives.

In certain other countries, the assets are normally denominated in euro, which is the same currency as the insurance liabilities. The remaining foreign currency exposure is primarily in the US dollar, the British pound, the Swiss franc, the Danish krona and Swedish krona associated with investments in equity securities, unit trusts and cash in these currencies. US dollar exposure is partially hedged on an economic basis using derivatives. The liabilities are not exposed to currency risk.

6 Risk Management Policies and Procedures (continued)

Liquidity risk Liquidity risk is the risk that not enough cash resources may be available to pay obligations when due at a reasonable cost. The Swiss Life Group is exposed to liquidity risk which primarily arises on calls on its cash resources from claims, amounts payable at maturity and surrenders arising from insurance and investment contracts. Liquidity risk must be considered in the strategic asset allocation.

Exposure to liquidity risk

In CHF million	Contractual maturity dates						
	Up to 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	For the account and risk of the Swiss Life Group's customers	Total
Carrying amounts as at 31 December 2005							
Assets							
Cash and cash equivalents	6 871	6 891	–	–	–	408	14 170
Insurance receivables and other receivables	1 707	516	1 830	122	–	–	4 175
Derivatives	7	366	55	258	89	2	777
Financial assets at fair value through profit or loss	9 553	67	879	4 559	2 277	6 318	23 653
Financial assets available for sale	1 979	533	6 229	17 172	54 118	–	80 031
Loans	1 822	4 916	5 331	8 434	9 777	–	30 280
Financial assets held to maturity	54	67	404	1 955	1 776	–	4 256
Financial assets pledged as collateral	655	–	187	354	36	–	1 232
Reinsurance assets	301	12	36	475	99	–	923
Other	1 786	449	1 028	1 258	13 575	4	18 100
Total assets	24 735	13 817	15 979	34 587	81 747	6 732	177 597
Liabilities							
Insurance payables and other payables	–1 018	–792	–1 992	–653	–	–	–4 455
Derivatives	0	–1 154	–465	–	–1	–261	–1 881
Financial liabilities at fair value through profit or loss	–622	–1 172	–151	–13	–4	–4 957	–6 919
Investment contracts with discretionary participation	–8	–	–2 962	–15 326	–5 356	–	–23 652
Investment contracts and deposits at amortised cost	–3 404	–1 138	–627	–1 378	–760	–	–7 307
Borrowings	–34	–1 388	–198	–1 078	–1 690	–	–4 388
Insurance liabilities	–303	–255	–4 101	–12 621	–89 629	–	–106 909
Other	–1 507	–211	–763	–6 493	–5 159	–	–14 133
Total liabilities	–6 896	–6 110	–11 259	–37 562	–102 599	–5 218	–169 644
Balance sheet liquidity gap	17 839	7 707	4 720	–2 975	–20 852	1 514	7 953
Carrying amounts as at 31 December 2004 (restated)							
Total assets	18 716	5 855	14 154	42 910	77 700	5 401	164 736
Total liabilities	–5 597	–6 465	–10 238	–34 568	–97 778	–3 600	–158 246
Balance sheet liquidity gap	13 119	–610	3 916	8 342	–20 078	1 801	6 490

6 Risk Management Policies and Procedures (continued)

Insurance risk management objectives and policies

Insurance contracts are contracts under which one party accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group's insurance entities neither generally accept nor generally deny insurance coverage to applicants, but ensure that all the insurance risks are identified and thoroughly assessed, and that the insurance premiums accurately reflect the costs for the risk taken among other things. The amount of risk taken must be in line with the Group's strategy and risk policy. They must also meet the profitability targets.

Insurance risks are regularly reported to management.

Management of investment risks related to the savings process is included in certain insurance contracts.

Swiss Life's core business is life insurance, both individual and group life, in which it has acquired key competence and expertise. The Group's insurance entities operate in a number of different countries. As a consequence, the local regulatory constraints may have an impact on the business unit organisation and product range. These constraints must always be obeyed. In addition, each insurance entity shall adhere to certain general principles with regard to product development and policyholder bonuses.

Product development When designing a new product or reviewing an existing one, care has to be taken that the product neither includes systemic risk nor provides incentives for adverse selection. The product should meet the market's need. Swiss Life generally favours transparent and simple product design with minimised model risk and a reliable pricing basis with sufficient statistical data available.

Bonus and profit allocation The uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts is due to systemic risk arising from the unpredictability of long-term changes in overall levels of mortality and disability. On the other hand, there are random fluctuations, such as variability in policyholder behaviour, which cause deviations from the expected outcome of a portfolio. Benefit payments can be strongly affected by such deviations. The impact of random fluctuations depends on the extent of diversification within a portfolio of contracts.

For contracts with fixed and guaranteed benefits and premiums there are no mitigating terms and conditions that reduce the insurance risk accepted. For insurance and investment contracts with discretionary participation, the participating nature of these contracts may result in a significant portion of the insurance risk being shared with the policyholders.

Options The ability of a policyholder to pay reduced or no future premiums under a contract, to terminate the contract completely or to exercise a guaranteed annuity option means that the amount of insurance risk is also subject to policyholder behaviour to a certain extent. On the assumption that a certain part of policyholders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less inclined to terminate contracts insuring disability or death benefits than those policyholders remaining in good health, thus resulting in an increasing trend in the expected mortality of policyholders, as the portfolio of insurance contracts is reduced due to surrender (adverse selection).

Nature of insurance risk Insurance risk arises when biometric and demographic trends as well as administrative costs deviate adversely from expectations and the premium rates agreed with the policyholder. Insurance risk quantification starts with the pricing of products. The insurance premiums are commonly determined by applying the equivalence principle, thereby using estimated values to calculate the future benefits. The Group's insurance entities generally use the most up-to-date pricing basis when pricing new products or repricing existing ones.

Insurance risk is measured as the negative deviation of (the realisations of) the insurance risk factors from the corresponding best-estimate values. Insurance risk factors include mortality rates, disability rates and longevity, among others.

6 Risk Management Policies and Procedures (continued)

The Group's insurance entities quantify the insurance risk appropriately. A quantification of the insurance risk includes a sensitivity analysis. Insurance risk is mainly assessed by means of stochastic models. By analogy with the value-at-risk concept, insurance risk capital is defined as the value of accumulated future insurance benefits that shall not be exceeded with a certain predetermined (high) probability.

The nature of insurance risk can be summarised as follows:

Mortality and longevity Decreasing mortality rates result in lower benefits for contracts where death is the insured risk. On the other hand, annuity payments increase when mortality decreases (longevity risk). The most significant factors resulting in an increase of longevity are continued improvement in medical science and social conditions.

The BVG business (Swiss occupational plans) is a significant part of the Group's life insurance business in Switzerland. The guaranteed annuity conversion rate for the Swiss Life Group's mandatory BVG business is presently set at the rate of 7.2%. Under an amendment to the BVG legislation, which took effect on 1 January 2005, this rate will be reduced in stages to 6.8% over the next 10 years. The Swiss Life Group has taken the reduction into account in its plans to amend the pricing and structure of its life insurance products in Switzerland (including a phased reduction of the conversion rate on its supplementary BVG business to 5.835% over 4 years).

Morbidity and disability An increase in morbidity results in higher benefits for contracts where disability is the insured risk. The most significant factors which could increase the frequency of such claims are epidemics (such as AIDS or SARS) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in more claims than expected. Additionally, the termination rate with regard to disability (death or reactivation) has a significant impact on the benefits paid.

Claims arising from the accident and health business (group and individual contracts) primarily cover refunds for medical treatments, daily allowances in the case of sick leave, annuities and long-term medical care.

The most significant factors that could increase the overall liabilities in health insurance are the increase of the claim frequency due to an increase in the average age of the insured persons and negative economic and social factors.

The insurance liabilities arising from accident and health insurance contracts must consider outstanding claims and claims incurred but not reported (IBNR). A large part of the insurance liabilities arising from these contracts relates to IBNR and experience shows that health insurance contracts are sensitive to late reporting of claims (both number of claims and amounts).

Risk concentration per product category with regard to mortality and longevity is as follows:

Annuities payable per annum – per type of annuity for the year ended 31 December 2005 – individual life

Amounts in CHF million	Balance as at 1 January		Accrual due to new business		Reduction (without reinstatement)		Balance as at 31 December	
	Number of policies	Total annuities payable per annum	Number of policies	Total annuities payable per annum	Number of policies	Total annuities payable per annum	Number of policies	Total annuities payable per annum
Life annuities – in payment	79 813	734	5 617	48	–3 467	–17	81 963	765
Life annuities – deferred	134 260	860	35 013	158	–20 359	–101	148 914	917
Annuities certain – in payment	2 894	22	497	4	–163	–1	3 228	25
Annuities certain – deferred	1 397	56	91	7	–101	–5	1 387	58
Total individual life		1 672		217		–124		1 765

6 Risk Management Policies and Procedures (continued)

Annuities payable per annum – per type of annuity for the year ended 31 December 2005 – group life

Amounts in CHF million	Balance as at 1 January		Accrual due to new business		Reduction (without reinstatement)		Balance as at 31 December	
	Number of insured persons	Total annuities payable per annum	Number of insured persons	Total annuities payable per annum	Number of insured persons	Total annuities payable per annum	Number of insured persons	Total annuities payable per annum
Retirement annuities – in payment	78 172	698	6 684	65	–3 660	–77	81 196	686
Retirement annuities – deferred	202 481	1 370	116 791	391	–36 636	–259	282 636	1 502
Widow's and widower's annuities – in payment	2 734	78	233	9	–228	0	2 739	87
Widow's and widower's annuities – deferred	65 514	1 268	27 212	328	–15 527	–209	77 199	1 387
Orphan's and temporary annuities – in payment	1 085	14	33	1	–48	–2	1 070	13
Orphan's and temporary annuities – deferred	51 400	1 395	21 806	477	–21 416	–384	51 790	1 488
Total group life		4 823		1 271		–931		5 163

Life benefits insured – per type of insurance for the year ended 31 December 2005 – individual life

Amounts in CHF million	Balance as at 1 January		Accrual due to new business		Reduction (without reinstatement)		Balance as at 31 December	
	Number of policies	Total benefits insured	Number of policies	Total benefits insured	Number of policies	Total benefits insured	Number of policies	Total benefits insured
Pure endowment	60 199	4 479	25 450	697	–33 216	–531	52 433	4 645
Mixed endowment	935 445	66 116	51 364	4 278	–101 266	–5 746	885 543	64 648
Whole life	27 047	969	776	17	–1 513	–88	26 310	898
Term life	373 957	22 508	55 120	2 036	–43 585	–2 907	385 492	21 637
Universal life	13 483	1 256	4 529	730	–1 029	–16	16 983	1 970
Unit-linked contracts	207 590	9 955	19 791	1 214	–9 247	–676	218 134	10 493
Others	460 170	18 977	23 148	957	–29 815	–488	453 503	19 446
Total individual life		124 260		9 929		–10 452		123 737

Life benefits insured – per type of insurance for the year ended 31 December 2005 – group life

Amounts in CHF million	Balance as at 1 January		Accrual due to new business		Reduction (without reinstatement)		Balance as at 31 December	
	Number of insured persons	Total benefits insured	Number of insured persons	Total benefits insured	Number of insured persons	Total benefits insured	Number of insured persons	Total benefits insured
Endowment and related	434 563	19 369	174 930	4 636	–47 557	–4 126	561 936	19 879
Term life	1 611 469	89 864	300 572	11 350	–221 894	–8 649	1 690 147	92 565
Swiss BVG	462 658	95 833	112 508	38 724	–168 356	–28 345	406 810	106 212
Total group life		205 066		54 710		–41 120		218 656

Non-life The Swiss Life Group has non-life operations in France and Belgium covering risks associated with accident and health (disability) as well as property and casualty. The Group manages the risks arising from these contracts by means of its underwriting strategy and reinsurance arrangements.

6 Risk Management Policies and Procedures (continued)

Development of claims under non-life insurance contracts

In CHF million	Estimate of ultimate claim costs by accident year						
	2000	2001	2002	2003	2004	2005	Total
At end of accident year	466	557	542	496	510	595	n. a.
One year later	456	546	518	468	511	–	n. a.
Two years later	438	517	495	550	–	–	n. a.
Three years later	427	501	538	–	–	–	n. a.
Four years later	424	579	–	–	–	–	n. a.
Five years later	477	–	–	–	–	–	n. a.
Current estimate of cumulative claims	477	579	538	550	511	595	3 250
Cumulative payments to date	–387	–438	–395	–347	–343	–177	–2 087
Liabilities recognised in the balance sheet	90	141	143	203	168	418	1 163
Liabilities in respect of prior years							223
Total claims under non-life insurance contracts							1 386

France Non-life business in France covers car insurance, fire and property relating to industrial risks and commercial risks, other property insurance, legal protection insurance and general liability insurance.

The underwriting guidelines exclude certain risks from coverage. For certain businesses reinsurance limits are in place. The reinsurance arrangements primarily include non-proportional coverage for any single risk and/or event, adapted to the specifications of each contract.

Acceptance rules for risks are consistent with both the Code des Assurances and the French regulation. Underwriting guidelines and tariffs are reviewed on an annual basis.

The monitoring of the risks taken is made on a monthly basis with regard to related premiums and claims. An automated claims supervision system is used for the adjustment of tariffs for risks with loss ratios above a certain level.

As far as non-life insurance is concerned, the reinsurance arrangement includes mostly non- proportional coverage on any single risk and/or event, adapted to the specifications of each contract. This includes excess, stop-loss and catastrophe coverage. Facultative reinsurance is also written for protection against specific risks.

Belgium Non-life business in Belgium covers disability for self-employed persons and group disability coverage and medical claims. The property and casualty portfolio primarily consists of motor insurance, property insurance and general liability. Limits are set with regard to underwriting of such business. Reinsurance contracts are in place which generally take the form of excess loss contracts and are approved by management.

Underwriting strategy Underwriting is the process of selecting and classifying insurable risks. The underwriting strategy attempts to ensure that the risks underwritten are well diversified in terms of type of risk and level of insured benefits. Life insurance underwriting is performed to ensure that the premiums and the general conditions of the insurance policies are consistent with the risks to be insured. The first step in the underwriting process is to determine which individual risks can be accepted. The second step is to place the accepted risks into groups of roughly equivalent levels of risk. Both processes must be conducted objectively and consistently. The Group sets limits for the acceptance of insurance risk arising from new and renewal business. Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. The limits relate to sums at risk, maximum insured losses or present value of premiums at the contract or insured person level. Depending on the type of business and the limit exceeded, the new or renewed contract must be approved by a specific investment and risk committee or senior management. Contracts exceeding the set limits must be tested for profitability according to predefined procedures before approval. Certain contracts which include specific risks relating to derivatives or demographic risk factors for which no reliable data is available must be submitted for approval irrespective of the

6 Risk Management Policies and Procedures (continued)

amount of coverage offered. Insurance risks exceeding set limits are subject to regular internal reporting requirements. Additionally, it must be ensured that the underwriting practices are in line with local laws.

For certain group life business, local law is relevant with regard to medical examinations required before any business is written. For certain individual life business, agreements exist with regard to medical examinations of applicants before business is written. If the risk is assessed as high, exclusion of specific risks, premium adjustments and reinsurance are considered.

In the accident and health business, the underwriting strategy comprises biometric and financial data of the persons to be insured, type of contract and experience.

Reinsurance Reinsurance is used to limit the Group's exposure to insurance risk. This does not, however, discharge the Group's liability as a primary insurer, and, if a reinsurer fails to pay a claim, the Group remains liable for the payments to the policyholder. A loss allowance would be recognised for any estimated unrecoverable reinsurance. In addition, the Group holds substantial collateral under related reinsurance agreements in the form of deposited funds and securities. 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 the reinsurance assets.

Management reviews reinsurance programmes covering treaty, type, risks covered and retention on a regular basis. A process, competencies and limits are set up for the approval of reinsurance programmes and their modification. To ensure that the Group's principles are observed, guidelines on reinsurance have been introduced.

The life insurance operations limit exposure to loss on any single life. Retention limits vary by country. For the coverage of loss accumulation in the life insurance business, reinsurance contracts covering catastrophe risk are in place. This type of reinsurance cover is organised at Group level. In the non-life insurance business, reinsurance coverage of loss accumulation is organised at the level of the individual insurance operations.

No single reinsurer is a material reinsurer to the Group, nor is the Group's business substantially dependent upon one single reinsurer.

Approximately 1.8% of life insurance in force in terms of earned insurance premiums was ceded as at 31 December 2005 (2004: 5.6%).

For certain businesses, quota share and surplus contracts primarily covering high amounts insured and catastrophe risks are in place. In other businesses, the reinsured risks are mortality and disability. These reinsurance arrangements are all on an excess of loss basis.

Other risk transfer Risk transfer primarily takes the form of reinsurance. Alternative forms of risk transfer (such as securitisation) require formal approval of the Chief Risk Officer and the Chief Financial Officer. No significant alternative form of risk transfer is used by the Group at present.

Sensitivity analysis An analysis of sensitivity indicates to which extent the insurance liabilities are affected by variations of risk factors. The analysis is based on changes in the assumptions used in the estimation of insurance liabilities whereby a specific risk factor is changed while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. Additionally, for many life insurance contracts several risk factors are considered for the establishment of the associated liabilities. Among others, for widow's pensions mortality and longevity are taken into consideration whereas for disability annuities disability and mortality are taken into consideration.

Management believes that the insurance liabilities recognised in the balance sheet are adequate.

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in risk factors will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The liability adequacy test adjustment relates to the net insurance liabilities (less related deferred acquisition costs and related intangible assets). In the analysis, the level of the respective risk factor that will trigger a liability adjustment is determined. A further deterioration of the risk factor results in a liability adjustment. As a consequence, the effect of changes in the risk factors on the insurance liabilities is not symmetrical. While improvements of risk factors have no effect on

6 Risk Management Policies and Procedures (continued)

the measurement of the insurance liabilities, significant enough deteriorations will impact the insurance liabilities.

The risk factor moves are applied to the entire projection period. If a contract allows for continuous re-pricing – as a consequence of bad loss experience – the risk factor move is applied to a limited period only if it can be demonstrated that corrective action can be taken within this period. The level of certain insurance liabilities would be affected by re-pricing the contracts.

In the event of a deterioration of a specific risk factor, the effect of lower allocations to policyholder participation as a consequence is considered in the analysis.

At 31 December 2005, if mortality had been higher by 10%, the insurance liabilities would have been CHF 228 million higher in Switzerland and CHF 74 million higher in the other countries.

At 31 December 2005, if the longevity improvement parameter had increased by 10%, the insurance liabilities would have been CHF 200 million higher in Switzerland and CHF 37 million higher in the other countries.

At 31 December 2005, if disability had been higher by 10%, the insurance liabilities would have been CHF 393 million higher in Switzerland and CHF 82 million higher in the other countries.

