SwissLife

ANNUAL REPORT 2012

Annual Report 2012

Swiss Life Group

Contents

The Swiss Life Group's 2012 financial year at a glance:

Course of business — Swiss Life increased its adjusted profit from operations by 26% over the previous year to CHF 993 million in 2012. This was driven by operational improvements and an excellent investment result. Net profit came to CHF 93 million (2011: CHF 606 million) as a result of one-off effects, in particular the impairment in the value of AWD's intangible assets of CHF 578 million. Swiss Life maintained its focus on profitability and grew in strategically important business areas. The Group generated overall premium volume of CHF 17.0 billion compared to CHF 17.1 billion in the previous year.

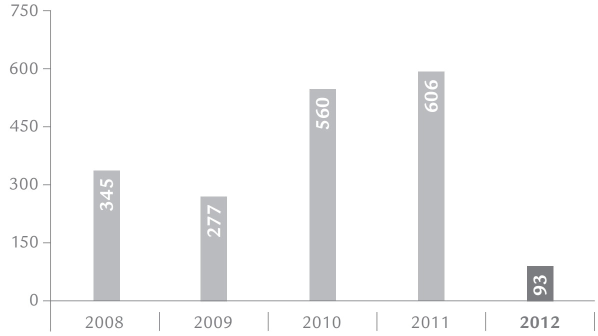
Markets — The Swiss Life Group operates in Switzerland, Germany and France and has competency centres in Luxembourg, Liechtenstein and Singapore. Swiss Life Select (formerly AWD), tecis, HORBACH, Proventus and Chase de Vere advisors use the Best Select approach in various European markets to choose suitable products for customers. Swiss Life Asset Managers offers institutional and private investors in Switzerland and France access to investment and asset management solutions.

Workforce — Around 7000 employees and approximately 4500 certified financial advisors were working for the Swiss Life Group worldwide at the end of 2012.

The latest information about Swiss Life on the internet
Would you like to learn more about the Swiss Life Group? Are you looking for information on our corporate strategy, business activities or brand? Maybe you want to know more about our role as a responsible company or the principles governing Swiss Life's conduct as an employer? We want to ensure that the information we provide in this context is always up to date. For this reason we no longer include it in the annual report, but instead provide extensive, varied and updated information on our website in the "About us" section:
www.swisslife.com/aboutus

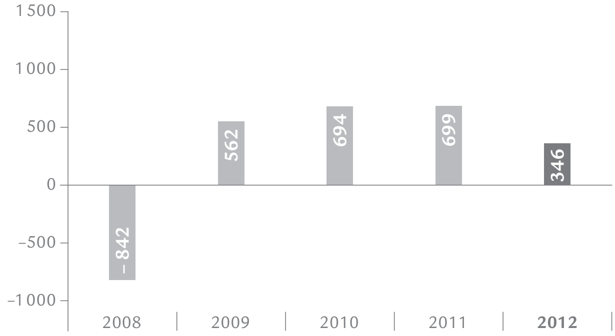
Net profit

In CHF million



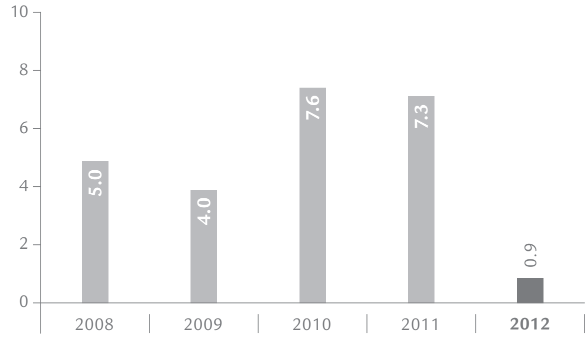
Result from operations

In CHF million



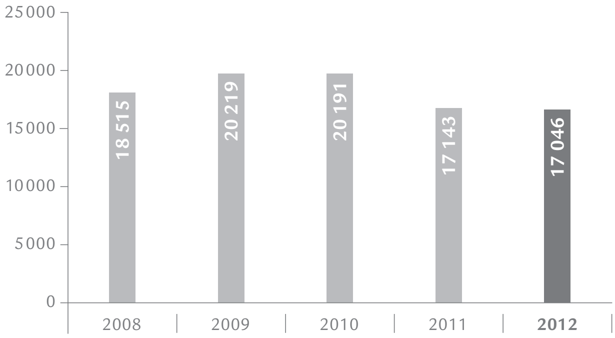
Return on equity

In %



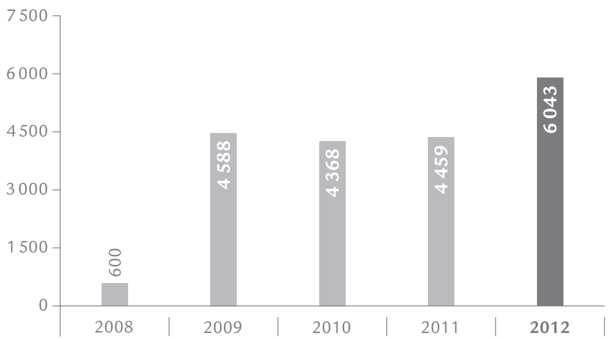
Gross written premiums, policy fees and deposits received

In CHF million



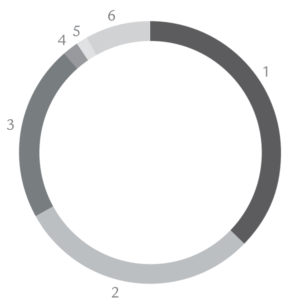
Financial result

In CHF million



Swiss Life employees by country

Total 7046 full-time equivalents as at 31.12.2012



1	Switzerland	2 646
2	France	2 098
3	Germany	1 522
4	Luxembourg	113
5	Liechtenstein	103
6	Other	564

Dear Shareholders

Swiss Life proved its mettle in 2012 in two respects. Firstly, Swiss Life again improved its operational effectiveness. Secondly, through our new Group-wide programme "Swiss Life 2015" we have set the course for further profitable growth.

Last year, Swiss Life brought its Group-wide programme MILESTONE, launched in 2009, to a successful conclusion and strengthened the profitability and financial solidity of the company in a sustainable way. In so doing, Swiss Life has created the business conditions for the next stage of its journey. In 2012 profit from operations far exceeded expectations: adjusted for one-off effects earnings were 26% up on the previous year at CHF 993 million. Net profit at CHF 93 million was significantly lower than in the previous year (2011: CHF 606 million), mainly due to the one-off impairment in the value of AWD's intangible assets of CHF 578 million, additional provisions for litigation and restructuring costs arising from the new Group-wide programme "Swiss Life 2015".

In the 2012 financial year premium income remained at the prior-year level in spite of the adverse market conditions and low interest rate environment. With an investment performance of 8.5% (2011: 7.5%), Investment Management achieved an investment result of CHF 5.7 billion as well as an excellent, by peer comparison, net investment return of 4.8% (2011: 3.8%), which enabled further substantial strengthening of our technical reserves. In the year under review, shareholders' equity rose by 12% to CHF 10.3 billion, while Group solvency climbed from 213% in 2011 to 242% by the end of 2012.

The fact that our operational progress in recent years has been achieved in extremely challenging markets, not to mention the less than favourable operating conditions, testifies to the resilience of our business model. Our upgrade in 2012 by the rating agency Standard & Poor's to A– was equally encouraging. This confirms the progress we have made in recent years and is all the more pleasing as the upgrade runs counter to the general negative trend for financial services companies. Our employees played a key part in this success and we owe them our gratitude for the commitment they give our company on a daily basis.

In short: Swiss Life further improved its operational excellence. The Board of Directors will therefore propose to the Annual General Meeting a distribution from the capital contribution reserve of CHF 4.50 per share. Swiss Life will adhere to its dividend policy over the next few years and envisages maintaining a payout ratio of 20% to 40% going forward.

Swiss Life also proved itself in 2012 in terms of its corporate future. The Board of Directors and the Corporate Executive Board have set the course for Swiss Life for the next few years. We need to adapt our business model to the economic reality in light of the persistently record-low interest rates, far-reaching regulatory changes and financial market uncertainty – and this goes hand in hand with our ambition to create added value for customers, partners, employees and shareholders.

Through our new corporate programme "Swiss Life 2015", which we presented at our Investors' Day in November 2012, we are continuing along our path of profitable growth and adapting our business areas to reflect changing market conditions. We will do this by pursuing different business strategies in our various markets: Swiss Life in Switzerland will develop from a pure life insurer to a comprehensive life and pensions and financial solutions provider, and in Germany to a financial advisory and insurance company under one roof. In France, the Group will continue to build on its strong position as a "private and personal insurer". In our international business we will offer protection, financial solutions and advice in selected markets. In asset management we will grow our business with external customers through our new brand "Swiss Life Asset Managers".

From now on Swiss Life will manage all its production and distribution organisations for each market under one roof to optimise market development, further improve advisory expertise and become more efficient. In this connection the companies which previously operated in the market as AWD will now operate under the brand name "Swiss Life Select".

From a financial perspective, Swiss Life is committed to continuity and discipline in executing its objectives. On the one hand, we will focus on diversifying profit sources and enhancing earnings quality. On the other hand, we aim to further protect the balance sheet, steadily optimise in-force business and increase the profitability of new business. We aim to achieve a return on equity of 8% to 10% by 2015 and a new business margin of over 1.5%. Furthermore, we are targeting additional cost savings of CHF 130 to 160 million. In the context of diversifying profit sources, we are aiming for a 60% to 70% profit share from risk business, such as death and disability, and fee business.

The progress we have made in recent years gives us confidence that we can achieve these aims. Our operational effectiveness allows us to exploit the opportunities offered even in today's difficult market environment. All the conditions are in place for Swiss Life to strengthen its position in the market for comprehensive life and pensions and financial solutions – loyal customers, professional expertise, engaged employees, financial solidity and a strong brand. We would like to thank you, our shareholders, most sincerely for your loyalty and commitment in giving your support to the further development of our Group.

Rolf Dörig
Chairman of the Board of Directors

Bruno Pfister
CEO

Summary of Group results

Swiss Life posts 26% increase in profit from operations to CHF 993 million with net profit after one-off effects of CHF 93 million.

In the 2012 financial year, Swiss Life increased its profit from operations adjusted for one-off effects by 26% from CHF 788 million to CHF 993 million, thanks to further operational improvements and an excellent investment result. One-off effects, in particular as a result of the impairment in the value of AWD's intangible assets of CHF 578 million, led to reported net profit of CHF 93 million (2011: CHF 606 million). Important contributors to this positive development in the results were the market units in Switzerland, Germany, France and Investment Management. Results in AWD and Swiss Life International were lower than expected.

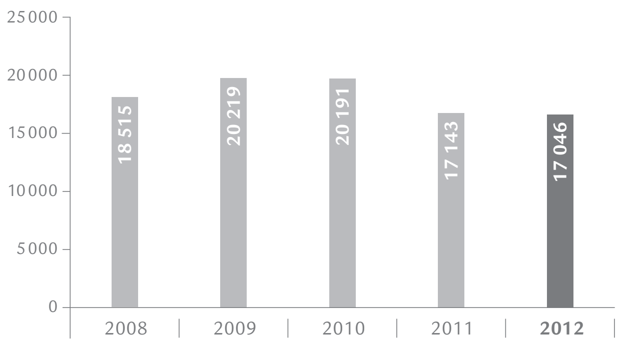
With CHF 17.0 billion, Swiss Life maintained premium income at its prior-year level and improved its new business margin from 1.2% to 1.4% despite the challenging market conditions. In 2012 the Group generated a return on equity of 0.9%. Adjusted for one-off effects and unrealised gains and losses on fixed-interest investments in equity, return on equity stood at 8.6%. With investment performance of 8.5% (2011: 7.5%), an investment result of CHF 5.7 billion and net investment return of 4.8% (2011: 3.8%) were achieved, which enabled substantial strengthening of the technical reserves.

GROWTH IN THE STRATEGICALLY IMPORTANT BUSINESS AREAS

Swiss Life once again grew in the strategically important business areas. Despite difficult market conditions, the company maintained overall premium volume of CHF 17.0 billion at its prior-year level. Performance in the home market of Switzerland was encouraging with growth of 2% to CHF 8.3 billion, driven by both corporate client business and private client business. Swiss Life in France generated stable premium income on a currency-adjusted basis of CHF 4.3 billion, which is encouraging in light of the 4% contraction in the market as a whole. In Germany too, Swiss Life held its position with premium income at CHF 1.7 billion; while single premiums edged down, periodic premiums were up 2%. The Insurance International segment, where premium income originates largely from global business with high net worth individuals, recorded a currency-adjusted decline of 4% to CHF 2.9 billion. AWD recorded a drop in sales of 13% to EUR 489 million. Assets under man-

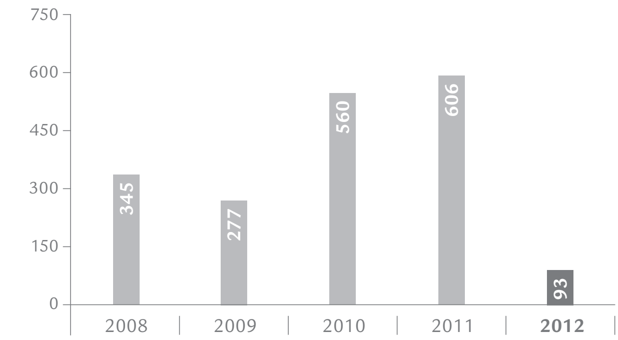
Gross written premiums, policy fees and deposits received

In CHF million



Net profit

In CHF million



agement for Investment Management stood at CHF 148 billion (2011: CHF 134 billion). This includes third-party assets in which Swiss Life can report growth of 24% to over CHF 20 billion thanks to additional mandates and positive market developments. Technical provisions to cover obligations to our customers increased by CHF 10 billion to CHF 138 billion, an increase of 8% on the previous year.

IMPROVED EARNINGS POWER DUE TO OPERATIONAL IMPROVEMENTS

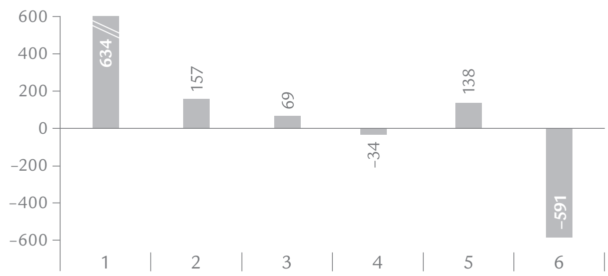
In the 2012 financial year Swiss Life increased its profit from operations, adjusted for one-off effects, by 26% from CHF 788 million to CHF 993 million; adjusted net profit stood at CHF 681 million, a 22% rise on the previous year (CHF 557 million). Primarily as a result of the CHF 578 million impairment in AWD's intangible assets and additional provisions for litigation, together with restructuring costs under the new Group-wide programme "Swiss Life 2015", this produces reported net profit of CHF 93 million. In Switzerland, Swiss Life posted a segment result of CHF 634 million, up CHF 158 million on the previous year, following efficiency gains and a very good investment result. In France, Swiss Life recorded an increase in profits of CHF 33 million to CHF 157 million due to the good performance of financial products and an improved technical margin. In Germany, Swiss Life improved profits by CHF 11 million to CHF 69 million thanks to a successful investment policy. The Insurance International segment's result made a loss of CHF 34 million, primarily attributable to restructuring costs and impairment of the customer relationship asset. Investment Management contributed a segment result of CHF 138 million, which was up CHF 8 million on the previous year. The AWD segment adversely impacted the result by CHF –591 million due, as mentioned above, mainly to the CHF 578 million impairment of intangible assets and provisions for litigation.

HIGHER MARGIN AND STRONGER CAPITAL BASE

Swiss Life made further advances in margin management: In 2012 the Group increased its new business margin from 1.2% to 1.4%. The value of new business improved from CHF 150 million in the previous year to CHF 158 million. Swiss Life has a solid capital base: In 2012, shareholders' equity increased from CHF 9.1 billion to CHF 10.3 billion; the Group's solvency ratio rose from 213% to 242%. On the basis of its internal model, which is still being reviewed by FINMA, Swiss Life's SST ratio is in the green.

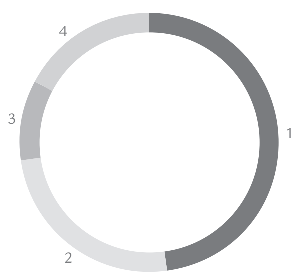
Segment results

In CHF million



1 Insurance Switzerland
2 Insurance France
3 Insurance Germany
4 Insurance International
5 Investment Management
6 AWD

Gross written premiums, policy fees and deposits received by segment



1 Insurance Switzerland	48%
2 Insurance France	25%
3 Insurance Germany	10%
4 Insurance International	17%

KEY FIGURES FOR THE SWISS LIFE GROUP

Amounts in CHF million

	2012	2011	+/–
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	**17 046**	17 143	–0.6%
Net earned premiums and policy fees	**12 180**	11 894	2.4%
Commission income	**826**	893	–7.5%
Financial result (without share of results of associates)	**6 043**	4 459	35.5%
Other income	**25**	45	–44.4%
TOTAL INCOME	**19 075**	17 291	10.3%
Net insurance benefits and claims	**–13 819**	–12 614	9.6%
Policyholder participation	**–1 104**	–791	39.6%
Interest expense	**–253**	–274	–7.7%
Operating expense	**–3 552**	–2 913	21.9%
TOTAL EXPENSE	**–18 728**	–16 592	12.9%
RESULT FROM OPERATIONS	**346**	699	–50.5%
NET PROFIT	**93**	606	–84.7%
Equity	**10 286**	9 162	12.3%
Insurance reserves	**137 973**	128 089	7.7%
Assets under management	**161 740**	147 018	10.0%
Assets under control	**181 330**	164 604	10.2%
Return on equity (in %)	**0.9**	7.3	–6.4 ppts
Number of employees (full-time equivalents)	**7 046**	7 168	–1.7%

ASSET ALLOCATION ON A FAIR VALUE BASIS AS AT 31 DECEMBER (INSURANCE PORTFOLIO AT OWN RISK)

Amounts in CHF million

	2012	2012	2011	2011
Equity securities and equity funds	**2 158**	**1.7%**	2 602	2.2%
Alternative investments	**664**	**0.5%**	710	0.6%
Real estate	**16 641**	**13.0%**	15 493	13.1%
Mortgages	**5 809**	**4.5%**	5 440	4.6%
Loans	**10 240**	**8.0%**	10 408	8.8%
Bonds	**90 216**	**70.5%**	82 849	70.2%
Cash and cash equivalents and other	**2 223**	**1.7%**	591	0.5%
TOTAL	**127 951**	**100.0%**	118 093	100.0%
Net equity exposure		**1.3%**		1.1%
Duration of bonds		**10.7 years**		10.4 years

Segment Reporting

In 2012 Swiss Life generated an overall segment profit from operations of CHF 346 million (2011: CHF 699 million). The result was impacted by one-off effects, especially the impairment of AWD's intangible assets. Adjusted profit from operations rose 26% to CHF 993 million.

Swiss Life not only reports its insurance business by country (Switzerland, France and Germany), it also discloses separately the results of its cross-border segments Insurance International, Investment Management and AWD. The company posted a profit of CHF 634 million in its home market Switzerland, CHF 157 million in France and CHF 69 million in Germany. The Investment Management segment achieved a result of CHF 138 million. AWD and Insurance International both underperformed. AWD's operating result fell to EUR 40.3 million in a very challenging market environment and was also affected by provisions for litigation. The outcome was an EBIT of EUR 1.6 million. Taking into account the impairment of intangible assets, this gives a segment loss for AWD of CHF 591 million. Insurance International posted a CHF 34 million loss, mainly due to impairment of the customer relationship asset and restructuring costs.

The Group maintained its focus on profitability in the 2012 financial year and grew in strategically important business areas. With an overall figure of CHF 17.0 billion, gross written premiums, policy fees and deposits received across all segments were maintained at the prior-year level.

INSURANCE SWITZERLAND

In the year under review Swiss Life in Switzerland posted a segment result of CHF 634 million (2011: CHF 476 million). This major increase of 33% resulted to a large extent from the excellent investment result and strong premium growth. This improved result is an extremely good achievement, particularly in view of the enduring low interest rate environment and the high pressure on margins in life business.

Long-term initiatives, such as the reduction of risks on the investment side, further optimisations in the multichannel distribution strategy and the renewed sustained cost reduction made a major contribution to the encouraging result. The financial result increased to CHF 4.2 billion and direct investment income rose 3% to CHF 3.0 billion.

According to the Swiss Insurance Association (SIA), life insurance premiums in Switzerland rose by 1.7% over the previous year to CHF 30.3 billion. Premiums in group insurance climbed by 2.3% and in individual insurance fell by 0.3%. Swiss Life grew overall premium volume by 2% to CHF 8.3 billion. Group insurance contributed 81% of income, as per the previous year. Swiss Life's market share of group insurance came to 28.8%, and in individual insurance it increased to 20.1%.

Operating expenses rose by 11% to CHF 971 million. This mainly results from higher amortisation of deferred acquisition costs, additional expenses for the employee benefits plan (under IAS 19) and higher asset management fees – due to the higher asset volume. The renewed reduction in operational administrative costs results from a sustained efficiency-enhancing programme, which particularly impacted personnel costs.

Insurance benefits, including changes in technical reserves, rose by 12% to CHF 10.0 billion. This increase is mainly due to strengthening of reserves due to the ongoing low interest rate environment and higher savings deposits.

New products launched in 2012 were another key driver for premium growth in own distribution channels and intermediaries. In individual insurance Swiss Life launched a further Swiss Life Premium Select tranche, a non-tax-qualified unit-linked life insurance product. The fund products Swiss Life Premium Vitality Duo and Uno, combined tax- and non-tax-qualified savings under the BVG, were introduced in the second quarter. The Home Option was also launched, offering attractive supplementary benefits when purchasing owner-occupied residential property. In the third quarter another two attractive insurance products were brought out in the form of Swiss Life FlexSave, a modern and flexible savings solution combining guarantees and the potential for return, and the real estate tranche Swiss Life Premium Immo. For its Swiss corporate clients, Swiss Life launched Swiss Life Business Profit, an innovative pension solution with a selection of investment strategies for employees.

Swiss Life in Switzerland aims to continue to develop from a pure life insurer to a comprehensive life and pensions and financial solutions provider. The focus will be on closer and more regular customer interaction and the expansion of our services business. A corresponding growth and transformation programme launched in 2011 showed initial successes in 2012 in the form of new customer approach concepts. In addition, Swiss Life devised a whole new broker services offering for private housing. The company intends to further enhance its efficiency in 2013 and make more improvements to increase its distribution capacity and profitability. A major step towards improving distribution capabilities is the teaming up between Swiss Life in Switzerland and AWD Switzerland, now known as Swiss Life Select Switzerland. The teaming up will be realised during 2013.

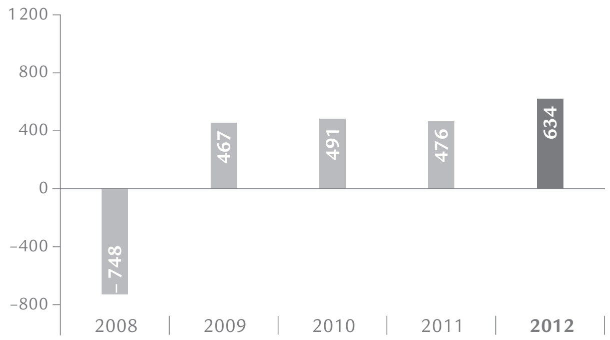
KEY FIGURES FOR INSURANCE SWITZERLAND

Amounts in CHF million

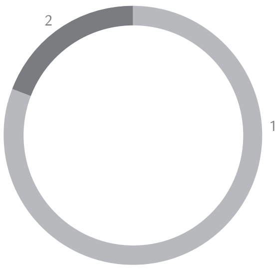
	2012	2011	+/–
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	**8 292**	8 123	2.1%
Net earned premiums and policy fees	**7 868**	7 757	1.4%
Commission income	**34**	19	78.9%
Financial result	**4 246**	3 021	40.5%
Other income	**30**	43	–30.2%
TOTAL INCOME	**12 177**	10 840	12.3%
Net insurance benefits and claims	**–10 048**	–8 964	12.1%
Policyholder participation	**–455**	–450	1.1%
Interest expense	**–69**	–77	–10.4%
Operating expense	**–971**	–873	11.2%
TOTAL EXPENSE	**–11 543**	–10 364	11.4%
SEGMENT RESULT	**634**	476	33.2%
Assets under control	**93 002**	85 604	8.6%
Insurance reserves	**77 408**	72 826	6.3%
Number of employees (full-time equivalents)	**1 937**	1 995	–2.9%

Segment result Insurance Switzerland

In CHF million



Premiums for Switzerland, by type of insurance



1 Group 81%
2 Individual 19%

INSURANCE FRANCE

Swiss Life in France increased its segment result to CHF 157 million (2011: CHF 124 million). This significant growth is attributable to the rate increases made in 2012, an improved financial margin despite the uncertain financial market environment, cost discipline and the resultant operational efficiency gains.

The general French market for personal insurance contracted by 6%, principally driven by the 8% decline in savings and retirement provisions. Health, death and disability insurance, as well as property and casualty, on the other hand, grew by 4%. Swiss Life outperformed the market, generating currency-adjusted premium volume of CHF 4.3 billion, close to the previous year's performance. The company benefited from its diversified operations and its good positioning in life insurance business with high net worth individuals. In savings and retirement provisions the company again generated good quality net inflows in a relatively sharply declining market. The share of premiums generated by unit-linked contracts stood at well above the market average (28% compared to 13% for the market), primarily due to the good positioning, the dynamics of the different distribution networks and a differentiated bonus policy. Rate adjustments and better persistency led to growth in a hard fought market of 2% in health, death and disability insurance and 4% in property and casualty in local currency terms. Swiss Life Banque Privée also posted a positive result confirming its successful strategic focus.

In 2013, Swiss Life in France will continue to pursue its strategy of profitable growth. The company will thus maintain its focus on service quality in order to reinforce its leading position in life insurance for affluent and high net worth individuals.

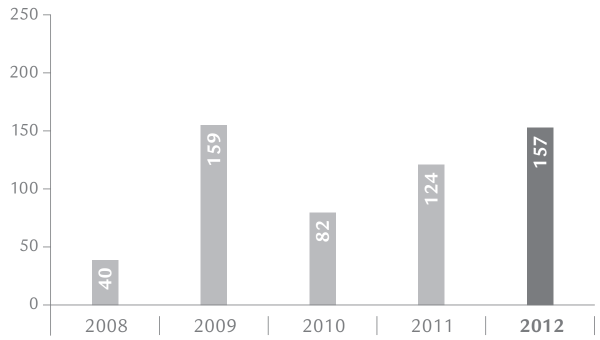
KEY FIGURES FOR INSURANCE FRANCE

Amounts in CHF million

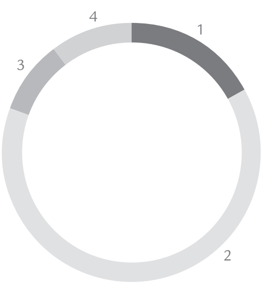
	2012	2011	+/–
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	**4 260**	4 379	–2.7%
Net earned premiums and policy fees	**2 650**	2 374	11.6%
Commission income	**78**	93	–16.1%
Financial result	**878**	727	20.8%
Other income	**4**	1	n/a
TOTAL INCOME	**3 610**	3 195	13.0%
Net insurance benefits and claims	**–2 035**	–1 847	10.2%
Policyholder participation	**–311**	–102	n/a
Interest expense	**–156**	–168	–7.1%
Operating expense	**–949**	–954	–0.5%
TOTAL EXPENSE	**–3 453**	–3 071	12.4%
SEGMENT RESULT	**157**	124	26.6%
Assets under control	**29 283**	26 436	10.8%
Insurance reserves	**23 326**	20 986	11.2%
Number of employees (full-time equivalents)	**2 034**	2 075	–2.0%

Segment result Insurance France

In CHF million



Premiums for France, by type of insurance



1 Group 17%
2 Individual 63%
3 Health insurance 10%
4 Property 10%

INSURANCE GERMANY

Swiss Life in Germany posted a segment result in 2012 of CHF 69 million (2011: CHF 58 million). This increase is primarily attributable to the improved financial result as well as cost savings. Swiss Life also grew periodic premium business, thereby securing sustainable income.