The sensitivity of insurance liabilities is also analysed on an economic basis for internal risk management purposes and to satisfy regulatory requirements (Swiss Solvency Test).

Banca del Gottardo

Asset and liability management (ALM)

The main purpose of the asset and liability management at Banca del Gottardo is to manage the interest rate risk of the bank. The interest rate risk derives typically from fluctuations of interest rates in the market that could reduce the value of the banking book or have a negative impact on the bank's income. The interest rate risk of the banking book at Banca del Gottardo is managed by a designated committee of senior management representatives (ALCO Committee). The management of the interest rate risk aims at planning, controlling and influencing the structure of the balance sheet in a manner that the defined limits are respected.

The bank is exposed to interest rate risk on its on-balance-sheet positions (including derivatives). Interest rate risk is managed using gap analysis together with an approach based on the sensitivity of a parallel shift in the yield curve (±100 bps) which measures the effect of rate movements in terms of net present values. Banca del Gottardo also uses a further measure of net present value sensitivity, which provides information on the yield curve twist risk. The effect on the bank's earnings is measured with a parallel shift in the yield curve by ±100 bps. The interest rate margin for the following year is simulated on the basis of the hypothetical refinancing of lending operations.

Financial risks

Risk management policies and hedging activities

The risk management objectives and strategy of Banca del Gottardo are formalised and approved by management. The bank aims to adequately manage the incurred economic risks, which also involves hedging activities including hedge accounting in order to avoid potential asymmetric results in the balance sheet versus the profit and loss account.

The banking book of Banca del Gottardo is particularly exposed to interest rate risk. Approved interest rate derivatives are used as hedging instruments. For the hedging of other risk factors, other hedging derivatives can also be used.

The bank's principal risk measure for the general market risk is value at risk (VaR). In addition, the risk exposure for each single portfolio or desk is regulated through a system of limits, which is subordinated to the comprehensive value at risk limits. The limits include risk measures such as mark-to-market exposure, delta, gamma and vega exposure, basis point values and other indicators.

Interest rate risk The overall limit at Banca del Gottardo for the interest risk exposure of structural positions is set by the board of directors of Banca del Gottardo at 6% of the bank's eligible equity. In order to respect this limit and for bank management purposes, the ALCO Committee has the authority to undertake hedging transactions to minimise the impact of adverse interest rate movement on such positions.

6 Risk Management Policies and Procedures (continued)

In managing its exposure to interest rate risk, the bank uses interest rate swaps as hedging instruments and applies the methodology of cash flow hedging. The cash flow hedge starts from the assumption that a payer swap hedges the repricing exposure of maturing liability cash flows, and a receiver swap hedges the repricing exposure of maturing asset cash flows. The hedging objective consists in eliminating adverse cash flow impacts due to interest rate fluctuations over hedging time buckets on existing or forecast structural balance sheet positions.

Credit risk Management of credit exposure to clients is based on the credit risk policy issued by management and is governed through limits individually assigned and continuously monitored. Credit risk exposure is limited by a rigorous review of the borrowers' credit quality and appropriate collateral security. The borrowers' credit quality is evaluated on the basis of uniform solvency criteria. Contacts with clients are frequent and relations close, thus enabling the bank to monitor default risk on a regular basis. The value of items pledged is periodically revalued according to the type of collateral provided.

The bank has issued internal directives governing the valuation of real estate serving as collateral. As a general rule, the bank's specialists prepare appraisals of all mortgage properties. The size of the loan is a function of the borrower's ability to service the debt and the value of the security held by the bank. Second rank mortgages must be amortised. Centralised credit risk management is ensured by a system of aggregation and analysis of exposures.

The counterparty risk assumed with regard to banks and financial institutions is monitored separately. A line of credit is granted to each group of related counterparties, which is subsequently allocated according to individual operational needs. Lines of credit are granted and renewed periodically based on a system of approval. For banking counterparties, an IT-based internal rating system has been developed. Limits, particularly for forward transactions, are calculated according to market prices. The add-on parameters used are set cautiously. To reduce exposure to over-the-counter positions, the bank concludes related netting contracts (ISDA). Nearly all financial counterparties (mainly banks) are domiciled in OECD countries (mostly in Western Europe). The bank manages a portfolio of fixed-income securities, which exposes it to counterparty risks. Investments in the capital market and the euro commercial paper market (euro commercial paper, certificates of deposit) are subject to specific limits with regard to maturity, liquidity, minimum/average ratings and exposure to the economic sector.

The local banking law requires compliance with a limit of 25% of available shareholders' equity for a single group of counterparties that are connected with each other. Internal guidelines require the evaluation of exposures to each group of counterparties that exceed 10% of available shareholder's equity. The risk exposure in respect of a single counterparty is evaluated by determining the credit equivalent associated with each credit risk position including off-balance-sheet transactions and collateral holdings. The credit equivalent is a measure calculated for each counterparty in total (including any non-utilised lines of credit). Banca del Gottardo uses credit derivatives to hedge complex financial strategies. No such hedges were in place on the balance sheet date.

Currency risk Banca del Gottardo is active in the currency markets and is exposed to currency risk from trading transactions as well as from the global currency exposure of the balance sheet.

Liquidity risk Liquidity risk is the potential risk that the bank is unable to meet its obligations as they come due because of an inability to liquidate assets (maturity gap risk) or obtain adequate funding (funding risk). The latter is correlated to the market conditions and to the creditworthiness reputation of the bank.

Liquidity risk management at Banca del Gottardo comprises cash optimisation of assets and liabilities under regulatory constraints. Regulatory definitions of short-term liquidity (liquidity 1) and global liquidity (liquidity 2) must be considered. Liquidity management focuses on the valuation of static gaps that are determined by projecting maturities of assets and liabilities. Liquidity risk mitigation at Banca del Gottardo aims at reducing the maturity gap.

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. The effect of the issuance of the mandatory convertible securities (MCS) has been included in the calculation of basic earnings per share.

Diluted earnings per share include the dilutive effect of convertible bonds and share options issued. In the diluted EPS calculation, the convertible debt is assumed to have been converted into shares and the profit attributable to shareholders is adjusted for the applicable interest expense minus the related taxes. Share options are dilutive when they would result in the issuance of shares for less than the average market price during the period. Dilutive share options are assumed to have been exercised. The assumed proceeds are regarded as having been received from the issuance of shares at the average market price during the period. The difference between the number of shares issued and the number of shares that would have been issued at the average market price during the period is considered as an issuance of shares for no consideration.

Earnings per share for the years ended 31 December

In CHF million (if not noted otherwise)	**2005**	2004
		restated
Basic earnings per share		
Profit attributable to equity holders of Swiss Life Holding	**860**	579
Weighted average number of shares outstanding	**33 488 058**	31 163 795
Basic earnings per share for the profit attributable to equity holders of Swiss Life Holding (in CHF)	**25.67**	18.57
Diluted earnings per share		
Profit attributable to equity holders of Swiss Life Holding	**860**	579
Elimination of interest expense on convertible bonds	**11**	6
Profit used to determine diluted earnings per share	**871**	585
Weighted average number of shares outstanding	**33 488 058**	31 163 795
Adjustments (number of shares)		
Assumed conversion of convertible bonds	**1 512 188**	840 118
Equity compensation plans	**94 574**	33 011
Share options	**279**	–
Weighted average number of shares outstanding for diluted earnings per share	**35 095 099**	32 036 924
Diluted earnings per share for the profit attributable to equity holders of Swiss Life Holding (in CHF)	**24.82**	18.27

8 Premiums, Fees and Deposits Received

Written insurance premiums

In CHF million	2005 Short-duration contracts	2004 Short-duration contracts	2005 Long-duration contracts	2004 Long-duration contracts	2005 Total	2004 Total
		restated		restated		restated
Direct	**2 779**	2 989	**10 648**	12 275	**13 427**	15 264
Assumed	**167**	189	**14**	22	**181**	211
Gross written insurance premiums	**2 946**	3 178	**10 662**	12 297	**13 608**	15 475
Ceded	**–158**	–646	**–89**	–214	**–247**	–860
Net written insurance premiums	**2 788**	2 532	**10 573**	12 083	**13 361**	14 615

Earned insurance premiums

In CHF million	2005 Short-duration contracts	2004 Short-duration contracts	2005 Long-duration contracts	2004 Long-duration contracts	2005 Total	2004 Total
		restated		restated		restated
Direct	**2 688**	3 032	**10 651**	12 279	**13 339**	15 311
Assumed	**167**	188	**13**	21	**180**	209
Gross earned insurance premiums	**2 855**	3 220	**10 664**	12 300	**13 519**	15 520
Ceded	**–148**	–649	**–92**	–214	**–240**	–863
Net earned insurance premiums	**2 707**	2 571	**10 572**	12 086	**13 279**	14 657

Under the accounting principles adopted, deposits received under insurance and investment contracts are not recognised as income:

In CHF million	2005	2004
		restated
Net earned insurance premiums as reported	**13 279**	14 657
Policy fees arising from insurance contracts	**114**	167
Premiums earned on investment contracts with discretionary participation	**233**	58
Fees from investment and unit-linked contracts	**280**	224
Deposits received under insurance and investment contracts	**5 976**	4 256
Net earned premiums, fees and deposits received	**19 882**	19 362
Gross written premiums, fees and deposits received	**20 211**	20 180

9 Details of Certain Items in the Consolidated Statement of Income

Fee income

In CHF million	2005	2004
		restated
Fiduciary and portfolio management fees	**259**	246
Brokerage fees	**87**	82
Fees from investment and unit-linked contracts	**280**	224
Other service fees and commissions	**148**	118
Total fee income	**774**	670

Investment income

In CHF million	2005	2004
		restated
Interest income on financial assets held to maturity and available for sale	**3 177**	3 164
Interest income on loans	**1 149**	1 289
Other interest income	**155**	113
Dividend income on financial assets available for sale	**197**	278
Net income on investment property	**507**	534
Total investment income	**5 185**	5 378

Net gains/losses on financial assets

In CHF million	Notes	2005	2004
			restated
Sale of			
financial assets held to maturity		**1**	1
financial assets available for sale	28	**1 803**	1 466
loans		**77**	113
other		**–**	–
Net gains/losses from sales		**1 881**	1 580
Impairment losses on			
financial assets held to maturity		**–**	–
financial assets available for sale	28	**–64**	–103
loans	14	**–20**	–35
Impairment losses on financial assets		**–84**	–138
Foreign currency gains/losses		**785**	–355
Total net gains/losses on financial assets		**2 582**	1 087

9 Details of Certain Items in the Consolidated Statement of Income (continued)

Net gains/losses on financial instruments at fair value through profit or loss

In CHF million	2005	2004
		restated
Fair value gains/losses on		
interest rate instruments[1]	**162**	96
equity instruments[1]	**1 592**	431
liabilities designated as at fair value through profit or loss[2]	**–67**	–134
liabilities for the account and risk of customers (unit-linked)	**–564**	–164
foreign currency instruments and other	**–1 810**	284
Total net gains/losses on financial instruments at fair value through profit or loss	**–687**	513

1) includes interest and dividend income of CHF 283 million (2004: CHF 294 million)
2) whereof attributable to changes in credit risk: nil (2004: nil)

Other income

In CHF million	2005	2004
		restated
Realised gains/losses on sales of other assets	**–13**	–133
Other foreign currency gains/losses	**–79**	–34
Other	**178**	12
Total other income	**86**	–155

Net insurance benefits, claims and claim settlement costs

In CHF million	2005	2004
		restated
Net life benefits and claims	**12 138**	14 945
Change in liability for future life policyholder benefits	**1 387**	–221
Claims and claim settlement costs	**515**	651
Total net insurance benefits, claims and claim settlement costs	**14 040**	15 375

Interest expense

In CHF million	2005	2004
		restated
Interest expense on deposits	**130**	93
Interest expense on investment contracts	**514**	547
Other interest expense	**218**	271
Total interest expense	**862**	911

9 Details of Certain Items in the Consolidated Statement of Income (continued)

Commission expense

In CHF million	2005	2004
		restated
Insurance agent and broker commissions	**913**	862
Commissions from banking activities	**28**	18
Other commissions and fees	**114**	90
Total commission expense	**1 055**	970

Employee benefits expense

In CHF million		2005	2004
	Notes		restated
Wages and salaries		**831**	820
Social security		**171**	162
Defined benefit plans	25	**131**	201
Defined contribution plans		**5**	6
Other employee benefits		**70**	68
Total employee benefits expense		**1 208**	1 257

Other expenses

In CHF million	2005	2004
		restated
Investment management expenses	**37**	26
Assumed underwriting and acquisition expenses	**13**	19
Ceded underwriting and acquisition expenses	**–26**	–27
Marketing and advertising	**73**	68
Information technology and systems	**161**	150
Rental, maintenance and repair expenses	**114**	114
Professional services	**249**	246
Other	**209**	233
Total other expenses	**830**	829

10 Insurance and Other Receivables and Payables

Insurance receivables and other receivables as at 31 December

In CHF million	2005	2004
		restated
Receivables from agents, brokers and insurers	428	452
Receivables from policyholders	1 030	1 006
Receivables from reinsurers	134	198
Accrued income	2 081	2 181
Other	502	832
Total insurance receivables and other receivables	**4 175**	4 669

Insurance payables and other payables as at 31 December

In CHF million	2005	2004
		restated
Amounts due to agents, brokers and insurers	447	363
Amounts due to policyholders	2 470	2 252
Bank overdrafts	362	466
Accrued expenses	425	487
Other	751	657
Total insurance payables and other payables	**4 455**	4 225

11 Derivatives

Derivatives as at 31 December

In CHF million	2005	2004	2005	2004	2005	2004
	Fair value assets	Fair value assets	**Fair value liabilities**	Fair value liabilities	**Contract/ notional amount**	Contract/ notional amount
		restated		restated		restated
Derivatives held for trading						
Currency derivatives						
Forward contracts	**234**	323	**381**	291	**27 539**	23 269
Swaps	**29**	82	**66**	84	**881**	1 019
Futures	**–**	–	**–**	–	**–**	–
Options (over-the-counter)	**37**	27	**37**	28	**6 512**	2 637
Options (exchange traded)	**7**	–	**1**	–	**917**	–
Other	**–**	–	**–**	–	**–**	–
For the account and risk of customers	**–**	–	**–**	–	**–**	–
Total currency derivatives	**307**	432	**485**	403	**35 849**	26 925
Interest rate derivatives						
Forward rate agreements	**–**	–	**–**	–	**–**	–
Swaps	**132**	239	**208**	124	**14 090**	11 735
Futures	**0**	0	**–**	–	**1 775**	2 005
Options (over-the-counter)	**33**	2	**2**	4	**4 373**	1 856
Options (exchange traded)	**1**	–	**–**	–	**778**	–
Other	**28**	4	**–**	–	**30**	1 380
For the account and risk of customers	**–**	–	**110**	47	**110**	48
Total interest rate derivatives	**194**	245	**320**	175	**21 156**	17 024
Equity/index derivatives						
Forward contracts	**26**	22	**38**	1	**822**	3 828
Futures	**3**	0	**12**	–	**2 015**	222
Options (over-the-counter)	**38**	15	**15**	21	**283**	798
Options (exchange traded)	**52**	166	**51**	46	**1 964**	1 860
Other	**34**	51	**–**	0	**3 059**	45
For the account and risk of customers	**0**	1	**–**	0	**9**	53
Total equity/index derivatives	**153**	255	**116**	68	**8 152**	6 806
Precious metal derivatives						
Forward contracts	**3**	2	**8**	4	**160**	116
Futures	**–**	–	**–**	–	**–**	–
Options (over-the-counter)	**1**	1	**2**	1	**100**	63
Options (exchange traded)	**–**	–	**–**	–	**–**	–
Other	**–**	–	**–**	–	**–**	–
For the account and risk of customers	**2**	–	**151**	119	**129**	91
Total precious metal derivatives	**6**	3	**161**	124	**389**	270
Other derivatives	**114**	621	**626**	117	**617**	649
Total derivatives held for trading	**774**	1 556	**1 708**	887	**66 163**	51 674

11 Derivatives (continued)

In CHF million	2005	2004	2005	2004	2005	2004
	Fair value assets	Fair value assets	Fair value liabilities	Fair value liabilities	Contract/ notional amount	Contract/ notional amount
		restated		restated		restated
Derivatives designated and accounted for as hedging instruments						
Derivatives designated as fair value hedges	–	76	149	–	8 057	2 601
Derivatives designated as cash flow hedges	3	11	24	43	1 051	2 007
Total derivatives designated and accounted for as hedging instruments	3	87	173	43	9 108	4 608
Total derivatives	777	1 643	1 881	930	75 271	56 282

Derivatives held for trading Derivatives held for trading primarily comprise:

Derivatives that share a risk with other financial instruments and give rise to opposite changes in fair value that tend to offset each other ("economic hedges").

Derivatives embedded in separate account contracts for the right of the policyholder to participate in the performance of the underlying assets that have been separated.

Other embedded derivatives that have been separated from the host contracts.

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 risks arise from open positions in interest rates, currencies and equity instruments, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

Derivatives designated and accounted for as hedging instruments Derivatives designated and accounted for as hedging instruments primarily comprise derivatives associated with fair value hedges and cash flow hedges that qualify for hedge accounting.

Derivatives designated as fair value hedges as at 31 December

In CHF million	2005	2004	2005	2004	2005	2004	2005	2004
	Fair value assets	Fair value assets	Fair value liabilities	Fair value liabilities	Gains/ losses on hedging instruments	Gains/ losses on hedging instruments	Contract/ notional amount	Contract/ notional amount
		restated		restated		restated		restated
Interest rate swaps	–	–	129	–	129	–	5 044	–
Currency forward contracts	–	76	20	–	412	245	3 013	2 601
Total derivatives designated as fair value hedges	–	76	149	–	541	245	8 057	2 601

In October and November 2005 the Group entered into interest rate swaps to hedge the available-for-sale fixed-rate bond portfolios in USD and EUR against changes in the fair value attributable to interest rate risk. The fair value of the bond portfolios as at 31 December 2005 was CHF 5.6 billion.

11 Derivatives (continued)

Forward contracts are used as hedging instruments to protect investments in hedge funds against adverse movements in the USD exchange rate.

Derivatives designated as cash flow hedges

In CHF million	Notes	Fair value assets	Fair value liabilities	Gains/losses recognised in equity	Gains/losses transferred to income	Contract/notional amount	Expected occurrence of hedged transactions	Periods expected to affect income
31 December 2005								
Interest rate swaps	28	**3**	**24**	**6**	**4**	**1 051**	**2006–2014**	**2006–2014**
Total derivatives designated as cash flow hedges		**3**	**24**	**6**	**4**	**1 051**	**n. a.**	**n. a.**
31 December 2004 (restated)								
Interest rate swaps	28	11	43	–4	9	2 007	2005–2015	2005–2015
Total derivatives designated as cash flow hedges		11	43	–4	9	2 007	n.a.	n.a.

Banca del Gottardo hedges its exposure to variability in cash flows attributable to interest rate risk and associated with banking book interest-bearing assets and liabilities using interest rate swaps, the maximum maturity of which is eight years. A cash flow schedule, including both principal and interest flows, is built from the hedged items' contractual terms for material currencies, and both prospective and retrospective hedge effectiveness tests are performed accordingly.

The effective portion of the fair value changes on the interest rate swaps designated as hedging instruments is recognised directly in equity and reclassified to the income statement when the hedged cash flows affect profit or loss. The ineffective portion of the fair value changes is recognised immediately in the income statement. As at 31 December 2005, a total negative amount of CHF 13 million was deferred in equity (2004: CHF 23 million).

12 Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial assets and liabilities at fair value through profit or loss as at 31 December

In CHF million	2005	2004	2005	2004	2005	2004
	Held for trading	Held for trading	**Designated as at fair value through profit or loss**	Designated as at fair value through profit or loss	**Total**	Total
		restated		restated		restated
Financial assets at fair value through profit or loss						
Debt securities	**956**	697	**3 764**	2 520	**4 720**	3 217
Money market instruments	**–**	–	**–**	–	**–**	–
Equity securities	**518**	271	**3 156**	2 502	**3 674**	2 773
Investment fund units – debt	**–**	–	**1 525**	1 267	**1 525**	1 267
Investment fund units – equity	**–**	–	**3 668**	3 762	**3 668**	3 762
Investment fund units – mixed	**–**	–	**3 080**	2 852	**3 080**	2 852
Private equity	**0**	0	**75**	60	**75**	60
Hedge funds	**–**	–	**247**	224	**247**	224
Assets for the account and risk of the Swiss Life Group's customers	**–**	–	**6 318**	5 053	**6 318**	5 053
Other	**264**	155	**82**	–	**346**	155
Total financial assets at fair value through profit or loss	**1 738**	1 123	**21 915**	18 240	**23 653**	19 363
Assets pledged that can be sold or repledged by transferee	***813***	*313*	***–***	*–*	***813***	*313*
Financial liabilities at fair value through profit or loss						
Debt instruments	**374**	306	**–**	–	**374**	306
Equity instruments	**242**	62	**–**	–	**242**	62
Investment contracts without discretionary participation features	**–**	–	**89**	231	**89**	231
Liabilities for the account and risk of the Swiss Life Group's customers	**–**	–	**4 957**	3 432	**4 957**	3 432
Other	**6**	191	**1 251**	717	**1 257**	908
Total financial liabilities at fair value through profit or loss	**622**	559	**6 297**	4 380	**6 919**	4 939

The adoption of IAS 39 (revised) has resulted in the designation of certain financial assets and financial liabilities as at fair value through profit or loss.

Financial assets at fair value through profit or loss that have been sold under a repurchase agreement or lent under an agreement to return them, and where the transferee has the right to sell or repledge the financial assets given as collateral, were reclassified to financial assets pledged as collateral.

The carrying amounts and the contractual redemption amounts at maturity of financial liabilities designated as at fair value through profit or loss are as follows:

Financial liabilities designated as fair value through profit or loss

In CHF million	2005	2004	2005	2004
	Carrying amount	Carrying amount	**Redemption amount**	Redemption amount
		restated		restated
Investment contracts without discretionary participation features	**89**	231	**89**	231
Other	**1 251**	717	**1 246**	715
Total financial liabilities designated as fair value through profit or loss	**1 340**	948	**1 335**	946

13 Financial Assets Available for Sale

Financial assets available for sale as at 31 December

In CHF million	2005	2004	2005	2004	2005	2004
	Cost/ amortised cost	Cost/ amortised cost	**Net unrealised gains/losses**	Net unrealised gains/losses	**Fair value (carrying amount)**	Fair value (carrying amount)
		restated		restated		restated
Debt securities	**66 112**	66 454	**4 721**	3 973	**70 833**	70 427
Money market instruments	**38**	22	**–**	0	**38**	22
Equity securities	**3 199**	2 865	**788**	393	**3 987**	3 258
Investment fund units – debt	**25**	34	**1**	–	**26**	34
Investment fund units – equity	**33**	19	**2**	1	**35**	20
Investment fund units – mixed	**304**	212	**5**	3	**309**	215
Private equity	**108**	258	**31**	5	**139**	263
Hedge funds	**3 923**	3 034	**293**	108	**4 216**	3 142
Other	**423**	585	**25**	12	**448**	597
Total financial assets available for sale, net of impairment	**74 165**	73 483	**5 866**	4 495	**80 031**	77 978
Assets pledged that can be sold or repledged by transferee	***407***	*552*	***12***	*13*	***419***	*565*

Based on detailed assessments with regard to indications of impairment, impairment losses totalling CHF 64 million were recognised in the period under review (2004: CHF 103 million). The impairment losses in 2005 primarily related to debt securities, hedge funds and equity securities. In 2004, the impairment losses primarily related to equity securities and hedge funds.

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 in the period under review.

Financial assets available for sale that have been sold under a repurchase agreement or lent under an agreement to return them, and where the transferee has the right to sell or repledge the financial assets given as collateral, were reclassified to financial assets pledged as collateral.

14 Loans

Loans as at 31 December

In CHF million	Notes	2005 Gross amount	2004 Gross amount restated	2005 Allowance for loan losses	2004 Allowance for loan losses restated	2005 Carrying amount	2004 Carrying amount restated	2005 Fair value	2004 Fair value restated
Mortgages		**8 663**	8 706	**–52**	–61	**8 611**	8 645	**8 682**	8 714
Policy loans		**860**	1 010	**–**	–	**860**	1 010	**880**	1 016
Other originated loans		**9 539**	10 706	**–134**	–124	**9 405**	10 582	**9 587**	10 801
Purchased loans		**9 116**	8 925	**–**	–	**9 116**	8 925	**10 118**	9 688
Repurchase agreements		**2 288**	493	**–**	–	**2 288**	493	**2 288**	492
Total loans	35	**30 466**	29 840	**–186**	–185	**30 280**	29 655	**31 555**	30 711

Allowance for loan losses

In CHF million	Notes	2005	2004 restated
Balance as at 1 January		**–185**	–200
Amounts recognised as expense	9	**–20**	–35
Write-offs		**20**	50
Recoveries		**–**	0
Foreign currency translation differences		**–1**	0
Balance as at 31 December		**–186**	–185

The Group accepted securities at a fair value of CHF 2.6 billion (2004: CHF 492 million) as collateral under repurchase agreements and securities at a fair value of CHF 42 million (2004: CHF 705 million) under securities borrowing arrangements which it is permitted to sell or repledge. CHF 835 million (2004: CHF 966 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.

In 2004, Zwitserse Maatschappij van Levensverzekering en Lijfrente in the Netherlands sold a portfolio of mortgages totalling CHF 2.2 billion and realised a gain on the sale of CHF 114 million. With the transfer of SwAFE B.V., a special purpose entity in the Netherlands, another mortgage portfolio totalling CHF 782 million was sold.

Interest income accrued on impaired loans was CHF 8 million as of 31 December 2005 (2004: CHF 13 million). 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 that 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.

14 Loans (continued)

Finance lease receivables as at 31 December

In CHF million	2005	2004	2005	2004
	Minimum lease payments	Minimum lease payments	**Present value of minimum lease payments**	Present value of minimum lease payments
		restated		restated
Not later than 1 year	–	222	–	201
Later than 1 year and not later than 5 years	**34**	427	**31**	401
Later than 5 years	**125**	78	**102**	67
Total	**159**	727	**133**	669
Future finance income	***26***	*58*		
Unguaranteed residual values	–	*6*		

The Group leases equipment to third parties under finance leases. The average contractual period of leasing arrangements is approximately 7 years. The average interest rate is 3.2%. Finance lease receivables are included in other loans.

15 Financial Assets Held to Maturity

Financial assets held to maturity as at 31 December

In CHF million		2005	2004	2005	2004	2005	2004
		Cost/ amortised cost (carrying amount)	Cost/ amortised cost (carrying amount)	**Net unrecognised gains/losses**	Net unrecognised gains/losses	**Fair value**	Fair value
	Notes		restated		restated		restated
Debt securities		**4 230**	4 101	**276**	277	**4 506**	4 378
Money market instruments		**19**	46	–	0	**19**	46
Other		**7**	–	–	–	**7**	–
Total financial assets held to maturity, net of impairment	35	**4 256**	4 147	**276**	277	**4 532**	4 424
Assets pledged that can be sold or repledged by transferee		–	–	–	–	–	–

Financial assets held to maturity that have been sold under a repurchase agreement or lent under an agreement to return them, and where the transferee has the right to sell or repledge the financial assets given as collateral, were reclassified to financial assets pledged as collateral.

16 Investment Property

In CHF million	Notes	2005	2004 restated
Carrying amount as at 1 January		**11 518**	11 082
Reclassification from separate account/unit-linked assets		**–**	4
Carrying amount as at 1 January restated		**11 518**	11 086
Additions		**104**	282
Acquisitions through business combinations		**–**	55
Capitalised subsequent expenditure		**132**	47
Disposals		**–378**	–125
Gains/losses from disposals		**7**	20
Gains/losses from fair value adjustments		**–31**	–67
Transfers from/to property and equipment	18	**72**	234
Foreign currency translation differences		**15**	–14
Carrying amount as at 31 December		**11 439**	11 518

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 under property and equipment. Property acquired with a view to its subsequent disposal in the near future is carried under assets held for sale.

Rental income from investment property was CHF 675 million for the period ended 31 December 2005 (2004: CHF 690 million). Operating expenses arising from investment property that generated rental income stood at CHF 157 million for the period ended 31 December 2005 (2004: CHF 140 million). Operating expenses arising from investment property that did not generate rental income during the period stood at CHF 11 million for the period ended 31 December 2005 (2004: CHF 16 million).

17 Investments in Associates

In CHF million	2005	2004 restated
Balance as at 1 January	**58**	64
Adoption of IAS 28 (revised)	**–**	0
Balance as at 1 January restated	**58**	64
Additions	**20**	0
Additions due to partial sale of subsidiaries	**–**	4
Reduction due to majority ownership	**–1**	–12
Disposals and transfers to assets held for sale	**0**	0
Share of results	**3**	3
Share of amounts recognised directly in equity	**0**	0
Dividends paid	**–4**	–1
Foreign currency translation differences	**0**	0
Balance as at 31 December	**76**	58

In July 2005, Banca del Gottardo outsourced the IT and back office processes to B-Source, Lugano, and acquired an equity stake of 37% of this company.

Goodwill relating to investments in associates has been included in the carrying amount of investments in associates in accordance with IAS 28 (revised) Investment

17 Investments in Associates (continued)

in Associates. An amount totalling CHF 0.02 million was reclassified from intangible assets to investments in associates as at 1 January 2004.

In 2004, Adamant Biomedical Investments Ltd., Basel, LGT Swiss Life Non Traditional Advisers, Liechtenstein, and a service company in Germany, were reclassified to investments in associates due to partial sales of the equity stakes held.

Due to the acquisition of the remaining 60.7% of Oudart in 2004, an asset management group, investments in associates were reduced by CHF 12 million.

Investments in associates: summarised financial information

Amounts in CHF million	Assets	Liabilities	Net assets	Proportionate net assets	Revenues	Results	Proportionate results	Direct share
2005								
Crédit et services financiers (CRESERFI)	**212**	**100**	**112**	**37**	**51**	**10**	**3**	**33.4%**
B-Source	**75**	**29**	**46**	**17**	**17**	**–2**	**–3**	**37.0%**
Technopark Immobilien	**102**	**55**	**47**	**16**	**15**	**–1**	**0**	**33.3%**
LGT Swiss Life Non Traditional Advisers	**26**	**17**	**9**	**4**	**10**	**8**	**3**	**43.4%**
AIA Pool	**8**	**8**	**0**	**0**	**1**	**1**	**0**	**13.0%**
Other	**20**	**14**	**6**	**2**	**17**	**2**	**0**	**n. a.**
Total	**443**	**223**	**220**	**76**	**111**	**18**	**3**	**n. a.**
2004 (restated)								
Crédit et services financiers (CRESERFI)	202	99	103	34	51	5	2	33.4%
Technopark Immobilien	103	55	48	16	12	1	0	33.3%
LGT Swiss Life Non Traditional Advisers	12	3	9	4	10	8	0	43.4%
AIA Pool	6	5	1	0	2	0	0	13.0%
Other	20	12	8	4	18	2	1	n. a.
Total	343	174	169	58	93	16	3	n. a.

The Swiss Life Group has significant influence on AIA Pool, which is a pool of several insurance companies. AIA Pool specialises in the insurance of architects and engineers. The significant influence of the Swiss Life Group is based on agreements with the other insurers participating in AIA Pool. No investments in associates had published price quotations as at 31 December 2005 and 2004. As at 31 December 2005 and 2004, no contingent liabilities arose from the Group's investments in associates.

18 Property and Equipment

Property and equipment for the year ended 31 December 2005

In CHF million	Notes	Land and buildings	Buildings under construction	Furniture and fixtures	Hardware	Other equipment	Total
Cost							
Balance as at 1 January		**1 133**	**174**	**195**	**252**	**49**	**1 803**
Additions		**76**	**79**	**12**	**28**	**8**	**203**
Additions from business combinations		**–**	**–**	**0**	**0**	**–**	**0**
Disposals and write-offs		**–13**	**–4**	**–43**	**–119**	**–13**	**–192**
Transfers from/to investment property	16	**–17**	**–55**	**–**	**–**	**–**	**–72**
Revaluation surplus on transfers to investment property	28	**4**	**–**	**–**	**–**	**–**	**4**
Transfers to assets held for sale	32	**–**	**–**	**0**	**–6**	**–17**	**–23**
Foreign currency translation differences		**0**	**–**	**–6**	**0**	**0**	**–6**
Balance as at 31 December		**1 183**	**194**	**158**	**155**	**27**	**1 717**
Accumulated depreciation and impairment							
Balance as at 1 January		**–181**	**–4**	**–144**	**–207**	**–30**	**–566**
Depreciation		**–28**	**–**	**–18**	**–23**	**–7**	**–76**
Impairment losses		**–**	**–2**	**–**	**0**	**–**	**–2**
Disposals and write-offs		**5**	**4**	**35**	**115**	**5**	**164**
Transfers to assets held for sale	32	**–**	**–**	**0**	**5**	**12**	**17**
Foreign currency translation differences		**2**	**–**	**7**	**–1**	**1**	**9**
Balance as at 31 December		**–202**	**–2**	**–120**	**–111**	**–19**	**–454**
Total property and equipment as at 31 December		**981**	**192**	**38**	**44**	**8**	**1 263**
of which assets held under a finance lease		***41***	**–**	**–**	***3***	**–**	***44***

18 Property and Equipment (continued)

Property and equipment for the year ended 31 December 2004 (restated)

In CHF million	Notes	Land and buildings	Buildings under construc-tion	Furniture and fixtures	Hardware	Other equipment	Total
Cost							
Balance as at 1 January		1 267	200	214	504	51	2 236
Reclassification of computer software to intangible assets		–	–	–	–205	–	–205
Additions		13	70	11	33	10	137
Additions from business combinations		–	–	1	0	0	1
Disposals and write-offs		–108	–	–31	–79	–12	–230
Transfers from/to investment property	16	–139	–95	–	–	–	–234
Revaluation surplus on transfers to investment property	28	103	–	–	–	–	103
Foreign currency translation differences		–3	–1	0	–1	0	–5
Balance as at 31 December		1 133	174	195	252	49	1 803
Accumulated depreciation and impairment							
Balance as at 1 January		–202	–4	–150	–382	–30	–768
Reclassification of computer software to intangible assets		–	–	–	134	–	134
Depreciation		–27	–	–24	–30	–6	–87
Impairment losses		–11	–	–	–	–	–11
Reversal of impairment losses		0	–	0	0	0	0
Disposals and write-offs		59	–	30	70	5	164
Foreign currency translation differences		0	–	0	1	1	2
Balance as at 31 December		–181	–4	–144	–207	–30	–566
Total property and equipment as at 31 December		952	170	51	45	19	1 237
of which assets held under a finance lease		*43*	–	–	*4*	–	*47*

No borrowing costs were capitalised in property and equipment in 2004 and 2005.

19 Intangible Assets including Intangible Insurance Assets

Intangible assets including intangible insurance assets for the year ended 31 December 2005

In CHF million	Goodwill	Present value of future profits (PVP)	Deferred acquisition costs (DAC)	Deferred origination costs (DOC)	Customer relation-ships	Other intangible assets	Total
Cost							
Balance as at 1 January	2 500	65	4 706	212	15	181	7 679
Adoption of IFRS 3	–794	–	–	–	–	–	–794
Balance as at 1 January restated	1 706	65	4 706	212	15	181	6 885
Additions	–	60	538	34	–	16	648
Additions from business combinations	–	–	–	–	–	0	0
Disposals and write-offs	–	–	–92	–	–	–16	–108
Transfers to assets held for sale	–275	–	–	–	–	0	–275
Foreign currency translation effects	0	0	26	5	0	3	34
Balance as at 31 December	1 431	125	5 178	251	15	184	7 184
Accumulated amortisation and impairment							
Balance as at 1 January	–1 699	–50	–2 400	–10	–3	–110	–4 272
Adoption of IFRS 3	798	–	–	–	–	–	798
Balance as at 1 January restated	–901	–50	–2 400	–10	–3	–110	–3 474
Amortisation recognised in income	–	–16	–621	–14	–3	–20	–674
Amortisation recognised directly in equity	–	3	–126	–	–	–	–123
Impairment losses	–66	–46	–4	–	–	–1	–117
Disposals and write-offs	–	–	63	–	–	5	68
Transfers to assets held for sale	228	–	–	–	–	0	228
Foreign currency translation effects	0	1	–13	–4	1	–2	–17
Balance as at 31 December	–739	–108	–3 101	–28	–5	–128	–4 109
Total intangible assets as at 31 December	692	17	2 077	223	10	56	3 075

19 Intangible Assets including Intangible Insurance Assets (continued)

Intangible assets including intangible insurance assets for the year ended 31 December 2004 (restated)

In CHF million	Goodwill	Present value of future profits (PVP)	Deferred acquisition costs (DAC)	Deferred origination costs (DOC)	Customer relation-ships	Other intangible assets	Total
Cost							
Balance as at 1 January	2 503	70	4 592	–	–	14	7 179
Adoption of IAS 28 (revised)	–3	–	–	–	–	–	–3
Adoption of IFRS 4	–	–	–362	200	–	–	–162
Balance as at 1 January restated	2 500	70	4 230	200	–	14	7 014
Reclassification of computer software from property and equipment	–	–	–	–	–	205	205
Additions	–	–	559	17	–	15	591
Additions from business combinations	0	–	–	–	16	0	16
Disposals and write-offs	0	–5	–66	–1	–	–54	–126
Foreign currency translation effects	0	0	–17	–4	–1	1	–21
Balance as at 31 December	2 500	65	4 706	212	15	181	7 679
Accumulated amortisation and impairment							
Balance as at 1 January	–1 459	–45	–1 799	–	–	–12	–3 315
Adoption of IAS 28 (revised)	3	–	–	–	–	–	3
Balance as at 1 January restated	–1 456	–45	–1 799	–	–	–12	–3 312
Reclassification of computer software from property and equipment	–	–	–	–	–	–134	–134
Amortisation recognised in income	–80	–5	–481	–14	–3	–17	–600
Amortisation recognised directly in equity	–	–	–139	–	–	–	–139
Impairment losses	–163	–	0	–	–	–	–163
Disposals and write-offs	0	1	19	0	–	53	73
Foreign currency translation effects	0	–1	–	4	0	0	3
Balance as at 31 December	–1 699	–50	–2 400	–10	–3	–110	–4 272
Total intangible assets as at 31 December	801	15	2 306	202	12	71	3 407

Goodwill Due to the adoption of IFRS 3 Business Combinations, negative goodwill totalling CHF 4 million was derecognised with a corresponding adjustment to retained earnings as at 1 January 2005. Additionally, accumulated amortisation of goodwill totalling CHF 798 million was eliminated as at 1 January 2005.