In 2012 Swiss Life generated premium volume of CHF 1.7 billion, almost equivalent to the prior-year level (–0.4% in local currency). Occupational pensions business was very successful. The long-term care product launched at the beginning of 2012 was well accepted by the market. Insurance benefits and policyholder participation rose by 1.5% overall in the year under review, chiefly due to the increase in policyholder participation to CHF 334 million on the back of the higher financial result. Operating expenses were up 13% (16% in local currency) particularly as a result of additional amortisation of acquisition costs. At the same time new business premiums fell by 7% (in local currency) to CHF 440 million.

Under the new Group-wide programme "Swiss Life 2015", Swiss Life and Swiss Life Select (formerly AWD) in Germany aim to develop into a financial advisory and insurance company under one roof. All production and distribution organisations will be managed from a single source going forward. This will optimise market development and leverage synergies. In insurance the company is aiming to generate premium volume slightly above the market level, in particular with its successful occupational disability insurance, the long-term care insurance solution and products with modern guarantee concepts.

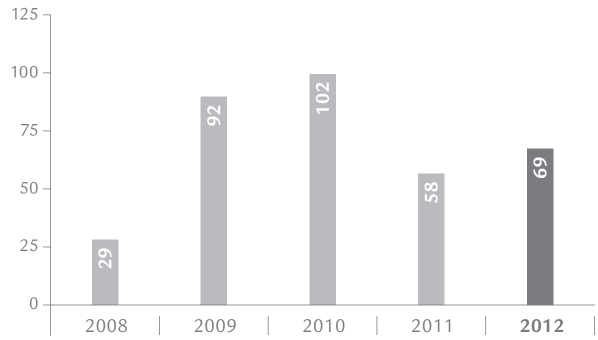
KEY FIGURES FOR INSURANCE GERMANY

Amounts in CHF million

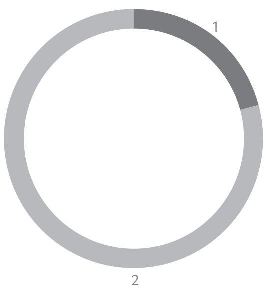
	2012	2011	+/–
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	**1 692**	1 739	–2.7%
Net earned premiums and policy fees	**1 543**	1 618	–4.6%
Commission income	**35**	34	2.9%
Financial result	**880**	727	21.0%
Other income	**1**	2	–50.0%
TOTAL INCOME	**2 460**	2 381	3.3%
Net insurance benefits and claims	**–1 709**	–1 776	–3.8%
Policyholder participation	**–334**	–237	40.9%
Interest expense	**–13**	–15	–13.3%
Operating expense	**–334**	–295	13.2%
TOTAL EXPENSE	**–2 390**	–2 323	2.9%
SEGMENT RESULT	**69**	58	19.0%
Assets under control	**19 476**	17 944	8.5%
Insurance reserves	**18 379**	17 269	6.4%
Number of employees (full-time equivalents)	**699**	715	–2.2%

Segment result Insurance Germany

In CHF million



Premiums for Germany, by type of insurance



1 Group 21%
2 Individual 79%

INSURANCE INTERNATIONAL
The Insurance International segment serves international high net worth individuals (PPLI) and multinationals (Corporate Clients).

In the year under review the segment made a loss of CHF 34 million compared to a loss of CHF 10 million in the previous year. This decline is attributable to restructuring costs (CHF 7 million) and impairment of the customer relationship asset (CHF 17 million). Underlying this development is the concentration on two instead of three locations for business with high net worth individuals. The third location, the representative office in Dubai, was closed during the year under review. Adjusted for these one-offs, the segment result is close to the prior-year level. Gross written premiums, policy fees and deposits received came to CHF 2.9 billion in 2012 (2011: CHF 3.0 billion).

The PPLI area specialises in life insurance for high net worth individuals and has built up a presence in Liechtenstein, Luxembourg, Singapore and Switzerland. At CHF 2.7 billion, gross premium volume in 2012 was only slightly lower than the previous year's figure of CHF 2.8 billion despite the sustained low interest rate environment. The uncertainties in private banking continued to affect business, especially in the Swiss market and in Liechtenstein.

Corporate Clients specialises in global life and pensions solutions for multinationals. During the year under review the segment cemented its market leadership as a provider of global employee benefits solutions and premium volume on its own balance sheet in Luxembourg increased slightly.

As part of the Group-wide programme "Swiss Life 2015", the AWD companies in the UK, Austria, the Czech Republic and Poland joined the Insurance International segment on 1 January 2013 and now come under the umbrella of the International market unit with PPLI and Corporate Clients.

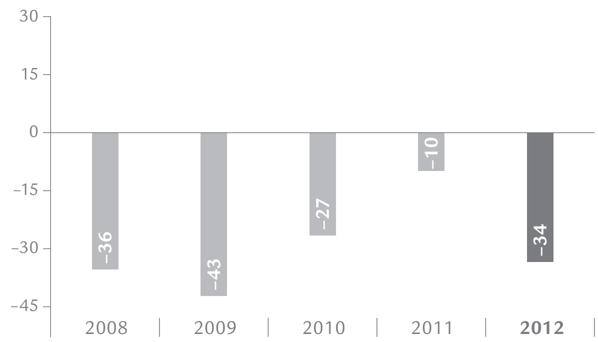
KEY FIGURES FOR INSURANCE INTERNATIONAL

Amounts in CHF million

	2012	2011	+/–
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	**2 892**	3 033	–4.6%
Net earned premiums and policy fees	**118**	120	–1.7%
Commission income	**12**	13	–7.7%
Financial result	**33**	30	10.0%
Other income	**0**	–1	n/a
TOTAL INCOME	**163**	162	0.6%
Net insurance benefits and claims	**–18**	–19	–5.3%
Policyholder participation	**–15**	–14	7.1%
Interest expense	**–16**	–15	6.7%
Operating expense	**–148**	–124	19.4%
TOTAL EXPENSE	**–197**	–172	14.5%
SEGMENT RESULT	**–34**	–10	n/a
Assets under control	**19 281**	17 360	11.1%
Insurance reserves	**18 927**	17 075	10.8%
Number of employees (full-time equivalents)	**262**	286	–8.4%

Segment Result Insurance International

In CHF million



Premiums for International, by type of insurance

INVESTMENT MANAGEMENT

The Investment Management segment comprises Group-wide institutional asset management activities. At CHF 138 million, the 2012 result was CHF 8 million up on the previous year. This equates to an increase of 6%. Thanks to new asset inflows and positive market developments, assets under management increased by a total of CHF 14 billion to over CHF 148 billion. Insurance assets climbed CHF 10 billion to almost CHF 128 billion. Assets invested in funds and third-party mandates grew by around CHF 4 billion. Thanks to a greater volume of assets under management, income rose by 12%. Operating expenses increased by 11% due to business expansion.

The expansion of third-party business led to a net inflow in assets under management of over CHF 2 billion. One notable event in the year under review was a new investment opportunity offered in real estate in cooperation with the insurance units. In addition, the real estate management subsidiary Livit won a number of new mandates.

Following the introduction of the new asset management application in France at the start of 2013, Investment Management has a Group-wide uniform solution for managing assets entrusted to it from the insurance business. Investments managed for third parties are scheduled to be transferred to this application in 2013. The launch of the new brand “Swiss Life Asset Managers” is intended to promote the expansion of third-party business as well as to help to further develop existing markets and enter the German market.

KEY FIGURES FOR INVESTMENT MANAGEMENT

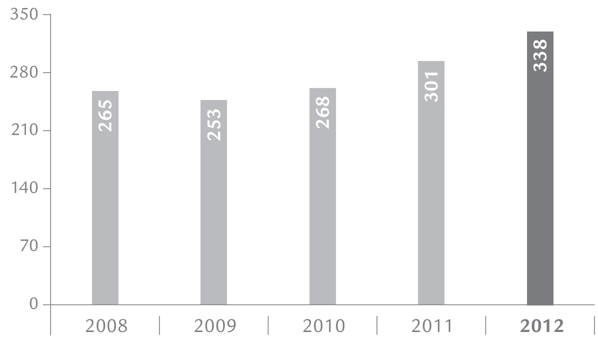
Amounts in CHF million

	2012	2011	+/–
Commission income	**338**	301	12.3%
Financial result	**1**	1	n/a
Other income	**0**	0	n/a
TOTAL INCOME	**339**	302	12.3%
Interest expense	**0**	0	n/a
Operating expense	**–201**	–172	16.9%
SEGMENT RESULT	**138**	130	6.2%
Assets under management [1]	**148 466**	134 264	10.6%
Number of employees (full-time equivalents)	**655**	610	7.4%

[1] incl. intragroup assets

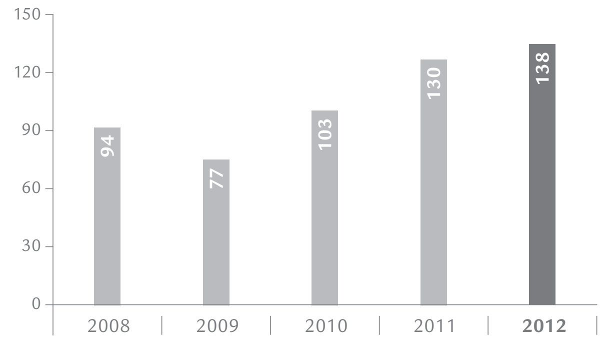
Asset management and other commission income, Investment Management

In CHF million



Segment result Investment Management

In CHF million



AWD

The AWD Group posted an adjusted operating result in 2012 of EUR 40.3 million compared to EUR 54.2 million the previous year. The company's operating result (EBIT) was affected by one-off effects, primarily caused by reserves for litigation. Factoring in these one-off effects, EBIT came to EUR 1.6 million. The segment result was adversely affected by impairments for goodwill, brand and the customer relationship asset of CHF 578 million. As a result the company posted a segment loss of CHF 591 million (2011: CHF –13 million).

The year under review was characterised by challenging market conditions. The AWD Group generated overall sales revenues of EUR 488.5 million, a drop of 12.9% from the prior-year level. This is partly attributable to a decline in commission income in the areas of life insurance and pensions products, investment funds and private health insurance.

In the core market of Germany, sales revenues fell to EUR 305.6 million (–18.6%). This development is largely attributable to cautious investment behaviour among customers caused by the difficult economic situation. This reticence among potential customers is also evident in the regions of Austria and Eastern Europe where sales revenues decreased by 11.6% compared to the previous year to EUR 56.9 million. Business in the UK showed a positive trend: sales revenues again improved, rising by 12.5% to EUR 54.8 million. AWD Switzerland generated revenues of EUR 71.2 million (–1.4%) in 2012.

At the end of 2012, the AWD Group had 4545 trained and registered financial advisors, as well as 2012 advisors in training under contract. The decline in the number of advisors from the previous year is chiefly due to stricter training and registration requirements within the financial services industry. Although this may quell growth in advisor numbers in the short term, it serves to improve the quality and sustainability of the advice provided in the medium term.

With the new Group-wide programme "Swiss Life 2015" the AWD segment is being repositioned within the Swiss Life Group. All production and distribution organisations in each market will be managed under one roof going forward in order to optimise market development and leverage synergies. From spring 2013, AWD will operate in the markets of Germany, Switzerland, Austria, Poland and the Czech Republic under the brand name "Swiss Life Select". In addition, the tecis, HORBACH and Proventus brands will continue to operate in Germany, while customers in the UK will be advised under the Chase de Vere brand. Reporting will be transferred to the existing segments Switzerland, Germany and International. AWD's former operations in Slovakia and Hungary were discontinued as of the end of 2012.

KEY FIGURES FOR AWD

Amounts in CHF million

	2012	2011	+/–
Commission income	**583**	692	–15.8%
Financial result	**1**	1	n/a
Other income	**2**	5	–60.0%
TOTAL INCOME	**587**	698	–15.9%
Interest expense	**–2**	–1	n/a
Operating expense	**–1 177**	–710	65.8%
SEGMENT RESULT	**–591**	–13	n/a
Number of employees (full-time equivalents)	**1 430**	1 452	–1.5%
Financial advisors	**4 545**	4 932	–7.8%

Corporate Governance

Swiss Life is committed to good corporate governance. The corresponding internal principles and guidelines are continually being adapted consistent with nationally and internationally recognised standards of responsible corporate conduct.

Swiss Life complies with internationally accepted standards of corporate governance and, in the interests of its shareholders, policyholders and staff, attaches great importance to the requirements entailed in terms of the management and organisation of the Swiss Life Group. The corporate governance of Swiss Life Holding Ltd (Swiss Life Holding) is based on the Directive on Information Relating to Corporate Governance issued by the SIX Swiss Exchange and the circulars 2008/32 on corporate governance, risk management and internal control systems for insurance companies and 2010/1 on minimum standards for remuneration schemes of financial institutions published by the Swiss Financial Market Supervisory Authority FINMA. It is also modelled on leading national and international corporate governance standards, in particular the Swiss Code of Best Practice for Corporate Governance issued by the Swiss Business Federation, economiesuisse, as well as the Organization for Economic Cooperation and Development's (OECD) principles on corporate governance.

The measures and mechanisms introduced by Swiss Life to ensure good corporate governance work well in practice; however, specific adjustments are examined on an ongoing basis in order to adapt the management and control tools and disclosure to current circumstances and to implement further improvements.

After revising its Code of Conduct in 2011 in the light of best practice, Swiss Life introduced a training programme in the year under review to further improve awareness of the values and principles of the Swiss Life Group (awareness concept). As part of the programme, Swiss Life employees regularly complete customised training courses. The Code of Conduct is available on the internet at www.swisslife.com, "About us" area, "Organisation" section, "Corporate Governance" subsection (www.swisslife.com/en/codeofconduct). Information on the values of the Swiss Life Group can be found at www.swisslife.com, "About us" area, "Brand" section (www.swisslife.com/brand).

This report describes the essential features of corporate governance within the Swiss Life Group. The structure below largely follows the Directive on Information Relating to Corporate Governance issued by the SIX Swiss Exchange, which came into force on 1 July 2002, and was revised on 1 January 2007 and 1 July 2009, and also takes into consideration the regulations on transparency stipulated in the Swiss Code of Obligations with regard to the compensation of members of the Board of Directors and the Corporate Executive Board and FINMA circular 2010/1 on minimum standards for remuneration schemes of financial institutions.

Group Structure and Shareholders

GROUP STRUCTURE

The public limited company Swiss Life Holding was established in 2002 and is incorporated under Swiss law. Its registered office is located in Zurich and it has been listed on the SIX Swiss Exchange since 19 November 2002. Swiss Life Holding brings together all the Swiss Life Group companies and activities under a single holding company. 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 companies falling within the Group's scope of consolidation are presented in the Consolidated Financial Statements (Note 37). Information on the listing on the SIX Swiss Exchange and market capitalisation can be found in the section "Share Performance and Historical Comparison" on page 250. The organisational structure of the Group shows the key business markets and areas. The resulting operational responsibilities are reflected in the allocation of responsibilities among the Corporate Executive Board. With regard to insurance operations, one person with responsibility for the market and results is assigned to each specific area.

The operational management structure as at 31 December 2012 is shown on page 42.

In the context of the new Group-wide programme "Swiss Life 2015", which was announced at the Swiss Life Group's Investors' Day on 28 November 2012 (see www.swisslife.com/investorsday2012), the management structure was adapted in such a way that, also with reference to Switzerland and Germany, all production and distribution organisations in each market will be managed under one roof from 2013 following the joining together of Swiss Life and AWD. As a result, as of 1 January 2013, AWD is no longer a separate division. The adapted management structure is also shown on page 42.

SHAREHOLDERS

Shareholdings in companies that are domiciled in Switzerland and have their shares listed in Switzerland must be reported to the company in question and the SIX Swiss Exchange if the shareholdings exceed, fall below or reach certain thresholds. The relevant thresholds are 3, 5, 10, 15, 20, 25, 33⅓, 50 and 66⅔% of the voting rights. Details are set out in the Federal Act on Stock Exchanges and Securities Trading (SESTA) and Stock Exchange Ordinance-FINMA (SESTO-FINMA).

The relevant disclosures of significant shareholdings can be found on the publication platform of the SIX Swiss Exchange's disclosure office at www.six-exchange-regulation.com/index_en.html, "Obligations" area, "Disclosure of Shareholdings" section and "Significant Shareholders" subsection (www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html).

The latest disclosures of shareholdings on the balance sheet date, which exceed the disclosure threshold, are shown below. In accordance with the disclosure requirements, the percentage figures given relate to the share capital/number of outstanding shares pursuant to the Articles of Association applicable at the time of the relevant disclosure.

Dodge & Cox, 555 California Street, 40th Floor, San Francisco, CA 94101, USA, reported in the publication of 6 March 2008 that it held through the Dodge & Cox International Stock Fund 1 645 000 registered shares, corresponding at the time to 4.71% of the voting rights of Swiss Life Holding. No new disclosure reports have been received from Dodge & Cox.

Talanx AG, Riethorst 2, 30659 Hanover, Germany, reported in the publication of 23 February 2011 regarding a change in the composition of the Group subject to reporting requirements that it held 2 974 688 shares of Swiss Life Holding, equivalent to 9.27% of the voting rights. The group consists of: Talanx Beteiligungs-GmbH & Co. KG, Riethorst 2, 30659 Hanover and AmpegaGerling Investment GmbH, Charles-de-Gaulle-Platz 1, 50679 Cologne. Talanx Beteiligungs-GmbH & Co. KG is managed by the beneficial owner (HDI Haftpflichtverband der Deutschen Industrie V.a.G, Riethorst 2, 30659 Hanover) as follows: The limited partner is Talanx AG, Riethorst 2, 30659 Hanover. The sole shareholder of Talanx AG is the beneficial owner (HDI V.a.G.). The general partner is Gerling Beteiligungsgesellschaft mbH, Charles-de-Gaulle-Platz 1, 50679 Cologne. Talanx AG is Gerling Beteiligungsgesellschaft mbH's sole partner. AmpegaGerling Investment GmbH is managed by the beneficial owner as follows: 94.9% is controlled by AmpegaGerling Asset Management GmbH, Charles-de-Gaulle-Platz 1, 50679 Cologne (Talanx AG is AmpegaGerling Asset Management GmbH's sole partner) and 5.1% by Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg. Alstertor's sole limited partner is Talanx AG. No disclosure reports were received from Talanx in the year under review.

BlackRock Inc., 40 East 52nd Street, New York 10022, USA, reported various instances when shareholdings exceeded or fell below the three per cent threshold during the year under review. These were published on 28 March, 22 May, 27 September, 3 October, 2 November and lastly on 13 December 2012. In its final disclosure for the year under review of 13 December 2012, BlackRock reported that a group consisting of BlackRock Asset Management Australia Limited, Level 43, 225 George Street, Sydney, Australia, BlackRock Investment Management (Australia) Limited, Level 18, 120 Collins Street, Melbourne VIC 3000, Australia, BlackRock Japan Co., Ltd., 24F, Sapia Tower, 1-7-12, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan, BlackRock Institutional Trust Company, National Association, 400 Howard Street, San Francisco CA 94105, USA, BlackRock Fund Advisors, 400 Howard Street, San Francisco CA 94105, USA, BlackRock Asset Management Canada Limited, 161 Bay Street, Suite 2500, Toronto, Ontario M5J 2S1, Canada, BlackRock Financial Management, Inc., 40 East 52nd Street, New York NY 10055, USA, BlackRock Investment Management, LLC, 1 University Square Drive, Princeton NJ 08540, USA, BlackRock Asset Management Deutschland AG, Max-Joseph-Strasse 6, 80333 Munich, Germany, BlackRock Fund Managers Limited, 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom, BlackRock Investment Management (UK) Limited, 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom, BlackRock Advisors, LLC, 100 Bellevue Parkway, Wilmington DE 19808, USA, BlackRock (Netherlands) B.V., Rembrandt Tower, 17th Floor, Amstelplein, Amsterdam, Netherlands, BlackRock Asset Management Ireland Limited, International Financial Services Centre, Dublin 1, Ireland, Blackrock Advisors (UK) Limited, 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom, BlackRock Life Limited, 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom, BlackRock Investments Canada Inc., 2500, 450 1st Street SW, Calgary, AB T2P 5H1 Canada, BlackRock International Limited, 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom, and BlackRock (Luxembourg) S.A., 6D, Route de Trèves, Senningerberg, L-2633 Luxembourg, held a total of 991 959 shares of Swiss Life Holding, corresponding to 3.09% of the voting rights.

Credit Suisse Funds AG, Kalandergasse 4, 8045 Zurich, Switzerland, reported in a publication of 5 December 2012 that it held 971 877 shares of Swiss Life Holding, equivalent to 3.029% of the voting rights and subsequently in a publication of 8 December 2012 that its shareholding had again fallen below the disclosure threshold of 3%.

No cross participations exceeding the three per cent threshold exist between Swiss Life Holding or its subsidiaries and other listed companies.

SHAREHOLDER STRUCTURE
On the balance sheet date a total of 178 688 shareholders and nominees were listed in the Swiss Life Holding share register, of which about 4200 were institutional shareholders. Taken together, the shareholders entered in the share register held around 54% of the shares issued. Over half of these shares were owned by shareholders domiciled in Switzerland. Around one third of the registered shares were in private hands.

A table showing the shareholder structure is provided in the section "Share Performance and Historical Comparison" on page 251.

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 163 613 375.40, divided into 32 081 054 fully paid registered shares with a par value of CHF 5.10 each
- Conditional share capital: CHF 12 032 868.60 divided into 2 359 386 registered shares with a par value of CHF 5.10 each
- Authorised share capital: none

The conditional share capital is at the disposal of the holders of conversion or option rights granted by Swiss Life Holding or by companies belonging to the Group in connection with straight bonds or similar bonds issued by Swiss Life Holding or companies belonging to the Group. The shareholders are excluded from subscription rights, but their preemptive subscription rights remain safeguarded. The Board of Directors sets the conversion and option conditions.

Since the establishment of Swiss Life Holding on 17 September 2002, a number of capital market transactions have been conducted. A detailed description of the transactions carried out up to and including the end of 2009 can be found in the Corporate Governance section of the annual reports for the relevant years. The annual reports can be accessed at www.swisslife.com, "Investors" area, "Results & Reports" section, "Archive Reports" and "Annual Reports" subsections (www.swisslife.com/annualreports).

On 6 May 2010 the General Meeting of Shareholders of Swiss Life Holding decided to reduce the par value by CHF 2.40 per registered share. Consequently, the share capital fell to CHF 307 978 118.40, divided into 32 081 054 fully paid registered shares with a par value of CHF 9.60 each, and the conditional capital decreased to CHF 22 650 105.60, divided into 2 359 386 registered shares with a par value of CHF 9.60 each. No conversions were made in 2010 on the 0.625% convertible bond (2004–2010).

On 5 May 2011 the General Meeting of Shareholders of Swiss Life Holding passed a resolution approving a par value reduction of CHF 4.50 per share from CHF 9.60 to CHF 5.10. The share capital thus decreased to CHF 163 613 375.40, divided into 32 081 054 registered shares. At the same time the conditional capital was reduced to CHF 12 032 868.60, divided into 2 359 386 registered shares with a par value of CHF 5.10 each.

There were no changes in capital in 2012. The distribution of CHF 4.50 per share, which was approved by the General Meeting of Shareholders on 19 April 2012, was made out of the capital contribution reserve.

SHARES

32 081 054 fully paid Swiss Life Holding registered shares with a par value of CHF 5.10 each were outstanding on the balance sheet date. Subject to the ten per cent limit on voting rights set out in the Articles of Association (cf. the section on "Shareholders' participation rights" on page 60), each share grants the right to one vote at the General Meeting of Shareholders.

There are no outstanding shares with either increased or limited voting rights, privileged or restricted voting rights, privileged dividend entitlements or other preferential rights.

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

Regulations are in place to govern transactions in Swiss Life Holding shares carried out by Swiss Life Group employees. Pursuant to the Code of Conduct and the Swiss Life Group's Directive on Insider Information, all purchases and sales of Swiss Life Holding securities made by members of senior management or employees who are privy to confidential information are subject to a reporting requirement. Transactions by persons who, by virtue of their position, have regular access to insider information are also subject to a prior approval requirement. A general blackout period is imposed annually from 1 January until 24 hours after the year-end results have been presented and from 1 July until 24 hours after the half-year results have been presented, as well as from ten days before until 24 hours after publication of the interim statements for the first and third quarters.

Additional information on the Swiss Life share is available in the section "Share Performance and Historical Comparison" on pages 250 and 251.

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 limitations on transferability must be put before the General Meeting of Shareholders and must be approved by two thirds of the voting shares represented and by an absolute majority of the share par value represented.

The Board of Directors may refuse to recognise an acquirer as a shareholder with voting rights if, upon request, the acquirer does not expressly declare that he has acquired the registered shares in his own name and for his own account.

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 nominees 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 right representation is restricted to 10% of the share capital overall, 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 responsible judgement. No such exceptions were granted during the period under review.

CONVERTIBLE BONDS AND OPTIONS

No convertible bond issues of Swiss Life Holding were outstanding on the balance sheet date.

As at 31 December 2012, Swiss Life Holding and its Group companies had not granted any options on rights to participate in Swiss Life Holding.

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 the law (Art. 698 of the Swiss Code of Obligations OR) or by the company's Articles of Association. In line with its non-transferable duties prescribed by law, the Board of Directors is responsible, in particular, for the ultimate direction of the Group, as well as the 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 maximum term of three years, and on an individual basis. The Organisational Regulations stipulate that a member of the Board of Directors shall automatically resign from the Board at the General Meeting of Shareholders in the year in which the member reaches the age of 70.

STAGGERED TERMS OF OFFICE

Terms of office are staggered with the intention that, in so far as possible, an equal number of members will come up for re-election every year. If a member resigns during his term of office, a successor is elected to serve in principle only for the rest of that term. Thus, with respect to the annual re-elections, an important prerequisite has been established for ensuring continuity on the Board of Directors.

COMPOSITION

In the year under review, no member of Swiss Life Holding's Board of Directors exercised any duties relating to operational management within the Swiss Life Group. Furthermore, no such duties were exercised by any Board members during the three financial years preceding the reporting period.

No member of the Board has any significant business relationship with Swiss Life Holding 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 Ltd.

The acceptance of appointments to the Board of Directors of other companies requires the consent of the Board of Directors at Swiss Life Holding. Information on additional board mandates held by individual members of the Board of Directors is presented in the following section.

MEMBERS OF THE BOARD OF DIRECTORS

On the balance sheet date of 31 December 2012, the Board of Directors was composed of the following members:

Name	Main function	Additional functions	Year appointed/ re-elected	Elected until
Rolf Dörig	Chairman	Chairman's and Corporate Governance Committee, Chairman	2008/2011	2014
Gerold Bührer	1st Vice Chairman	Chairman's and Corporate Governance Committee Investment and Risk Committee, Chairman Nomination and Compensation Committee	2002/2003/2005/2008/2011[1]	2014
Frank Schnewlin	2nd Vice Chairman	Chairman's and Corporate Governance Committee Investment and Risk Committee Nomination and Compensation Committee, Chairman	2009/2012	2015
Wolf Becke	Member	Audit Committee	2012	2015
Volker Bremkamp	Member	Audit Committee, Chairman	2003/2004/2007/2010	2013
Damir Filipovic	Member	Investment and Risk Committee	2011	2014
Henry Peter	Member	Audit Committee	2006/2009/2012	2015
Peter Quadri	Member	Audit Committee	2003/2004/2007/2010	2013
Franziska Tschudi	Member	Audit Committee Nomination and Compensation Committee	2003/2005/2008/2011	2014

[1] Member of the Board of Directors of Swiss Life Ltd since 2000

ROLF DÖRIG – Born 1957, Swiss national
Chairman of the Board of Directors

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 in Zurich. Joining Credit Suisse in 1986, he assumed a number of executive responsibilities in various areas of banking and in different geographical markets. As a Member of the Executive Board, he was assigned responsibility for Swiss Corporate and Retail Banking from 2000 onwards. In 2002 he assumed the role of Chairman Switzerland of Credit Suisse. Following his move to Swiss Life, Rolf Dörig held the positions of Chairman of the Corporate Executive Board from November 2002 to May 2008 and Delegate of the Board of Directors from May 2008 to May 2009.