19 Intangible Assets including Intangible Insurance Assets (continued)

The key assumptions used for the impairment testing on the carrying amount of goodwill totalling CHF 692 million were as follows:

Amounts in CHF million	2005 Banca del Gottardo	2004 Banca del Gottardo	2005 Lloyd Continental	2004 Lloyd Continental
		restated		restated
Net carrying amount of goodwill as at 31 December	405	518	287	283
Impairment losses	66	–	–	123
Key assumptions used for impairment tests				
Growth rate	1.0%	–	1.0% *	–
Discount rate	9.5%	–	8.0%	–

* 1% in 2009, reduced by 0.25% in each subsequent year

Goodwill relating to Banca del Gottardo has been allocated to the banking segment and goodwill relating to Lloyd Continental has been allocated to the insurance segment in France.

The recoverable amounts of the business relating to the goodwill above have been determined on a value-in-use basis for Lloyd Continental and Banca del Gottardo excluding Banca del Gottardo Monaco and Dreieck Industrie Leasing, subsidiaries of Banca del Gottardo, which will be sold in 2006. The recoverable amounts relating to the goodwill of these subsidiaries have been determined on the basis of their fair values less cost to sell, which represent the sales prices of these subsidiaries.

The calculations relating to the recoverable amounts which have been determined on a value-in-use basis use cash flow projections based on financial budgets approved by management covering a five-year period for Banca del Gottardo and a four-year period for Lloyd Continental. The calculations are based on present values that traditionally use a single set of estimated cash flows and a single discount rate.

These key assumptions have been derived from analysis in the specific markets. Investment returns reflect projected returns based on the specific investment portfolios and the investment strategy. The discount rates used are pre-tax rates and reflect specific risks relating to the business concerned. The growth rate was used for cash flow projections beyond the budgeted periods.

The impairment test on the goodwill relating to Banca del Gottardo Monaco has resulted in an impairment loss totalling CHF 66 million.

The remaining goodwill relating to Banca del Gottardo Monaco and Dreieck Industrie Leasing amounting to CHF 47million was reclassified to assets held for sale as at 31 December 2005 as these companies will be sold in 2006.

In 2004, a legal reform of the healthcare system in France took place which has had an influence on the business environment of the participants in the accident and health insurance market. Due to this legal reform, an impairment test of the goodwill relating to Lloyd Continental was performed. The recoverable amount of the insurance portfolios relating to Lloyd Continental was estimated using various analyses and valuation techniques based on assumptions which are consistent with the embedded value calculations. These tests resulted in an impairment charge totalling CHF 123 million. Due to insufficient recoverable amounts, other goodwill totalling CHF 40 million were charged as an impairment.

Present value of future profits (PVP) The present value of future profits relates to portfolios of insurance contracts and investment contracts with discretionary participation acquired in a business combination or transfer of portfolios. These amounts, representing the present value of future profits amortised in proportion to gross profits over the effective life of the acquired insurance and investment contracts, primarily relate to contracts acquired in Germany and France.

19 Intangible Assets including Intangible Insurance Assets (continued)

On 11 August 2005, the Swiss Life Group announced the completion of the purchase of the Vaudoise group life insurance portfolio. This purchase led to a present value of future profits associated with short-duration contracts amounting to CHF 45 million which was fully impaired in 2005.

In November 2005, the Swiss Life Group entered into a large employee benefits institution in Germany, a joint collaboration with IG Metall and Gesamtmetall offering occupational disability insurance (MetallRente). The present value of future profits arising from the acquisition of this insurance portfolio amounted to CHF 15 million.

Annual amortisation charges on the present value of future profits relating to acquired insurance portfolios totalling CHF 17 million as at 31 December 2005 are estimated as ranging from CHF 3 million to CHF 5 million for the years 2006 to 2008.

Deferred acquisition costs (DAC) Certain acquisition costs relating to new and renewed insurance contracts and investment contracts with discretionary participation features are deferred.

Deferred origination costs (DOC) These costs are recoverable and are directly attributable to securing investment management contracts. They primarily relate to costs deferred in the Netherlands and Belgium.

Customer relationships Customer relationships relate to the acquisition of Oudart, an asset management group in France, in 2004.

Other intangible assets Other intangible assets consist of computer software, trademarks and brand names.

20 Other Assets and Liabilities

Other assets as at 31 December

In CHF million	Notes	2005	2004 restated
Deferred charges and prepaid expenses		**492**	286
Defined benefit assets	25	**123**	115
Sundry assets		**91**	58
Total other assets		**706**	459

Other liabilities as at 31 December

In CHF million	2005	2004 restated
Deferred revenues	**344**	330
Sundry liabilities	**162**	363
Total other liabilities	**506**	693

21 Investment Contracts with Discretionary Participation Features

Investment contracts with discretionary participation as at 31 December

In CHF million	2005	2004
		restated
Liabilities arising from investment contracts with discretionary participation features for which deposit accounting is used	**22 971**	19 302
Liabilities arising from investment contracts with discretionary participation features with actuarial valuation	**681**	686
Total investment contracts with discretionary participation	**23 652**	19 988

Deposits under investment contracts with discretionary participation

In CHF million	2005	2004
		restated
Balance as at 1 January	**19 302**	–
Reclassification	**–**	17 338
Balance as at 1 January restated	**19 302**	17 338
Deposits received	**4 600**	3 016
Interest credited	**605**	431
Participating bonuses	**228**	181
Policy fees and insurance charges	**–242**	–187
Deposits released for payments on death, surrender and other terminations during the year	**–1 803**	–1 596
Other movements	**116**	284
Foreign currency translation differences	**165**	–165
Balance as at 31 December	**22 971**	19 302

Future life policyholder benefits under investment contracts with discretionary participation

In CHF million	2005	2004
		restated
Balance as at 1 January	**686**	–
Reclassification	**–**	640
Balance as at 1 January restated	**686**	640
Savings premiums	**231**	57
Accretion of interest	**17**	15
Liabilities released for payments on death, surrender and other terminations during the year	**–246**	–52
Other movements	**–9**	27
Foreign currency translation differences	**2**	–1
Balance as at 31 December	**681**	686

For contracts that do not have significant insurance risk but contain discretionary participation features, the Swiss Life Group bases its accounting policies on the requirements of the Generally Accepted Accounting Principles in the United States (US GAAP).

For investment-type contracts, savings premiums collected are reported as deposits (deposit accounting). These amounts primarily relate to contracts issued in France, Belgium and Luxembourg.

For traditional contracts in the life insurance business, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of actuarial assumptions as to mortality, persistency, expenses and investment return, including a margin for adverse deviation. These amounts primarily relate to contracts issued in Switzerland and France.

22 Investment Contracts and Deposits at Amortised Cost

Investment contracts and deposits at amortised cost as at 31 December

In CHF million	Notes	2005	2004 restated
Investment contracts		**888**	1 019
Policyholder deposits		**1 106**	1 057
Reinsurance deposits		**614**	603
Demand deposits		**2 904**	3 247
Savings deposits		**433**	195
Time deposits		**1 362**	2 060
Total investment contracts and deposits at amortised cost	35	**7 307**	8 181

Certain contracts that do not contain significant insurance risk and do not have discretionary participation features are carried at amortised cost.

23 Borrowings

Borrowings as at 31 December

In CHF million	Notes	2005	2004 restated
Money market instruments		**103**	76
Repurchase agreements		**976**	1 256
Debentures and loans			
Exchangeable debt (GEMMS)		**–**	833
Hybrid debt	29	**1 689**	1 451
Convertible debt		**269**	259
Mandatory convertible debt		**–**	257
Subordinated debt		**130**	167
Other debentures		**470**	533
Bank loans		**735**	1 454
Finance lease obligations		**16**	22
Other		**–**	5
Total borrowings	35	**4 388**	6 313
of which unsecured		***1 511***	*3 389*

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 at 31 December 2005 securities of CHF 990 million were provided as collateral in respect of repurchase agreements (2004: CHF 1317 million) and CHF 399 million in respect of securities lending arrangements (2004: CHF 531 million).

Exchangeable debt (GEMMS) The GEMMS (Guaranteed Exchangeable Monetisations of Multiple Shares) were issued by the Group on 15 May 1998 and were exchangeable at the option of the holder into shares of the designated company until the maturity date of the issue. The Group could redeem some of the issues principally on or after a specific redemption date at an early redemption price. During 2004 GEMMS with a nominal amount of CHF 6 million were repurchased in the market. The loss on the repurchased debt was CHF 0.4 million.

In May 2005, the remaining outstanding GEMMS matured and were repaid.

23 Borrowings (continued)

Hybrid debt In March 1999, Swiss Life/Rentenanstalt privately placed a subordinated perpetual step-up loan comprising three simultaneous advances of EUR 443 million (at a rate of interest of Euribor plus a margin of 1.05%, increasing by 100 basis points as from April 2009), CHF 290 million (at a rate of interest of Libor plus a margin of 1.05%, increasing by 100 basis points as from April 2009) and EUR 215 million (at a rate of interest of 5.3655%, as from October 2009 the rate of interest will be an aggregate of Euribor plus a margin of 2.05%). Swiss Life/Rentenanstalt can call the EUR 443 million floating rate loan at the earliest on 6 April 2009, the CHF 290 million floating rate loan at the earliest on 7 April 2009 and the EUR 215 million fixed rate loan at the earliest on 6 October 2009 or at five-year intervals thereafter, upon notice and subject to the consent of the Federal Office of Private Insurance.

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

On 1 July 2005, Swiss Life/Rentenanstalt entered into a forward agreement providing for the refinancing as of 2009 of a portion of the hybrid debt facility issued in 1999 in the amount of CHF 150 million on a 20-year/10-year non call subordinated step-up loan basis.

On 16 November 2005, J.P. Morgan Bank Luxembourg S.A. issued on a fiduciary basis EUR 350 million fixed/floating rate subordinated perpetual notes at a price of 99.423% to fund a loan made by it to Swiss Life/Rentenanstalt. Swiss Life/Rentenanstalt may repay the loan in full on 16 November 2015 or on any interest payment date thereafter, upon notice and subject to the consent of the Federal Office of Private Insurance. The notes bear interest from 16 November 2005 to 16 November 2015 at a rate of 5% p.a. If the notes are not redeemed on 16 November 2015, the interest rate will be the aggregate of 2.43% and Euribor for 3-month deposits in euro.

Also in November 2005, a nominal EUR 200 million of the EUR 215 million fixed rate loan was repurchased in the market at a price of 102.22%. The loss on the repurchased debt was CHF 8.2 million and is included in borrowing costs.

Convertible debt On 10 June 2004, Swiss Life Holding issued CHF 317 million in 0.625% convertible bonds due in 2010. The bonds may be converted into registered shares of Swiss Life Holding at any time at the option of the holder. Bondholders exercising their conversion right are entitled to receive the number of shares equal to the principal amount of CHF 1000 divided by the conversion price of CHF 209.625 (subject to adjustments).

The proceeds received from the issue of the convertible bonds have been split between a liability component and an equity component. The fair value of the liability component at issue date amounted to CHF 260 million and was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount of CHF 57 million represents the value of the option to convert the instrument into Swiss Life Holding shares and is included in share premium. Transaction costs of CHF 6 million were deducted from the liability and costs of CHF 1 million were recognised in share premium.

In 2005, convertible bonds were converted into 260 SLH shares (2004: 19 SLH shares) with a corresponding increase in share capital totalling CHF 11 960 (2004: CHF 950) and an increase in share premium totalling CHF 33 885 (2004: CHF 2433).

Mandatory convertible debt Due to the requirements of IAS 32 (revised) Financial Instruments: Disclosure and Presentation, the mandatory convertible securities totalling CHF 250 million issued in 2002 (MCS I, 2002–2005) were retrospectively split into an equity component and a liability component. The equity component represents the option to convert the mandatory convertible securities into Swiss Life Holding shares. At inception, the equity component amounted to CHF 14 million (negative). 1 768 535 Swiss Life Holding shares, equivalent to the minimum number of shares convertible under the MCS, were created at inception with an increase of share capital totalling CHF 88 million and a corresponding decrease of share premium. These mandatory convertible securities had previously been classified as equity, except for the present value of the interest payments of 5.25% p.a., which had been deferred and recognised as a financial liability.

23 Borrowings (continued)

On 19 December 2005, the mandatory convertible securities matured and the liability of CHF 250 million was reclassified to share premium.

Subordinated debt as at 31 December

Amounts in CHF million					**2005**	2004
Issuer	Currency	Interest rate	Year of issue	Maturity	**Carrying amount**	Carrying amount
						restated
Banca del Gottardo	CHF	5.375%	1995	2005	–	39
Banca del Gottardo	CHF	4.000%	2001	2008	**52**	53
Banca del Gottardo	EUR	5.500%	2001	2008	**22**	20
Banca del Gottardo	USD	5.750%	2001	2008	**7**	6
ERISA	EUR	Euribor +0.800%	1998	2008	**18**	18
ERISA	EUR	Euribor +1.000%	2001	2011	**31**	31
Total					**130**	167

Other debentures On 30 June 2004, Swiss Life Insurance Finance Ltd., Cayman Islands, issued EUR 300 million in 4.375% bonds at a price of 99.856%. The bonds mature in 2008 and are subject to redemption in whole, at their principal amount, at the option of the issuer at any time in the event of certain changes affecting taxes of the Cayman Islands or Switzerland. The payments of all amounts under the bonds are unconditionally and irrevocably guaranteed by Swiss Life/Rentenanstalt.

Other debentures as at 31 December

Amounts in CHF million					**2005**	2004
Issuer/instrument	Currency	Interest rate	Year of issue	Maturity	**Carrying amount**	Carrying amount
						restated
Banca del Gottardo – bond	CHF	3.250%	1998	2005	–	70
Banca del Gottardo – medium-term notes[1)]	CHF	1.900%	n. a.	n. a.	**6**	3
Swiss Life Insurance Finance Ltd. – guaranteed bonds	EUR	4.375%	2004	2008	**464**	460
Total					**470**	533

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 at 31 December 2005, the average interest rate was 1.9% (2004: 2.5%) and the average remaining time to maturity 33 months (2004: 23 months).

Bank loans Bank loans outstanding as at 31 December are repayable as follows:

In CHF million	**2005**	2004
		restated
On demand and within 1 year	**639**	1 339
After 1 year up to 5 years	**96**	71
After 5 years	–	44
Total	**735**	1 454

23 Borrowings (continued)

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

Amounts in CHF million			**2005**	2004
Currency	Interest rate	Maturity	**Carrying amount**	Carrying amount
				restated
CHF	4.400%	2005	–	15
CHF	4.050%	2006	**16**	16
CHF	2.910%	2009	**48**	49
CHF	5.080%	2010	**42**	43
Total			**106**	123

Finance lease obligations as at 31 December

In CHF million	**2005**	2004	**2005**	2004
	Minimum lease payments	Minimum lease payments	**Present value of minimum lease payments**	Present value of minimum lease payments
		restated		restated
Not later than 1 year	**6**	6	**5**	5
Later than 1 year and not later than 5 years	**12**	19	**11**	17
Later than 5 years	–	–	–	–
Total	**18**	25	**16**	22
Future finance charges	***2***	*3*		

24 Insurance Liabilities and Reinsurance Assets

Insurance liabilities and reinsurance assets as at 31 December

In CHF million	**2005**	2004	**2005**	2004	**2005**	2004
	Gross	Gross	**Reinsurance assets**	Reinsurance assets	**Net**	Net
		restated		restated		restated
Claims under non-life insurance contracts	**1 386**	2 083	**239**	355	**1 147**	1 728
Claims under life insurance contracts	**7 887**	7 730	**133**	128	**7 754**	7 602
Unearned premiums	**197**	214	**4**	8	**193**	206
Future life policyholder benefits	**90 731**	86 114	**547**	534	**90 184**	85 580
Deposits under insurance contracts	**6 340**	6 353	–	3	**6 340**	6 350
Non-discretionary policyholder bonuses and other liabilities	**368**	574	**0**	3	**368**	571
Total insurance liabilities and reinsurance assets	**106 909**	103 068	**923**	1 031	**105 986**	102 037

24 Insurance Liabilities and Reinsurance Assets (continued)

Future life policyholder benefits

In CHF million	2005	2004
		restated
Balance as at 1 January	**86 114**	88 743
Reclassification	**–**	1 153
Elimination of own insurance contracts	**–**	–1 758
Balance as at 1 January restated	**86 114**	88 138
Acquisition of insurance portfolio	**2 841**	–
Savings premiums	**8 475**	9 748
Accretion of interest	**2 645**	2 661
Liabilities released for payments on death, surrender and other terminations during the year	**–10 111**	–12 530
Other movements	**418**	–1 583
Foreign currency translation differences	**349**	–320
Balance as at 31 December	**90 731**	86 114

Deposits under insurance contracts

In CHF million	2005	2004
		restated
Balance as at 1 January	**6 353**	21 968
Reclassification	**–**	–18 104
Balance as at 1 January restated	**6 353**	3 864
Deposits received	**781**	1 162
Interest credited	**192**	260
Participating bonuses	**90**	108
Policy fees and insurance charges	**–80**	–84
Deposits released for payments on death, surrender and other terminations during the year	**–951**	–1 164
Other movements	**–86**	2 244
Foreign currency translation differences	**41**	–37
Balance as at 31 December	**6 340**	6 353

Insurance liabilities with and without discretionary participation features

In CHF million	2005	2004
		restated
Insurance liabilities with discretionary participation features	**96 982**	92 121
Insurance liabilities without discretionary participation features	**9 927**	10 947
Total insurance liabilities with and without discretionary participation features as at 31 December	**106 909**	103 068

24 Insurance Liabilities and Reinsurance Assets (continued)

Claims under non-life insurance contracts

In CHF million	2005	2004
		restated
As at 1 January		
Gross claims under non-life insurance contracts	**2 083**	2 040
Less: Reinsurance recoverable	**–355**	–365
Net claims under non-life insurance contracts	**1 728**	1 675
Claims and claim settlement costs incurred		
Reporting period	**704**	797
Prior reporting periods	**–142**	–90
Total claims and claim settlement costs incurred	**562**	707
Claims and claim settlement costs paid		
Reporting period	**–160**	–250
Prior reporting periods	**–386**	–394
Total claims and claim settlement costs paid	**–546**	–644
Acquisitions and disposals of companies and insurance business	**–605**	–
Foreign currency translation differences	**8**	–10
As at 31 December		
Net claims under non-life insurance contracts	**1 147**	1 728
Plus: Reinsurance recoverable	**239**	355
Total gross claims under non-life insurance contracts	**1 386**	2 083

Claims under non-life insurance contracts Claims under non-life insurance contracts represent the liability needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the financial reporting date. The estimated liability includes the amount that will be required for future payments on both claims that have been reported to the insurer and claims relating to insured events that have occurred but have not been reported to the insurer as at the date the liability is estimated. Loss development tables are generally used to make these estimates.