He became Chairman of the Board of Directors of Swiss Life Holding in May 2009.

Other appointments:
- Adecco S.A., Chairman of the Board of Directors
- Kaba Holding Ltd, Vice Chairman of the Board of Directors
- Danzer AG, Chairman of the Board of Directors
- Walter Frey Holding AG, Member of the Board of Directors
- economiesuisse, Member of the Executive Committee

GEROLD BÜHRER – Born 1948, Swiss national
First Vice Chairman of the Board of Directors

Gerold Bührer graduated in economics (lic. oec. publ.) from the University of Zurich in 1972. Following 17 years with the Union Bank of Switzerland as a member of senior management in its financial sector and a Member of the Executive Board of its fund investment company, he joined Georg Fischer Ltd in 1991, where he served as a Member of its Executive Board (Finances) from 1991 until 2000. He began working as an independent economic consultant in 2001 and, from 2006 until September 2012, he held the office of Chairman of economiesuisse. Gerold Bührer was a Member of the Grand Council of the Canton of Schaffhausen from 1982 to 1991 and, from 1991 to 2007, a Member of the Swiss Parliament (National Councillor).

Other appointments:
- Bank Sal. Oppenheim jr. & Cie. (Schweiz) Ltd, Member of the Board of Directors
- Cellere AG, Member of the Board of Directors
- Georg Fischer Ltd, Vice Chairman of the Board of Directors
- Swiss National Bank, Member of the Bank Council
- Züblin Real Estate Holding Ltd, Member of the Board of Directors

FRANK SCHNEWLIN — Born 1951, Swiss national
Second Vice Chairman of the Board of Directors

Frank Schnewlin studied at the University of St. Gallen (lic. oec. HSG), the London School of Economics (Master of Science) and the Harvard Business School (MBA) before earning his doctorate in economics in 1983 at the University of Lausanne (Dr. ès sc. écon). From 1983 to 2001 he held various positions at the Zurich Financial Services Group in Switzerland and the USA, including Head of Corporate Center and Head of the Business Division Southern Europe, Asia/Pacific, Middle East, Africa and Latin America. From 1993 he served on the Zurich Financial Services Group's Executive Committee. From 2002 to 2007, Frank Schnewlin chaired the Baloise Group's Corporate Executive Committee as CEO and was, at the same time, Head of the International Division.

Following his election to the Board of Directors of Swiss Life Holding in May 2009, Frank Schnewlin assumed the role of Chairman of the Nomination and Compensation Committee.

Other appointments:
– Vontobel Holding Ltd and Bank Vontobel Ltd, Vice Chairman of the Board of Directors/ Chairman of the Risk and Audit Committee
– Twelve Capital AG, Member of the Board of Directors
– Drosos Foundation, Member of the Board of Trustees/Chairman of the Finance Committee

WOLF BECKE — Born 1947, German national
Member of the Board of Directors

Wolf Becke studied mathematics, physics and economics at the Universities of Bonn and Freiburg and obtained a degree in mathematics. Between 1973 and 1977, he worked as a research assistant at the Mathematical Institute of the University of Freiburg and earned a doctorate in science. In 1978 Wolf Becke joined Hamburger Internationale Rückversicherung AG (HIR), where he was employed in various positions until 1990, ultimately responsible for the Life and Health Reinsurance, Finance and Accounting and Investments divisions. He then moved to Hannover Re and E+S Rück. From 1992 to 1999, as a member of the Executive Board, he was responsible for both global life and health insurance business, and for non-life business in Asia, Africa and Australasia. From 1999 until his retirement for age reasons at the end of 2011, Wolf Becke concentrated on his responsibilities as CEO of the life and reinsurance business area (Hannover Life Re).

Other appointments:
– Hannover Life RE America, Orlando, Vice Chairman of the Board of Directors
– Hannover Life RE Bermuda, Hamilton, Member of the Board of Directors
– Hannover Life RE Ireland, Dublin, Member of the Board of Directors
– Hannover Life RE Australasia, Sydney, Member of the Board of Directors

VOLKER BREMKAMP — Born 1944, German national
Member of the Board of Directors

Volker Bremkamp joined Albingia Versicherungs AG in Hamburg (a subsidiary of Guardian Royal Exchange plc, London) in 1963, 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 an Executive Director from 1978 to 1989 and, from 1989 to 2000, as Chief Executive Officer of Albingia Lebensversicherungs AG and of Albingia Versicherungs AG. Between 1995 and 1999 Volker Bremkamp was an Executive Director and, at the same time, Group Executive Director, Continental Europe, of Guardian Royal Exchange plc, London, which was taken over by the AXA Group in 1999. From 1999 to 2000 he held the position of Executive Director of AXA Colonia Konzern AG, Cologne (holding company of AXA Germany). He has been Managing Director of BMB Bremkamp Management- und Beteiligungs-GmbH since 2000.

Volker Bremkamp will be resigning from the Board of Directors after ten years of office with effect from the General Meeting of Shareholders of Swiss Life Holding on 23 April 2013.

Other appointments:
– fischerAppelt AG, Hamburg, Chairman of the Supervisory Board
– HanseMerkur Krankenversicherungsgruppe, Hamburg, Vice Chairman of the Supervisory Board

DAMIR FILIPOVIC — Born 1970, Swiss national
Member of the Board of Directors

Damir Filipovic studied mathematics at the Swiss Federal Institute of Technology in Zurich (ETHZ), where he qualified in 1995 and gained a doctorate in financial mathematics in 2000. He then held research posts at various universities abroad, including the US universities of Stanford, Columbia and Princeton. He was appointed assistant professor at the University of Princeton in 2002, and then from 2003 to 2004 he worked on the development of the Swiss Solvency Test at the Federal Office of Private Insurance in Switzerland. Damir Filipovic went on to hold the chair of financial and actuarial mathematics at the Ludwig Maximilian University of Munich from 2004 to 2007. From 2007 to 2009 he was head of the Vienna Institute of Finance, a research institute affiliated to the University of Vienna and the Vienna University of Economics and Business. In 2010 he was appointed Swissquote Chair in Quantitative Finance and Swiss Finance Institute Professor at the Swiss Federal Institute of Technology in Lausanne (EPFL).

HENRY PETER — Born 1957, Swiss and French national
Member of the Board of Directors

Henry Peter completed his studies in law at the University of Geneva in 1979, and in 1981 he was called to the Geneva bar. Following a pupillage in Geneva, a period of study as a visiting scholar at the University of California in Berkeley and legal work in Lugano, he obtained his PhD at the University of Geneva in 1988. Since 1988 he has been a partner in a law firm in Lugano, currently PSM. In addition, he has held the position of Professor of Business Law at the University of Geneva since 1997. He became a Member of the Swiss Takeover Board in 2004 and a Member of the Sanction Commission of the SIX Swiss Exchange in 2007.

Other appointments:
– Sigurd Rück Ltd, Chairman of the Board of Directors
– Cassa Pensioni della Città di Lugano, Member of the Board of Directors and the Audit Committee
– Casino de Montreux SA, Chairman of the Board of Directors and Member of the Audit Committee
– Otis, Member of the Board of Directors (until June 2012)
– Consitex SA, Member of the Board of Directors
– Autogrill Switzerland LTD, Member of the Board of Directors
– Banque Morval SA, Member of the Board of Directors
– PKB Privatbank AG, Member of the Board of Directors and the Executive Committee
– Sowind Group Ltd, Member of the Board of Directors
– Global Petroprojects Services Ltd, Member of the Board of Directors
– Swiss Olympic Association, Vice Chairman of the disciplinary chamber in charge of doping cases

PETER QUADRI — Born 1945, Swiss national
Member of the Board of Directors

Peter Quadri received his master's degree in economics and business administration (lic. oec. publ.) in 1969 from the University of Zurich. In 1970 he joined IBM as a systems engineer and software/operating systems specialist. Following various periods in the USA, Denmark and Switzerland, he held the position of CEO of IBM Switzerland from 1998 to April 2006. He now works as a management and technology consultant.

Peter Quadri will be put forward for re-election at the General Meeting of Shareholders of Swiss Life Holding on 23 April 2013.

Other appointments:
– Vontobel Holding Ltd, Member of the Board of Directors
– Bühler AG, Member of the Board of Directors
– Zurich Chamber of Commerce, Chairman
– Unitectra Ltd, Chairman of the Board of Directors
– economiesuisse, Member of the Executive Board

FRANZISKA TSCHUDI SAUBER – Born 1959, Swiss national
Member of the Board of Directors

Franziska Tschudi graduated in law at the University of Berne and passed her bar exam there in 1984. She studied law at Georgetown University, Washington DC, earning an LL.M. in 1986, and passed the bar exam for the US states of New York and Connecticut in 1987. Franziska Tschudi completed postgraduate studies at the University of St. Gallen (1991 to 1993), 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, Washington DC and Geneva, she served as Secretary General at SIG Holding AG from 1992 to 1995. She 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 the Business Area Electrical Technology Asia/Pacific. She has held the positions of Chief Executive Officer and Delegate of the Board of Directors of WICOR HOLDING AG since 2001.

Other appointments:
– BIOMED AG, Member of the Board of Directors
– St. Gallen-Appenzell Chamber of Commerce and Industry, Vice Chairperson (until June 2012)
– economiesuisse, Member of the Executive Board
– Swissmem, Member of the Executive Board

RESIGNATIONS

There were no resignations from the Board of Directors during the period under review.

CHANGES IN THE BOARD OF DIRECTORS WITH EFFECT FROM THE 2013 GENERAL MEETING OF SHAREHOLDERS

At the next General Meeting of Shareholders of Swiss Life Holding on 23 April 2013, Volker Bremkamp will be resigning from the Board of Directors due to his reaching the statutory age limit. Peter Quadri will stand for re-election for a one-year term. Frank W. Keuper, formerly a member of the Executive Committee of the AXA Group and CEO of AXA Konzern AG Germany, Ueli Dietiker, former CFO of the Swisscom Group, and Klaus Tschütscher, former Head of Government of the Principality of Liechtenstein, will be proposed to the shareholders for election to the Board of Directors.

INTERNAL ORGANISATIONAL STRUCTURE

In accordance with the Articles of Association, the Board of Directors has issued Organisational Regulations setting forth the internal organisational structure and the duties 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 Organisational Regulations are reviewed regularly and adjusted where necessary. They are available on the internet at www.swisslife.com, "About us" area, "Organisation" section (www.swisslife.com/en/organisation).

The Chairman of the Board of Directors 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 the competencies of the Board until the Board of Directors 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, usually at least six times a year. 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 may the Corporate Executive Board. In addition to the members of the Board of Directors, the Group CEO also generally attends the meetings or parts of meetings in an advisory capacity, as do other members of the Corporate Executive Board when required.

The Board of Directors met nine times during the year under review. The meetings lasted around three and a half hours on average. The attendance rate was 96%. The Group CEO and the other members of the Corporate Executive Board attended all the meetings, with the exception of one meeting, where two Corporate Executive Board members were excused. The Board of Directors conducted parts of the meetings among themselves.

The Board of Directors regularly performs a self-assessment. Furthermore, discussions take place between the Chairman of the Board and its members on an individual basis.

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

The committees of the Board of Directors sometimes call on the services of external consultants and assess their own work once a year. If the Chairman of the Board of Directors is not a member of a committee of the Board of Directors, he has the right to attend meetings (without voting rights).

CHAIRMAN'S AND CORPORATE GOVERNANCE COMMITTEE

The Chairman's and Corporate Governance Committee (Chairman's Committee) assists both the Chairman of the Board of Directors in performing his leadership and coordination duties and the Board of Directors with issues relating to corporate governance. The Committee also supports the Board of Directors in key strategic decisions.

The Chairman of the Board of Directors presides over meetings. As a rule, the Group CEO attends the Chairman's Committee meetings or parts of the meetings in an advisory capacity. Further members of the Corporate Executive Board and in-house or external specialists may also be invited to attend. The Chairman's Committee meets at least six times a year.

The Chairman's Committee held 13 meetings during the year under review. The average duration of a meeting was around two hours. The meetings were attended by all members, including the Group CEO and the Group CFO.

NOMINATION AND COMPENSATION COMMITTEE

The Nomination and Compensation Committee (NCC) supports the Board of Directors with regard to setting the compensation policy and in key personnel decisions regarding appointments to the highest levels of management and related performance-based and market consistent compensation.

The NCC consists of at least three members, all of whom are independent members of the Board of Directors. A Board of Directors member is regarded as being independent if he has not exercised any operational management role within the Swiss Life Group for at least three years and has no or only a minor business relationship with the Group.

The NCC may invite the Group CEO to part or all of its meetings in an advisory capacity. Other members of the Corporate Executive Board and in-house or external specialists may also be invited. The NCC meets at least three times a year.

During the year under review the NCC convened a total of seven times. Each session lasted for around one and a half hours on average. There was full attendance at all meetings.

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 Group. The tasks of the Investment and Risk Committee include drafting proposals on the principal features of asset and liability management (ALM) and submitting them to the Board of Directors, determining the investment policy, assessing capital adequacy, verifying compliance with guidelines on investments, and establishing the risk tolerance in insurance and investment operations. The Investment and Risk Committee is vested with the authority to define various regulations and directives pertaining to the investment activities of the Swiss Life Group and must inform the Board of Directors accordingly. In addition, the Investment and Risk Committee is responsible for making decisions on investments above a certain amount and specifies the terms of significant intra-Group financing.

Generally, the Group CIO, the Group CFO and the Group CRO attend the Investment and Risk Committee meetings or parts of meetings in an advisory capacity. The Group CEO may attend the meetings of the Investment and Risk Committee (without voting rights). Further members of the Corporate Executive Board and in-house specialists may also be invited to attend. The Investment and Risk Committee meets at least four times a year.

Seven meetings of the Investment and Risk Committee were held in the year under review. Each session lasted for around two hours on average. All members attended all the meetings, with the exception of one member who was excused from a meeting. The Chairman of the Board of Directors attended five meetings of the Investment and Risk Committee. The Group CFO was present at all meetings, and the Group CEO at six meetings of the Investment and Risk Committee. The Group CIO and the Group CRO also attended all meetings.

AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in its supervision of the accounting function and financial reporting activities, as well as compliance with the legal framework. 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 Committee is empowered to make decisions with respect to defining the terms and conditions for mandates to external auditors and keeps the Board of Directors appropriately informed. Moreover, the Audit Committee issues the regulations for Corporate Internal Audit and sets its annual programme of activities.

Generally, the Group CFO and the Head of Corporate Internal Audit attend the Audit Committee meetings or parts of the meetings in an advisory capacity. The Group CEO may attend the meetings of the Audit Committee (without voting rights). Representatives from the external audit services are also regularly invited (cf. also “Supervisory and control instruments vis-à-vis the auditors”, page 62). In addition, further members of the Corporate Executive Board or in-house specialists may also be invited to attend. The Audit Committee meets at least four times a year. The frequency of meetings depends on the financial budgeting and reporting process.

In the year under review, the Audit Committee convened six times, with a meeting lasting around two hours on average. There was full attendance at all meetings, with the exception of one meeting, which one member was unable to attend. The Group CEO was present at all meetings, with the exception of two. The Group CFO, the Head of Corporate Internal Audit and representatives from the external audit services attended all meetings. To prepare for the meetings relating to the annual and half-year reports, the Audit Committee regularly calls on the services of an independent financial and business expert.

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 responsibilities 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 Articles of Association of Swiss Life Holding can be found at www.swisslife.com, “About us” area, “Organisation” section, “Corporate Governance” and “Articles” subsections (www.swisslife.com/association). The Organisational Regulations are also published on Swiss Life’s internet site in the “About us” area, “Organisation” section, “Corporate Governance” and “Organisational Regulations” subsections (www.swisslife.com/en/organisation).

The Corporate Executive Board bears responsibility in particular for the implementation of the corporate strategy, for the conditions governing business operations and for financial guidance. It is further responsible for preparing 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.

INFORMATION AND CONTROL INSTRUMENTS OF THE BOARD OF DIRECTORS VIS-À-VIS THE CORPORATE EXECUTIVE BOARD

The Board of Directors is continually and comprehensively briefed on the activities of the Corporate Executive Board. The Group CEO regularly informs the Chairman of the Board of Directors and the Board of Directors and its committees on the course of business, new business activities and significant projects. The Group CEO informs the Chairman of the Board of Directors immediately of any extraordinary matters. Considerable expenditure which is unbudgeted for and amounts to more than 10% of the relevant budget must be submitted to the Chairman’s and Corporate Governance Committee for approval. Similarly, significant investments and divestments require the approval of the Investment and Risk Committee or, when they reach a certain level, the approval of the Board of Directors as a whole.

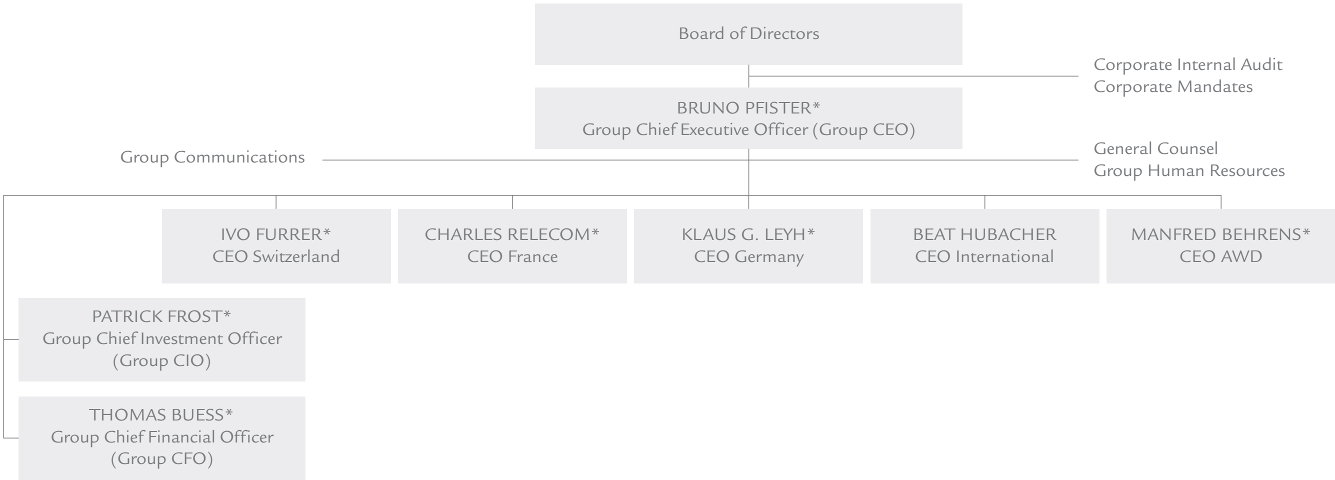
If required, the Board of Directors and its individual committees regularly invite all or some members of the Corporate Executive Board and in-house specialists to their meetings. Outside the meetings, each member of the Board of Directors may request information about the course of business from the Corporate Executive Board subject to the prior notification of the Chairman of the Board of Directors. Requests for information on individual transactions require the prior approval of the Chairman of the Board of Directors.

The Chairman of the Board of Directors may participate (without voting rights) in the meetings of the Corporate Executive Board. He receives the invitations and the minutes of the meetings.

Corporate Internal Audit, which reports directly to the Chairman of the Board, represents a suitable means of independent monitoring and information gathering for the Board of Directors. Regular meetings take place between the Chairman of the Board of Directors and the Head of Corporate Internal Audit, as well as between the Chairman of the Audit Committee and the Head of Corporate Internal Audit. Implementation of the measures recommended by Corporate Internal Audit is monitored by Group Compliance & Operational Risk Management. The Audit Committee regularly receives a report on operational risk management within the Swiss Life Group. Swiss Life's Internal Control System (ICS) also serves the Board of Directors for information and controlling purposes. Further details on this system are available in the "Risk Management" section on page 64.

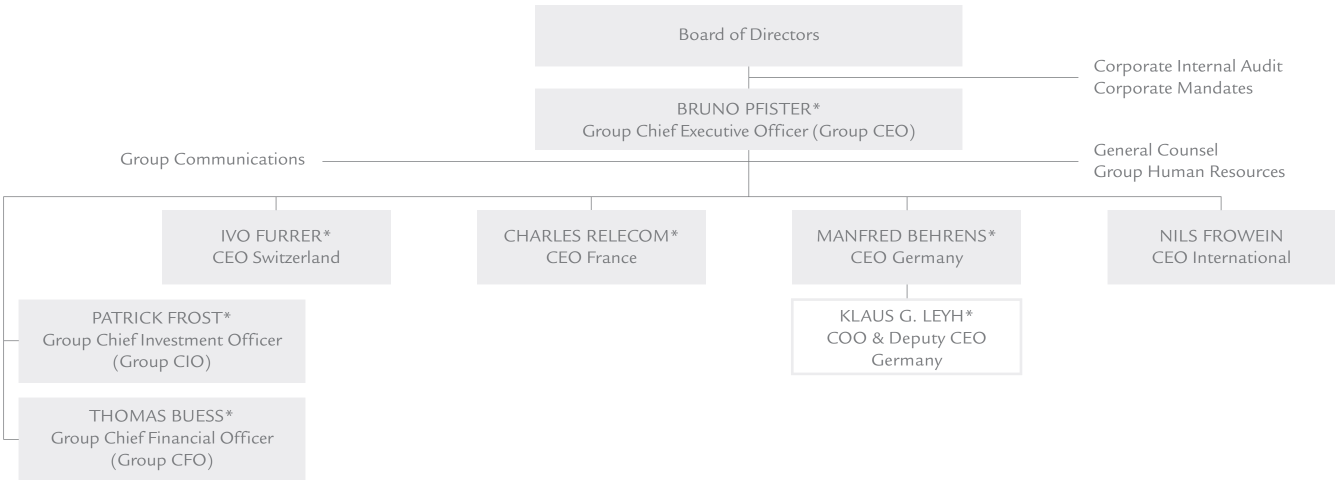
The performance of the Corporate Executive Board and the contributions made by the individual members are regularly discussed and evaluated by the Chairman's and Corporate Governance Committee, the Nomination and Compensation Committee and the Board of Directors, with no members of the Corporate Executive Board being present. The acceptance of directorships and senior political or military roles by members of the Corporate Executive Board is subject to the consent of the Chairman of the Board of Directors.

Management structure of the Swiss Life Group as at 31 December 2012



*Member of the Corporate Executive Board

New management structure of the Swiss Life Group as at 1 January 2013



*Member of the Corporate Executive Board

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 submission to 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 Corporate Executive Board committees.

The organisation and division of tasks within the Corporate Executive Board generally reflects the key business areas and functions. The members of the Corporate Executive Board have a direct management role with functional management responsibility for cross-divisional competencies. The members of the Corporate Executive Board are responsible for setting objectives, financial planning, HR management and achievement of objectives within their area. They issue directives for their area within the context of legal and regulatory requirements, the relevant regulations and the Group directives valid for the Group as a whole.

The Corporate Executive Board is responsible for implementation of the corporate strategy, for the establishment of conditions governing business operations and for financial guidance. It is 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. The Corporate Executive Board is vested with the authority to rule on business referred to it by the Board of Directors, the Board of Directors committees and the Chairman of the Board of Directors, insofar as decision or approval is not reserved exclusively to one of these.

The Corporate Executive Board may delegate operational responsibility for the management of subsidiaries to individual members of the Corporate Executive Board.

MEMBERS OF THE CORPORATE EXECUTIVE BOARD

On 31 December 2012 the Corporate Executive Board of Swiss Life Holding was composed of the following members:

Name	Function	Member of the Corporate Executive Board since
Bruno Pfister	Group CEO	01.08.2002
Ivo Furrer	CEO Switzerland	01.09.2008
Klaus G. Leyh	CEO Germany	01.10.2008
Thomas Buess	Group CFO	01.08.2009
Charles Relecom	CEO France	01.07.2008
Patrick Frost	Group CIO	01.07.2006
Manfred Behrens	CEO AWD	08.05.2008

BRUNO PFISTER – Born 1959, Swiss national
Group Chief Executive Officer (Group CEO)

Bruno Pfister graduated from the University of Geneva with a master's degree in law before being called to the bar in 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 Zurich. In 1996 Bruno Pfister became Chief of Staff of the Private Banking division at Liechtenstein Global Trust (LGT) where he managed a global strategic project before being appointed Chief Financial Officer of LGT Group and LGT Bank in Liechtenstein in 1998. In 1999, as a Member of the Credit Suisse Group Executive Board, he took over as Head of Customer Segment Management and Product Management at Credit Suisse.

Bruno Pfister has been with the Swiss Life Group since August 2002, initially as Group Chief Financial Officer (Group CFO) and, as of 1 January 2006, Chief Executive Officer International (CEO International). He assumed the position of Group Chief Executive Officer (Group CEO) of the Swiss Life Group in May 2008.

Other appointments:
- Gottex Fund Management Holdings Limited, St. Peter Port, Guernsey, Member of the Board of Directors
- Swiss Insurance Association (SIA), Vice Chairman, Member of the Board Committee
- Avenir Suisse, Member of the Board of Trustees and Member of the Finance Committee
- Swiss-American Chamber of Commerce, Member of the Board of Directors

IVO FURRER — Born 1957, Swiss national
Chief Executive Officer Switzerland (CEO Switzerland)

Ivo Furrer graduated in law from the universities of Zurich and Fribourg and earned his PhD with a thesis on employee benefits in Switzerland. After joining Winterthur Life in 1982, he worked for several years in international industrial insurance in Switzerland, the UK and the USA. In 1998 he was appointed Chief Underwriting Officer at Winterthur International. He subsequently moved to Credit Suisse Group, where he was Head of e-Investment Services Europe and member of the management of Personal Financial Services. Ivo Furrer began working for Zurich Financial Services in 2002, initially in Germany as head of the international key account business, and in 2005 as a Member of the Global Corporate Executive Committee. In 2007 he was appointed CEO Life Switzerland and Member of the Global Life Executive Committee of Zurich Financial Services.

In September 2008 Ivo Furrer joined the Swiss Life Group as Member of the Corporate Executive Board and Chief Executive Officer Switzerland (CEO Switzerland).

Other appointments:
- Sanitas Krankenversicherung and Sanitas Beteiligungen AG, Member of the Board of Trustees and the Board of Directors
- Swiss Insurance Association (SIA), Chairman of the Life Insurance Committee
- German-Swiss Chamber of Commerce, Member of the Board
- Member of the Board of Directors of the Financial Market Authority (FMA) Liechtenstein

KLAUS G. LEYH — Born 1966, German national
Chief Executive Officer of Swiss Life, Germany Branch (CEO Germany)
Chief Operating Officer Germany (COO Germany) and deputy CEO Germany from 1 January 2013

After graduating with a degree in economics from the University of Augsburg, Klaus G. Leyh worked for two years as a market researcher and advisor in the consumer goods industry. In 1995 he changed to the insurance sector, building up Generali's Market Research department in Munich. He subsequently held management positions in marketing, product management and e-business at Generali Lloyd Versicherung AG, AXA Colonia Konzern and ARAG Lebens- und Krankenversicherung, and received a Master of Business Research (MBR) from the Ludwig Maximilian University of Munich. In 2001 Klaus G. Leyh joined Swiss Life in Germany as the head of its e-commerce and e-business activities and was assigned responsibility for distribution service, control and promotion in 2002. From January 2006 to September 2008 he held the position of Chief Market Officer and Member of the Executive Board of Swiss Life in Germany with responsibility for the entire sales force, distribution management, service and control. Klaus G. Leyh was appointed Chief Executive Officer of Swiss Life, Germany Branch (CEO Germany) on 1 October 2008. As part of the joining together of Swiss Life and AWD, Klaus G. Leyh was appointed Chief Operating Officer and deputy Chief Executive Officer of Swiss Life in Germany (COO and Dep. CEO) from 1 January 2013.

Klaus G. Leyh has been a member of Swiss Life's Corporate Executive Board since October 2008.

Other appointments:
– German Insurance Association (GDV), Berlin, Member of the Main Committee Life Insurance

THOMAS BUESS — Born 1957, Swiss national
Group Chief Financial Officer (Group CFO)

After completing his business administration and economics studies at the University of St. Gallen and a two-year research activity at the Institute of International Economics, Thomas Buess launched his career in insurance in 1985. From 1985 to 1993 he assumed various positions in the area of finance at the ELVIA Group. In 1994 he joined Zurich Financial Services Group as Chief Financial Officer and Member of the Executive Committee of the Swiss P&C business unit. From 1997 to 1999 he was Chief Financial Officer of all Swiss operations. In 1999 Thomas Buess moved to the USA as Chief Financial Officer of Zurich Financial Services Group's North American business area. In 2002 he was appointed Group Chief Financial Officer and Member of the Group Management Board. Thomas Buess went on to head the reorganisation of the life insurance business before assuming the role of Chief Operating Officer of Zurich Financial Services Global Life in 2004. In January 2009 he moved to Allianz Group as Head of Operational Transformation.

In August 2009 Thomas Buess joined the Swiss Life Group as Group Chief Financial Officer (Group CFO) and Member of the Corporate Executive Board.

Other appointments:
– Swiss Insurance Association (SIA), Member of the Finance and Regulation Committee

CHARLES RELECOM — Born 1953, Belgian national
Chief Executive Officer France (CEO France)

Charles Relecom graduated from the University of Namur (Belgium) with a degree in mathematics and went on to gain a master's degree in Actuarial Science at the University of Louvain (Belgium). He began his career in 1978 as Chief Actuary and Chief Technology Officer at Swiss Life in Belgium. In 1984 he moved to the head office in Zurich, where he played a significant role in setting up the International Division. From 1988 to 1994 he worked for ELVIA Life as Director of Sales in the key accounts business. In 1994 he moved to «La Suisse» and, in 1998, was appointed CEO of the non-life business and Chief Actuary. In 2000 he became the CEO of «La Suisse», a position he held until 2005 when the company was integrated into the Swiss Life Group. Following the integration, Charles Relecom returned to Swiss Life in Belgium, initially as the CEO of Zelia S.A. and, from February 2006, as CEO for the entire Belgian business.

In July 2008 Charles Relecom was appointed Chief Executive Officer France (CEO France) of the Swiss Life Group and Member of the Corporate Executive Board.

Other appointments:
– Member of the French Insurance Association (FFSA), Paris

PATRICK FROST – Born 1968, Swiss national
Group Chief Investment Officer (Group CIO)

Patrick Frost studied at the ETH in Zurich and the universities of Cologne, Basel and Zurich, obtaining degrees in natural science (dipl. Natw. ETH), economics (Dr. rer. pol.) and law (lic. iur.). He began his professional career in the mid nineties as an analyst and subsequently as a Portfolio Manager in asset management for Winterthur Group. After two years in the USA as a Corporate Bond Manager, he was appointed Head of Fixed Income at Winterthur Group in 2001.

In July 2006 Patrick Frost was appointed Group Chief Investment Officer (Group CIO) of the Swiss Life Group and Member of the Corporate Executive Board.

Other appointments:
– Stiftung Technopark Zürich, Member of the Board of Trustees
– TECHNOPARK Management Ltd, Vice Chairman of the Board of Directors
– PostFinance, Member of the Board of Directors

MANFRED BEHRENS – Born 1955, German national
Chief Executive Officer AWD (CEO AWD)
Chief Executive Officer Germany (CEO Germany) from 1 January 2013

After graduating in law, Manfred Behrens initially worked as an attorney in a Hamburg-based law firm. In 1984 he moved to Hamburg Mannheimer AG, where he assumed various leading positions in the areas of legal protection and sales and went on to become regional manager. He joined Volksfürsorge Deutsche Lebensversicherungs-AG in May 1996 and, in 1998, was appointed Member of the Board of Management with responsibility for sales and marketing. Manfred Behrens moved to Swiss Life in January 2004, where he held the position of Chief Executive Officer of Swiss Life in Germany (CEO Germany) until August 2008. He was appointed Co-Chief Executive Officer of AWD in September 2008. From April 2009 until December 2012 he was responsible for all activities of the AWD Group as Chairman of the Executive Board of AWD (CEO AWD). As part of the joining together of Swiss Life and AWD, Manfred Behrens was appointed Chief Executive Officer of Swiss Life in Germany (CEO Germany) from 1 January 2013.

Manfred Behrens has been a Member of Swiss Life's Corporate Executive Board since May 2008.

Other appointments:
– Aareal Bank, Wiesbaden, Member of the Supervisory Board
– Commerzbank, Frankfurt am Main, Member of the Regional Advisory Committee North

RESIGNATIONS
There were no resignations from the Corporate Executive Board during the period under review.

Transfer of Management Tasks

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

Report on Compensation

The specifications below follow the directives on information relating to corporate governance issued by the SIX Swiss Exchange and take into consideration the transparency regulations set out in the Swiss Code of Obligations Art. 663b^{bis} and Art. 663c as well as Circular 2010/1 of the Swiss Financial Market Supervisory Authority FINMA on minimum standards for remuneration schemes of financial institutions. Further information on compensation and benefit expenditure for the management and employees of the Swiss Life Group can be found in the Consolidated Financial Statements (Notes 24 and 32) on pages 196 to 200 and 211. Additional details regarding the compensation and remuneration of the members of the Board of Directors and the Corporate Executive Board, and their participation interests, are shown in the Notes to the Swiss Life Holding Financial Statements on pages 233 to 246.

The information in this report is presented in the same way as in previous years. The information on compensation granted to Corporate Executive Board members also includes the variable cash compensation (cash bonus and deferred compensation in cash), which was determined by the Board of Directors at the beginning of 2013 and is published on an accrual basis as compensation for the 2012 financial year. The members of the Board of Directors are granted exclusively fixed compensation, payable 70% in cash and 30% in Swiss Life Holding shares; the allocated shares are subject to a three-year blocking period.

In accordance with the transparency requirements, the compensation received by each member of the Board of Directors and the Chairman of the Corporate Executive Board (Group CEO) is disclosed individually.

COMPENSATION POLICY PRINCIPLES

The Board of Directors as a whole is responsible for establishing the guidelines on the Group's compensation policy (incl. variable compensation and equity compensation plans) and on employee benefit institutions. The compensation policy underpins the performance culture required by the corporate strategy and is part of the HR policy. The aim is to retain well-qualified employees and gain new, highly skilled staff. The compensation system is in line with the market environment and must be competitive. The individual overall compensation takes into account the employee's professional skills, engagement and personal performance. It is made up of the basic salary, a variable bonus based on achievement of the annual objectives, which is generally paid in cash and possibly in shares, if applicable deferred compensation in cash and a mid- to long-term equity compensation plan, as well as contributions to occupational provisions and risk insurance.

The salary is determined according to the employee's function and skill set, and is annually re-assessed and adjusted if appropriate. Salary comparison studies and recognised job evaluation systems are used to check appropriateness and to ensure internal and external comparability.

The variable compensation components are linked to the strategic objectives of the Group and the individual divisions, and the associated financial and HR-related targets. They are based on the achievement of annual objectives defined in advance for a period of three years as part of medium-term planning and determined on the basis of the actual performance of individuals or teams (performance-linked payment) in relation to the objectives set and on the degree of achievement of the Swiss Life Group targets as reflected in its annual result (share in the company's success). Quantitative and qualitative performance is assessed also on the basis of the competencies required for the function held, such as professional expertise, entrepreneurship, task fulfilment, cooperation and leadership. The percentage weighting between the individual and/or team performance and the share in the company's success depends on the position and responsibilities of the function holder.

The share in the company's success is measured using quantitative Group targets (Key Performance Indicators, KPIs), which are defined in advance for the following three years as part of medium-term planning. The main KPIs, besides the key figures relating to annual profit, costs, business volume, investment return, return on equity and solvency, are the profitability of in-force and new business, margin performance and the share of non-traditional products in new business. In order to avoid conduct aimed at the short-term achievement of key indicators with a higher weighting, the individual KPIs are not mechanistically weighted in advance. Their individual weighting is determined at the end of each financial year by the Board of Directors on the basis of a proposal by the Nomination and Compensation Committee (NCC) taking all developments into account and consideration (discretionary decision).

Personal performance based on the specified quantitative and qualitative objectives is assessed annually in the employee appraisal procedure implemented throughout the Group (Group Performance System, GPS). Two assessment elements/models are used for determining objectives and evaluating performance: The Group Objectives Model (GOM) relating to qualitative and quantitative objectives and the Group Competency Model (GCM) for measuring and assessing individual competencies and behaviour, incl. the compliance regulations.

For persons responsible for risk management and risk control, the quantitative objectives are set in such a way that performance is not linked to the result of the monitored business unit, specific products or transactions.

In order to be eligible for any variable compensation, a GPS target achievement of at least 80% is required.

Permanent employment contracts in Switzerland contain notice periods of between three and twelve months, depending on position and seniority. All current employment contracts with members of the Corporate Executive Board specify a notice period of twelve months.

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, whereas the Nomination and Compensation Committee is responsible for putting forward appropriate proposals (for the internal organisation of the Board of Directors see "Internal Organisational Structure", pages 37 to 40). The Board of Directors as a whole also establishes the guidelines for the company's compensation policy. In doing so, it takes into consideration the compensation policies of other companies in the financial services industry, drawing its findings from publicly available information and studies by independent external experts. Comparable companies in the insurance sector in Switzerland used for the purposes of providing relevant information for the current compensation policy included Allianz, AXA, Baloise Insurance, Swiss Re and Zurich Insurance Group.

The Board of Directors as a whole sets the level and distribution of the variable compensation pool for all employees on the basis of its compensation policy guidelines upon a proposal by the Nomination and Compensation Committee. When determining the level of the allocation to the compensation pool, it takes into consideration the annual result, as well as the medium-term planning and the degree of target achievement. The Board of Directors as a whole is also responsible for determining the individual compensation of members of the Corporate Executive Board. It carries out an annual performance assessment of all members of the Corporate Executive Board, based on preparatory work by the Nomination and Compensation Committee. In addition, current aspects of HR policy and, in particular, succession planning are regularly discussed at meetings of the Nomination and Compensation Committee and the Board of Directors as a whole.

The Board of Directors may consult independent professionals where deemed appropriate. In the year under review, Swiss Life was advised by PricewaterhouseCoopers (PwC) on the structuring of the equity compensation plan and the wording of the corresponding plan regulations.

Within the framework of the compensation arrangements for members of the Corporate Executive Board, “deferred compensation in cash” was introduced as a new compensation component on 1 January 2012. On the basis of the corresponding regulations, a portion of the variable cash compensation determined by the Board of Directors is not paid immediately but after a period of three years has elapsed and provided that the regulatory requirements are satisfied at that point. The allocated deferred compensation in cash represents an entitlement during the three-year deferral period. The underlying “deferred cash plan” also provides for adjustment and reclaiming mechanisms (clawback). If the employment relationship is terminated by a participant during the three-year deferral period, the entitlements expire worthless.

As a mid- to long-term compensation component linked to the performance of the Swiss Life Holding share price, an equity compensation plan has been in place since 2004 for members of the Corporate Executive Board and other key performers within the Swiss Life Group, who are determined by the Corporate Executive Board with the approval of the Nomination and Compensation Committee. Based on this plan, participants are granted future subscription rights to Swiss Life Holding shares. These subscription rights entitle the participants to receive Swiss Life Holding shares free of charge after a period of three years has elapsed and provided that the requirements under the plan are satisfied at that point.

Pursuant to the regulations of the 2010 equity compensation plan, future subscription rights were allocated in the form of so-called Performance Share Units (PSUs), whereby share allocation after expiry of the three-year period was based on two performance criteria, each weighted at 50%. The allocation mechanism is set out in detail in the 2010 Annual Report in the Notes to the Swiss Life Holding Financial Statements on pages 166 to 167. In 2010, 69 members of Swiss Life Group senior management, including the members of the Corporate Executive Board, took part in the plan, in which a total of 68 510 PSUs were allocated; 24 700 to the Corporate Executive Board, of which 6500 to Bruno Pfister in his capacity as Group CEO.

Since 2011 participants in the equity compensation plan have been allocated Restricted Share Units (RSUs) instead of PSUs. As with PSUs, RSUs grant the holder future subscription rights, entitling them to receive Swiss Life Holding shares free of charge after a three-year period has elapsed, but without any additional leverage effect. The attribution of shares after the expiry of the three-year deferral period is effected on a 1:1 basis (1 RSU = 1 share). The plan is therefore very simple, transparent throughout the whole term and directly linked to the performance of the Swiss Life Holding share price. The value of RSUs during the three-year term develops linear with the Swiss Life Holding share price and thus symmetrically corresponds with shareholder interests. 62 members of Swiss Life Group senior management participated in the 2011 equity compensation plan, in which a total of 68 730 RSUs were allocated; 23 630 in total to the Corporate Executive Board, of which 6350 to Bruno Pfister in his capacity as Group CEO. During the period under review, 55 members of Swiss Life Group senior management participated in the 2012 equity compensation plan. A total of 94 040 RSUs were allocated; 28 460 in total to the members of the Corporate Executive Board, of which 7100 RSUs to Bruno Pfister as Group CEO.

The new equity compensation plan, relating to the effective date of 1 April 2013, is based on the Group-wide programme "Swiss Life 2015", which was announced at the Swiss Life Group's Investors' Day on 28 November 2012 (see www.swisslife.com/investorsday2012). On the basis of the medium-term planning 2013-2015, performance criteria relating to cost efficiency (50% weighting), the risk and fee result (25% weighting) and IFRS profit (25% weighting) have been determined by the Board of Directors. After expiry of the thee-year period of the RSU plan, the target value for each performance criterion according to the medium-term planning 2013-2015 is compared with the actual result achieved. The share allocation corresponds to the number of allocated RSUs (1 RSU = 1 SLHN) if all three performance criteria have been achieved or exceeded after the three-year period has elapsed; overperformance does not lead to a higher share allocation. If the targets are only partly achieved, the share allocation is correspondingly reduced based on the weighting of the performance target concerned or the RSUs expire worthless.

The attribution of mid- to long-term compensation components (RSU plan) is deferred for a period of three years from the date of allocation as is the case with the deferred compensation in cash. Likewise, the RSU plans provide for adjustment and reclaiming mechanisms (clawback). If the employment relationship is terminated by a participant during the three-year term of the RSU plan, the future entitlements expire worthless.

COMPENSATION PAID TO ACTING MEMBERS OF GOVERNING BODIES

The following compensation in cash was received by acting members of the Board of Directors and the Corporate Executive Board during the period under review:

In CHF	2012	2011
Board of Directors	**2 073 750**	2 091 334
Corporate Executive Board	**9 560 241** [1]	9 792 978 [2]

[1] Incl. cash bonus of CHF 3 616 400 for the 2012 financial year, determined and paid out at the beginning of 2013.

[2] Incl. cash bonus of CHF 4 340 500 for the 2011 financial year, determined and paid out at the beginning of 2012.

Two members of the Board of Directors resigned in the 2011 financial year. After serving for eight years on the Board of Directors of Swiss Life Holding, Paul Embrechts did not stand for re-election at the General Meeting of Shareholders in 2011 and no longer serves on the Board of Directors. Carsten Maschmeyer, who was elected to the Board of Directors of Swiss Life Holding at the 2009 General Meeting of Shareholders, resigned as a member of the Board of Directors on 7 December 2011.

There were no resignations from the Board of Directors in the period under review. On 19 April 2012 Wolf Becke was elected to the Board of Directors of Swiss Life Holding.

There were no personnel changes on the Corporate Executive Board during 2011 and 2012.

The members of the Board of Directors are granted exclusively fixed compensation. This is paid 70% in cash and 30% in Swiss Life Holding shares; the shares are subject to a three-year blocking period.

The compensation takes into account membership of the Board of Directors of Swiss Life Holding and its subsidiary Swiss Life Ltd, as well as membership of the individual Board Committees, and is commensurate with the individual's function and workload.

The acting members of the Board of Directors of Swiss Life Holding on the balance sheet date received the following compensation for the period under review:

	Compensation in cash in CHF	Shares with three-year blocking period
Rolf Dörig	**1 008 000**	**4 443**
Gerold Bührer	**244 300**	**1 077**
Frank Schnewlin	**244 300**	**1 077**
Wolf Becke [1]	**68 250**	**237**
Volker Bremkamp	**129 500**	**572**
Damir Filipovic	**91 000**	**402**
Henry Peter	**91 000**	**402**
Peter Quadri	**91 000**	**402**
Franziska Tschudi	**106 400**	**470**

[1] Joined 19.04.2012

As Chairman of the Board, Rolf Dörig is affiliated to the employee benefits institutions of Swiss Life for the purpose of occupational provisions. No such affiliation exists for other members of the Board of Directors and no contributions have been made on their behalf.

Compensation remitted to members of the Corporate Executive Board comprises the basic salary, variable compensation in cash and other compensation (child allowances, company cars, premium contributions to 3rd pillar pension plans). The variable compensation in cash is allocated as a bonus and as deferred compensation in cash. The deferred compensation in cash is paid out after a period of three years has elapsed and provided that the regulatory requirements have been satisfied. In addition, a mid- to long-term compensation component is in place in the form of an equity compensation plan linked to the performance of the Swiss Life Holding share price, respectively to medium-term planning and corresponding target achievement. As mentioned above, participants are entitled to Swiss Life Holding shares after a period of three years has elapsed and provided that the relevant requirements are satisfied at the time of allocation.

Salary is determined annually by the Board of Directors, on the basis of a proposal by the Nomination and Compensation Committee, taking into account the individual member’s function-related responsibility and the current market conditions.

The variable compensation components are determined by the Board of Directors in accordance with the described compensation policy principles and based on the company result and the achievement of personal goals assessed in the employee appraisal procedure implemented throughout the Group (Group Performance System, GPS).

The variable compensation in cash (cash bonus and, if applicable, deferred compensation in cash) is set at a maximum of 117% of the fixed basic salary (“bonus cap”) and requires that all objectives have been considerably exceeded. In the case of 100% target achievement, variable compensation in cash of 80% of the fixed basic salary is provided for (“on-target bonus”), which can be reduced by the Board of Directors in consideration of all the circumstances.

In the same way the allocation of future subscription rights to Swiss Life Holding shares (equity compensation plan, RSU plan) is dependent on the respective target achievement. The cash bonus thereby serves as a reference value, whereby the deferred compensation components (RSU plan and deferred compensation in cash) are considered as a whole. The allocation of future subscription rights to Swiss Life Holding shares is also limited in value to 117% of the fixed basic salary or, if deferred compensation in cash is simultaneously allocated, to 64% of the fixed basic salary.

At Corporate Executive Board level, variable compensation depends 60% directly on the company's success. The Key Performance Indicators (KPIs) used to assess company success include, as mentioned above, key figures relating to annual profit, costs, business volume, investment return, return on equity and solvency, as well as the profitability of in-force and new business, margin performance and the share of non-traditional products in new business.

40% of the variable compensation is based on Corporate Executive Board members' achievement of specified personal goals. On the one hand, these personal goals are linked back to the company's success, in that each Corporate Executive Board member has to meet personal quantitative objectives contributing to the company's success in relation to his division. On the other hand, the personal goals cover qualitative factors, namely project targets, risk management and compliance goals, as well as requirements relating to leadership and to supporting and further developing corporate culture.

COMPENSATION PAID TO FORMER MEMBERS OF GOVERNING BODIES

None.

SHARE ALLOCATION IN THE YEAR UNDER REVIEW

The shares allocated to the members of the Board of Directors in the period under review form part of the compensation, which was granted 70% in cash and 30% in blocked Swiss Life Holding shares.

No variable compensation in shares was granted to the members of the Corporate Executive Board for the 2012 financial year. As described, they are participating in the current equity compensation plan.

For the 2012 financial year, the members of the Board of Directors were allocated the following shares, subject to a three-year blocking period:

Board of Directors	9082 shares, allocated at values[1] of CHF 67.3375 and CHF 103.6931. The shares are subject to a three-year blocking period.
Corporate Executive Board	none

[1] Economic value equal to the tax value, taking the blocking period into account. The share prices (closing prices) on the days of allocation of 18.06.2012 and 14.12.2012 were CHF 80.20 and CHF 123.50.

No shares were allocated to closely linked parties[2] within the meaning of the law.

SHARE OWNERSHIP

On the balance sheet date of 31 December 2012, acting members of the Board of Directors and the Corporate Executive Board (including closely linked parties) held the following number of Swiss Life Holding registered shares:

	SLH shares **31.12.2012**
Rolf Dörig, Chairman of the Board of Directors	**44 929**
Gerold Bührer	**5 172**
Frank Schnewlin	**2 825**
Wolf Becke	**237**
Volker Bremkamp	**2 722**
Damir Filipovic	**700**
Henry Peter	**4 053**
Peter Quadri	**2 753**
Franziska Tschudi	**2 136**
TOTAL BOARD OF DIRECTORS	**65 527**

	SLH shares **31.12.2012**
Bruno Pfister, Group CEO	**10 818**
Manfred Behrens	**900**
Thomas Buess	**6 900**
Patrick Frost	**9 200**
Ivo Furrer	**3 750**
Klaus Leyh	**1 000**
Charles Relecom	**1 750**
TOTAL CORPORATE EXECUTIVE BOARD	**34 318**

[2] “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 the governing body. This typically includes spouses, minor children, companies controlled by members of the governing body, and natural or legal persons serving the members of the governing body in a fiduciary capacity.

The number of future subscription rights to Swiss Life Holding shares allocated in the context of the above-mentioned equity compensation plan to members of the Corporate Executive Board is shown in table form in the Notes to the Swiss Life Holding Financial Statements.

OPTIONS

No share options have been granted in the Swiss Life Group since 2003 and no options are outstanding.

ADDITIONAL HONORARIUMS AND REMUNERATIONS

In the period under review no additional honorarium or remuneration payments were made to the members of the Board of Directors or the Corporate Executive Board.

LOANS

On the balance sheet date, there were no loans outstanding to members of the Board of Directors or the Corporate Executive Board:

	31.12.2012
Board of Directors	none
Corporate Executive Board	none

EXPENDITURE FOR OCCUPATIONAL PROVISIONS

Details on the company's benefit expenditure can be found in the Consolidated Financial Statements (Notes 24 and 32) and the Notes to the Swiss Life Holding Financial Statements. For reasons of transparency, information on the following benefits is provided here:

As Chairman of the Board of Directors, Rolf Dörig is affiliated to the employee benefits institutions of Swiss Life for the purpose of occupational provisions. The regular annual employer contribution for Rolf Dörig, which compared to the previous year has increased due to his reaching the regulatory next age and contribution level, amounted to CHF 283 968 in the period under review.

No such affiliation to employee benefits institutions of Swiss Life exists for other members of the Board of Directors and no contributions have been made on their behalf.

For Group CEO Bruno Pfister, the regular annual employer contribution in the period under review totalled CHF 225 504.

Expenditure for occupational provisions on behalf of the remaining members of the Corporate Executive Board totalled CHF 1 208 271 during the period under review.

HIGHEST TOTAL COMPENSATION, BOARD OF DIRECTORS

Rolf Dörig, as Chairman of the Board of Directors, received the highest total compensation for a member of the Board of Directors of Swiss Life Holding in 2012.

The members of the Board of Directors are granted exclusively fixed compensation, which is payable 70% in cash and 30% in Swiss Life Holding shares; the allocated shares are subject to a three-year blocking period.

The compensation granted to Rolf Dörig in the period under review in the form of cash, shares and contributions to occupational provisions was as follows:

In CHF

Compensation in cash	**1 008 000**	
Compensation in blocked shares	**362 767**	4443 SLH shares with three-year blocking period[1]
Share options	**none**	
Total compensation 2012		
in cash and shares	**1 370 767**	
including regular contribution to occupational provisions of CHF 283 968	**1 654 735**	
Total compensation 2011		
in cash and shares	1 370 839	
including regular contribution to occupational provisions of CHF 225 504	1 596 343	

[1] Allocation and valuation was effected on 18.06.2012 and 14.12.2012 at an economic value of CHF 67.3375 and CHF 103.6931, which is equal to the tax value, taking into account the blocking period of three years. The share prices on the days of allocation were CHF 80.20 and CHF 123.50 respectively.

HIGHEST TOTAL COMPENSATION, CORPORATE EXECUTIVE BOARD

Bruno Pfister, as Group CEO, received the highest total compensation for a member of the Corporate Executive Board in the period under review.

In the 2012 financial year, Bruno Pfister was allocated the following amounts in the form of salary, cash bonus, contributions to occupational provisions, deferred compensation in cash and deferred compensation in shares (RSU plan):

In CHF

Compensation in cash [1]	**2 267 745**
Shares	**none**
Share options	**none**
Total compensation 2012	
in cash	**2 267 745**
including regular contribution to occupational provisions of CHF 225 504	**2 493 249**
including deferred compensation in cash [2]	**2 703 249**
including deferred compensation in shares [3]	**3 369 016**
Total compensation 2011	
in cash	2 685 506
including regular contribution to occupational provisions of CHF 225 504	2 911 010
including deferred compensation in cash [4]	3 271 010
including deferred compensation in shares [5]	4 160 328

1 Including cash bonus of CHF 700 000 for the 2012 financial year, determined and paid at the beginning of 2013, and other compensation (child allowances, premium contribution) totalling CHF 67 745.

2 Deferred compensation in cash of CHF 210 000; this compensation component will be paid out on 1 April 2016, provided the regulatory requirements are satisfied at that point.

3 7100 future subscription rights in the form of RSUs entitling the holder to receive Swiss Life Holding shares on 1 April 2015, provided the requirements are satisfied at that point. On the allocation date of 1 April 2012 the fair value of an RSU was CHF 93.77.

4 Deferred compensation in cash of CHF 360 000; this compensation component was introduced on 1 January 2012 and will be paid out on 1 April 2015, provided the regulatory requirements are satisfied at that point.

5 6350 future subscription rights in the form of RSUs entitling the holder to receive Swiss Life Holding shares on 1 April 2014, provided the requirements are satisfied at that point. On the allocation date of 1 April 2011 the fair value of an RSU was CHF 140.05.

FURTHER INFORMATION

In the form of an overview, the following additional information is provided on the Swiss Life Group compensation systems for the 2012 financial year:

In CHF (unless otherwise indicated)

Total compensation [1]	**772 051 739**
of which total variable compensation (total pool) [2]	113 733 933
Number of persons who received variable compensation	5 688
Total outstanding deferred compensation	**9 194 770**
of which cash payment	1 159 007
of which shares	0
of which options	0
of which others (Restricted Share Units, RSUs / Performance Share Units, PSUs)	8 035 763
Charges and credits in the financial year from compensation for previous financial years [3]	**–261 070**
Board of Directors, Executive Board and persons whose activities have a significant influence on the risk profile:	
Total sign-on payments made in the financial year [4]	0
Total severance payments made in the financial year [5]	0

[1] The totality of any monetary value which the company distributes to a person directly or indirectly for the work performed for the company, e.g. in the form of cash payments, non-cash benefits, expenditure which establishes or increases entitlements to occupational provisions, pensions, shares or other allocation of shareholding rights as well as the forgiving, extinguishing or renunciation of any claims or debts.

[2] Part of the total compensation, the granting or the amount of which is at the discretion of the company or which is contingent on fulfilment of predefined conditions. This includes compensation contingent on performance or meeting certain targets. Sign-on payments and severance payments also fall within the scope of the definition of variable compensation.

[3] In particular reduction in expenses affecting net income due to the expiration of entitlements under equity compensation plans.

[4] Compensation which is agreed on the conclusion of an employment agreement to be paid or be due once. Also deemed to constitute a sign-on payment shall be compensation for benefits foregone vis-à-vis a previous employer.

[5] Compensation which is agreed in connection with the termination of an employment relationship.

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; during the year under review, no such exceptions were granted.

RIGHT OF REPRESENTATION

The Articles of Association stipulate that a shareholder may be represented by a legal representative, or, if a written power of attorney exists, by another shareholder entitled to vote, by a management representative, by an independent voting representative or by a representative of deposited shares.

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 comply with the stipulations of the law. Shareholders who represent at least 0.25% of the share capital 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 be accompanied by a blocking 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 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 recognition of entries in the share register in accordance with Art. 685g 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

Based on a corresponding authorisation in the Articles of Association, the presiding officer at Swiss Life Holding's General Meeting of Shareholders generally requests that votes be taken electronically. Swiss Life Holding uses a certified electronic voting system which permits balloting with remote-controlled handsets and records 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. 32 and 22 of the Federal Act on Stock Exchanges and Securities Trading (SESTA).