Claims under life insurance contracts Represents the liability for all claim payments in individual and group life business which were due in the current or previous reporting periods that are still left unpaid at the reporting date. Measurement at the reporting date is the sum of all payments for claims still left unsettled but which were due in the current or any previous reporting period.

Unearned premiums Represents the portion of the premiums written relating to the unexpired terms of coverage.

Future life policyholder benefits For participating contracts where the contribution principle applies to the allocation of the policyholder bonus and for non-participating contracts, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest rate assumptions.

Insurance liabilities for which deposit accounting is used For investment-type contracts with significant insurance risk, savings premiums collected are reported as deposits (deposit accounting).

Non-discretionary policyholder bonuses and other liabilities Policyholder liabilities are recognised in accordance with legal or contractual requirements and ratified by management.

25 Employee Benefits

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 the requirements of IFRS 4 Insurance Contracts in combination with IAS 19 Employee Benefits, insurance contracts issued to defined benefit plans covering own employees were eliminated. This elimination led to an adjustment of the net employee benefit liability as at 1 January 2004 of CHF 2035 million. These amounts had previously been treated as plan assets for the calculation of the defined benefit liabilities and had also been included in insurance liabilities. These plans are typically partially funded as certain plan assets relating to these plans were not required to be eliminated. Associated unrecognised actuarial gains/losses totalling CHF 94 million were eliminated against the opening balance of retained earnings as at 1 January 2004.

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 100 million as at 31 December 2005 (2004: CHF 70 million). Plan assets do not include any property occupied by the Group.

Amounts recognised in the consolidated balance sheet as at 31 December

In CHF million	Notes	**2005**	2004 restated
Present value of fully and partially funded obligations		**–2 554**	–2 565
Fair value of plan assets		**302**	219
Present value of unfunded obligations		**–383**	–306
Unrecognised actuarial gains (–)/losses (+)		**209**	181
Unrecognised past service cost		**–9**	–8
Net asset (+)/liability (–)		**–2 435**	–2 479
The net asset/liability consists of			
Gross defined benefit liabilities		**–2 558**	–2 594
Gross defined benefit assets	20	**123**	115

Amounts recognised in the consolidated statement of income

In CHF million	Notes	**2005**	2004 restated
Current service cost		**100**	105
Interest cost		**96**	97
Expected return on plan assets		**–9**	–9
Net actuarial gains (–)/losses (+)		**3**	21
Past service cost		**2**	–1
Employee contributions		**–8**	–7
Effect of curtailments or settlements		**–53**	–5
Total defined benefit expense	9	**131**	201
Actual return on plan assets		***–58***	*2*

25 Employee Benefits (continued)

Change in net asset/liability recognised in the balance sheet as at 31 December

In CHF million	Notes	2005	2004 restated
As at 1 January		**–2 479**	–312
Effect of elimination of defined benefit plans covering own employees			
Elimination of insurance reserves which do not qualify as plan assets		–	–2 035
Elimination of unrecognised actuarial gains/losses on unqualifying plan assets		–	–94
As at 1 January restated		**–2 479**	–2 441
Expense recognised in the income statement	9	**–131**	–201
Contributions		**178**	164
Assets/liabilities from acquisitions/disposals		**2**	–5
Foreign currency translation differences		**–5**	4
Net liability as at 31 December		**–2 435**	–2 479

Principal actuarial assumptions (weighted averages) as at 31 December

	2005	2004 restated
Discount rate	**3.5%**	3.6%
Expected rate of return on plan assets	**3.9%**	4.0%
Expected rate of return on reimbursement rights	**n. a.**	n. a.
Future salary increases	**2.0%**	1.8%
Future pension increases	**0.9%**	0.8%

Number of employees The Group had 8979 full time equivalents as at 31 December 2005 (2004: 9419).

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 5 million in 2005 (2004: CHF 5 million).

Other long-term employee benefits The liability for long-term employee benefits amounted to CHF 12 million as at 31 December 2005 (2004: CHF 12 million). It relates to part-time employment contracts prior to retirement and to profit-sharing arrangements for certain employees.

Termination benefits Termination benefits totalling CHF 2 million for the year ending 31 December 2005 (2004: CHF 3 million) arose as a result of early retirements and voluntary redundancies.

Equity compensation plans In 2005, a share-based payment programme was established which gives key management personnel and senior employees the right to receive a certain number of Swiss Life Holding shares (performance share units) after three years of service. The number of the shares allocated depends on two criteria. One criterion is the performance of the share price of the Swiss Life Holding share during the vesting period of three years. The other criterion is the performance of the share price of the Swiss Life Holding share during the vesting period of three years compared to the performance of the Dow Jones STOXX Insurance index. The number of shares granted under this programme amounts to 67 412. Due to the reduction in par value of the Swiss Life Holding shares in 2005, the number of shares granted was adjusted using the Eurex R factor of 0.978284. The date of grant was 31 March 2005.

25 Employee Benefits (continued)

A similar programme was established in 2004 with a number of shares granted totalling 44 015 and a vesting period of three years. Due to the reduction in par value of the Swiss Life Holding shares in 2005 and the capital increase in 2004, the number of shares granted was adjusted using the Eurex R factors of 0.978284 and 0.894092, respectively. The date of grant was 31 March 2004.

The Group determines the fair value of the Swiss Life Holding shares granted for each programme at the grant date. The fair value was determined using the Black-Scholes formula and Monte Carlo simulations. The associated expense during the vesting period is recognised under employee benefits expense with a corresponding increase in share premium. The expense recognised for 2005 totalled CHF 4 million (2004: CHF 6 million).

Share options The Group offers share options to directors and managers in Switzerland and abroad. No new share options were allocated in 2005, 2004 or 2003.

Due to the reduction in par value of the Swiss Life Holding shares in 2005, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.978284. Due to the capital increase in 2004, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.894092. The intrinsic value of the outstanding share options (issued in 2002) was CHF 12.80 as at 31 December 2005. The outstanding share options issued in 2001 did not have an intrinsic value as at 31 December 2005. The exercise prices of the outstanding share options at the end of the period ranged from CHF 224.90 to CHF 686.50 (2004: CHF 224.90 to CHF 686.50, adjusted using the Eurex R factor of 0.978284). The weighted average remaining contractual life of the outstanding share options at the end of the period was 336 days (2004: 686 days). The number of options exercisable at the end of 2005 amounted to 276 621 (2004: 146 516).

Movements in the number of shares under option

Amounts in CHF	2005	2004	2005	2004	2005	2004	2005	2004
	Number of shares [1]	Number of shares [1]	**Exercise date**	Exercise date	**Expiry date**	Expiry date	**Weighted average exercise price [2]**	Weighted average exercise price [2]
		restated		restated		restated		restated
As at 1 January	**276 621**	422 429					**472**	599
Granted/issued	**–**	–	**–**	–	**–**	–	**–**	–
Exercised	**–**	–	**–**	–	**–**	–	**–**	–
Lapsed	**–**	–145 808	**–**	–	**–**	–	**–**	844
As at 31 December	**276 621**	276 621					**472**	472

1) Number of shares adjusted due to reduction in par value of Swiss Life Holding shares in accordance with Eurex rules
2) Exercise price adjusted due to reduction in par value of Swiss Life Holding shares in accordance with Eurex rules

Other benefits The Swiss Life Group maintains incentive programmes for certain management and other employees. Related expenses in 2005 were CHF 15 million (2004: CHF 10 million).

26 Income Taxes

Income tax expense

In CHF million	2005	2004
		restated
Current tax expense		
Current tax of the current period	**151**	201
Adjustments for current tax of prior periods	**–25**	–11
Total current tax expense	**126**	190
Deferred tax expense		
Origination and reversal of temporary differences	**–193**	148
Changes in tax rates	**46**	–1
Total deferred tax expense	**–147**	147
Total income tax expense	**–21**	337

Due to a change in the French tax legislation in 2005 with regard to taxation of shareholdings, tax expenses were reduced by CHF 116 million. Furthermore, based on a new ruling with the Dutch tax administration, Swiss Life was enabled to reduce its tax liability by CHF 82 million. In connection with the restructuring of the real estate management business, the Swiss Life Group realised a tax benefit of CHF 18 million. Additionally, due to the reduction of the tax base in the real estate business, a tax benefit totalling CHF 23 million was realised.

The expected weighted-average tax rates for the Group were 29.2% in 2005 (2004: 28.4%). 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 increase of the weighted-average tax rate is due to the geographical allocation of the profits and the different tax rates in these jurisdictions. The actual income tax expenses differ from the expected amounts as follows:

Actual and expected income tax

In CHF million	2005	2004
		restated
Expected income tax expense	**249**	268
Increase/reduction in taxes resulting from		
tax-exempt interest	**–14**	–5
tax-exempt dividends	**–3**	–3
other non-taxable income	**–297**	–42
non-deductible expenses	**78**	74
other income taxes (incl. withholding taxes)	**5**	8
unrecognised tax losses/credits	**31**	57
use of previously unrecognised tax losses/credits	**–83**	–16
other	**13**	–4
Actual income tax expense	**–21**	337

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

26 Income Taxes (continued)

Deferred income tax assets and liabilities as at 31 December

In CHF million	**2005**	2004	**2005**	2004
	Deferred tax assets	Deferred tax assets	**Deferred tax liabilities**	Deferred tax liabilities
		restated		restated
Financial instruments and investment property	**162**	79	**1 233**	1 161
Intangible assets	**117**	72	**236**	268
Property and equipment	**33**	32	**0**	10
Insurance liabilities	**113**	159	**94**	108
Employee benefits	**22**	39	**28**	24
Other	**91**	102	**45**	101
Tax losses and tax credits	**77**	95		
Deferred income tax assets/liabilities	**615**	578	**1 636**	1 672
Valuation allowance	**–36**	–31		
Offset	**–500**	–517	**–500**	–517
Total deferred income tax assets/liabilities	**79**	30	**1 136**	1 155

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

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. Swiss tax assets are calculated in accordance with cantonal and communal tax legislation. 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, which will expire as follows, no deferred tax asset has been recognised as at 31 December:

Unrecognised tax losses and tax credits

In CHF million	**2005**	2004
		restated
2005	**–**	27
2006	**–**	–
2007	**0**	–
2008	**1**	21
Thereafter	**121**	764
Total	**122**	812

27 Provisions

In CHF million			2005	2004
	Restructuring	Other	Total	Total
				restated
As at 1 January	**19**	**174**	**193**	258
Additional provisions during the reporting period	**122**	**67**	**189**	85
Amounts used during the reporting period	**–42**	**–81**	**–123**	–108
Unused amounts reversed during the reporting period	**–6**	**–23**	**–29**	–39
Transfer to liabilities associated with assets held for sale	**–**	**–18**	**–18**	–
Effect of acquisitions/disposals	**–**	**–**	**–**	–3
Foreign currency translation differences	**0**	**0**	**0**	0
As at 31 December	**93**	**119**	**212**	193

Restructuring costs In 2005, a provision totalling CHF 72 million relating to the restructuring programme of «La Suisse» in Switzerland has been set up. As at 31 December 2005 the remaining provision amounted to CHF 35 million and CHF 37 million were used during the period. The provision primarily relates to redundancy programmes and onerous contracts. The outflow of the remaining amounts is expected within the next two to three years.

In 2005, additional provisions relating to restructuring programmes and termination benefits totalling CHF 50 million for employees were set up in Switzerland and in Germany with an expected outflow of benefits within the next two to three years.

In 2004, provisions were primarily set up in Switzerland and in Germany for restructuring programmes and for termination benefits for employees.

Other provisions Other provisions were primarily set up in 2004 for litigations and to cover costs arising from the sale of the life business in the United Kingdom.

28 Equity

Share capital As approved by the shareholders at the General Meeting of Swiss Life Holding (SLH) on 10 May 2005, a reduction in par value of CHF 4 per registered share was effected in 2005. The payout took place beginning of August 2005 and led to a reduction in the share capital of SLH of CHF 135 million.

In 2005, convertible bonds were converted into 260 SLH shares in total with a corresponding increase in share capital totalling CHF 11 960 and an increase in share premium totalling CHF 33 885.

As at 31 December 2005, the share capital of SLH consisted of 33 776 078 fully-paid shares with a par value of CHF 46 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of own shares or shares they represent. As at 31 December 2004, SLH had 33 775 818 registered shares with a par value of CHF 50 per share. Conditional share capital was CHF 168 721 652 as at 31 December 2005 (2004: CHF 183 406 100).

Share premium Share premium comprises additional paid-in capital in excess of the par value (net of transaction costs), gains/losses on own equity instruments, equity compensation benefits and equity elements of convertible debt.

Due to the reduction in par value of CHF 4 per registered SLH share in 2005, an amount of CHF 9 million was credited to share premium in respect of treasury shares.

28 Equity (continued)

Number of shares The following table shows the development of SLH shares issued and treasury shares held by the Swiss Life Group during the period:

Number of shares	2005	2004
		restated
Shares issued		
Balance as at 1 January	**33 775 818**	25 034 041
Issuance of shares	**–**	8 344 680
Issuance of mandatory convertible securities MCS (adjustment)	**–**	397 078
Conversion of convertible debt	**260**	19
Balance as at 31 December	**33 776 078**	33 775 818
Treasury shares		
Balance as at 1 January	**2 237 059**	3 475 062
Issuance of shares in form of MCS (adjustment)	**–**	397 078
Conversion of MCS	**–1 978 005**	–1 773 706
Purchases of treasury shares	**718 685**	1 506 662
Sales of treasury shares	**–716 026**	–1 368 037
Balance as at 31 December	**261 713**	2 237 059

Gains/losses recognised directly in equity Gains/losses recognised directly in equity comprise fair value changes of available-for-sale investments, revaluation surpluses on the transfer of owner-occupied property to investment property and the effective portion of the gain or loss on hedging derivatives in qualifying cash flow hedges. These amounts are net of certain policyholder bonuses and other policyholder liabilities and deferred acquisition costs, deferred income taxes and minority interests.

Foreign currency translation differences Foreign currency translation differences comprise the resulting differences arising on the translation of assets, liabilities, income and expenses of Group entities denominated in foreign currencies into Swiss francs.

Retained earnings Retained earnings comprise accumulated retained earnings of the Group entities which have not been distributed to the shareholders. The distribution of profit is subject to restriction in the various jurisdictions where the Group entities are located.

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.

Maturity of mandatory convertible securities (MCS I) in 2005 On 19 December 2005, the mandatory convertible securities (MCS I, 2002–2005) matured and the liability component totalling CHF 250 million was reclassified to share premium. As a result, the number of treasury shares decreased by 1 978 005.

Capital increase in 2004 On 2 June 2004, SLH issued 8 344 680 SLH registered shares with a par value of CHF 50 each. The subscription price was CHF 100 per share. The gross proceeds of the rights offering amounted to CHF 834 million.

Additionally, 397 078 new SLH shares with a par value of CHF 50 each were created by reducing conditional share capital. These shares adjusted the (minimum) number of shares convertible under the mandatory convertible securities (MCS) issues (MCS I, 2002–2005, and MCS II, 2003–2004).

28 Equity (continued)

Issuance of convertible debt in 2004 On 10 June 2004, SLH issued CHF 317 million in 0.625% convertible bonds 2004–2010 convertible into SLH registered shares. The conversion price was set at CHF 209.625. The equity element (embedded conversion options) recognised in share premium amounted to CHF 57 million less costs of CHF 1 million at inception.

In 2004, convertible bonds were converted into 19 SLH shares with a corresponding increase in share capital totalling CHF 950 and an increase in share premium totalling CHF 2433.

Maturity of mandatory convertible securities (MCS II) in 2004 On 30 December 2004, the 1.00% mandatory convertible securities (MCS II) issue totalling CHF 341 million matured. 1 586 098 SLH shares equal to the number of SLH shares required under the conversion ratio were created upon issuance of the MCS II. As an adjustment to the minimum number of shares convertible under the MCS II another 187 608 shares were created in June 2004 in connection with the capital increase as described above. They were accounted for as treasury shares acquired for no consideration. Upon maturity of the MCS II, the number of treasury shares decreased by 1 773 706.

Reserving and regulatory requirements The Group's insurance entities must set aside sufficient reserves to meet their long-term obligations. The Group Chief Actuary is responsible for the assessment of the financial impact of the Group's insurance business practices. The Group is subject to the regulatory and solvency supervision of the Swiss Federal Office of Private Insurance (FOPI), as well as to the local regulatory supervision in all jurisdictions in which it is active.