CLAUSES ON CHANGES OF CONTROL

No contractual provisions exist in favour of the Board of Directors or the Corporate Executive Board with regard to changes of control of the company.

Auditors

As was the case last year PricewaterhouseCoopers (PwC) is again serving as external statutory auditor for all Swiss Life Group companies that are directly or indirectly held by Swiss Life Holding under its scope of consolidation.

PwC confirms that it meets the legal requirements concerning professional qualification and independence.

DURATION OF THE MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR

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. When Swiss Life Holding was established in 2002, PwC was named as statutory auditor and Group auditor. Since then PwC has been re-elected without fail. PwC has also acted as statutory auditor and Group auditor for Swiss Life Ltd since 1994. Swiss Life Holding last invited tenders for its statutory auditor and Group auditor mandate for the 2008 financial year. On completion of the evaluation process, the Board of Directors, in accordance with the proposal of the Audit Committee, again nominated PwC as its statutory auditor and Group auditor at the General Meeting of Shareholders.

The partner at PwC in charge of auditing the Swiss Life Holding annual financial statements and consolidated financial statements (lead auditor) has exercised this function since 2011. The role of lead auditor rotates in compliance with the term of office regulations stipulated by the Swiss Code of Obligations, the independency guidelines set forth by the Swiss Institute of Certified Accountants and Tax Consultants, and internal guidelines at PwC.

AUDITING FEES

In 2012 the auditing fees credited to PwC came to CHF 7.7 million (2011: CHF 8.0 million). This includes the fees for reviewing the 2012 half-year accounts.

ADDITIONAL FEES

In 2012 PwC received additional fees totalling around CHF 1.5 million for advisory services (2011: CHF 1.5 million), approximately CHF 0.7 million of which was for actuarial advisory services and CHF 0.4 million for fiscal and financial advisory services. The remainder resulted from strategic, legal and other advisory services. The advisory services were performed in compliance with the relevant independency regulations set forth in the Swiss Code of Obligations and the Audit Supervision Act.

SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS

The Audit Committee maintains regular contact with the external auditors. It evaluates the independence of the external auditors and identifies possible conflicts of interest. It also examines the terms and conditions of the external audit mandates and assesses the audit plan and strategy for the year in question.

The external auditors submit regular written reports on the status of the auditing work. They also submit detailed reports on the half-year and annual financial statements to the Audit Committee. At the end of the year, the external auditors draw up a comprehensive report for the attention of the General Meeting of Shareholders and a detailed report on the financial year just completed for the attention of the Audit Committee, the Board of Directors and the Swiss Financial Market Supervisory Authority FINMA.

The Audit Committee also acknowledges and approves the various recommendations of the external auditors, including the Management Letter. If required, the committee discusses with representatives of the external auditors any issues which could have a major impact, either collectively or individually, on the financial situation or the result of the audit.

In the year under review, representatives of the external auditors attended all Audit Committee meetings, either in their entirety or for specific items on the agenda.

Information Policy

Swiss Life communicates actively and openly both within and outside the company. The Investor Relations and Communications areas provide up-to-date reports to private and institutional investors, financial analysts, journalists and the public.

Key facts and figures about the Swiss Life Group and info kits on previous years' reports are available on the internet at www.swisslife.com, "Investors" area, "Results & Reports" section (www.swisslife.com/results). Details on events relevant to shareholders, analysts and the media (General Meetings of Shareholders, media conferences, etc.) can be found at www.swisslife.com, "Investors" area, "Financial Calendar" section (www.swisslife.com/financialcalendar).

At www.swisslife.com/subscription, all interested parties can subscribe to the company's mailing list so as to receive timely ad hoc reports and media releases free of charge via the e-mail distribution system. These releases are also published on the Swiss Life website at the same time as they are sent to subscribers, and are available online for at least two years at www.swisslife.com, "Media" area, "Media releases" section (www.swisslife.com/mediareleases).

In addition to its comprehensive Annual Report and Financial Statements, Swiss Life Holding also publishes its half-year results. Furthermore, in May and November of each year, it publishes specific details on the previous quarter. All Swiss Life's annual and half-year reports since 1997 can be accessed on the internet at www.swisslife.com/en/home/investors/results/archive.html, "Investors" area, "Results & Reports" section, "Archive Reports" and "Annual Reports" subsections (www.swisslife.com/annualreports). A report detailing the key facts and figures on business operations is sent out on an annual basis to all the shareholders listed in the share register.

In addition, "Investors' Day 2012" was held on 28 November 2012. The relevant documents and presentations can be found at www.swisslife.com, "Investors" area, "Investors' Day 2012" section (www.swisslife.com/investorsday2012).

Contact details are available at the end of this Annual Report.

Risk Management

Swiss Life pursues an integrated, value-oriented risk management approach, involving both quantitative and qualitative elements. The goal is to protect customers' funds and ensure the best possible investment of risk capital, while complying with the regulatory requirements and taking into account the challenging economic conditions.

Risk management is a key component of the Swiss Life Group's management process. The respective committees of the Corporate Executive Board and the Board of Directors monitor and make decisions in the area of risk management; these are then incorporated into the annual planning process. On the one hand, they comprise qualitative assessments relating to the strategy, to operational risks and to the internal control system (ICS). On the other hand, quantitative elements for each insurance unit, such as risk budgeting and investment strategy, are included in asset and liability management. Based on risk capacity and risk appetite and taking account of regulatory provisions, limits are set in the individual units for the financial risks incurred, according to which the investment targets are set. The qualitative risk management elements mentioned above are presented and discussed below. Detailed information on the risk budgeting process and asset and liability management is provided in Note 5 (Risk Management Policies and Procedures) of the Consolidated Financial Statements.

STRATEGIC RISIK MANAGEMENT

Swiss Life uses analytical methods to ensure that strategic risks are dealt with adequately in today's very demanding economic environment. In its strategic risk management process, Swiss Life incorporates all the information on risks and the risk/return characteristics in its strategic decisions. An understanding of the interplay of individual risks is essential in order to take due account of the factors influencing risks during strategy development so that these factors can be steered appropriately.

OPERATIONAL RISIK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Operational risk management (ORM) at Swiss Life includes the methods and processes used for the identification, assessment and steering or avoidance of operational risks. ORM defines operational risk as the danger that losses may result from shortcomings or failures in internal processes, people or systems, or from external events. Swiss Life's internal control system (ICS) consists of the totality of procedures, methods and measures prescribed by the Board of Directors and the Corporate Executive Board to ensure the orderly conduct of business. The focus is on the reliability of financial reporting, the effectiveness of business processes and compliance with laws and regulations issued to protect the company's assets.

CAPITAL MANAGEMENT

SWISS SOLVENCY TEST

The Swiss Solvency Test (SST) is the new legislation which governs the capital requirements of insurance companies and groups and their reporting to the regulator. It was enacted in 2006 with the revised Insurance Supervision Law and corresponding Insurance Supervision Ordinance and solely constituted a reporting requirement during a five-year transition period before the capital requirements ultimately became binding from 1 January 2011. The SST is a principles-based framework where the main objective is the alignment of the required capital with the underlying risks. The SST capital requirement underpins a high level of confidence that insurers will meet their obligations towards policyholders even in adverse circumstances. The available and the required capital for the SST are determined based on an internal model which is subject to approval by FINMA. Based on this internal model, which is still being reviewed by FINMA, Swiss Life meets the capital requirements.

ECONOMIC CAPITAL

The value of a life insurance company for its shareholders comprises the economic net worth and the present value of future profits. The optimal amount of economic capital an insurance company needs to hold to maximise the company value is a trade-off between benefits and costs. For risk and capital management decisions, the Swiss Life Group uses an integrated approach. The economic risk capital is determined bottom-up for each large business unit and takes into account market risk, credit risk and insurance risk. These risks are calculated on the basis of loss distributions using a specified risk measure. The overall capital requirement is obtained by taking into account appropriate diversification benefits among the above-mentioned risk categories.

Individual elements of the bottom-up risk capital per business unit allow for a monthly estimate of the SST solvency situation. The calibration is done based on the full SST calculations as at the beginning of each calendar year and as at mid-year.

Economic and statutory capital constraints and the profit target are the main elements determining the risk budgets. Based on these risk budgets, the Group Risk Committee of the Corporate Executive Board defines the risk limits for each country and business unit. Compliance with these limits is checked each month.

STANDARD & POOR'S RATING CAPITAL

Swiss Life has defined a target capitalisation in line with its rating ambition. In the Standard & Poor's risk-based insurance capital model the total adjusted capital (TAC) is the measure used for capital available to meet a company's capital requirements. TAC is set against the capital required given the company's target rating category (target capital). The factor-based model takes into account, among other factors, insurance risks, asset value volatility and credit risks. Within the capitalisation analysis, in addition to assessing capital adequacy, Standard & Poor's also assesses the quality of capital in its various dimensions such as debt, hybrid and reinsurance leverage. In April 2012 Standard & Poor's acknowledged the operational progress made by Swiss Life and increased the rating of Swiss Life Ltd to A– with stable outlook.

In line with its active capital management, the Swiss Life Group uses hybrid instruments to optimise its capital structure.

Market Consistent Embedded Value (MCEV)

The Group MCEV is a measure of the consolidated value of shareholders' interest in the in-force business of the Swiss Life Group. It includes the insurance business covered by the MCEV methodology and all other business valued by its IFRS net asset value.

Contents

1 Introduction

1.1 BASIS OF PREPARATION

Market consistent embedded value (MCEV) is a measure of the consolidated value of shareholders' interests in the in-force covered business of the Swiss Life Group. Covered business includes life, health and pension business of the company. The Group MCEV is a measure of the consolidated value of shareholders' interest in the covered and non-covered business in force of the company. Business in force includes business written as at 31 December 2012; future new business is not included. The notion of market consistent embedded value (MCEV) will alternatively refer within the course of this report to the MCEV of Swiss Life's covered business, of one of its market units, or to Swiss Life's Group MCEV.

Swiss Life's market consistent embedded value reporting follows the European Insurance CFO Forum Market Consistent Embedded Value Principles©[1]. The cost of credit risk relating to bonds is calculated and disclosed in addition to the Principles' mandatory requirements. Further details on the MCEV methodology and assumptions are given in sections 4 and 5.

PricewaterhouseCoopers have audited this market consistent embedded value report. Their opinion is part of this report (section 6).

1.2 COVERED BUSINESS AND NON-COVERED BUSINESS

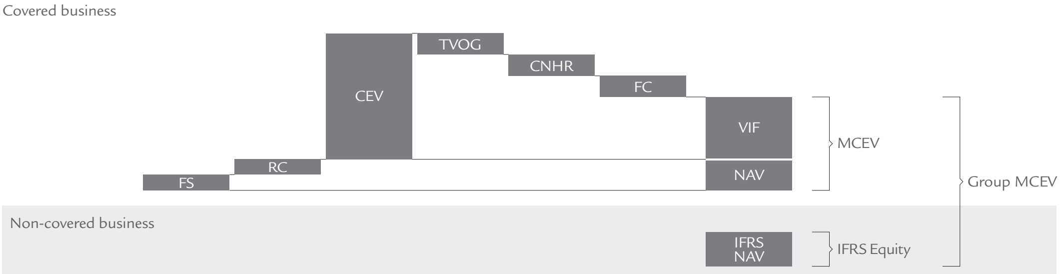
Covered business includes all of Swiss Life's life, health and pension business as well as assumed external reinsurance, with the exception of Swiss Life Insurance Solutions AG, which is not material for MCEV purposes. MCEV (and Group MCEV) are net of ceded external reinsurance. Included are namely operations in Switzerland, France, Germany, Luxembourg, Liechtenstein and Singapore. All other businesses such as investment management and AWD are generally included in the non-covered business at their IFRS net asset values, with the exception of France, where they are included in the covered business.

1.3 DEFINITIONS

Swiss Life's Group MCEV consists of the MCEV for covered business and the IFRS net asset value for non-covered business.

According to MCEV Principle 3, the MCEV represents the present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business. It is calculated on a post-tax basis taking into account current legislation and known future changes.

Components of Group MCEV



[1] Copyright © Stichting CFO Forum Foundation 2008

The MCEV for covered business consists of the net asset value (NAV), i.e. the value of assets not backing liabilities, and the value of in-force business (VIF), i.e. the value of future profits emerging from operations and assets backing liabilities.

The net asset value is split between:

- the required capital (RC): the amount of capital provided by shareholders deemed necessary to run the business under the chosen definition (see section 4.1)
- the free surplus (FS): additional capital allocated to the covered business above the required capital

The value of in-force covered business is defined as the sum of:

- the certainty equivalent value of future profits (CEV)
- the time value of financial options and guarantees (TVOG), including the cost of credit risks
- the cost of residual non-hedgeable risks (CNHR)
- the frictional costs of required capital (FC)

The IFRS net asset value (IFRS NAV) is defined as the unadjusted IFRS net asset value allocated to the non-covered business.

For details about the MCEV components, see section 4 on methodology. Please note that the notion of certainty equivalent value is equivalent to the notion of present value of future profits in the CFO Forum Principles.

2 Summary of MCEV Results

2.1 KEY RESULTS

During 2012, the capital markets were characterised by a continued decline of the relevant interest rates, a tightening of corporate credit spreads from their extraordinary high levels at year-end 2011 and generally lower volatilities of interest rates and equities.

All results and components are shown in CHF million. Rounding differences may occur.

The following tables show key results as at 31 December 2012 compared to the results as at 31 December 2011:

In CHF million	2012	2011
Value of new business	**158**	150
Present value of new business premium (PVNBP)	**11 276**	12 914
New business margin (%PVNBP)	**1.4%**	1.2%

Overall profitability of new business improved due to pricing measures taken, particularly in Switzerland, while the change in the economic conditions had a minor negative effect. As a consequence, the value of new business increased despite lower volume.

In CHF million	Net asset value	Value of in-force business	Total 2012	Total 2011
Covered business	***2 836***	***5 051***	***7 888***	*5 361*
Non-covered business	***1 741***	***n/a***[1]	***1 741***	*2 367*
GROUP MCEV	**4 577**	**5 051**	**9 628**	7 728
Total MCEV earnings			**2 035**	347
Operating MCEV earnings			**644**	772

[1] n/a: not applicable

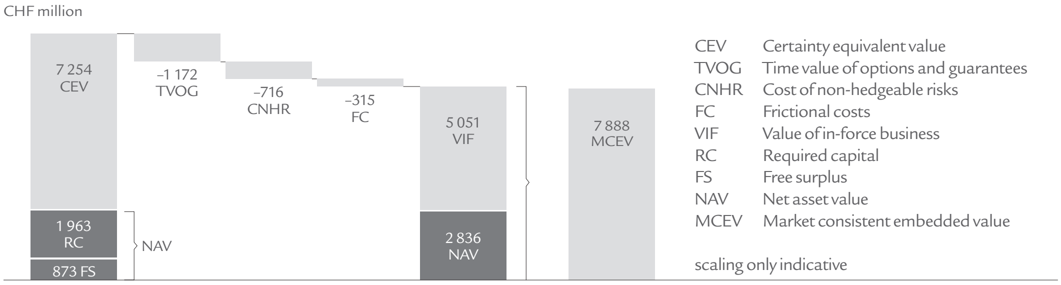
The value of covered business increased by 47%. Operating MCEV earnings contributed to this increase by profitable new business and a strong operating return on the in-force business enhanced by positive persistency experience and expense reductions. The improved capital market environment also contributed significantly to the earnings. Due to adjustments relating to AWD intangibles and the distributions to shareholders, the value of the non-covered business decreased.

The Group MCEV increased by 25% in total.

2.2 MCEV OF COVERED BUSINESS

The following graph and table show the MCEV by components, together with the previous year's figures:

MCEV of Covered Business 2012



In CHF million

	2012	2011
NET ASSET VALUE	**2 836**	2 525
Free surplus	**873**	666
Required capital	**1 963**	1 859
VALUE OF IN-FORCE BUSINESS	**5 051**	2 836
Certainty equivalent value	**7 254**	6 376
Time value of financial options and guarantees	**–1 172**	–2 601
Cost of residual non-hedgeable risks	**–716**	–584
Frictional costs of required capital	**–315**	–354
MCEV	**7 888**	5 361

The net asset value went up by 12% mostly due to the operating profit of the year and economic effects. Free surplus – after financing new business – increased by CHF 208 million. The biggest contribution to free surplus generation results from Switzerland. Goodwill and other intangibles are not included in the net asset value, with the exception of France (see section 4.7).

The value of in-force business increased by 78%. This improvement is due to a higher certainty equivalent value and a notably lower TVOG. The reduction in TVOG is related to lower capital market volatilities and diversification effects from the inclusion of additional currencies in the economic scenarios as well as operating effects. The TVOG includes the cost of credit risk related to investments in bonds. The cost of credit risk amounts to CHF –653 million for 2012 compared to CHF –517 million for 2011.

2.3 VALUE OF NEW BUSINESS

2.3.1 VALUE OF NEW BUSINESS, PREMIUMS AND MARGINS

Amounts in CHF million

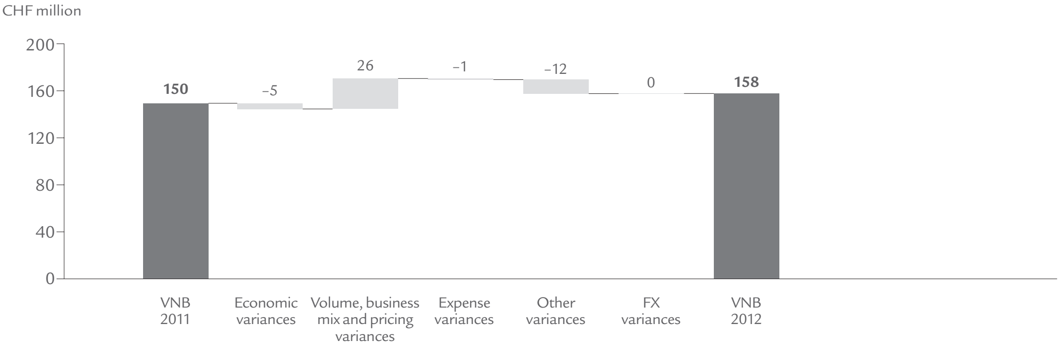
	2012	2011
VALUE OF NEW BUSINESS	**158**	150
New business strain [1]	***–99***	*–127*
Value of new business before new business strain	***257***	*277*
Annual premiums	**539**	659
Single premiums	**5 604**	6 101
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	**11 276**	12 914
Average annual premium multiplier	**10.5**	10.3
New business annual premium equivalent (APE)	**1 100**	1 269
NEW BUSINESS MARGIN (% PVNBP)	**1.4%**	1.2%
New business margin (% APE)	**14.4%**	11.9%

[1] New business strain represents the effect on the net asset value from writing new business.

2.3.2 VALUE OF NEW BUSINESS — ANALYSIS OF CHANGE

The following graph and table detail the drivers for the change in new business value and margin of the business sold in 2012 compared to the business sold in 2011.

Value of New Business – Analysis of Change



Amounts in CHF million	PVNBP	VNB	NBM (% PVNBP)	Change in NBM (% PVNBP)
VALUE OF NEW BUSINESS 2011	12 914	**150**	**1.2%**	
Economic variances	415	**–5**		**-0.1%**
Volume, business mix and pricing variances	–1 602	**26**		**0.4%**
Expense variances	0	**–1**		**0.0%**
Other variances	–413	**–12**		**0.0%**
FX variances	–38	**0**		**0.0%**
VALUE OF NEW BUSINESS 2012	11 276	**158**	**1.4%**	

The new business volume in Switzerland remains stable, the French and German units experienced lower volumes in challenging insurance markets. Overall, the new business volume measured in

PVNBP decreased by 13%. Despite this reduction in volume, the new business margin improved due to continued margin management.

Additional explanations about new business calculations are given in section 4.2 of this report.

2.4 GROUP MCEV – ANALYSIS OF EARNINGS

The table below shows the development of Group MCEV split by components from 31 December 2011 to 31 December 2012.

In CHF million	Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Total Group MCEV
			2012	2011
OPENING GROUP MCEV	*5 361*	*2 367*	7 728	7 595
Opening adjustments	*56*	*–200*	–144	–142
ADJUSTED OPENING GROUP MCEV	*5 417*	*2 168*	7 584	7 453
Operating MCEV earnings	*992*	*–349*	644	772
Non-operating MCEV earnings	*1 420*	*–28*	1 392	–424
TOTAL MCEV EARNINGS	*2 412*	*–377*	2 035	347
Other movements in IFRS net equity	*n/a* [1]	*–2*	–2	–6
Closing adjustments	*59*	*–48*	11	–67
CLOSING GROUP MCEV	*7 888*	1 741	9 628	7 728

[1] n/a: not applicable

The opening adjustment of the Group MCEV represents the distribution to shareholders out of the capital contribution reserve of CHF 4.50 per share or a total of CHF 144 million as described in the Consolidated Financial Statements (Note 27).

The following commentaries refer mainly to the non-covered business as the analysis of earnings for the covered business is commented in sections 2.5 and 3.2 in detail.

The operating MCEV earnings for non-covered business correspond mainly to results from Swiss Life Holding, AWD, Investment Management and insurance business not within the scope of covered business. The main driver for this year's negative operating MCEV earnings is the impairment loss on the AWD intangibles of CHF 578 million as described in the Consolidated Financial Statements (Note 18).

The non-operating MCEV earnings relate to borrowing costs and tax effects for the non-covered business. The change in non-operating MCEV earnings compared to 2011 originates almost entirely from the covered business.

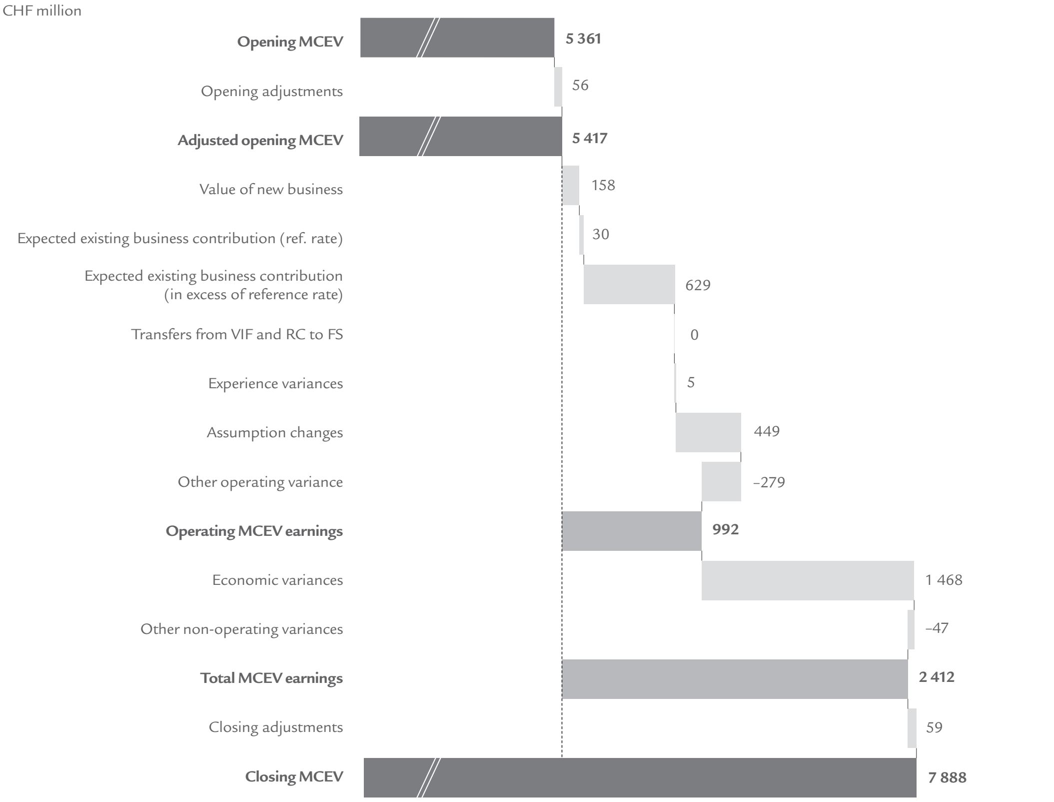
The other movements in IFRS net equity (non-covered business only) include the sale and purchase of treasury shares, effects from changes in unrealised gains and losses and currency exchange rate effects on goodwill.

The closing adjustments result mainly from transfer of funds between covered and non-covered business and currency exchange rate developments.

2.5 COVERED BUSINESS — ANALYSIS OF EARNINGS

The graph and table below show the analysis of earnings for the covered business in 2012:

Covered Business – Analysis of Earnings for 2012



In CHF million	Free surplus	Required capital	VIF	MCEV 2012	MCEV 2011
OPENING MCEV	666	1 859	2 836	5 361	4 959
Opening adjustments	56	–	–	56	–98
ADJUSTED OPENING MCEV	721	1 859	2 836	5 417	4 861
Value of new business	–272	172	257	158	150
Expected existing business contribution (reference rate)	25	–15	19	30	14
Expected existing business contribution (in excess of reference rate)	14	0	615	629	802
Transfers from VIF and required capital to free surplus	686	–214	–473	–	–
Experience variances	–319	116	209	5	–53
Assumption changes	–1	–5	455	449	79
Other operating variance	–69	–4	–206	–279	–282
OPERATING MCEV EARNINGS	66	50	876	992	710
Economic variances	51	43	1 373	1 468	–507
Other non-operating variances	–10	3	–41	–47	102
TOTAL MCEV EARNINGS	106	97	2 209	2 412	305
Closing adjustments	46	7	6	59	195
CLOSING MCEV	873	1 963	5 051	7 888	5 361

OPENING ADJUSTMENTS

Opening adjustments represent dividend payments from non-covered to covered business.

VALUE OF NEW BUSINESS

Value of new business contributions from free surplus and required capital sum up to the new business strain of CHF –99 million (2011: CHF –127 million). This represents the shareholders' share in acquisition expenses for new business. The VIF-component of CHF 257 million (2011: CHF 277 million) is the value of future profits from new business.

EXPECTED EXISTING BUSINESS CONTRIBUTION (REFERENCE RATE)

Expected existing business contribution (reference rate) shows the unwinding of discount on all value of in-force components with reference rates as at start of year. Additionally the notional interest on the net asset value is included.

EXPECTED EXISTING BUSINESS CONTRIBUTION (IN EXCESS OF REFERENCE RATE)

Expected existing business contribution (in excess of reference rate) represents the additional contribution to MCEV by taking into account investment returns for the reporting period expected at the beginning of the period over and above the initial reference rates for the period. Also, releases from the period's contribution to the time value of financial options and guarantees and cost of residual non-hedgeable risks are included. The expected business contribution is explained to a large extent by spreads expected to be earned on the corporate bond and real estate portfolio.

TRANSFERS FROM VALUE IN FORCE AND REQUIRED CAPITAL TO FREE SURPLUS

Transfers from value in force and required capital to free surplus include the transfer of the results of the preceding step from value in force to free surplus. Also, the required capital is normally reduced after this step, resulting in an equal increase of free surplus. The total effect in this line is zero. In the context of a life insurer's business model, this should be seen in combination with effects from new business which partly reverses this effect by an increase of required capital and a reduction of net asset value.

EXPERIENCE VARIANCES

Experience variances aggregate the impact of actual development versus expectations regarding non-economic assumptions such as mortality, expenses, lapses, as well as the deviations in handling of additional reserves. In total the effect is small with CHF 5 million. A variety of effects including reserve strengthening had overall almost opposite impacts on the net asset value and the value of in-force business. The largest contributions originate from the Swiss business.

ASSUMPTION CHANGES

Assumption changes refer to the impact of the change on assumptions such as future expense, surrender, mortality, morbidity, longevity rates. The positive contribution is driven by an overall very favourable persistency experience and a further reduced expense base while a minor negative contribution stems from updated demographic assumptions.

OTHER OPERATING VARIANCE

Other operating variance includes the effects from the issuance of new and restructuring of existing hybrid debt and PPLI's revised outlook on future new business.

ECONOMIC VARIANCES

Economic variances represent the change in embedded value by replacing the starting economic scenarios by the closing ones. Effects from deviations between actual and expected investment returns are included here. Lower swaption implied volatilities and lower credit spreads had a positive impact on MCEV overall as had the inclusion of British pound and Canadian dollar in economic scenarios (see 4.4) in Switzerland. On the other hand, lower reference rates including lower liquidity premiums had a negative effect.