Gains and losses recognised directly in equity for the year ended 31 December 2005

In CHF million	Notes	Financial assets available for sale	Cash flow hedges	Other	Total
Gross gains and losses					
Balance as at 1 January		**4 508**	**–23**	**134**	**4 619**
Change during the period					
Gains/losses on financial instruments	11	**3 081**	**6**	**–**	**3 087**
Revaluation surplus on owner-occupied property transferred to investment property	18	**–**	**–**	**4**	**4**
Share of gains/losses of associates		**–**	**–**	**0**	**0**
Gains/losses on assets held for sale		**–**	**–**	**–1**	**–1**
Gains/losses transferred to the income statement	9, 11	**–1 803**	**4**	**–**	**–1 799**
Impairment losses transferred to the income statement	9	**64**	**–**	**–**	**64**
Foreign currency translation differences		**28**	**–**	**1**	**29**
Balance as at 31 December		**5 878**	**–13**	**138**	**6 003**
Adjustments for income tax and other items					
Balance as at 1 January					**–3 729**
Changes in amounts attributable to					
income tax					**–105**
deferred acquisition costs and present value of future profits					**–123**
policyholder bonuses and other policyholder liabilities					**–833**
foreign currency translation differences					**–25**
minority interest					**–3**
Balance as at 31 December					**–4 818**
Total gains and losses, net of income tax and other items					**1 185**

28 Equity (continued)

Gains and losses recognised directly in equity for the year ended 31 December 2004 (restated)

In CHF million	Notes	Financial assets available for sale	Cash flow hedges	Other	Total
Gross gains and losses					
Balance as at 1 January		2 914	–28	31	2 917
Effect of changes in accounting policies	40	–149	–	–	–149
Balance as at 1 January restated		2 765	–28	31	2 768
Change during the period					
Gains/losses on financial instruments	11	3 184	–4	–	3 180
Revaluation surplus on owner-occupied property transferred to investment property	18	–	–	103	103
Share of gains/losses of associates		–	–	0	0
Gains/losses transferred to the income statement	9, 11	–1 466	9	–	–1 457
Impairment losses transferred to the income statement	9	103	–	–	103
Effect of disposal of subsidiaries		–60	–	–	–60
Foreign currency translation differences		–18	–	0	–18
Balance as at 31 December		4 508	–23	134	4 619
Adjustments for income tax and other items					
Balance as at 1 January					–2 203
Effect of changes in accounting policies					91
Balance as at 1 January restated					–2 112
Changes in amounts attributable to					
income tax					–134
deferred acquisition costs and present value of future profits					–139
policyholder bonuses and other policyholder liabilities					–1 392
effect of disposal of subsidiaries					36
foreign currency translation differences					13
minority interest					–1
Balance as at 31 December					–3 729
Total gains and losses, net of income tax and other items					890

29 Core Capital

Core capital as at 31 December

In CHF million	Notes	**2005**	2004 restated
Equity		**7 953**	6 490
Mandatory convertible debt		**–**	250
Hybrid capital instruments	23	**1 689**	1 451
Deferred Group-related funds		**6 979**	5 549
Total core capital		**16 621**	13 740

The Group's capital performs several important functions, such as funding future growth and providing a protective cushion for shareholders and policyholders, as well as hedging future risks. The defined Group core capital includes equity, certain liabilities with equity characteristics (mandatory convertible debt and hybrid capital instruments) and deferred Group-related funds (theoretical policyholder participation in surplus under consideration of additional DAC amortisation and deferred taxes).

30 Acquisitions and Disposals of Subsidiaries

Assets and liabilities from acquisitions and disposals

In CHF million	**2005 Acquisitions**	2004 Acquisitions restated	**2005 Disposals**	2004 Disposals restated
Investments	**–**	78	**7**	3 776
Cash and cash equivalents	**2**	52	**0**	145
Customer relationships and other intangible assets	**0**	16	**–**	3
Other assets	**1**	10	**7**	1 010
Insurance liabilities	**–**	–	**–**	–2 243
Other liabilities	**–1**	–60	**–2**	–1 846
Minority shareholders	**–1**	–4	**0**	–3
Net assets acquired/net assets disposed of	**1**	92	**12**	842
Transfer from/to associates	**1**	12	**–**	–4
Gains/losses recognised directly in equity	**–**	–	**–**	–24
Currency translation differences	**–**	–	**0**	11
Profit (+)/loss (–) on disposals	**–**	–	**6**	–105
Cash used for acquisitions (–)/received from disposals (+)	**0**	–80	**18**	3
Consideration not yet received in cash in the period	**–**	–	**–**	279
Payment in kind	**–**	–	**–**	438
Total purchase consideration/disposal consideration	**0**	–80	**18**	720
Cash used for acquisitions (–)/received from disposals (+)	**0**	–80	**18**	3
Cash and cash equivalents acquired (+)/disposed of (–)	**2**	52	**0**	–145
Net cash outflow (–)/inflow (+) from acquisitions/disposals	**2**	–28	**18**	–142

In May 2005, the Swiss Life Group sold a real estate company in Belgium and Gottardo A.E.P.E.Y., Athens, a subsidiary of Banca del Gottardo. The sales prices of these transactions amounted to CHF 18 million in total. The gain realised on the sales amounted to CHF 6 million. These companies contributed CHF 0 million in net income to the Group result for the period 1 January 2005 to 31 May 2005 (1 January 2004 to 31 December 2004: CHF 7 million).

30 Acquisitions and Disposals of Subsidiaries (continued)

In 2005, the Swiss Life Group acquired an additional 24.1% of the shares of Swiss Life Partner AG, Munich.

In December 2004, the Swiss Life Group sold its UK life business. The life insurance business in the UK was reported within the insurance segment. The sales price amounted to CHF 401 million. The cash-related part thereof amounted to GBP 128 million and was received in March 2005. The realised loss on the sale amounted to CHF 122 million. The guarantees related to this transaction are described in note 36. The UK life business contributed CHF 58 million in net income to the Group result for the period from 1 January 2004 to 31 December 2004.

SwAFE B.V., a special purpose entity in the Netherlands which had issued notes backed by a portfolio of first-ranking mortgages originated by Zwitserse Maatschappij van Levensverzekering en Lijfrente was transferred to a third party in 2004. With this sale, mortgage loans totalling CHF 782 million and mortgage-backed notes totalling CHF 493 million were transferred. The gain recognised on this sale amounted to CHF 21 million. SwAFE B.V. contributed CHF 15 million in net income to the Group result for the period 1 January 2004 to 31 October 2004.

The equity stake in LGT Swiss Life Non Traditional Advisers, Liechtenstein, was reduced from 58% to 43.4% in December 2004. The remaining equity stake totalling CHF 4 million qualifies as an investment in an associate and is accounted for under the equity method. The contribution of LGT Swiss Life Non Traditional Advisers to the net income of the Swiss Life Group amounted to CHF 5 million for the period 1 January 2004 to 23 December 2004.

The Swiss Life Group acquired 94.9% of the shares of Renum AG, a real estate company, in Germany. The purchase price amounted to CHF 52 million. Renum contributed CHF 0.2 million in net income to the Group result for the period 18 October 2004 to 31 December 2004.

In May 2004, the Swiss Life Group acquired through its banking subsidiary Banca del Gottardo the asset management group Oudart by exercising the bank's option for the acquisition of the remaining 60.7% of Oudart's shares. The purchase price amounted to CHF 28 million. The contribution of Oudart to the net income of the Swiss Life Group was a loss of CHF 4 million for the period 25 May 2004 to 31 December 2004.

31 Acquisition of Insurance Portfolio

In CHF million	2005
Cash and cash equivalents	11
Insurance and other receivables	195
Financial assets at fair value through profit or loss	10
Financial assets available for sale	2 105
Loans	871
Present value of profits on acquired insurance portfolio	45
Total assets acquired	**3 237**
Insurance and other payables	113
Insurance liabilities	3 104
Other liabilities	20
Total liabilities acquired	**3 237**

In 2005, the Swiss Life Group took on the group life portfolio of Vaudoise.

32 Assets Held for Sale and Associated Liabilities

Assets held for sale and associated liabilities as at 31 December 2005

In CHF million	Disposal groups	Non-current assets	Total
Receivables	**30**	–	**30**
Derivatives	**14**	–	**14**
Financial assets at fair value through profit or loss	**0**	–	**0**
Financial assets available for sale	**218**	–	**218**
Loans	**1 079**	–	**1 079**
Financial assets held to maturity	**0**	–	**0**
Investments in associates	**0**	–	**0**
Property and equipment	**6**	–	**6**
Foreclosed property	–	**14**	**14**
Intangible assets including intangible insurance assets	**47**	–	**47**
Other assets	**1**	–	**1**
Total assets held for sale	**1 395**	**14**	**1 409**
Payables	**28**	–	**28**
Derivatives	**4**	–	**4**
Investment contracts and deposits at amortised cost	**1 343**	–	**1 343**
Borrowings	**312**	–	**312**
Provisions	**18**	–	**18**
Other liabilities	**29**	–	**29**
Total liabilities associated with assets held for sale	**1 734**	–	**1 734**
Gain (+)/loss (–) recognised directly in equity relating to assets held for sale	**–1**	–	**–1**

In November 2005, the Swiss Life Group announced the sale of Banca del Gottardo Monaco. The sale has been approved by the regulator and is effective in 2006. In January 2006, the Swiss Life Group announced the sale of Dreieck Industrie Leasing which is also effective in 2006.

The group of assets to be disposed of and the liabilities directly associated with those assets (disposal group) have been presented separately in the balance sheet as at 31 December 2005 under assets held for sale and liabilities associated with assets held for sale.

33 Related Party Transactions

Consolidated statement of income for the years ended 31 December

In CHF million	2005				2004
	Associates	**Key management personnel**	**Other**	**Total**	Total
					restated
Investment income	**1**	**–**	**7**	**8**	59
Net gains/losses on financial instruments at fair value through profit or loss	**–**	**–**	**53**	**53**	–47
Fee income	**1**	**–**	**–**	**1**	–
Other income	**–**	**–**	**–**	**–**	22
Interest expense	**–**	**–**	**0**	**0**	0
Operating expenses	**1**	**11**	**1**	**13**	12

Consolidated balance sheet as at 31 December

Amounts in CHF million	2005				2004
	Associates	**Key management personnel**	**Other**	**Total**	Total
					restated
Financial assets	**0**	**–**	**452**	**452**	410
Loans	**26**	**–**	**6**	**32**	31
Investment contracts and deposits at amortised cost	**0**	**–**	**11**	**11**	3
Other liabilities	**0**	**–**	**0**	**0**	0
SLH shares issued to key management under equity compensation plan (number)	**–**	**8 442**	**–**	**8 442**	14 912

Key management compensation

In CHF million	2005	2004
		restated
Short-term employee benefits	**9**	9
Post-employment benefits	**1**	1
Other long-term benefits	**–**	–
Termination benefits	**–**	1
Equity-settled share-based payments	**1**	1
Total	**11**	12

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2005, no provisions have been made for doubtful debts in respect of the amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Financial assets associated with other related parties primarily comprise interest in a participation in Germany in which the Group has a certain influence. It consists of strategic investments in a German bank conglomerate.

34 Assets under Management

Assets under management as at 31 December

In CHF million	2005	2004
		restated
On-balance-sheet assets		
Cash and cash equivalents	**14 170**	8 649
Derivatives	**777**	1 643
Financial assets at fair value through profit or loss	**23 653**	19 363
Debt securities available for sale	**70 833**	70 427
Money market instruments available for sale	**38**	22
Equity securities available for sale	**3 987**	3 258
Investment funds available for sale	**370**	269
Private equity available for sale	**139**	263
Hedge funds available for sale	**4 216**	3 142
Other financial assets available for sale	**448**	597
Loans	**30 280**	29 655
Financial assets held to maturity	**4 256**	4 147
Financial assets pledged as collateral	**1 232**	878
Investment property	**11 439**	11 518
Investments in associates	**76**	58
Total on-balance-sheet assets	**165 914**	153 889
Plus fair value adjustments of assets reported at amortised cost		
Financial assets held to maturity	**276**	277
Loans	**1 275**	1 056
Minus externally managed on-balance-sheet assets		
Assets under unit-linked business	**–1 548**	–2 407
Externally managed alternative investments	**–5 246**	–4 499
Externally managed other assets	**–670**	–1 054
Total on-balance-sheet assets managed by the enterprise	**160 001**	147 262
Third-party off-balance-sheet assets	**47 629**	42 527
Total assets under management	**207 630**	189 789

Assets under management are taken to comprise:

- assets stated as investments in the balance sheet and cash and cash equivalents
- assets included in the balance sheet for the account and risk of the Swiss Life Group's customers (separate account/unit-linked investments)
- assets managed for third parties by the Group
- minus assets managed by third parties and alternative investments managed by third parties

35 Fair Value of Financial Instruments not at Fair Value in the Balance Sheet

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 at 31 December:

In CHF million		**2005**	2004	**2005**	2004
		Carrying amount	Carrying amount	**Fair value**	Fair value
	Notes		restated		restated
Assets					
Loans	14	**30 280**	29 655	**31 555**	30 711
Financial assets held to maturity	15	**4 256**	4 147	**4 532**	4 424
Deposits held under financial reinsurance contracts		**–**	3	**–**	3
Liabilities					
Investment contracts and deposits at amortised cost	22	**7 307**	8 181	**7 307**	8 181
Borrowings	23	**4 388**	6 313	**4 507**	6 452

36 Commitments and Contingencies

Contingent liabilities and commitments as at 31 December

In CHF million	**2005**	2004
		restated
Guarantees and letters of credit	**415**	527
Documentary credits	**40**	31
Commitments to extend credit	**316**	533
Capital commitments	**138**	343
Private equity commitments	**92**	174
Operating lease commitments	**91**	140
Other contingencies and commitments	**17**	49
Total	**1 109**	1 797

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

In CHF million	**2005**	2004
		restated
Not later than 1 year	**18**	14
Later than 1 year and not later than 5 years	**54**	35
Later than 5 years	**19**	91
Total	**91**	140
Expected future minimum sublease payments	***10***	–

Guarantees and letters of credit 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.

36 Commitments and Contingencies (continued)

With the sale of the life business in the UK, representations and warranties have been agreed with the buyer which limit the exposure for the Swiss Life Group in respect of time and amount with regard to arising claims and taxes. In relation to mis-selling, it has been agreed that in case of specified events with a material financial impact on the OB Fund of the former Swiss Life UK life business, the financial consequences will be shared between the Swiss Life Group and the buyer according to a clear set of rules which limit the impact on the Swiss Life Group with regard to time (five years) and amount (GBP 31.5 million).

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 at 31 December 2005, committed principal amounts stood at EUR 72 million and CHF 110 million (2004: EUR 40 million and CHF 309 million). The periods for which these commitments were made extend from one month to one year, and the range of committed interest rates is 2.3% to 5.6%.

Capital commitments The Group had commitments to purchase investments of CHF 86 million (excluding private equity) as at 31 December 2005 (2004: CHF 220 million). Contractual obligations to purchase or construct investment property amounted to CHF 52 million as at 31 December 2005 (2004: CHF 123 million). Commitments for the acquisition of property and equipment amounted to CHF 0.1 million as at 31 December 2005 (2004: CHF 0.2 million).

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 72 million for the year ending 31 December 2005 (2004: CHF 68 million). Minimum lease payments totalled CHF 73 million in 2005 (2004: CHF 68 million), while contingent rents totalled CHF 0.03 million in 2005 (2004: CHF 0.05 million). Sublease payments received in 2005 amounted to CHF 1 million (2004: nil).

Other contingencies and commitments Contractual obligations for repairs and maintenance of investment property amounted to CHF 17 million as at 31 December 2005, which are included in this line item (2004: CHF 49 million).

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 pledged as at 31 December

In CHF million	2005	2004
	Carrying amount	Carrying amount
		restated
Securities	**1 630**	1 996
Loans	**–**	1
Investment property	**122**	142
Other	**–**	20
Total	**1 752**	2 159

Total assets pledged include collateral provided under repurchase agreements and securities lending arrangements of CHF 1389 million as at 31 December 2005 (2004: CHF 1849 million), of which CHF 1232 million can be repledged or resold by the transferee (2004: CHF 878 million).

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

In CHF million	2005	2004
		restated
Not later than 1 year	**125**	103
Later than 1 year and not later than 5 years	**350**	327
Later than 5 years	**484**	431
Total	**959**	861

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

39 Impact on Equity of Reduction in BVG Conversion Rate and of Statutory Distribution Ratio ("Legal Quote")

Gains/losses recognised directly in equity, net

In CHF million	2004	2004
	as reported	restated
Balance as at 1 January	714	714
Change in accounting policy	–	–58
Balance as at 1 January restated	714	656
Impact of "legal quote" regulation	–197	–
Change in gains/losses recognised directly in equity (net of one-off effects)	414	234
Balance as at 31 December	931	890

Retained earnings

In CHF million	2004	2004
	as reported	restated
Balance as at 1 January	1 188	1 188
Change in accounting policy	–5	–129
Balance as at 1 January restated	1 183	1 059
Impact of reduction in BVG conversion rate	253	253
Impact of "legal quote" regulation	–89	–
Impact of changes in valuation differences on reduction in BVG conversion rate (discretionary participation liability)	–	–253
Profit (net of one-off effects)	460	579
Profit for the period	624	579
Balance as at 31 December	1 807	1 638

As previously disclosed, the conversion rate for the pensions under the supplementary part of the BVG occupational pensions business (Swiss occupational plans) is being reduced in stages by the Swiss Life Group from 7.2% to 5.835%. This reduction resulted in a release of insurance liabilities (after taxes) of CHF 253 million.

Due to a change in accounting policy relating to the valuation differences on the insurance business with discretionary participation, a liability for discretionary participation was set up as at 1 January 2004. The liability also covered the valuation differences on the insurance liabilities relating to the conversion rate for the pensions under the supplementary part of the BVG occupational pensions business. With the release of insurance liabilities (after taxes) of CHF 253 million, the liability for discretionary participation was increased accordingly. This increase of the liability for discretionary participation resulted in an expense which compensated the release of insurance liabilities.

As previously disclosed, the introduction of the statutory minimum distribution ratio ("legal quote") in the Swiss group business resulted in a one-off charge on gains/losses recognised directly in equity of CHF 197 million (after taxes) and a one-off charge on net income of CHF 89 million (after taxes).

Due to a change in accounting policy relating to the valuation differences on the insurance business with discretionary participation, a liability for discretionary participation was set up as at 1 January 2004. The measurement of the liability relating to the Swiss group business corresponded to the statutory minimum distribution ratio ("legal quote") on these valuation differences. The one-off charges due to the introduction of the statutory minimum distribution ratio ("legal quote") were therefore for restatement purposes reflected in gains/losses recognised directly in equity as at 1 January 2004 and in retained earnings as at 1 January 2004.

40 Changes in Accounting Policies

Impact on equity of changes in accounting policies

In CHF million	Notes	2004
Share premium		
MCS reclassified as financial liability		–216
Total adjustments to share premium as at 1 January		–216
Gains/losses recognised directly in equity		
Amounts recognised as adjustment to the opening balance of retained earnings		222
Adjustment arising on fair value measurement of financial assets previously measured at amortised cost		35
Adjustment arising on amortised cost measurement of financial assets previously measured at fair value		–406
Total adjustments to gains/losses recognised directly in equity, gross	28	–149
Less amounts attributable to excess DAC amortisation and PVP, policyholder participation, deferred taxes and minority interest (adjusted)		91
Total net adjustments to gains/losses recognised directly in equity due to changes in accounting policies as at 1 January		–58
Retained earnings		
Impact of SOP 03-1		–54
Amounts reclassified from gains/losses recognised directly in equity (reclassification of available-for-sale investments to financial assets at fair value through profit or loss)		274
Adjustment arising on fair value measurement of financial assets previously measured at amortised cost		0
Adjustment arising on fair value measurement of financial liabilities previously measured at amortised cost		–3
Derecognition of deferred acquisition costs		–233
Derecognition of deferred policy fees and other fee income		121
Recognition of deferred investment management fees		–25
Adjustment due to revised impairment provisions		–496
Adjustment due to elimination of own insurance contracts		91
Adjustment due to reclassification of MCS		–14
Total adjustments to retained earnings, before excess DAC amortisation and PVP, policyholder participation, deferred taxes and minority interest		–339
Less adjustments attributable to excess DAC amortisation and PVP, policyholder participation, deferred taxes and minority interest		210
Total net adjustments to retained earnings due to changes in accounting policies as at 1 January		–129

Share premium Previously, the mandatory convertible securities totalling CHF 250 million (MCS I, 2002–2005) had been classified as equity, except for the present value of the interest payments. Share premium had amounted to CHF 114 million at inception. Under the new requirements of IAS 32 (revised) Financial Instruments: Disclosure and Presentation, the MCS were retrospectively split into an equity component and a liability component. At inception, the equity component amounted to CHF 14 million (negative). 1 768 535 Swiss Life Holding shares, equivalent to the minimum number of shares convertible under the MCS, were created at inception with an increase of share capital totalling CHF 88 million and a corresponding decrease of share premium. As a result share premium decreased by CHF 216 million in total.

Gains/losses recognised directly in equity The revised definition of the loans and receivables category led to the reclassification of available-for-sale debt instruments to loans due to the absence of an active market. As a result gains/losses recognised directly in equity decreased by CHF 406 million.

As permitted by the transitional provisions of IAS 39 (revised) Financial Instruments: Recognition and Measurement, reclassifications of financial assets from the held-to-maturity category to the available-for-sale category were made with an increase in gains/losses recognised directly in equity of CHF 35 million.

40 Changes in Accounting Policies (continued)

Retained earnings Reclassifications of financial assets classified as available for sale to financial assets at fair value through profit or loss were made with a corresponding increase in retained earnings of CHF 274 million. The application of the revised impairment provisions for available-for-sale equity instruments led to a decrease totalling CHF 496 million in retained earnings.

Due to the adoption of SOP 03–1, “Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts”, additional liabilities totalling CHF 54 million were set up with a corresponding decrease in retained earnings.

Deferred acquisition costs, deferred policy fees and other fee income were derecognised with corresponding adjustments to retained earnings totalling CHF 233 million (negative) and CHF 121 million (positive), respectively. Deferred investment management fees were recognised and led to an adjustment totalling CHF 25 million in retained earnings. These adjustments primarily related to unit-linked contracts that were unbundled into a deposit component and an insurance component with corresponding adjustments to retained earnings.

The elimination of own insurance contracts (defined benefit plans) led to an adjustment totalling CHF 91 million in retained earnings. The adjustment was due to actuarial gains/losses that were previously unrecognised because they fell outside the range for recognition (“corridor”) and the release of insurance liabilities.

Due to the retrospective split of the MCS I into an equity component and a liability component, interest expense relating to the liability component led to a decrease in retained earnings totalling CHF 14 million.

40 Changes in Accounting Policies (continued)

Restatement effect on financial assets and investment property

In CHF million	01.01.2004	Adjustments	01.01.2004
	as reported		restated
Cash and cash equivalents	6 250	364	
Cash and cash equivalents			6 614
Derivatives	–	1 663	
Derivatives			1 663
Financial assets held for trading	3 024	14 116	
Financial assets at fair value through profit or loss			17 140
Available-for-sale investments	88 906	–14 116	
Financial assets available for sale			74 790
Loans originated by the enterprise	25 600	7 070	
Loans			32 670
Held-to-maturity investments	5 317	–1 380	
Financial assets held to maturity			3 937
Financial assets pledged as collateral	–	677	
Financial assets pledged as collateral			677
Investment property	11 082	4	
Investment property			11 086
Separate account/unit-linked assets	8 658	–8 658	
Separate account/unit-linked assets			–

40 Changes in Accounting Policies (continued)

Financial instruments reclassified

In CHF million	Carrying amount 01.01.2004	Fair value 01.01.2004	Carrying amount 01.01.2004
	as reported		reclassified
Financial assets held to maturity	1 328		
Financial assets available for sale		1 363	1 363
Financial assets held to maturity	39		
Financial assets at fair value through profit or loss		39	39
Financial assets available for sale	7 604		
Financial assets at fair value through profit or loss		7 604	7 604
Financial assets available for sale	7 476		
Loans		7 476	7 070
Borrowings	40		
Financial liabilities at fair value through profit or loss		43	43

Separate account/unit-linked assets totalling CHF 8658 million were reclassified to financial assets at fair value through profit or loss (CHF 8290 million), cash and cash equivalents (CHF 364 million) and investment property (CHF 4 million).

Derivatives designated and accounted for as hedging instruments totalling CHF 111 million and trading derivatives totalling CHF 1622 million were reclassified from other assets and financial assets held for trading to derivatives. Additionally, CHF 70 million was reclassified from derivatives to financial assets at fair value through profit or loss. These amounts primarily related to derivatives embedded in debt securities that were previously reported separately from the host contract.

Financial assets available for sale totalling CHF 7604 million and CHF 7476 million were reclassified to financial assets at fair value through profit or loss and to loans, respectively. The reclassification of financial assets available for sale to loans led to an adjustment to gains/losses recognised directly in equity totalling CHF 406 million.

Financial assets held to maturity totalling CHF 1328 million and CHF 39 million were reclassified to financial assets available for sale and financial assets at fair value through profit or loss, respectively. The reclassification of financial assets held to maturity to financial assets available for sale led to an adjustment to gains/losses recognised directly in equity totalling CHF 35 million.

Financial assets at fair value through profit or loss totalling CHF 265 million, financial assets available for sale totalling CHF 399 million and financial assets held to maturity totalling CHF 13 million were reclassified to financial assets pledged as collateral.

40 Changes in Accounting Policies (continued)

Restatement effect on financial liabilities and insurance liabilities

In CHF million	01.01.2004	Adjustments	01.01.2004
	as reported		restated
Financial liabilities held for trading	1 225	4 318	
Financial liabilities at fair value through profit or loss			4 536
Derivatives			1 007
Investment contracts with discretionary participation	–	17 978	
Investment contracts with discretionary participation			17 978
Investment contracts, customer deposits and other funds on deposit	29 352	–20 801	
Investment contracts and deposits at amortised cost			8 551
Borrowings	5 802	214	
Borrowings			6 016
Insurance reserves	103 862	729	
Insurance liabilities			104 591
Discretionary participation liabilities	–	4 139	
Discretionary participation liabilities			4 139
Separate account/unit-linked liabilities	8 674	–8 674	
Separate account/unit-linked liabilities			–

Derivatives designated and accounted for as hedging instruments previously carried under other liabilities totalling CHF 49 million and trading derivatives totalling CHF 744 million were reclassified to derivatives. Derivatives embedded in separate account contracts totalling CHF 214 million were reclassified to derivatives.

Separate account/unit-linked liabilities were reclassified to financial liabilities at fair value through profit or loss (CHF 4012 million), insurance liabilities (CHF 4047 million) and investment contracts with discretionary participation (CHF 401 million).

Liabilities totalling CHF 640 million and CHF 16 937 million arising from contracts that no longer qualify as insurance contracts but contain discretionary participation features were reclassified to investment contracts with discretionary participation from insurance liabilities and investment contracts, customer deposits and other funds on deposit, respectively.

Liabilities totalling CHF 3864 million were reclassified from investment contracts, customer deposits and other funds on deposit to insurance liabilities.

Insurance liabilities decreased by CHF 2220 million due to the elimination of own insurance contracts covering own employees.

An amount of CHF 4322 million was reclassified from insurance liabilities to discretionary participation liabilities. Due to changes in accounting policies as at 1 January 2004 the liability for discretionary participation decreased by CHF 183 million.

Liabilities totalling CHF 43 million relating to structured products were reclassified from borrowings to financial liabilities at fair value through profit or loss with a corresponding negative adjustment to retained earnings of CHF 3 million. The liability component totalling CHF 254 million of the mandatory convertible securities (MCS I, CHF 250 million, 2002–2005) was reclassified from equity to borrowings.

40 Changes in Accounting Policies (continued)

Profit for the period

In CHF million	2004
Profit for the period as previously reported	624
Net earned premiums, policy fees and fee income	–158
Net insurance benefits, claims and claim settlement costs, policyholder participation (excluding one-off effects)	179
Interest expense on investment contracts	78
Employee benefits expense	–90
Financial result	120
One-off effects ("legal quote" and conversion rate)	–164
Other items	–10
Profit attributable to equity holders of Swiss Life Holding, restated	579
Minority interest	27
Profit for the period, restated	606

The elimination of insurance contracts covering own employees (defined benefit plans) led to a decrease of CHF 158 million in net earned insurance premiums, policy fees and fee income and to an increase of CHF 90 million in employee benefits expense.

Interest expense on investment contracts decreased by CHF 78 million primarily due to the reclassification of investment contracts previously carried under investment contracts and deposits at amortised cost. These contracts have been reclassified as financial liabilities at fair value through profit or loss. The interest expense relating to these contracts has been included in net gains/losses on financial instruments at fair value through profit or loss.

Mainly due to the designation of financial assets as financial assets at fair value through profit or loss, the financial result increased by CHF 120 million.

As previously disclosed, the conversion rate for the pensions under the supplementary part of the BVG occupational pensions business (Swiss occupational plans) is being reduced in stages by the Swiss Life Group from 7.2% to 5.835%. This reduction resulted in a release of insurance liabilities (after taxes) of CHF 253 million.

Due to a change in accounting policy relating to the valuation differences on the insurance business with discretionary participation, a liability for discretionary participation was set up as at 1 January 2004. The liability also covered the valuation differences on the insurance liabilities relating to the conversion rate for the pensions under the supplementary part of the BVG occupational pensions business. With the release of insurance liabilities (after taxes) of CHF 253 million, the liability for discretionary participation was increased accordingly. This increase of the liability for discretionary participation resulted in an expense which compensated the release of insurance liabilities.

As previously disclosed, the introduction of the statutory minimum distribution ratio ("legal quote") in the Swiss group business resulted in a one-off charge on the profit for the period of CHF 89 million (after taxes).

Due to a change in accounting policy relating to the valuation differences on the insurance business with discretionary participation, a liability for discretionary participation was set up as at 1 January 2004. The liability relating to the Swiss group business was measured using the statutory minimum distribution ratio ("legal quote") on these valuation differences. The one-off charge due to the introduction of the statutory minimum distribution ratio ("legal quote") was therefore reflected in retained earnings as at 1 January 2004 for restatement purposes.

41 Events after the Balance Sheet Date

In November 2005, the Swiss Life Group announced the sale of Banca del Gottardo Monaco. The sale has been approved by the regulator and is effective in 2006. In January 2006, the Swiss Life Group announced the sale of Dreieck Industrie Leasing. The group of assets to be disposed of and the liabilities directly associated with those assets have been presented separately in the balance sheet as at 31 December 2005 under assets held for sale and liabilities associated with assets held for sale.

42 Significant Subsidiaries and Associates

	Segment[1]	Consolidation period		Group share	Direct share	Method of con-solidation	Currency	Authorised share capital in 1000
Switzerland								
Adamant, Basel	–			26.0%	26.0%	equity	CHF	250
Adamed, Basel	–	until	01.12.2004	–	–	full	CHF	23 018
Adroit Investment, Zürich	Insurance			100.0%	100.0%	full	CHF	5 000
Adroit Private Equity, Zürich	Insurance			100.0%	100.0%	full	CHF	5 000
Alvetern, Pfäffikon	–	until	30.04.2004	–	–	full	CHF	100
Banca del Gottardo, Lugano	Banking			100.0%	100.0%	full	CHF	170 000
B-Source, Lugano	–	from	01.07.2005	37.0%	37.0%	equity	CHF	2 400
Dreieck Equipment Leasing, Zürich	Banking			43.0%	43.0%	full	CHF	100
Dreieck Fiduciaria, Lugano	Banking			100.0%	100.0%	full	CHF	500
Dreieck Industrie Leasing, Lausanne	Banking			100.0%	100.0%	full	CHF	15 000
Drive Shop, Thônex	–	from until	01.01.2004 24.12.2004	–	–	full	CHF	100
Eaux-Vives 2000, Zürich	Insurance			100.0%	100.0%	full	CHF	1 000
Eaux-Vives Office, Zürich	Insurance			100.0%	100.0%	full	CHF	100
Gottardo Investments SA, Lugano	Banking	from	12.08.2005	100.0%	100.0%	full	CHF	30 000
Kuhn & Seal, Nyon	Insurance			100.0%	100.0%	full	CHF	100
Kuhn & Seal Services, Nyon	–	until	23.12.2004	–	–	full	CHF	100
«La Suisse» Accidents, Lausanne	–	until	05.12.2005	–	–	full	CHF	50 000
«La Suisse» Vie, Lausanne	–	until	23.11.2005	–	–	full	CHF	24 000
Livit, Zürich	IM			100.0%	100.0%	full	CHF	3 000
Livolsi e Associati Private, Lugano	–	from	10.05.2005	40.0%	40.0%	equity	CHF	1 000
Long Term Strategy in liquidation, Zug	Other			100.0%	100.0%	full	CHF	2 000
Neue Warenhaus AG, Zürich	Insurance			100.0%	100.0%	full	CHF	5 000
Oscar Weber AG, Zürich	Insurance			100.0%	100.0%	full	CHF	5 000
Pendia Associates, Zürich	Insurance			100.0%	100.0%	full	CHF	500
Rentenanstalt Holding, Zürich	Other			100.0%	100.0%	full	CHF	25 000
Swiss Life Asset Management, Zürich	IM			100.0%	100.0%	full	CHF	250
Swiss Life Capital Holding, Zürich	Other			100.0%	100.0%	full	CHF	5 514
Swiss Life Capital Partners, Pfäffikon	–	until	30.06.2004	–	–	full	CHF	100
Swiss Life Funds AG, Lugano	IM			100.0%	100.0%	full	CHF	20 000
Swiss Life Funds Business, Zürich	IM			100.0%	100.0%	full	CHF	250
Swiss Life General Partners, Zürich	Other			100.0%	100.0%	full	CHF	100
Swiss Life Holding, Zürich	Other			–	–	full	CHF	1 553 700
Swiss Life Institutional Funds – SLIF 14, Lugano	Insurance	from	01.12.2004	100.0%	100.0%	full	–	–
Swiss Life Intellectual Property Management AG, Zürich	Other	from	20.12.2005	100.0%	100.0%	full	CHF	250
Swiss Life Investment Management Holding, Zürich	IM	from	06.04.2005	100.0%	100.0%	full	CHF	50 000
Swiss Life (Liechtenstein) Services, Vaduz, Branch Zürich	Insurance	from	11.05.2005	–	–	full	–	–
Swiss Life Pension Services, Zürich	Insurance			100.0%	100.0%	full	CHF	250
Swiss Life Private Equity Partners, Zürich	IM			100.0%	100.0%	full	CHF	250
Swiss Life Property Management, Zürich	IM	from	24.03.2005	100.0%	100.0%	full	CHF	250
Swiss Life Real Estate Management Holding, Zürich	–	from until	17.06.2005 25.08.2005	–	–	full	CHF	13 473
Swiss Life/Rentenanstalt, Zürich	Insurance			100.0%	100.0%	full	CHF	587 350
Swiss Life Selection, Zürich	Banking			100.0%	100.0%	full	CHF	250
Swissville Centers, Zürich	Insurance			100.0%	100.0%	full	CHF	2 500
Swissville Centers Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	7 100

1) Segment (IM = Investment Management)

42 Significant Subsidiaries and Associates (continued)

	Segment[1]	Consolidation period		Group share	Direct share	Method of con-solidation	Currency	Authorised share capital in 1000
Switzerland (continued)								
Swissville Commerce, Zürich	Insurance			100.0%	100.0%	full	CHF	150 900
Swissville Commerce Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	147 100
Swissville Europe Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	11 500
Swissville Private, Zürich	Insurance			100.0%	100.0%	full	CHF	50 000
Swissville Private Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	50 000
Technopark Immobilien, Zürich	–			33.3%	33.3%	equity	CHF	40 000
Ultrafin, Lugano	–	until	22.11.2005	–	–	full	CHF	5 000
Liechtenstein								
LGT Swiss Life Non Traditional Advisers, Vaduz	–			43.4%	43.4%	equity	CHF	1 000
Swiss Life (Liechtenstein), Vaduz	Insurance	from	23.11.2004	100.0%	100.0%	full	CHF	5 000
Swiss Life (Liechtenstein) Services, Vaduz	Insurance	from	15.04.2005	100.0%	100.0%	full	CHF	100
France								
AGAMI, Lille	Insurance			100.0%	100.0%	full	EUR	500
Carte Blanche Partenaires, Paris	Insurance			90.3%	95.1%	full	EUR	2 300
Carte Blanche TP, Paris	–			43.6%	44.0%	equity	EUR	40
CEAT, Paris	Insurance			88.6%	100.0%	full	EUR	2 400
CEGEMA, Villeneuve-Loubet	Insurance			50.6%	50.6%	full	EUR	300
Crédit et services financiers (CRESERFI), Paris	–			33.4%	33.4%	equity	EUR	56 407
Daunou Participations, Paris	–	from	25.05.2004	–	–	full	EUR	4 585
		until	21.12.2004					
ERISA, Paris	Insurance			50.0%	50.0%	full	EUR	115 000
ERISA IARD, Paris	Insurance			50.0%	50.0%	full	EUR	7 500
Financière Oudart, Paris	–	from	25.05.2004	–	–	full	EUR	38
		until	21.12.2004					
Garantie Assistance, Paris	Insurance			94.9%	100.0%	full	EUR	1 850
GSD Gestion, Paris	–	from	25.05.2004	25.0%	25.0%	equity	EUR	400
Oudart, Paris	Banking			100.0%	100.0%	full	EUR	5 500
Oudart Gestion, Paris	Banking	from	25.05.2004	100.0%	100.0%	full	EUR	1 000
Oudart Patrimoine (formerly Oudart Assurances), Paris	Banking	from	25.05.2004	100.0%	100.0%	full	EUR	38
Oudart & Associés, Paris	–	from	25.05.2004	–	–	full	EUR	38
		until	21.12.2004					
Premium Consulting SAS, Paris	–			20.0%	20.0%	equity	EUR	40
SCI DYNAPIERRE, Paris	Insurance			99.3%	100.0%	full	EUR	7 317
SCI ERISA IMMO 1, Paris	Insurance			50.0%	100.0%	full	EUR	39 980
SCI Paris Dammartin, Roubaix	–	until	25.12.2005	–	–	full	EUR	15
SCI Uniphénix, Paris	–	until	17.12.2004	–	–	full	EUR	7 398
Société suisse de gestion immobilière, Paris	–	until	19.12.2005	–	–	full	EUR	22 860
Société suisse de participations d'assurance, Paris	Insurance			100.0%	100.0%	full	EUR	678 353
Société suisse vie, Paris (branch)	Insurance			–	–	full	–	–
Swiss Life Asset Management (France), Paris	Insurance			91.0%	100.0%	full	EUR	3 000
Swiss Life Assurance et Patrimoine, Paris	Insurance			99.3%	99.7%	full	EUR	75 000
Swiss Life Assurances de Biens, Paris	Insurance			88.6%	88.6%	full	EUR	110 850
Swiss Life Banque, Paris	Banking			55.0%	55.0%	full	EUR	20 000
Swiss Life Prévoyance et Santé, Paris	Insurance			99.2%	99.2%	full	EUR	150 000