OTHER NON-OPERATING VARIANCES

Other non-operating variances encompass effects relating to government-set parameters, such as taxes.

CLOSING ADJUSTMENTS

Closing adjustments represent the transfer of funds into the covered business and currency exchange rate translation effects resulting from the consolidation in Swiss francs.

2.6 SENSITIVITIES

Sensitivities for MCEV with regard to reference rate levels are further reduced while operational and demographic sensitivities as well as economic sensitivities with regard to implied volatilities of equity/ property and their market values remained overall stable compared to the ones for 2011.

The economic sensitivities are assumed to occur after the new business contracts have been sold, indicating how the value of in-force business and the value of new business written would be affected by the economic shocks.

The table below shows sensitivities of the MCEV and the value of new business to important financial market parameters and to operational and demographic assumptions.

SENSITIVITIES AS AT 31 DECEMBER 2012

Amounts in CHF million

	Change in MCEV	+/–	Change in value of new business	+/–
BASE VALUE	**7 888**		**158**	
Economic				
100 bp increase of interest rates (reference rates)	**166**	**2%**	**16**	**10%**
100 bp decrease of interest rates (reference rates)	**–567**	**–7%**	**–40**	**–25%**
10% increase in equity / property market values	**653**	**8%**	[1]	[1]
10% decrease in equity / property market values	**–732**	**–9%**	[1]	[1]
25% increase in equity / property implied volatilities	**–261**	**–3%**	**–6**	**–4%**
25% decrease in equity / property implied volatilities	**211**	**3%**	**6**	**4%**
25% increase in swaption implied volatilities	**–444**	**–6%**	**–11**	**–7%**
25% decrease in swaption implied volatilities	**–15**	**–0%**	**–1**	**–1%**
Operational				
10% increase in maintenance expenses	**–252**	**–3%**	**–20**	**–13%**
10% decrease in maintenance expenses	**249**	**3%**	**21**	**13%**
10% proportionate increase in lapse rates	**–141**	**–2%**	**–16**	**–10%**
10% proportionate decrease in lapse rates	**159**	**2%**	**19**	**12%**
Demographic				
5% proportionate increase in mortality rates (death cover)	**–22**	**–0%**	**–5**	**–3%**
5% proportionate decrease in mortality rates (annuities)	**–128**	**–2%**	**–3**	**–2%**
5% increase of longevity driver (annuities)	**–60**	**–1%**	**–2**	**–1%**
5% proportionate increase in morbidity rates	**–61**	**–1%**	**–6**	**–4%**
5% proportionate decrease in morbidity rates	**54**	**1%**	**5**	**3%**
Other				
Required capital 100% statutory solvency capital	**144**	**2%**	**10**	**6%**

[1] not available

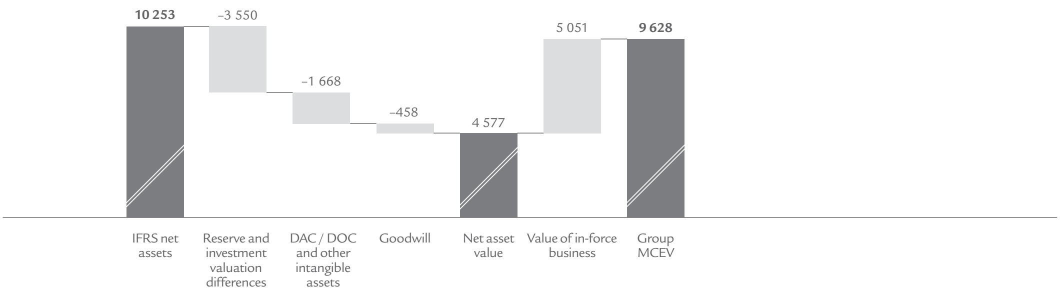
2.7 RECONCILIATION OF IFRS NET ASSET VALUE TO GROUP MCEV

Swiss Life's MCEV for covered business reflects the value of the shareholders' interest in the life, health and pension business as well as assumed external reinsurance of the Swiss Life Group. This value includes the determination of best estimate liabilities for policyholder bonuses and tax payments, which are derived from results based on local statutory accounting rather than on IFRS. Therefore local balance sheets and profit and loss accounts are the starting point for the projections. The net asset value (of assets not backing liabilities) is based on the local balance sheet, but adjusted at market value.

For the other parts of the Swiss Life Group, i.e. the non-covered business, the shareholder value is derived from its contribution to the Group's IFRS net asset value.

Reconciliation of IFRS Net Asset Value to Group MCEV

CHF million



RECONCILIATION OF IFRS NET ASSETS TO GROUP MCEV AS AT 31 DECEMBER 2012

In CHF million

	2012
IFRS NET ASSETS	**10 253**
Adjustments	**–5 676**
Reserve and investment valuation differences	***–3 550***
DAC / DOC and other intangible assets	***–1 668***
Goodwill [1]	***–458***
Net asset value	**4 577**
Value of in-force business	**5 051**
GROUP MCEV [2]	**9 628**

[1] Goodwill adjustments correspond to goodwill of covered business with the exception of CHF 79 million from French operations (see section 3.2).

[2] Group MCEV includes CHF 767 million of goodwill and intangible assets as part of the unadjusted IFRS net assets for non-covered business.

Starting with the total IFRS net assets, there are valuation differences between IFRS and MCEV regarding the net asset value for the covered business. In the reconciliation these valuation differences are shown under "adjustments". The main elements that have been adjusted are deferred acquisition costs (DAC), goodwill and other intangible assets, differences between statutory and IFRS balance sheet items reflecting different reserving bases, and different treatment of the investments and unrealised gains (that form part of the IFRS net assets but are projected on MCEV as part of the value of in-force business in the MCEV calculations).

The adjusted IFRS net asset value corresponds to the MCEV net asset value of the Swiss Life Group. Adding the value of in-force business leads to the Group MCEV.

3 Information by Market Unit

3.1 MARKET UNITS

Swiss Life's covered business is subdivided according to market units as follows:

- Life, pension and assumed external reinsurance business in Switzerland
- All businesses in France, mainly life, health and pension business
- Life and pension business in Germany
- Life and pension business in Luxembourg, Liechtenstein, and Singapore (together referred to as International)

This breakdown by market unit essentially coincides with the IFRS insurance segments in the annual report. There are minor differences since the MCEV classification generally follows the legal structure in order to ensure a correct modelling of the profit sharing. A divergence from the IFRS insurance segment reporting is the treatment of Swiss Life Asset Management in France, which is reported for MCEV purposes under France.

SWITZERLAND

Swiss Life's main business in the Swiss market is group life business with a full range of offerings. The individual business includes traditional savings, risk and annuity products, as well as modern savings and retirement products with flexible and lower guarantees. Swiss Life's own sales force plays the major role in distribution, followed by brokers and AWD. The business for assumed external reinsurance is included here.

FRANCE

Insurance products include savings, annuity, and risk products as well as health insurance products. New business for life insurance focuses on multi-support products, combining traditional savings and unit-linked components. The main distribution channels are brokers, tied agents and own sales force. Additionally, Swiss Life in France has developed strong relations with independent financial advisors and private banks.

GERMANY

Swiss Life sells traditional and modern products within individual and group life business. Disability insurance plays an important role. The main distribution channel is independent brokers, followed by financial advisors such as AWD.

INTERNATIONAL

Swiss Life offers private placement life insurance (PPLI) through its carriers in Liechtenstein, Singapore and Luxembourg. In Luxembourg, Swiss Life also provides group insurance solutions for international and local corporate clients through Corporate Clients.

3.2 RESULTS BY MARKET UNIT

MCEV BY MARKET UNIT FOR THE YEAR 2012

In CHF million

	Switzerland	France[1]	Germany	International	Total
NET ASSET VALUE	1 273	1 171	362	30	2 836
Free surplus	838	95	–33	–27	873
Required capital	435	1 076	395	57	1 963
VALUE OF IN-FORCE BUSINESS	3 780	924	144	204	5 051
Certainty equivalent value	4 845	1 729	414	267	7 254
Time value of financial options and guarantees	–579	–419	–161	–13	–1 172
Cost of residual non-hedgeable risks	–304	–303	–73	–36	–716
Frictional costs of required capital	–182	–83	–36	–14	–315
MCEV	5 053	2 094	506	234	7 888

[1] The value for France includes CHF 79 million in goodwill and intangible assets originating from the non-life and non-health insurance operations.

MCEV BY MARKET UNIT FOR THE YEAR 2011

In CHF million

	Switzerland	France[1]	Germany	International	Total
NET ASSET VALUE	1 096	1 082	353	–6	2 525
Free surplus	637	57	28	–56	666
Required capital	459	1 025	325	50	1 859
VALUE OF IN-FORCE BUSINESS	1 593	815	173	255	2 836
Certainty equivalent value	4 071	1 467	520	318	6 376
Time value of financial options and guarantees	–1 991	–367	–235	–8	–2 601
Cost of residual non-hedgeable risks	–280	–194	–74	–37	–584
Frictional costs of required capital	–207	–91	–37	–18	–354
MCEV	2 689	1 897	526	249	5 361

[1] The value for France includes CHF 81 million in goodwill and intangible assets originating from the non-life and non-health insurance operations.

SWITZERLAND

The MCEV almost doubled. The increase of the value of in-force business is driven by favourable capital market developments as laid out in section 2.5 and better persistency and reduced expenses. The higher net asset value results from a considerable annual profit achieved despite substantial balance sheet strengthening. The free surplus increased by CHF 201 million due to operating earnings after financing the new business production.

FRANCE

The MCEV of Swiss Life in France increased due to operating earnings and was supported by an overall favourable capital market environment with both the net asset value and the value of in-force business contributing positively.

GERMANY

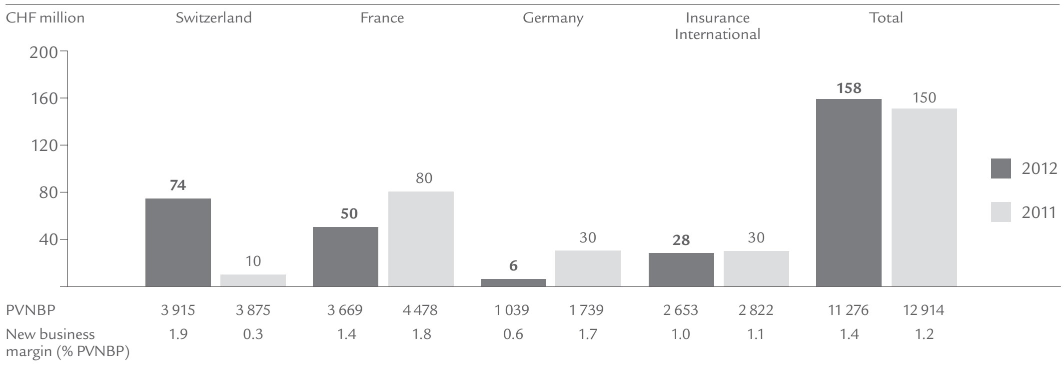
Although the drop in reference rates generally has a strong effect in the German life insurance market with its long-term guarantees, the decrease of MCEV was contained.

INTERNATIONAL

Private Placement Life Insurance (PPLI) and Corporate Clients account each for about 50% of the closing MCEV. The decrease of 6% is driven by a revised outlook on future new business volumes for the PPLI business, which is partly offset by an improved MCEV of Corporate Clients.

The negative free surplus is explained by not taking into account the goodwill relating to a past acquisition in Liechtenstein.

Value of New Business by Market Unit



VALUE OF NEW BUSINESS BY MARKET UNIT – PREMIUMS AND MARGINS FOR THE YEAR 2012

Amounts in CHF million

	Switzerland	France	Germany	International	Total
VALUE OF NEW BUSINESS	**74**	**50**	**6**	**28**	**158**
New business strain [1]	***–45***	***–51***	***–4***	***1***	***–99***
Value of new business before new business strain	***120***	***101***	***10***	***27***	***257***
Annual premiums	**159**	**304**	**66**	**10**	**539**
Single premiums	**1 420**	**1 363**	**242**	**2 578**	**5 604**
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	**3 915**	**3 669**	**1 039**	**2 653**	**11 276**
Average annual premium multiplier	**15.7**	**7.6**	**12.0**	**7.7**	**10.5**
New business annual premium equivalent (APE)	**301**	**441**	**91**	**268**	**1 100**
NEW BUSINESS MARGIN (% PVNBP)	**1.9%**	**1.4%**	**0.6%**	**1.0%**	**1.4%**
New business margin (% APE)	**24.7%**	**11.3%**	**6.5%**	**10.4%**	**14.4%**

[1] New business strain represents the effect on the net asset value from writing new business.

VALUE OF NEW BUSINESS BY MARKET UNIT – PREMIUMS AND MARGINS FOR THE YEAR 2011

Amounts in CHF million

	Switzerland	France	Germany	International	Total
VALUE OF NEW BUSINESS	10	80	30	30	150
New business strain [1]	*–52*	*–62*	*–8*	*–5*	*–127*
Value of new business before new business strain	*62*	*142*	*38*	*35*	*277*
Annual premiums	164	375	117	4	659
Single premiums	1 437	1 550	323	2 791	6 101
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	3 875	4 478	1 739	2 822	12 914
Average annual premium multiplier	14.9	7.8	12.1	7.8	10.3
New business annual premium equivalent (APE)	307	530	150	283	1 269
NEW BUSINESS MARGIN (% PVNBP)	0.3%	1.8%	1.7%	1.1%	1.2%
New business margin (% APE)	3.4%	15.2%	19.8%	10.7%	11.9%

[1] New business strain represents the effect on the net asset value from writing new business.

SWITZERLAND

New business consists of new contracts and new coverages on existing contracts. Within group life business, replacements and newly insured persons entering existing group life contracts are not accounted for as new business.

New business volume was overall stable. The very positive development in the value of new business and the new business margin is supported by comprehensive re-pricings and the launch of new guarantee concepts for individual life products. Allowing for some newly modelled products the value of new business for second pillar business remained stable.

FRANCE

Negative effects from economic variances, mainly due to the decrease of the reference rate, and from lower new business volumes were partly counteracted by operating measures.

For life business, the impacts from lower reference rates and lower persistency were partly offset by reduced acquisition expenses.

For health operations, lower volumes and higher future lapse rates assumed led to a lower value of new business. This was partly compensated by efficiency gains, lower commissions paid to the brokers, and higher tariffs, which preserved the profitability.

GERMANY

The value of new business dropped considerably due to a multitude of developments. Substantially lower reference rates negatively affected the profitability of the long-term traditional part of the business which experienced higher volumes due to regulatory changes, while the risk and supplementary disability insurance business incurred lower volumes. Re-pricing measures and the introduction of long-term care products did partly offset the aforementioned effect.

INTERNATIONAL

Both PPLI and Corporate Clients contributed substantially to the value of new business of International which accounts for CHF 28 million. PPLI's revised outlook on future new business led to a substantial reduction of its value of new business and, overall, to a margin reduction for International. Corporate Clients' value of new business improved substantially. It shows a strong margin due to higher volumes and a favourable business mix. Because of the weight of PPLI within International, by far the biggest share of new business premiums consists of single premiums.

ANALYSIS OF EARNINGS BY MARKET UNIT FOR THE YEAR 2012

In CHF million

	Switzerland	France	Germany	International	Total
OPENING MCEV	2 689	1 897	526	249	5 361
Opening adjustments	74	–	–18	–	56
ADJUSTED OPENING MCEV	2 763	1 897	508	249	5 417
New business value	74	50	6	28	158
Expected existing business contribution (reference rate)	14	9	4	3	30
Expected existing business contribution (in excess of reference rate)	370	187	64	9	629
Experience variances	64	–46	3	–17	5
Assumption changes	386	–39	97	5	449
Other operating variance	–110	–71	–5	–92	–279
OPERATING MCEV EARNINGS	799	89	169	–65	992
Economic variances	1 514	108	–160	6	1 468
Other non-operating variances	–22	–12	–14	1	–47
TOTAL MCEV EARNINGS	2 290	185	–5	–59	2 412
Closing adjustments	–	12	3	44	59
CLOSING MCEV	5 053	2 094	506	234	7 888

All market units contributed to the value creation with a positive value of new business.

SWITZERLAND

Opening adjustments reflect dividend payments from Germany and Swiss Life Investment Management.

Strong operating earnings of CHF 799 million correspond to a return of 30% on MCEV.

The positive experience variances include effects from balance sheet strengthening measures such as a reduction of technical interest rates, and effects from persistency and demographic experience.

Better persistency experience, both in group and individual life, and a further reduced expense base drive the positive assumption changes while a slightly negative effect results from updated demographic assumptions.

The negative other operating variances are mainly attributable to the issuance of new and restructuring of existing hybrid debt leading to an increase of hybrid debt with extended maturity profile. Additional effects stem from refinements and updates of management rules.

The positive economic variances are explained in section 2.5.

FRANCE

The operating MCEV earnings of CHF 89 million result mainly from the strong contribution of existing business and profitable new business in life and health, whereas changed policyholder behaviour in the French health market led to negative variances.

Experience variances include improvements in claims ratios, especially in health and disability business, which were offset by higher lapse rates, both in life and health business.

The higher lapse rates in health business mentioned are assumed to remain higher than previously anticipated and therefore result in negative assumptions changes, which were partially mitigated by achieved efficiency gains projected.

The other operating variances relate to model refinements covering inflation and other elements, as well as increased cost of credit risk.

In 2010, insurance companies were subject to an "exit tax" of 10% on the specific French GAAP "réserve de capitalisation". An additional contribution of 7% has become applicable for 2012, which is reflected in other non-operating variances.

Economic variances are explained in section 2.5.

Closing adjustments are the effects of the difference between the closing euro exchange rate and its opening forward rate.

GERMANY

Germany had a capital outflow of CHF 18 million.

The operating MCEV earnings of CHF 169 million result mainly from the contribution of existing business and from an update of anticipated policyholder behaviour based on experience in the continued low interest rate environment.

The substantially decreased reference rates – liquidity premium in euro dropped by 59 bp – led to a negative economic variance due to the long-term nature of the German in-force business, which was partly offset by the benefits of lower capital market volatilities.

Closing adjustments are the effects of the difference between the closing euro exchange rate and its opening forward rate.

INTERNATIONAL

The operating MCEV earnings of CHF –65 million are driven by a reassessment of PPLI's outlook, given the new focus for new business on the two carriers in Luxembourg and Singapore and the continuing uncertainties in private banking. On the other hand, the business with corporate clients had a considerably positive effect on the operating earnings.

The value of new business contributed strongly to the MCEV earnings with CHF 28 million or 12% of the total closing MCEV of International.

Efficiency gains on expenses were achieved in the corporate clients business and led to positive assumptions changes. The aforementioned revised outlook for PPLI's future new business drives the negative other operating variance.

By reason of the type and composition of International's business, changes in economic conditions have a limited impact compared to other market units.

Closing adjustments include capital transfers for PPLI and currency exchange rate effects.

4 Methodology

4.1 MCEV COMPONENTS FOR COVERED BUSINESS

NET ASSET VALUE (NAV)

The net asset value is the market value of assets allocated to the covered business, which are not backing liabilities from the covered business.

The net asset value is calculated as the statutory equity capital, adjusted by the unrealised gains or losses on assets covering the equity capital that are attributable to shareholders after taxes. Depending on local regulatory restrictions, equalisation reserves are also included in the net asset value. Intangible assets are not accounted for in the net asset value.

The net asset value is further split between the required capital (RC) and the free surplus (FS).

REQUIRED CAPITAL (RC)

The required capital is the market value of assets, attributed to the covered business – over and above that required to back liabilities for covered business – whose distribution to shareholders is restricted. Swiss Life bases the amount of required capital on 150% of the statutory solvency level according to Solvency I, except for assumed external reinsurance where an economic approach is used instead.

The amount of required capital disclosed is presented from a shareholder's perspective and thus is net of funding sources other than shareholder resources (such as subordinated loans or unallocated bonus reserves).

FREE SURPLUS (FS)

The free surplus is the market value of assets allocated to, but not required to support, the in-force covered business at the valuation date. The free surplus is calculated as the difference between the net asset value and the required capital.

Under the chosen definition of required capital, the free surplus, unlike the required capital, is supposed to be immediately releasable and hence does not affect the frictional costs of required capital.

VALUE OF IN-FORCE BUSINESS (VIF)

The value of in-force business consists of the following components:

1. Certainty equivalent value (CEV)
2. Time value of financial options and guarantees (TVOG), including the cost of credit risk (see below)
3. Cost of residual non-hedgeable risks (CNHR)
4. Frictional costs of required capital (FC)

In the MCEV Principles, the term present value of future profits (PVFP) is used instead of certainty equivalent value.

Certainty equivalent value and time value of financial options and guarantees are items that involve projections encompassing local statutory liabilities and assets in line with:

– local legal and regulatory obligations
– company practice due to commercial and competitive constraints
– local market practice in the calculation of embedded value

CERTAINTY EQUIVALENT VALUE (CEV)

The certainty equivalent value is defined as the present value of the future shareholders' statutory profits (net of tax) under the certainty equivalent scenario.

In this particular scenario, future market returns are determined as the forward rates implied in the reference rates at the valuation date. Discounting is performed at the same reference rates. The certainty equivalent value includes that part of the value of financial options and guarantees which materialises in the underlying scenario.

The rules for anticipated management and policyholders' actions applied in the certainty equivalent scenario are the same as those for the stochastic projection used to determine the time value of financial options and guarantees.

TIME VALUE OF FINANCIAL OPTIONS AND GUARANTEES (TVOG)

The certainty equivalent value does not allow for the risk that the financial outcome for shareholders could differ from the one implied by the certainty equivalent scenario. This is of particular relevance when products or funds include guarantees or options for the policyholder such as:

– guaranteed interest rates
– discretionary profit sharing and regulatory constraints, e.g. "legal quotes"
– maturity guarantees
– guaranteed minimum death benefits
– guaranteed annuity options
– surrender options

For such products or funds, a stochastic projection has been run allowing for the range of possible scenarios for financial markets. The TVOG is calculated as the difference between the average present value of shareholder cash flows (profits or losses) and the certainty equivalent value, plus the cost for credit risk (see remarks on credit risk below). The TVOG therefore represents the additional market consistent value of those financial options and guarantees in excess of the intrinsic value which are already allowed for in the certainty equivalent value.

At the end of the projection, shareholders are assumed to meet any shortfall of assets against liabilities or to receive a share of any residual assets. The same applies to the certainty equivalent value.

The cost of credit risk accounts for the shareholder's share of credit risk of investments in bonds that would have otherwise been unaccounted for in other MCEV components. It is defined as the present value of charges on the projected economic capital for credit risk.

The initial economic capital for credit risk is defined as the impact on the value of in-force business corresponding to the 99% expected shortfall of the credit loss from the actual bond portfolio over one year, due to the migration and default risk. The underlying credit risk calculations are performed using an internal model based on the CreditMetrics©[2] methodology.

[2] Copyright © 2009 JPMorgan Chase & Co. All rights reserved.

The economic capital for cost of credit risk has been projected based on mathematical reserves. An annual charge of 4% has been applied to the resulting projected economic capital.

COST OF RESIDUAL NON-HEDGEABLE RISKS (CNHR)

The cost of residual non-hedgeable risks for risk factors such as mortality, morbidity, expenses and lapse rates is calculated under a cost of capital approach. It is defined as the present value of annual charges on the projected economic capital for residual non-hedgeable risks.

The initial capital for the CNHR has been calculated in line with Swiss Life's internal model. The corresponding economic capital is calculated by aggregating the stand-alone economic capital amounts that correspond to non-hedgeable risk factors, notably the following:

- mortality
- longevity
- disability/morbidity
- recovery rates
- capital options
- lapses
- expenses

The drivers for projecting the economic capital for CNHR are generally based on the statutory solvency margin.

An annual charge of 4% has been applied to the resulting projected capital at risk. It represents the excess return or risk premium that a shareholder might expect on capital exposed to non-hedgeable risks.

In order to be consistent with the CFO Forum Principles, no diversification between hedgeable and non-hedgeable risks has been taken into account. Furthermore, no diversification effects between market units have been accounted for.

FRICTIONAL COSTS OF REQUIRED CAPITAL (FC)

The frictional costs of required capital for the covered business are defined as the present value of the costs incurred by shareholders due to investment via the structure of an insurance company (compared to direct investment as individuals), such as tax on profits generated by the insurance company or the costs of asset management. Other potential frictional costs such as agency costs or financial distress costs have not been taken into account in the frictional costs of required capital.

4.2 NEW BUSINESS

New business is defined as covered business arising from the sale of new contracts and from new covers to existing contracts during the reporting year, including cash flows arising from the projected renewal of those new contracts. Higher premiums in Swiss group life contracts from wage increases are not considered new business. The value of new business (VNB) reflects the additional value to shareholders created through the activity of writing new business during the reporting period.

The value of new business of a period represents the effect on the MCEV as at end of period from writing new business, i.e. it is the difference between the actual closing MCEV and the closing MCEV which would result if no new business had been written during the period. This is known as the "marginal" approach to value of new business. It applies to every MCEV component: CEV, TVOG, CNHR and FC. Legal constraints – e.g. "legal quotes" – or management rules often apply to books of contracts as a whole instead of individual contracts. That is why the value of new business can be dependent on the business in force before the writing of new business.

A "stand-alone" valuation for value of new business has been performed when the business in force is not affected by writing new business (for example for unit-linked contracts). In this case, the value of new business has been valued independently of the business in force.

The value of new business is generally calculated with economic scenarios and assumptions as at end of period.

4.3 ASSET AND LIABILITY DATA

All assets and liabilities reflect the actual positions as at valuation date.

ASSETS

The asset model used for the calculation of the MCEV differentiates three main asset classes:

– cash and fixed income instruments
– equity-type investments (including real estate)
– derivatives

All bonds and bond-like securities (such as mortgages) are modelled as fixed or floating government bonds. For all bonds, coupons and nominals have been recalibrated so that the valuation of the bonds using the reference yields converges to the observed market value.

Equities, real estate, participations and alternative investments (hedge funds and private equities) are modelled separately using appropriate indices for the corresponding currencies.

Current initial market values of assets have been taken where available ("marked-to-market"), or estimated where there is no reliable market ("marked-to-model"), for example by discounting unquoted loan and mortgage asset proceeds. Local regulatory and accounting frameworks (such as the amortisation of bonds or lower of cost or market principle) are reflected.

When a substantial share of the assets is held in foreign currencies, these foreign assets are modelled explicitly (including the foreign currency exchange risk).

INSURANCE LIABILITIES

Liabilities are valued in line with local statutory requirements generally using individual policy data. For projection purposes, policies of the same product with similar risk profiles are grouped together to form model points.

HYBRID DEBT

In accordance with the MCEV Principles (G3.4), hybrid debt allocated to covered business is valued by discounting the corresponding coupon and nominal payments (liability cash flows) with reference interest rates and spreads that would be used by capital markets for debt with similar characteristics. For the spread used see section 5.1.1. The approach is consistent with the fair value disclosed in the Notes to the Consolidated Financial Statements.

4.4 ECONOMIC SCENARIO GENERATOR

The MCEV is calculated using a risk-neutral valuation, based on market consistent and arbitrage-free stochastic economic scenarios. Under this approach, the key economic assumptions are:

– the reference rates
– interest rate and equity-type volatilities
– correlations between the economic risk factors
– inflation rates

The stochastic economic scenarios are generated by the economic scenario generator developed and provided by Barrie & Hibbert, a UK based financial consulting company. For variable annuity products a dedicated economic scenario generator is used.

The assets and liabilities within the Swiss Life Group are mostly denominated in Swiss francs, euros or US dollars. The economic scenarios reflect these three major economies, and since 2012, also British pounds and Canadian dollars, which are of lesser importance. The exchange rates and dividend yields are modelled as additional risk factors, as well as the inflation rates in each economy.

For the calculation of the MCEV and the value of the new business as at valuation date, 2000 economic scenarios are used, ensuring convergence of the results for all market units. For the calculation of the sensitivities and some steps in the movement analysis, some market units use fewer scenarios in connection with variance reduction techniques.

4.5 DYNAMIC MANAGEMENT ACTIONS AND POLICYHOLDER BEHAVIOUR

Anticipated dynamic management actions and policyholder behaviour mainly concern the following areas: profit sharing for participating life businesses, asset allocation and realisation of gains and losses, and assumed policyholder behaviour with regards to their contractual options. They are dependent on the economic scenario considered and reflect local regulations and type of business.

The crediting rules for policyholders are consistent with current company practices and local regulatory environments, in particular regarding the existence of a "legal quote". They ensure that the statutory solvency rules (Solvency I, including stress tests if legally required in the country) and other legal requirements are fulfilled for each projection year.

The rules for future asset allocations are consistent with going-concern assumptions. Asset realignment avoids deviating from the strategic asset allocation by more than a predefined margin and takes place after each projected year.

Lapse rates from policyholders have been dynamically modelled. For traditional business, lapse rates depend on the difference between the credited rate to the policyholders and the anticipated policyholders' expectations. Lapse parameters depend on the country and product line considered.

4.6 LOOK-THROUGH PRINCIPLE

MCEV guidance requires that profits or losses incurred in service companies from managing covered business are measured on a "look-through" basis. This principle ensures that all profits and losses incurred in relation to the covered business are passed to the corresponding entity, and consequently incorporated into the value of in-force business.

The look-through principle is applied for asset management services and corporate centre services. The future profits or losses taken into account for these services are limited to those linked to the insurance business, after "legal quote" and taxes.

4.7 CONSOLIDATION

The Group MCEV for Swiss Life comprises MCEV results for covered business and IFRS net asset values for non-covered business.

Covered business comprises all of Swiss Life's major life, health and pension business as well as assumed external reinsurance with the exception of Swiss Life Insurance Solutions AG, which is not material for MCEV purposes. In the case of France, the remaining operations are sub-consolidated with their IFRS net asset value and also included in the French covered business.

Covered business relates to the operations in:

– Switzerland
– Germany
– France: sub-consolidated
– Luxembourg
– Liechtenstein
– Singapore

The sum of all market consistent embedded values for the market units of the covered business forms the total MCEV for covered business.

Non-covered business comprises all other entities of the Swiss Life Group that are valued at the unadjusted IFRS net asset value on a consolidated level, such as the distribution unit AWD or investment management, financing and holding companies. Non-covered business is added to the MCEV results from the covered business to form the Group MCEV.

4.8 EMPLOYEE PENSION SCHEMES AND SHARE-BASED PAYMENT PROGRAMMES

Allowance is made for gains or losses arising from the defined benefit pension plans for Swiss Life's own employees. In Switzerland there is a semi-autonomous pension fund with biometric risks covered by an insurance contract. In other units the major part is covered by insurance contracts. The remaining part is modelled as commensurate expenses in the projections.

The costs of share-based payment programmes for employees are not included in the MCEV, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholder net assets are based. Further information on the costs of share-based payment programmes is given in the Group's IFRS financial statements.

5 Assumptions

5.1 ECONOMIC ASSUMPTIONS

The market consistent calibration of the economic scenarios is based on traded market instruments at the valuation date wherever possible. This includes nominal and real yield curves, interest rate volatility and equity volatilities. Where market data is not available or the market is not liquid enough, the model calibration is based on best estimate assumptions. This notably includes correlations, exchange rate volatilities and real estate volatilities.

5.1.1 REFERENCE RATES

Following market practice, the reference rates used for the calculation of the MCEV 2012 are based on the swap rates as at 31 December 2012 and include, where appropriate, a liquidity premium. Extrapolation of the interest curves and determination of liquidity premiums closely follow the QIS 5 framework.

The underlying liquidity premium is determined by applying the formula Maximum (0; 50%*(corporate credit spread over swap –40 bp)), where the corporate spreads over swap are measured with appropriate market indices. For the corporate credit spread over swap rates for the three currencies euro, US dollar and British pound, we use the quotation from Markit©[3] instead of using the two step approach as described in the QIS 5 guidance. For Canadian dollar we use the quotation from BofA Merrill Lynch. For the spread over swap rates for Swiss franc we use a SIX Swiss Exchange Bond Index (SBI® Corporate) composed of investment grade, foreign and domestic corporate issues in Swiss francs.

In line with QIS 5 guidance and market practice, we apply no liquidity premium to PPLI, unit-linked, and variable annuities business, 50% of the underlying liquidity premium to health insurance and assumed external reinsurance, and 75% to all participating and other businesses, including traditional annuities. Also according to QIS 5 guidance, liquidity premiums are applied over a term of 10 years for Swiss franc, 15 years for euro and 30 years for US dollar, and phased out over the following five years.

As some of Swiss Life's liabilities are running longer than asset durations are available on financial markets in sufficient depth and liquidity, an extrapolation of yields is needed to assess swap rates beyond this horizon. In 2012, Swiss Life used the approach for extrapolation prescribed by EIOPA for QIS 5.

The whole yield curve is shifted for the 100 bp increase/decrease in reference rate sensitivity including the extrapolated part beyond terms where market data is used for calibration of the reference rates.

The spread (over swap rates) applied for valuation of the hybrid debt as at 31 December 2012 is 185 bp. For the opening MCEV the spread amounted to 363 bp.

[3] Copyright © 2011 Markit Group Limited

5.1.1.1 SWAP RATES AS AT 31 DECEMBER 2012

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	**0.05%**	**0.06%**	**0.32%**	**0.96%**	**1.29%**	**1.47%**
Euro Zone	**0.33%**	**0.37%**	**0.77%**	**1.57%**	**2.02%**	**2.24%**
United States	**0.33%**	**0.39%**	**0.86%**	**1.79%**	**2.32%**	**2.69%**

5.1.1.2 SWAP RATES AS AT 31 DECEMBER 2011

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.03%	0.09%	0.58%	1.24%	1.48%	1.47%
Euro Zone	1.42%	1.32%	1.73%	2.37%	2.67%	2.56%
United States	0.67%	0.72%	1.22%	2.02%	2.37%	2.59%

5.1.1.3 100% LIQUIDITY PREMIUM, RELATIVE TO SWAP RATES, AS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

Economy	**2012** [1]	2011
Switzerland	**28bp**	62bp
Euro Zone	**48bp**	107bp
United States	**68bp**	108bp

[1] Liquidity Premium for British pound: 85bp, for Canadian dollar: 37bp

5.1.2 VOLATILITY ASSUMPTIONS

Volatility assumptions for the year-end 2012 and 2011 calculations are derived from market data as at 31 December 2012 and 2011.

The interest rate volatilities are based on implied volatilities of at-the-money receiver swaptions. The tables below show rates for euro and US dollar with 20-year tenors and rates for Swiss franc with 10-year tenors.

5.1.2.1 SWAPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2012

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	**47.1%**	**45.4%**	**43.6%**	**44.5%**	**44.4%**	**41.0%**
Euro Zone	**30.1%**	**29.1%**	**25.9%**	**23.5%**	**22.7%**	**16.7%**
United States	**28.4%**	**27.8%**	**24.0%**	**21.2%**	**20.1%**	**22.3%**

5.1.2.2 SWAPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2011

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	53.3%	47.3%	39.5%	45.3%	45.2%	31.4%
Euro Zone	38.5%	35.3%	30.3%	28.7%	29.3%	23.3%
United States	40.2%	36.9%	32.2%	28.4%	27.4%	32.8%

The equity implied volatilities are derived from the 10-year at-the-money equity put option prices.

5.1.2.3 EQUITY OPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

Economy	Index	Volatility 2012	Volatility 2011
Switzerland	SMI	**20.2%**	22.2%
Euro Zone	EuroStoxx 50	**24.7%**	27.2%
United States	S&P 500	**26.6%**	30.7%

The property volatilities are based on best estimate assumptions considering historical data.

5.1.2.4 PROPERTY VOLATILITIES USED FOR THE CALCULATION AS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

Economy	Volatility 2012	Volatility 2011
Switzerland	**8.0%**	8.0%
Euro Zone	**13.0%**	13.0%

5.1.3 CORRELATION ASSUMPTIONS

The correlation assumptions between different asset classes are based on historical market data. The correlations between returns on equities and on 10-year zero coupon bonds are assumed to be 17% for 2012 and 13% for 2011.

5.1.4 INFLATION ASSUMPTIONS

The inflation assumptions have been derived from inflation-linked bond prices, where inflation-linked bonds are traded. For the Swiss economy, the real interest rate model is calibrated on the inflation forecast by Consensus Economics, an international economic survey organisation.

5.1.4.1 FORWARD INFLATION RATES USED FOR THE CALCULATION AS AT 31 DECEMBER 2012

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	**0.4%**	**0.1%**	**0.3%**	**1.4%**	**1.5%**	**1.7%**
Euro Zone	**2.2%**	**1.5%**	**1.3%**	**2.2%**	**2.3%**	**2.0%**

5.1.4.2 FORWARD INFLATION RATES USED FOR THE CALCULATION AS AT 31 DECEMBER 2011

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.0%	0.0%	0.8%	1.5%	1.3%	1.2%
Euro Zone	1.6%	0.6%	0.7%	1.6%	1.9%	2.5%

5.1.5 REAL WORLD ASSUMPTIONS

These assumptions are used for the step “expected business contribution in excess of reference rates”.

For fixed interest assets, the “real world” investment return assumptions are based on the gross redemption yield on the assets less a rating-dependent allowance for expected defaults derived from historical data.

Fixed risk premiums are used for other risky assets. Return assumptions for equity and property are derived from the 10-year swap rates, plus a risk premium; see table 5.1.5.1 below.

5.1.5.1 EQUITY AND PROPERTY ASSUMPTIONS FOR REAL WORLD PROJECTION

Risk premiums by asset class	**2012**	2011
Equity	**400 bp**	400 bp
Property (Switzerland and Europe)	**200 bp**	200 bp

5.2 TAXATION AND LEGISLATION

Tax assumptions for the projection of annual results have been set in line with the local tax regime. Tax losses carried forward are considered. Taxation rules are based on individual companies' total results. Tax impact of future new business has not been allowed for. The following table 5.2.1 shows the corporate tax rates applied.

5.2.1 TAX ASSUMPTIONS

	2012	2011
Switzerland	**21.1%**	21.1%
France	**34.4%**[1]	34.4%
Germany	**32.6%**	32.6%
Luxembourg	**22.0%**	22.0%
Liechtenstein	**13.0%**	13.0%
Singapore	**18.0%**	18.0%

[1] Following French legislation the tax rate assumption applied for 2013 and 2014 is 36.1%.

5.3 OPERATING ASSUMPTIONS

Non-economic assumptions such as mortality, morbidity and lapse rates have been determined by the respective business units based on their best estimate as at the valuation date. Best estimate assumptions are set by considering past and current experience.

Expense assumptions are reconciled with past and current experience. They do not account for future cost reductions. Projected expenses are subject to inflation. All the expected expense overruns affecting the covered business, such as overhead expenses and development costs in new markets have been allowed for in the calculations. Corporate costs are included in the expenses of market units by means of a "look-through" procedure (see section 4.6).

6 Auditor's Report on Embedded Value

To the Board of Directors of
Swiss Life Holding Ltd

We have audited the Market Consistent Embedded Value Report ("MCEV Report") of Swiss Life Holding Ltd for the year ended 31 December 2012. The embedded value information included in the MCEV Report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles issued by the European Insurance CFO Forum, as described in sections 1 and 4 of the MCEV Report.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the MCEV Report in accordance with the MCEV Principles, including the applied methodology and the assumptions used and for such internal controls as determined necessary to enable the preparation of the MCEV Report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the MCEV Report has been properly prepared in accordance with the MCEV Principles. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the MCEV Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the MCEV Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the MCEV Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the MCEV Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the principles used and the reasonableness of significant estimates made, as well as evaluating the adequacy of the overall presentation of the MCEV Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the MCEV Report of Swiss Life Holding Ltd for the year ended 31 December 2012 is prepared, in all material respects, in accordance with the MCEV Principles.

BASIS OF PREPARATION

Without modifying our opinion, we draw attention to sections 4 and 5 of the MCEV Report, which describe the basis of MCEV methodology and assumptions.

This report has been prepared solely for the Board of Directors of Swiss Life Holding Ltd in accordance with the terms of our engagement letter. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown except where explicitly agreed by our prior consent in writing. This report does not extend to any financial statements of Swiss Life Holding Ltd.

PricewaterhouseCoopers AG

Ray Kunz Morgan Schaeffer
Audit expert

Zurich, 26 February 2013

7 Glossary and List of Abbreviations

ANNUAL PREMIUM EQUIVALENT (APE)

Volume measure for new business. Sum of regular premiums from new business +10% of single premiums on business written during the period.

AVERAGE ANNUAL PREMIUM MULTIPLIER

The average annual premium multiplier is determined as the difference between PVNBP and the new business single premiums, divided by new business annual premiums.

BEST ESTIMATE ASSUMPTIONS

A best estimate assumption should equal the mean estimate (probability weighted average) of outcomes of that risk variable.

CERTAINTY EQUIVALENT SCENARIO

Economic scenario under which asset returns are equal to the reference rates.

CERTAINTY EQUIVALENT VALUE (CEV)

Certainty equivalent value is defined as the present value of the future shareholders' statutory profits (net of tax) under the certainty equivalent scenario.

CFO FORUM

The CFO Forum is a high-level discussion group formed and attended by the Chief Financial Officers of major European listed, and some non-listed, insurance companies. Its aim is to discuss issues relating to proposed new accounting regulations for their businesses and how they can create greater transparency for investors. It published the MCEV Principles together with a detailed Basis for Conclusions on 4 June 2008 and an amendment in October 2009.

COST OF CREDIT RISK

The cost of credit risk accounts for the credit risk of investments in bonds that would otherwise have been unaccounted for in other MCEV components.

COST OF RESIDUAL NON-HEDGEABLE RISKS (CNHR)

The cost of residual non-hedgeable risks accounts for risk factors such as mortality, morbidity, expenses and lapse rates.

COVERED BUSINESS

Covered business includes all of Swiss Life's major life, health and pension business as well as assumed external reinsurance. In the case of France, all business operations are included in the covered business.

FREE SURPLUS (FS)

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date.

FRICTIONAL COSTS OF REQUIRED CAPITAL (FC)

The additional investment and taxation cost incurred by shareholders through investing required capital in the company compared to direct investment as individuals.

GROUP MCEV

The Group MCEV for Swiss Life comprises MCEV results for covered business and IFRS net asset values for non-covered business of the Swiss Life Group (as explained above under point 4.7).

IFRS

International Financial Reporting Standards

"LEGAL QUOTE"

Statutory minimum policyholder participation ratio

LIQUIDITY PREMIUM

As stipulated in the MCEV Principles, liquidity premiums are included in swap yield curves in cases where liabilities are not liquid.

LOOK-THROUGH PRINCIPLE

Method by which profits or losses from service companies within the Swiss Life Group, which are directly related to managing the covered business, are included in the MCEV and in the value of new business.

MARKET CONSISTENT EMBEDDED VALUE (MCEV)

Market consistent embedded value is a measure of the consolidated value of shareholders' interests in the in-force covered business of the Swiss Life Group.

NET ASSET VALUE (NAV)

The net asset value is the market value of assets attributed to the covered business over and above that required to back liabilities for covered business.

NEW BUSINESS MARGIN

The value of new business divided by the present value of new business premiums (PVNBP) or divided by the annual premium equivalent (APE), respectively.

NON-COVERED BUSINESS

All businesses of the Swiss Life Group which are not accounted for under covered business, such as investment management and AWD, are included in the non-covered business of the Group MCEV by means of their IFRS net asset values.

NON-TRADITIONAL BUSINESS

Unit-linked-type contracts, with or without additional financial guarantees and policyholder options.

OPERATING MCEV EARNINGS

Change in MCEV and in Group MCEV in the reporting period after initial and closing adjustments, economic variances and other non-operating variances, as well as other movements in IFRS net equity.

PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)

Volume measure for new business. It represents the present value of premiums from new business. It is the sum of single premiums and the present value of periodic premiums from new business.

QIS 5

EIOPA's fifth quantitative impact study for Solvency II.

REFERENCE RATE

The reference rates used for the calculation of the MCEV are based on the swap rates at the valuation date.

REQUIRED CAPITAL (RC)

The required capital is the market value of assets, attributed to the covered business over and above that required to back liabilities for covered business, whose distribution to shareholders is restricted based on statutory solvency.

TIME VALUE OF FINANCIAL OPTIONS AND GUARANTEES (TVOG)

The TVOG represents the additional market price of those financial options and guarantees in excess of the intrinsic value of options and guarantees which is already allowed for in the certainty equivalent value.

TOTAL MCEV EARNINGS

Change in MCEV and in Group MCEV in the reporting period after initial and closing adjustments and other movements in IFRS net equity.

VALUE OF IN-FORCE BUSINESS (VIF)

The value of in-force business represents the net present value of future profits emerging from operations and assets backing liabilities, after accounting for TVOG, CNHR and FC.

VALUE OF NEW BUSINESS (VNB)

The value of new business reflects the additional value to shareholders created by writing new business during the reporting period.

VARIABLE ANNUITIES

Unit-linked contracts with additional guarantees and policyholder options.

Consolidated Financial Statements

Consolidated Statement of Income

CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	Notes	2012	2011
INCOME			
Premiums earned on insurance contracts		**11 385**	11 105
Premiums earned on investment contracts with discretionary participation		**661**	685
Premiums ceded to reinsurers		**–175**	–191
Net earned premiums	7	**11 871**	11 599
Policy fees earned on insurance contracts		**36**	39
Policy fees earned on investment and unit-linked contracts		**273**	256
Net earned policy fees	7	**309**	295
Commission income	8	**826**	893
Investment income	5, 8	**4 297**	4 216
Net gains/losses on financial assets	5, 8	**776**	550
Net gains/losses on financial instruments at fair value through profit or loss	5, 8	**580**	–820
Net gains/losses on investment property	5, 15	**390**	513
Other income	8	**25**	45
TOTAL INCOME		**19 075**	17 291
EXPENSES			
Benefits and claims under insurance contracts		**–13 214**	–12 008
Benefits and claims under investment contracts with discretionary participation		**–685**	–709
Benefits and claims recovered from reinsurers		**79**	103
Net insurance benefits and claims	8	**–13 819**	–12 614
Policyholder participation		**–1 104**	–791
Interest expense	8	**–253**	–274
Commission expense	8	**–871**	–983
Employee benefits expense	8	**–871**	–835
Depreciation and amortisation expense	8	**–685**	–554
Impairment of property and equipment and intangible assets	17, 18	**–604**	–11
Other expenses	8	**–521**	–530
TOTAL EXPENSES		**–18 728**	–16 592
PROFIT FROM OPERATIONS		**346**	699
Borrowing costs		**–125**	–120
Share of profit or loss of associates	5, 16	**8**	6
PROFIT BEFORE INCOME TAX		**229**	585
Income tax expense	25	**–137**	21
NET PROFIT		**93**	606
Net profit attributable to			
equity holders of Swiss Life Holding		**92**	605
non-controlling interests		**1**	1
NET PROFIT		**93**	606
Earnings per share attributable to equity holders of Swiss Life Holding			
Basic earnings per share (in CHF)	6	**2.88**	18.97
Diluted earnings per share (in CHF)	6	**2.86**	18.87

Consolidated Statement of Comprehensive Income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	Notes	2012	2011
NET PROFIT		**93**	606
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations		**–21**	–71
Financial assets available for sale		**3 816**	3 161
Cash flow hedges		**408**	173
Revaluation surplus on investment property		**61**	14
Share of other comprehensive income of associates		**0**	–
Financial assets reclassified to loans and receivables		**170**	110
Policyholder participation		**–2 856**	–1 639
Shadow accounting		**–19**	–141
Income tax relating to other comprehensive income		**–390**	–343
NET OTHER COMPREHENSIVE INCOME	27	**1 171**	1 264
TOTAL NET COMPREHENSIVE INCOME		**1 264**	1 870
Total net comprehensive income attributable to			
equity holders of Swiss Life Holding		**1 262**	1 869
non-controlling interests		**1**	1
TOTAL NET COMPREHENSIVE INCOME		**1 264**	1 870

Consolidated Balance Sheet

CONSOLIDATED BALANCE SHEET

In CHF million

	Notes	31.12.2012	31.12.2011
ASSETS			
Cash and cash equivalents		**6 480**	5 084
Derivatives	9	**1 636**	1 318
Assets held for sale	30	**–**	22
Financial assets at fair value through profit or loss	10	**27 183**	24 120
Financial assets available for sale	11	**81 176**	67 264
Loans and receivables	13, 33	**25 488**	27 202
Financial assets held to maturity	14, 33	**–**	5 046
Financial assets pledged as collateral	12, 35	**964**	969
Investment property	15	**16 225**	15 445
Investments in associates	16	**87**	74
Reinsurance assets	23	**369**	380
Property and equipment	17	**433**	539
Intangible assets including intangible insurance assets	18	**2 893**	3 722
Current income tax assets		**5**	2
Deferred income tax assets	25	**85**	153
Other assets	19	**376**	535
TOTAL ASSETS		**163 400**	151 875

CONSOLIDATED BALANCE SHEET

In CHF million

	Notes	31.12.2012	31.12.2011
LIABILITIES AND EQUITY			
LIABILITIES			
Derivatives	9	**839**	1 186
Liabilities associated with assets held for sale	30	**–**	15
Financial liabilities at fair value through profit or loss	10	**21 162**	18 782
Investment contracts	20	**11 553**	11 358
Borrowings	21, 33	**2 768**	2 624
Other financial liabilities	22, 33	**7 722**	7 225
Insurance liabilities	23	**97 474**	93 365
Policyholder participation liabilities		**8 376**	5 150
Employee benefit liabilities	24	**1 227**	1 261
Current income tax liabilities		**74**	120
Deferred income tax liabilities	25	**1 458**	1 144
Provisions	26	**188**	150
Other liabilities	19	**274**	333
TOTAL LIABILITIES		**153 114**	142 713
EQUITY			
Share capital		**164**	164
Share premium		**1 507**	1 651
Treasury shares		**–17**	–25
Foreign currency translation differences	27	**–855**	–833
Gains/losses recognised directly in equity	27	**2 736**	1 544
Retained earnings		**6 718**	6 626
TOTAL SHAREHOLDERS' EQUITY		**10 253**	9 127
Non-controlling interests		**33**	35
TOTAL EQUITY		**10 286**	9 162
TOTAL LIABILITIES AND EQUITY		**163 400**	151 875

Consolidated Statement of Cash Flows

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums, policy fees and deposits received, net of reinsurance	**13 169**	13 264
Benefits and claims paid, net of reinsurance	**–12 192**	–12 695
Interest received	**3 817**	3 544
Dividends received	**104**	108
Commissions received	**845**	896
Rentals received	**767**	747
Interest paid	**–50**	–57
Commissions, employee benefit and other payments	**–2 253**	–2 390
Net cash flows from		
derivatives	**59**	1 640
financial instruments at fair value through profit or loss	**359**	397
financial assets available for sale	**–8 777**	–4 945
loans	**2 159**	969
financial assets held to maturity	**4 160**	127
investment property	**–609**	–833
deposits	**191**	–2 652
other operating assets and liabilities	**–10**	–26
Income taxes paid	**–197**	–183
TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**1 542**	–2 089

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	Notes	2012	2011
TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES		**1 542**	–2 089
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments in associates	16	**–**	–10
Sales of investments in associates	16	**0**	0
Dividends received from associates	16	**3**	4
Purchases of property and equipment		**–33**	–29
Sales of property and equipment		**3**	2
Purchases of computer software and other intangible assets		**–22**	–20
Acquisition of insurance portfolio, net of cash and cash equivalents	31	**–**	100
Acquisitions of subsidiaries, net of cash and cash equivalents	29	**–1**	–9
Disposals of subsidiaries, net of cash and cash equivalents	29	**0**	–
TOTAL NET CASH FLOWS FROM INVESTING ACTIVITIES		**–50**	38
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of debt instruments		**298**	490
Repurchase of debt instruments		**–139**	–
Redemption of debt instruments		**–1**	–196
Distribution out of capital contribution reserve		**–144**	–
Reduction in par value		**–**	–143
Purchases of treasury shares		**–1**	–9
Sales of treasury shares		**1**	1
Purchases of non-controlling interests		**2**	–
Capital contributions from non-controlling interests		**0**	1
Borrowing costs paid		**–122**	–112
Dividends paid to non-controlling interests		**0**	–1
TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES		**–106**	31
TOTAL CHANGE IN CASH AND CASH EQUIVALENTS		**1 386**	–2 020
Cash and cash equivalents as at 1 January		**5 084**	6 940
Foreign currency differences		**10**	164
Total change in cash and cash equivalents		**1 386**	–2 020
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		**6 480**	5 084
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash on hand and demand deposits		**3 700**	2 615
Cash equivalents		**13**	23
Cash and cash equivalents for the account and risk of the Swiss Life Group's customers		**2 767**	2 446
TOTAL CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		**6 480**	5 084

Consolidated Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

In CHF million	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation differences	Gains/losses recognised directly in equity	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at 1 January		164	1 651	–25	–833	1 544	6 626	9 127	35	9 162
Total net comprehensive income	27	–	–	–	–22	1 192	92	1 262	1	1 264
Distribution out of the capital contribution reserve	27	–	–144	–	–	–	–	–144	–	–144
Equity-settled share-based payments		–	7	–	–	–	–	7	0	7
Purchases of treasury shares		–	–	–1	–	–	–	–1	–	–1
Sales of treasury shares		–	0	1	–	–	–	1	0	1
Allocation of treasury shares under equity compensation plans		–	–8	8	–	–	–	–	–	–
Disposals of subsidiaries		–	–	–	–	–	–	–	0	0
Changes in ownership interest in subsidiaries		–	–	–	–	–	–	–	–2	–2
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	0	0
Dividends		–	–	–	–	–	–	–	0	0
BALANCE AS AT END OF PERIOD		164	1 507	–17	–855	2 736	6 718	10 253	33	10 286

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

In CHF million	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation differences	Gains/losses recognised directly in equity	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at 1 January		308	1 646	–18	–762	209	6 021	7 404	33	7 437
Total net comprehensive income	27	–	–	–	–71	1 335	605	1 869	1	1 870
Reduction in par value	27	–144	1	–	–	–	–	–143	–	–143
Equity-settled share-based payments		–	5	–	–	–	–	5	0	5
Purchases of treasury shares		–	–	–9	–	–	–	–9	–	–9
Sales of treasury shares		–	–1	2	–	–	–	1	–	1
Acquisitions of subsidiaries		–	–	–	–	–	–	–	1	1
Changes in ownership interest in subsidiaries		–	–	–	–	–	0	0	0	0
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	1	1
Dividends		–	–	–	–	–	–	–	–1	–1
BALANCE AS AT END OF PERIOD		164	1 651	–25	–833	1 544	6 626	9 127	35	9 162

Notes to the Consolidated Financial Statements

1 General Information

The Swiss Life Group is one of Europe's leading comprehensive life and pensions and financial solutions providers. In its core markets of Switzerland, France and Germany, Swiss Life offers individuals and corporations comprehensive and individual advice plus a broad range of own and partner products through its sales force and distribution partners such as brokers and banks.

Swiss Life Select (formerly AWD), tecis, HORBACH, Proventus and Chase de Vere advisors choose suitable products for customers from the market according to the Best Select approach. Swiss Life Asset Managers offers institutional and private investors access to investment and asset management solutions. Swiss Life provides multinational corporations with employee benefits solutions and high net worth individuals with structured life and pensions products.

DISTRIBUTION OUT OF CAPITAL CONTRIBUTION RESERVE

For the 2011 financial year, a distribution was made to the shareholders of Swiss Life Holding Ltd (hereinafter referred to as "Swiss Life Holding"), instead of a dividend payment from profit, from the capital contribution reserve. This amounted to CHF 144 million (CHF 4.50 per registered share) and was paid in the first half of 2012.

APPROVAL OF FINANCIAL STATEMENTS

On 13 March 2013, 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 that date.

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.

2.1 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.

2.2 CHANGES IN ACCOUNTING POLICIES

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

In December 2010, an amendment to IAS 12 Income Taxes was issued by the International Accounting Standards Board. The amendment is set out in Deferred Tax: Recovery of Underlying Assets. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. The amendment applies to annual periods beginning on or after 1 January 2012. These amendments currently have no impact on the Group's consolidated financial statements.