1) Segment (IM = Investment Management)

42 Significant Subsidiaries and Associates (continued)

	Segment[1]	Consolidation period		Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Germany								
DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf	–	from	29.11.2004	21.9%	21.9%	equity	EUR	539
Financial Solutions, München	Insurance	from	08.09.2004	100.0%	100.0%	full	EUR	200
Münchner Tor, München	Insurance			100.0%	100.0%	full	EUR	59 435
Renum, München	–	from	18.10.2004	–	–	full	EUR	250
		until	19.01.2005					
Schweizerische Rentenanstalt, München (branch)	Insurance			–	–	full	–	–
Seko, München	Insurance			90.0%	90.0%	full	EUR	30
Sepis, München	Insurance			100.0%	100.0%	full	EUR	30
Schweizer Leben Pensions Management, München	Insurance			100.0%	100.0%	full	EUR	150
Swiss Life Asset Management, Unterföhring	Insurance			100.0%	100.0%	full	EUR	5 250
Swiss Life Beteiligungs GmbH, München	Insurance			100.0%	100.0%	full	EUR	25
Swiss Life Beteiligungs-GmbH & Co. Grundstücksverwaltung KG, München	Insurance	from	10.06.2005	100.0%	100.0%	full	EUR	50
Swiss Life Cooperations, München	Insurance	from	27.01.2005	100.0%	100.0%	full	EUR	100
Swiss Life Grundstücksmanagement, München	Insurance			100.0%	100.0%	full	EUR	26
Swiss Life Partner AG, München	Insurance			74.0%	74.0%	full	EUR	7 000
Swiss Life Partner Service und Finanzvermittlung, München	Insurance			100.0%	100.0%	full	EUR	1 800
Swiss Life Pensionsfonds, München	Insurance			100.0%	100.0%	full	EUR	3 000
Swiss Life Pensionskasse, München	Insurance			100.0%	100.0%	full	EUR	3 000
Netherlands								
Swiss Life Asset Management (Nederland), Amstelveen	Insurance			100.0%	100.0%	full	EUR	250
Zwitserleven, Amstelveen (branch)	Insurance			–	–	full	–	–
Zwitserleven Vermogensbeheer, Amstelveen	Insurance			100.0%	100.0%	full	EUR	2 269
Belgium								
AIA Pool, Bruxelles	–			13.0%	13.0%	equity	EUR	19
Demoisy & Cie, Montigny le Tilleul	–			25.0%	25.0%	equity	EUR	31
European District Properties Three, Sint Stevens Woluwe	–			50.0%	50.0%	equity	EUR	62
Europeloan Finance, Diegem	–	from	01.10.2005	20.0%	20.0%	equity	EUR	62
Swiss Life Asset Management (Belgium), Bruxelles	IM			100.0%	100.0%	full	EUR	500
Swiss Life (Belgium), Bruxelles (branch)	Insurance			–	–	full	–	–
Swiss Life Immo-Commerce (Belgium), Bruxelles	–	until	25.02.2005	–	–	full	EUR	9 965
Swiss Life Immo-Cross Roads, Bruxelles	Insurance			100.0%	100.0%	full	EUR	64
Swiss Life Immo-Midi (Belgium), Bruxelles	Insurance			100.0%	100.0%	full	EUR	2 200
Swiss Life Immo-Techno Center I, Bruxelles	Insurance			100.0%	100.0%	full	EUR	868
Swiss Life Immo-Techno Center II, Bruxelles	–	until	01.01.2004	–	–	full	EUR	285
Swiss Life Immo-Techno Center III, Bruxelles	–	until	01.01.2004	–	–	full	EUR	500
Swiss Life Information Systems, Sint-Gillis	Insurance			100.0%	100.0%	full	EUR	62
Swiss Life Invest (Belgium), Bruxelles	Insurance			100.0%	100.0%	full	EUR	646
Swissville Europe (Belgium), Bruxelles	Insurance			100.0%	100.0%	full	EUR	8 087
ZELIA, Bruxelles	Insurance			100.0%	100.0%	full	EUR	32 227

1) Segment (IM = Investment Management)

42 Significant Subsidiaries and Associates (continued)

	Segment[1]	Consolidation period		Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Luxembourg								
Apenso, Luxembourg	–	until	03.12.2004	–	–	equity	EUR	625
Banque du Gothard (Luxembourg), Luxembourg	Banking			100.0%	100.0%	full	CHF	14 000
Esofac, Luxembourg	–			30.0%	30.0%	equity	EUR	125
Gotam Fund Management Company (formerly Gottardo Tower Fund Management), Luxembourg	Banking			100.0%	100.0%	full	EUR	125
Gotam Umbrella Fund (Lux) Advisory Company (formerly Gottardo Money Market Fund (Lux) Management), Luxembourg	Banking			100.0%	100.0%	full	CHF	200
Gottardo Equity Fund (Lux) Management, Luxembourg	Banking			100.0%	100.0%	full	CHF	200
Gottardo Strategy Fund Management, Luxembourg	Banking			100.0%	100.0%	full	CHF	200
Heralux, Luxembourg	Insurance			99.2%	100.0%	full	EUR	1 250
SB-Gotthard I Fund Management, Luxembourg	Banking			100.0%	100.0%	full	CHF	650
SLGB Management, Luxembourg	Insurance			100.0%	100.0%	full	EUR	125
Swiss Life Asset Management Holding, Strassen	IM			100.0%	100.0%	full	CHF	8 380
Swiss Life (Luxembourg), Strassen	Insurance			100.0%	100.0%	full	EUR	15 000
Swiss Life Immo-Arlon, Strassen	Insurance			100.0%	100.0%	full	EUR	1 000
Swiss Life Multi Funds (Luxembourg) Management, Luxembourg	IM			100.0%	100.0%	full	CHF	200
United Kingdom								
Alpine Holdings, St. Peter Port-Guernsey	Banking			100.0%	100.0%	full	USD	600
Dom-James, Sevenoaks	–	until	31.12.2004	–	–	full	GBP	5 016
Integer Investment PCC Limited Cell 7, St. Peter Port-Guernsey	Banking	from	01.07.2004	100.0%	100.0%	full	CHF	0
Swiss Life (UK), Sevenoaks	–	until	31.12.2004	–	–	full	GBP	200 000
Swiss Life (UK) Group, Sevenoaks	–	until	31.12.2004	–	–	full	GBP	200 000
Swiss Life (UK) Services, Sevenoaks	–	until	31.12.2004	–	–	full	GBP	100
Spain								
Gottardo Gestión, SGIIC, Madrid	Banking	from	07.02.2005	100.0%	100.0%	full	EUR	825
Gottardo Inversiones Financieras, Madrid	Banking	from	19.05.2004	100.0%	100.0%	full	EUR	3 000
Gottardo Patrimonios, Madrid	Banking	from	25.05.2005	100.0%	100.0%	full	EUR	605
Italy								
Banca del Gottardo Italia, Bergamo	Banking			71.0%	71.0%	full	EUR	50 000
Fafid, Milano	Banking			95.0%	95.0%	full	EUR	150
Gottardo Asset Management SGR, Milano	Banking			87.2%	89.3%	full	EUR	3 500
Swiss Life (Italia), Milano	Insurance			100.0%	100.0%	full	EUR	5 170
Swiss Life (Italia) Infortuni e Malattie, Milano	Insurance			100.0%	100.0%	full	EUR	2 500
Bahamas								
Gottardo Trust Company, Nassau	Banking			100.0%	100.0%	full	USD	3 000

1) Segment (IM = Investment Management)

42 Significant Subsidiaries and Associates (continued)

	Segment[1]	Consolidation period		Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
British Virgin Islands								
Swiss Life Finance, Tortola	–	until	22.11.2005	–	–	full	USD	50
Cayman Islands								
Adamed Investments, George Town	–	until	23.11.2004	–	–	full	USD	0
Adroit Investment (Offshore), Grand Cayman	Insurance			100.0%	100.0%	full	CHF	0
							EUR	0
Adroit Private Equity (Offshore), Grand Cayman	Insurance			100.0%	100.0%	full	CHF	0
							USD	0
Swiss Life Cayman Finance, Grand Cayman	Other			100.0%	100.0%	full	CHF	0
							USD	50
Swiss Life Financial Services, Grand Cayman	Other			100.0%	100.0%	full	CHF	50
Swiss Life Insurance Finance, Grand Cayman	Other	from	01.06.2004	100.0%	100.0%	full	EUR	5
Swiss Life Private Equity Partners (Cayman), Grand Cayman	IM			100.0%	100.0%	full	CHF	60
Greece								
Gottardo A.E.P.E.Y., Athens	–	until	22.04.2005	–	–	full	EUR	1 600
Second Pillar, Athens	–	from	12.07.2004	25.0%	25.0%	equity	EUR	60
Monaco								
Banque du Gothard (Monaco), Monaco	Banking			100.0%	100.0%	full	EUR	40 000
Financial Strategy (Sam), Monaco	–	until	27.09.2005	–	–	equity	EUR	750
Gothard Gestion Monaco, Monaco	Banking			100.0%	100.0%	full	EUR	160
Gottim Sam, Monaco	Banking			100.0%	100.0%	full	EUR	150
Podium Sam, Monaco	–	from	01.01.2004	30.0%	30.0%	equity	EUR	150
Netherlands Antilles								
N.V. Pensioen ESC, Willemstad	Insurance			100.0%	100.0%	full	ANG	1 000

1) Segment (IM = Investment Management)

Report of the Group Auditors

Report of the Group Auditors
to the General Meeting of
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 77 to 190) of Swiss Life Group for the year ended 31 December 2005.

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 Swiss Auditing Standards 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 Lüssi Enrico Strozzi

Zurich, 27 March 2006

Review of Operations

Swiss Life Holding generated a profit of CHF 172 million in the 2005 financial year against CHF 153 million in the previous year.

Total income (net investment income + other income) rose from CHF 166 million to CHF 184 million. This positive development reflected the increase from CHF 125 million to CHF 151 million in dividends received on participating interests. The interest received on loans made to Group companies went down slightly. The decline resulted primarily from loan repayments.

Swiss Life Holding's liquid assets (liquid funds + time deposits and similar instruments) rose from CHF 84 million to CHF 481 million, significantly improving the company's financial flexibility.

Swiss Life Holding made further progress in streamlining the Group structure during the reporting period. The Swiss Life Asset Management companies in Switzerland and the Netherlands, as well as Swiss Life Funds Business and Swiss Life Funds, were brought together under the newly founded subsidiary Swiss Life Investment Management Holding.

In addition, after compensation of minority shareholders amounting to CHF 6 million, Swiss Life Holding raised its interest in Swiss Life/Rentenanstalt to 100%

Supplementary funding of CHF 12 million was necessary to finance the rapid growth of business for the Swiss Life Liechtenstein subsidiary.

Swiss Life Holding distributed a dividend of CHF 4 per share in the form of a repayment of par value. The par value of the Swiss Life Holding share was thereby reduced from CHF 50 to CHF 46 and the company's total share capital from CHF 1689 million to CHF 1554 million. Convertible bonds outstanding were converted into 260 shares in 2005, for an increase of CHF 11 960 in share capital.

Statement of Income

Statement of income

In CHF million	2005	2004
Investment income	181	163
Foreign currency gains/losses	–1	–1
Net investment income	180	162
Operating expenses	–5	–11
Other income	4	4
Financial expense	–5	–2
Income tax expense	–2	–
Profit for the year	172	153

Balance Sheet

Assets as of 31 December

In CHF million	2005	2004
Liquid funds	22	28
Time deposits and similar investments	459	56
Short-term investments at fair value	28	–
Receivables from Group companies	7	5
Other receivables	2	6
Prepayments and accrued income	1	0
Current assets	**519**	95
Shares	16	4
Participations	2 588	2 570
Loans	–	168
Loans to Group companies	252	502
Non-current assets	**2 856**	3 244
Total assets	**3 375**	3 339

Equity and liabilities as of 31 December

In CHF million	2005	2004
Payables to Group companies	1	14
Other payables	13	2
Total short-term liabilities	**14**	16
Convertible securities	312	311
Total long-term liabilities	**312**	311
Total liabilities	**326**	327
Share capital	1 554	1 689
General reserves	*918*	*918*
Reserve for own shares	*42*	*38*
Legal reserves	960	956
Free reserves	361	185
Balance carried forward from previous year	*2*	*29*
Profit for the year	*172*	*153*
Total profit shown in the balance sheet	174	182
Equity	**3 049**	3 012
Total equity and liabilities	**3 375**	3 339

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).

Explanations on the Balance Sheet and Statement of Income

Participations

	2005			2004		
	Currency	Authorised share capital in 1000	Direct share	Currency	Authorised share capital in 1000	Direct share
Banca del Gottardo, Lugano	CHF	170 000	100.0%	CHF	170 000	100.0%
Swiss Life Asset Management, Zürich	–	–	–	CHF	250	100.0%
Swiss Life Asset Management (Nederland), Amstelveen	–	–	–	EUR	250	100.0%
Swiss Life Cayman Finance, Grand Cayman	CHF	0	100.0%	CHF	0	100.0%
	USD	50		USD	50	
Swiss Life Funds, Lugano	–	–	–	CHF	10 000	100.0%
Swiss Life Funds Business, Zürich	–	–	–	CHF	250	100.0%
Swiss Life Investment Management Holding, Zürich	CHF	50 000	100.0%	–	–	–
Swiss Life (Liechtenstein), Vaduz	CHF	5 000	100.0%	CHF	5 000	100.0%
Swiss Life/Rentenanstalt, Zürich	CHF	587 350	100.0%	CHF	587 350	99.8%

Loans to Group companies CHF 61 million of the loans to Group companies are classified as subordinated loans.

Major shareholders At the time of writing there are no individual shareholders or groups of shareholders who own more than 5% of Swiss Life Holding's share capital and who are known to us.

Share capital As at 31 December 2005, the share capital of Swiss Life Holding (SLH) consisted of 33 776 078 fully-paid shares with a par value of CHF 46 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of their own shares and those they represent. As at 31 December 2004, SLH had 33 775 818 registered shares with a par value of CHF 50 per share. Conditional share capital was CHF 168 721 652 as at 31 December 2005 (2004: CHF 183 406 100).

Legal reserves Legal reserves comprise general reserves (additional paid-in capital in excess of the par value, net of transaction costs) and reserve for own shares (equivalent in value to SLH shares held by the Swiss Life Group).

Free reserves and retained earnings Free reserves and retained earnings contain accumulated retained earnings which have not been distributed to the shareholders.

Capital increase in 2004 On 2 June 2004, SLH issued 8 344 680 SLH registered shares with a par value of CHF 50 each. The subscription price was CHF 100 per share. The gross proceeds of the rights offering amounted to CHF 834 million.

Additionally, 397 078 new SLH shares with a par value of CHF 50 each were created by reducing conditional share capital. These shares adjust the (minimum) number of shares convertible under the mandatory convertible securities (MCS) issues (MCS I, 2002–2005, and MCS II, 2003–2004) made by SL Cayman Finance, Grand Cayman, a subsidiary of Swiss Life Holding.

Issuance of convertible debt in 2004 On 10 June 2004, SLH issued CHF 317 million in 0.625% convertible bonds 2004–2010 convertible into SLH registered shares. The conversion price was set at CHF 209.625.

In 2005, convertible bonds of CHF 55 000 were converted into 260 SLH shares with a corresponding increase of share capital and share premium.

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

Own shares In the year under review the companies in the Swiss Life Group purchased a total of 718 685 Swiss Life shares at an average price of CHF 184.90. In the same period, they sold 716 026 shares at an average price of CHF 182.07. As at 31 December 2005, Swiss Life Group had 261 713 own shares.

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

Contingencies 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 1314 million at the balance sheet date.

Total equity

In CHF million	**31.12.2005**	31.12.2004
Share capital		
Balance as of 1 January	**1 689**	1 252
Reduction in the par value	**–135**	–
Converted Swiss Life Holding shares	**0**	0
Issuance of shares	**–**	417
Issuance of mandatory convertible securities (adjustment)	**–**	20
Total share capital	**1 554**	1 689
Legal reserves		
General reserves		
Balance as of 1 January	**918**	497
Issuance of shares	**–**	417
Issuance of mandatory convertible securities (adjustment)	**–**	–20
Sale of subscription rights	**–**	58
Equity transaction costs	**–**	–34
Converted Swiss Life Holding shares	**0**	0
Total general reserves	**918**	918
Reserve for own shares		
Balance as of 1 January	**38**	28
Reserve for own shares	**4**	10
Total reserve for own shares	**42**	38
Total legal reserves	**960**	956
Free reserves		
Balance as of 1 January	**185**	195
Addition to free reserves	**180**	–
Reserve for own shares	**–4**	–10
Total free reserves	**361**	185
Profit shown in the balance sheet		
Balance as of 1 January	**182**	29
Addition to free reserves	**–180**	–
Profit for the year	**172**	153
Total profit shown in the balance sheet	**174**	182
Total equity	**3 049**	3 012

Appropriation of Profit

Profit and Appropriation of Profit

The profit for the year amounts to CHF 172 273 612. The Board of Directors proposes to the General Meeting of Shareholders to appropriate the profit in accordance with the table below. If the Board of Directors' proposal is adopted, a distribution in the form of a reduction of CHF 5 in the par value per share will be paid.

Profit shown in the balance sheet

In CHF	**2005**	2004
Balance brought forward	**1 979 262**	29 346 454
Profit for the year	**172 273 612**	152 632 808
Total profit shown in the balance sheet	**174 252 874**	181 979 262

Appropriation of profit

In CHF	**2005**	2004
Dividend	–	–
Allocation to legal reserves	–	–
Allocation to free reserves	**170 000 000**	180 000 000
Balance carried forward to new account	**4 252 874**	1 979 262
Total profit shown in the balance sheet	**174 252 874**	181 979 262

Zurich, 27 March 2006

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
Swiss Life Holding
Zurich

As statutory auditors, we have audited the accounting records and the financial statements (statement of income, balance sheet and notes to the financial statements; pages 193 to 196) of Swiss Life Holding for the year ended 31 December 2005.

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 Swiss Auditing Standards, 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 profit 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 Lüssi Enrico Strozzi

Zurich, 27 March 2006

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.

This Annual Report is also available in German and an abridged version has been translated into French.
The English text is definitive for the Financial Statements.

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Important dates

Annual General Meeting
9 May 2006
Hallenstadion, Zurich

Presentation of half-year figures
6 September 2006

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You can find the Annual Report for
the Swiss Life Group on the Internet at
http://www.swisslife.com/report