In October 2010, amendments to IFRS 7 Financial Instruments: Disclosures were issued. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments apply to annual periods beginning on or after 1 July 2011. The Swiss Life Group is currently not impacted by these amendments.

The following amended Standards and Interpretations are not relevant to the Swiss Life Group:

– Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards

2.3 CONSOLIDATION PRINCIPLES

The Group's consolidated financial statements include the assets, liabilities, income 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 obtained. All intercompany balances, transactions and unrealised gains and losses on such transactions have been eliminated. A listing of the Group's subsidiaries is set out in note 37. The financial effect of acquisitions and disposals of subsidiaries is shown in note 29. Associates 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 profit or loss 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 on which significant influence begins until the date on which significant influence ceases. Unrealised gains arising from transactions with associates 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 is shown in note 16.

Non-controlling interest is the part of profit or loss and net assets of a subsidiary attributable to equity interest that is not owned, directly or indirectly, through subsidiaries by the parent. The amount of non-controlling interest comprises the proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities not attributable, directly or indirectly, to the parent at the date of the original acquisition, goodwill attributable to non-controlling interest, if any, and the proportion of changes in equity not attributable, directly or indirectly, to the parent since the date of acquisition.

2.4 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. Figures may not add up exactly due to rounding.

FOREIGN CURRENCY EXCHANGE RATES

	31.12.2012	31.12.2011	Average 2012	Average 2011
1 British pound (GBP)	**1.4855**	1.4559	**1.4865**	1.4221
1 Czech koruna (CZK)	**0.0481**	0.0478	**0.0479**	0.0501
1 Euro (EUR)	**1.2070**	1.2166	**1.2059**	1.2345
100 Hungarian forint (HUF)	**0.4142**	0.3867	**0.4167**	0.4409
100 Polish zloty (PLN)	**29.5619**	27.2647	**28.8110**	29.8986
1 Singapore dollar (SGD)	**0.7487**	0.7242	**0.7507**	0.7053
1 US dollar (USD)	**0.9146**	0.9388	**0.9378**	0.8866

FOREIGN CURRENCY TRANSLATION

On consolidation, assets and liabilities of Group entities 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 in other comprehensive income as cumulative translation adjustments. On disposal of foreign entities, such translation differences are recognised in profit or loss as part of the gain or loss on the sale.

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.

2.5 CASH AND CASH EQUIVALENTS

Cash amounts represent cash on hand and demand deposits. Cash equivalents are primarily short-term highly liquid investments with an original maturity of 90 days or less.

2.6 DERIVATIVES

The Group enters into forward contracts, futures, forward rate agreements, currency and interest rate swaps, 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, except for certain foreign exchange contracts, 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 initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their 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, unless they represent surrender options with a fixed strike price embedded in host insurance contracts and host investment contracts with discretionary participation features. 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 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) or hedges of net investments in foreign operations. 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. Any ineffective portion of the gain or loss is recognised immediately in the income statement. 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. When a hedging instrument expires or is sold, or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in income. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to income.

Hedges of net investments in foreign operations (net investment hedges) are accounted for similarly to cash flow hedges, i.e. the effective portion of the gain or loss on the hedging instrument is recognised directly in equity and any ineffective portion is recognised immediately in the income statement. The gains or losses recognised in equity are reclassified to the income statement on the disposal of the foreign operation.

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

2.7 FINANCIAL ASSETS

"Regular way" purchases and sales of financial assets are recorded on the trade date. 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 substantially all 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.

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, private placement life insurance) in order to avoid measurement inconsistencies with the corresponding liabilities.
– 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, 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 reclassified from financial assets available for sale to loans due to the disappearance of an active market are not reclassified back to financial assets available for sale if the market becomes active again.

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

Transfers of securities under repurchase agreements or under lending agreements continue to be recognised if substantially all the risks and rewards of ownership are retained. They are accounted for as collateralised borrowings, i.e. the cash received is recognised with a corresponding obligation to return it, which is included in other financial liabilities.

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.

2.8 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. It is assessed whether there is objective evidence of impairment individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

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. Held-to-maturity securities and loans and receivables are assessed for impairment when a significant decrease in market value related to credit risk arises, namely after a downgrade of a debtor’s rating below single B– after initial recognition (i.e. CCC or lower according to Standard and Poor’s or equivalent) or when payments of principal and/or interest are overdue by more than 90 days. If there is objective evidence that an impairment 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 assets 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 the amount that represents the difference between the carrying amount and the new amortised cost value by adjusting the allowance account. The amount of the reversal is recognised in income.

FINANCIAL ASSETS CARRIED AT FAIR VALUE (AVAILABLE FOR SALE)

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 objective evidence of impairment. In this respect, a decline of 30% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. In such a situation, the impairment loss – measured as the difference between the acquisition cost and the current fair value – is removed from equity and recognised in the income statement. After recognition of an impairment loss, any further declines in fair value are recognised in the income statement, and subsequent increases in fair value are recognised directly in equity.

Available-for-sale debt securities are assessed for impairment when a significant decrease in market value related to credit risk arises, namely after a downgrade of a debtor's rating below single B– after initial recognition (i.e. CCC or lower according to Standard and Poor's or equivalent) or when payments of principal and/or interest are overdue by more than 90 days. 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.

2.9 INVESTMENT PROPERTY

Investment property is property (land or a building or both) held by the Group to earn rentals or for capital appreciation or both, rather than for administrative purposes.

Investment property includes completed investment property and investment property under construction. Completed investment property consists of investments in residential, commercial and mixed-use properties primarily located within Switzerland.

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 under construction is also measured at fair value with changes in fair value being recognised in the income statement. However, where the fair value is not reliably determinable, the property is measured at cost until either its fair value becomes reliably measurable or construction is completed.

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 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.

2.10 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 (see below) 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 primarily 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, Luxembourg and Liechtenstein 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.

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

In jurisdictions where no statutory minimum distribution ratio (“legal quote”) exists, 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 policyholder participation liabilities. In that respect the policyholder bonus reserve set up in the statutory accounts for these contracts is regarded as discretionary. For these contracts the entire DPF is classified as a liability.

In other 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 (life insurance business) and Germany. For these contracts the Swiss Life Group defines DPF as the policyholder bonus reserve set up in the statutory accounts and the amount of temporary valuation differences between the IFRS basis and statutory basis on the assets and liabilities relating to the respective insurance portfolio measured using the statutory minimum distribution ratio (“legal quote”). The policy of the Swiss Life Group is to classify as a liability the entire DPF as defined.

When such temporary valuation differences disappear (e.g. management decides to realise certain unrealised gains and losses on assets), additional benefits which arise from the application of the statutory minimum distribution ratio (“legal quote”) are allocated to the policyholders and become part of their guaranteed benefits. These amounts are always accounted for as liabilities.

Because there is a direct effect on the measurement of DPF liabilities when asset gains or losses are realised, changes in these liabilities are recognised directly in equity when, and only when, the valuation differences on the assets arise from gains or losses recognised directly in equity (“shadow accounting”).

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
In life insurance business, 85% of the investment result and 90% of any other results are allocated to the policyholders as a minimum.

GERMANY
A minimum of 90% of the total investment result less 100% of the minimum guaranteed interest on the policyholder account, a minimum of 75% of the risk result and a minimum of 50% of the positive expense result is allocated to the policyholder.

LUXEMBOURG/LIECHTENSTEIN
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. The amount and timing of these bonuses are not subject to management discretion and are accrued to the policyholders’ liabilities based on the relevant contractual terms and conditions.

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.

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. Benefits are recognised as an expense when due.

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 (e.g. most non-life contracts), 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

These liabilities are determined by using the net-level-premium method. Depending on the type of profit participation, the calculations are based on various actuarial assumptions as to mortality, interest rates, investment returns, expenses and persistency, including a margin for adverse deviation. The assumptions are initially set at contract issue and are locked in except for deficiency.

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, either by reducing the unamortised DAC or intangible assets or by increasing the insurance liabilities. The liability adequacy test is performed at each reporting date in accordance with a loss recognition test considering current estimates of future cash flows including those resulting from embedded options and guarantees.

POLICYHOLDER DEPOSITS

For investment contracts with discretionary participation, 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.

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.

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, is 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 reinsurance 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.

If a reinsurance asset is impaired, the impairment loss is recognised in the income statement and the carrying amount is reduced accordingly.

SEPARATE ACCOUNT/UNIT-LINKED CONTRACTS/PRIVATE PLACEMENT LIFE INSURANCE

Separate account contracts represent life insurance contracts with a separated part that is invested in assets managed for the account and risk of the Swiss Life Group's customers according to their specific investment objectives. Separate account liabilities are included in insurance liabilities. Separate account liabilities include the right of the policyholder to participate in the performance of the underlying assets.

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. 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.

Liabilities relating to private placement life insurance are included in financial liabilities designated as at fair value through profit or loss.

Assets associated with separate account/unit-linked contracts and private placement life insurance 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. The Group has allocated on a rational basis the proportion of acquisition costs related to the insurance and deposit components, respectively. The accounting policy for deferred acquisition costs applies to the portion of acquisition costs associated with the insurance component and the policy for deferred origination costs applies to the other portion (see 2.15 Intangible Assets).

Administrative and surrender charges are included in policy fee income.

2.11 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.

Property and equipment 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.

2.12 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.

2.13 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.

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.

2.14 COMMISSION INCOME AND EXPENSE

Revenue consists principally of brokerage fees, recurring fees for existing business and other fees. Such revenue is recognised when earned, i.e. when the services are rendered. Cancellations are recorded as a deduction of fee income.

Costs primarily comprise commissions paid to independent financial advisors, employee benefits attributable to advisory services and other expenses.

2.15 INTANGIBLE ASSETS

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 the contracts acquired. The PVP represents the difference between the fair value of the contractual rights acquired and insurance obligations assumed and a liability measured in accordance with the accounting policies for insurance contracts and investment contracts with DPF. 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 unrealised gains/losses were to be realised, the gross profits or gross margins used to amortise PVP would be affected. 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 as an expense 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 benefit liabilities and expected annual policyholder bonuses.

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

Deferred acquisition costs for investment-type contracts such as universal life 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 rights to receive fees for asset management services sold with investment contracts without DPF are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. These incremental costs are costs that would not have been incurred if the Group had not secured the investment contracts. All other origination costs are recognised as an expense when incurred.

Deferred origination costs are generally amortised on a straight-line basis over the life of the contracts.

GOODWILL

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

Goodwill represents the excess of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, if applicable, over the fair value of the assets and liabilities recognised at the date of acquisition. The Group has the option for each business combination, in which control is achieved without buying all of the equity of the acquiree, to recognise 100% of the goodwill in business combinations, not just the acquirer's portion of the goodwill ("full goodwill method"). Goodwill on acquisitions of subsidiaries is included in intangible assets. Acquisition-related costs are expensed. Goodwill on associates 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 for impairment annually and whenever there is an indication that the unit may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in subsequent periods.

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.

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.

BRANDS AND OTHER

Other intangible assets consist of trademarks, computer software and other.

Brands and trademarks with a definite useful life of generally 5 to 20 years are amortised using the straight-line method over their useful lives. Brands with an indefinite useful life are tested for impairment on an annual basis as part of the cash-generating unit to which they belong. They are carried at cost less accumulated impairment.

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 for the expected useful life up to three years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly associated with identifiable software products controlled by the Group and that will probably generate future economic benefits are capitalised. Direct costs include the software development team's employee costs. 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.

2.16 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 from its continuing use.

Impairment losses and reversals on other assets are recognised in operating expenses.

2.17 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, 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.

2.18 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.

2.19 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 or relate to private placement life insurance.
- Financial liabilities related to assets measured at fair value in order to reduce or eliminate a measurement or recognition inconsistency.
- Financial liabilities with embedded derivatives.

BORROWINGS

Borrowings are recognised initially at the proceeds received, net of transaction costs 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.

Based on the terms and conditions, such as repayment provisions and contractual interest payments, hybrid instruments are considered as financial liabilities.

Debt instruments with embedded conversion options to a fixed number of 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.

Borrowing costs presented in the consolidated statement of income relate to the interest expense on the financial liabilities classified as borrowings whilst interest expense presented in the consolidated statement of income relates to interest expense on bank deposits, insurance and investment contract deposits and repurchase agreements.

OTHER FINANCIAL LIABILITIES

For deposits with fixed and guaranteed terms the amortised cost basis is used. Initial recognition is at the proceeds received, net of transaction costs incurred. Subsequently, they are 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 deposits. For repurchase agreements, initial recognition is at the amount of cash received, net of transaction costs incurred. Subsequently, the difference between the amount of cash initially received and the amount of cash exchanged upon maturity is amortised over the life of the agreement using the effective interest method.

2.20 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 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 and the present value of any future refunds from the plans or reductions in future contributions to the plans.

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 profit or loss 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 generally been eliminated. However, certain assets relating to these plans qualify as plan assets and are therefore not 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.

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.

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.

2.21 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 and be measured on a best estimate basis. Contingent liabilities are disclosed in the Notes if there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources or the amount of the obligation cannot be measured with sufficient reliability.

2.22 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.

2.23 EARNINGS PER SHARE

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

For diluted earnings per share the profit and the weighted average number of shares in issue are 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.

2.24 OFFSETTING

Financial assets and liabilities are offset and the net amount is 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.

2.25 FORTHCOMING CHANGES IN ACCOUNTING POLICIES

In December 2011, the International Accounting Standards Board issued amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures. The amendments clarify the requirements for offsetting financial instruments. The new disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The amendments are effective for annual periods beginning on or after 1 January 2014 and 2013, respectively. The effect due to derivative transactions that does not qualify for offsetting in the balance sheet as at 31 December 2012 amounted to approx. CHF 800 million. Additionally, net cash collateral received for derivative transactions amounted to approx. CHF 700 million as at 31 December 2012.

In June 2011, the International Accounting Standards Board issued an amended version of IAS 19 Employee Benefits. Important improvements were made by eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', and by streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income. Furthermore, the disclosure requirements for defined benefit plans were enhanced, providing better information about the characteristics and risks of defined benefit plans. The amended version of IAS 19 Employee Benefits comes into effect for annual periods beginning on or after 1 January 2013. The Swiss Life Group expects an impact of these new requirements on the reported amounts relating to defined benefit plans. The estimated net impact of these changes on shareholders' equity as at 1 January 2012 is a decrease of approx. CHF 180 million.

In June 2011, amendments to IAS 1 Presentation of Financial Statements were issued. The amended IAS 1 Presentation of Financial Statements requires entities to group together items within other comprehensive income that may be reclassified to profit or loss. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The amendments will be effective for annual periods beginning on or after 1 July 2012. The presentation of items within other comprehensive income will be adjusted according to the new requirements.

In May 2011, the International Accounting Standards Board issued IFRS 13 Fair Value Measurement which contains new guidance on fair value measurement and disclosure requirements for International Financial Reporting Standards. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The new guidance will be effective for annual periods beginning on or after 1 January 2013. The Swiss Life Group does not expect a significant impact of these new requirements on its consolidated financial statements.

In May 2011, the International Accounting Standards Board issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities as well as amended versions of IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form as is currently the case. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 12 Disclosure of Interests in Other Entities comprises all the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IAS 27 has been renamed 'Separate Financial Statements' and carries forward the existing accounting requirements for separate financial statements. IAS 28 Investments in Associates and Joint Ventures has been amended in line with the changes to the accounting for joint arrangements. The new and amended standards will be effective for annual periods beginning on or after 1 January 2013. Due to the consolidation of additional investment funds, total assets and liabilities increase by approx. CHF 1.3 billion as at 1 January 2012.

In October 2010, the International Accounting Standards Board issued requirements on the accounting for financial liabilities. These requirements are part of IFRS 9 Financial Instruments. The new requirements address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. An entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income. IFRS 9 Financial Instruments applies to annual periods beginning on or after 1 January 2015. The Swiss Life Group is currently analysing the impact of these new requirements.

In November 2009, IFRS 9 Financial Instruments was issued by the International Accounting Standards Board. The Standard represents the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 Financial Instruments covers classification and measurement of financial assets. The classification and measurement approach in IFRS 9 Financial Instruments is based on how an entity manages its financial instruments (business model) and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost or fair value. The Standard will be effective for annual periods beginning on or after 1 January 2015. The Swiss Life Group is currently analysing the impact of these changes on its financial statements.

The following amended Standards and Interpretations are not relevant to the Swiss Life Group:

– Investment Entities (Amendments to IFRS 10, 12 and IAS 27)
– IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
– Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
– Annual Improvements 2009-2011 Cycle

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.

The sensitivity analysis with regard to insurance risk and market risk is set out in note 5.

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 based either 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 categorisation within the fair value hierarchy (i.e. level 1, 2 or 3) of the inputs to the fair value measurements of financial instruments carried at fair value is set out in note 33.

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 prices in active markets, if available. These inputs to the fair value measurement are generally categorised as level 1 within the fair value hierarchy. In inactive markets, information about prices from recent transactions with the same or similar instruments, quotes from brokers, indices and other input are taken into consideration in the determination of fair values. A market is deemed no longer active if prices available do not represent regularly occurring market transactions on an arm's length basis. Furthermore, the volume of trading activity has declined significantly and bid/ask spreads have widened above a certain level.
  With regard to debt securities carried at fair value inputs to the fair value measurement categorised as level 2 within the fair value hierarchy are primarily determined using present value techniques on the basis of yield curves and appropriate spreads or discounted cash flow models with deposit and swap rates as the main input parameters. With regard to equity instruments carried at fair value, inputs to the fair value measurement categorised as level 2 within the fair value hierarchy are determined using quotes from the custodian bank for the determination of fair values of fund units. Quoted prices of the underlying equity and debt securities are taken into account. Some fair value measurements of fund units categorised as level 2 are determined based on quoted prices/redemption prices with an adequate adjustment for illiquidity. Fair value measurements of equity securities categorised as level 3 within the fair value hierarchy are determined based on net asset value techniques with an adequate adjustment for illiquidity.
- Fair value measurements for derivative financial instruments are obtained from quoted market prices (level 1) and/or valuation models (level 2) as appropriate. Quoted market prices are sourced from well-known price providers such as Bloomberg. Fair values for over-the-counter derivatives are established based on well established valuation models (Black Scholes, discounted cash flows). Market quotes of the input variables are generally used as the parameters for the models. Main inputs to the models are deposit/swap rates (for interest rate swaps), yield curves, inflation and retail price index (for inflation-linked swaps), realised and implied volatilities (for equity variance swaps), interest rates and price volatility of underlying (for total return swaps), foreign exchange spot rates and foreign exchange ticks (for foreign currency forwards). In certain cases these market quotes may be slightly adjusted to better reflect specific market behaviour, e.g. volatility smiles.
- Private equity investments are primarily classified as available for sale and are measured at fair value. The fair values are based on generally accepted valuation techniques. Valuation techniques use a maximum of market inputs and include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Because of the inherent valuation uncertainty, those estimated fair values may differ significantly from the values that would be used if a ready market for the financial assets existed, and those differences could be material. The fair values are determined by the general partner in the partnership and reviewed by management. In determining the fair value of fund investments, the partnership considers the funds as transparent holding vehicles. The fair values of the underlying investments are determined using the general partner valuation. These fair value measurements are generally categorised as level 3 within the fair value hierarchy.

- 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 hedge funds is based on their quoted market prices, if available. If no quoted market price is available, valuation techniques are used that take into account the market value of the underlying assets, transaction prices and other information.
- 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 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 hybrid debt is estimated based on a discounted cash flow approach, assuming guaranteed coupon payments until maturity or until the next call date for perpetual instruments. Swap rates plus a Swiss Life-specific spread are used for discounting.
- 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 without discretionary participation, 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 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 investment contracts, which are carried at fair value, is measured using market-consistent, risk-neutral economic option price models, i.e. Monte Carlo simulations based on scenarios of capital market variables (share price and interest rate indices, interest rates and foreign currency rates). These inputs to fair value measurements are generally categorised as level 2 within the fair value hierarchy.
- It is impracticable to determine the fair value of investment contracts with discretionary participation features 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.

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 (such as rental income and operating expenses) 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 HELD-TO-MATURITY AND AVAILABLE-FOR-SALE DEBT INSTRUMENTS AND LOANS AND RECEIVABLES

As a Group policy, held-to-maturity and available-for-sale debt securities and loans and receivables are assessed for impairment when a significant decrease in market value related to credit risk arises, namely after a downgrade of a debtor's rating below single B– after initial recognition (i.e. CCC or lower according to Standard and Poor's or equivalent) or when payments of principal and/or interest are overdue by more than 90 days.

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 objective evidence of impairment. In this respect, a decline of 30% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged.

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. Actuarial 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, exercise of policyholder options and investment returns. With regard to mortality for example, 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.

For 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, exercise of policyholder options, 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 values of the liabilities so established are adequate in the light of these latest estimates. If the valuation of the liabilities is deemed adequate the assumptions are not altered. However, if the valuation of the liabilities is deemed inadequate, the assumptions underlying the valuation of the liabilities are altered ("unlocked") to reflect the latest estimates; no margin is added to the assumptions in this event.

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.

MORTALITY AND LONGEVITY

Pricing and valuation assumptions for mortality and longevity are generally based on the statistics provided by national insurance associations and complemented with internal claims experience reflecting own company records.

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.

MORBIDITY AND DISABILITY

For the individual and group life business in Switzerland internal tables are in place. In the individual life business, the internal disability rates are based on the Swiss Insurance Association statistics and reflect the average situation of the past in the Swiss market. In the individual life business, only reactivation is considered, whereas increased mortality is also taken into account in group life business. In the individual life business, disability tables are usually reviewed every five years when new statistics from the Swiss Insurance Association become available.

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 valuation pricing principles are typically validated against the client-specific disability experience.

POLICYHOLDER OPTIONS

Policyholders are typically offered products which include options such as the right to terminate the contract early or to convert the accumulated funds into a life annuity at maturity. In case of early termination the policyholder receives a specified surrender value or a value which varies in response to the change in financial variables such as an equity price or an index. In the case of the conversion option, the policyholder has the right to convert an assured sum into a fixed life annuity. The option values typically depend on both biometric assumptions and market variables such as interest rates or the value of the assets backing the liabilities. In certain countries and markets policyholder behavioural assumptions are based on own company records. The assumptions vary by product type and policy duration.

EXPENSES 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 the following main cost categories: acquisition costs, administration costs and asset management costs.

INVESTMENT RETURNS

Assumptions relating to investment returns are based on the strategic asset allocation. From this gross investment return, projected asset management fees are deducted to obtain a net investment return.

The interest rates used in actuarial formulae to determine the present value of future benefits and contributions caused by an insurance contract are called technical interest rates. The technical interest rates have to be approved by the regulator. In certain countries, the insurance liabilities are based on the technical 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 18.

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 as well as future salary increases and future pension increases which have been derived from estimates based on past experience. The expected return on the plan assets takes into consideration the investment policy relating to the assets and their projected returns.

The assumptions are set out in note 24.

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. A provision is recognised to the extent that an outflow of resources embodying economic benefits is probable and a reliable estimate can be made.

4 Segment Information

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by management (corporate executive board) in deciding how to allocate resources and in assessing performance.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies section. 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.

Corporate costs were not allocated to the individual segments as they consist of general administrative expenses and head office expenses that relate to the Swiss Life Group as a whole.

The reportable segments have been identified based on information about the components of the entity that management uses to make decisions about operating matters. The reportable segments in these financial statements reflect the management structure that was in place until the end of 2012. With the implementation of the new strategic group-wide programme in 2013, the management structure and the reportable segments were adjusted accordingly. The corresponding information for the statement of income for the year ended 31 December 2012 and the balance sheet as at 31 December 2012 will be restated for the 2013 consolidated financial statements.

The business is managed based on IFRS results.

The information provided to management focuses on product lines and services. The organisational and management structure within the insurance business is geographical. The reportable segments have therefore been identified as follows:

- Insurance Switzerland
- Insurance France
- Insurance Germany
- Insurance International
- Investment Management
- AWD
- Other

The insurance segments primarily consist of life insurance operations. These operations offer a broad range of life, pension, annuity and investment-type policies to both groups and individuals, including disability coverage. The Group's strategy focuses primarily on life and pensions in Switzerland, France and Germany and on cross-border business from Liechtenstein, Luxembourg, Singapore and Dubai. The insurance segments also include a number of companies which hold investments primarily pertaining to life insurance.

"Insurance International" comprises the cross-border insurance operations in Liechtenstein, Luxembourg, Singapore and Dubai.

Non-life operations involve operations in France and Luxembourg and mainly include property and casualty, liability and motor insurance, accident and health insurance, and payment protection insurance. These operations are included in the segments "Insurance France" and "Other".

"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.

"AWD" comprises the Hanover-based AWD Group, which specialises in comprehensive financial advisory services for medium and high-income client segments.

"Other" refers principally to various finance and service companies, as well as payment protection insurance.

The statement of income and the balance sheet for the segments are provided in the following pages:

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In CHF million	Insurance Switzerland	Insurance France	Insurance Germany	Insurance International	Investment Management	AWD	Other	Total before eliminations	Eliminations	Total
INCOME										
Premiums earned on insurance contracts	7 166	2 719	1 541	45	–	–	1	11 473	–87	11 385
Premiums earned on investment contracts with discretionary participation	661	–	–	–	–	–	–	661	–	661
Premiums ceded to reinsurers	–25	–194	–35	–8	–	–	–1	–263	87	–175
Net earned premiums	7 802	2 525	1 506	37	–	–	1	11 871	0	11 871
Policy fees earned on insurance contracts	16	19	–	0	–	–	–	36	–	36
Policy fees earned on investment and unit-linked contracts	50	105	37	81	–	–	–	273	–	273
Net earned policy fees	66	125	37	81	–	–	–	309	–	309
Commission income	34	78	35	12	338	583	60	1 140	–314	826
Investment income	2 954	651	652	32	1	2	49	4 341	–45	4 297
Net gains/losses on financial assets	515	12	169	85	0	–2	–3	776	–	776
Net gains/losses on financial instruments at fair value through profit or loss	411	200	50	–84	–	1	2	580	–	580
Net gains/losses on investment property	366	15	9	–	–	–	0	390	–	390
Other income	30	4	1	0	0	2	1	39	–13	25
TOTAL INCOME	12 177	3 610	2 460	163	339	587	110	19 446	–372	19 075
of which inter-segment	103	–49	–8	–10	211	33	92	372	–372	
EXPENSES										
Benefits and claims under insurance contracts	–9 378	–2 139	–1 722	–19	–	–	1	–13 257	44	–13 214
Benefits and claims under investment contracts with discretionary participation	–685	–	–	–	–	–	–	–685	–	–685
Benefits and claims recovered from reinsurers	15	104	13	1	–	–	–9	123	–44	79
Net insurance benefits and claims	–10 048	–2 035	–1 709	–18	–	–	–9	–13 819	–1	–13 819
Policyholder participation	–455	–311	–334	–15	–	–	0	–1 115	11	–1 104
Interest expense	–69	–156	–13	–16	0	–2	–1	–257	4	–253
Commission expense	–327	–334	–79	–27	–41	–375	–3	–1 187	316	–871
Employee benefits expense	–286	–192	–80	–54	–112	–102	–6	–833	1	–831
Depreciation and amortisation expense	–250	–269	–125	–5	–2	–31	–3	–685	–	–685
Impairment of property and equipment and intangible assets	–7	–	–2	–17	–	–578	–	–604	–	–604
Other expenses	–101	–154	–48	–45	–46	–91	–13	–498	–1	–499
TOTAL EXPENSES	–11 543	–3 453	–2 390	–197	–201	–1 179	–35	–18 998	331	–18 667
of which inter-segment	–262	14	–56	–15	–14	6	–4	–331	331	
SEGMENT RESULT	634	157	69	–34	138	–591	75	448	–41	407
of which inter-segment	–159	–35	–64	–26	197	39	88	41	–41	
Unallocated corporate costs										–61
RESULT FROM OPERATIONS										346
Borrowing costs	–148	0	–4	–5	–	–	–9	–166	41	–125
Share of profit or loss of associates	3	3	0	–	1	–	1	8	–	8
Income tax expense										–137
NET RESULT										**93**
Additions to non-current assets	818	177	62	3	3	7	1	1 073	–	1 073

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

In CHF million	Insurance Switzerland	Insurance France	Insurance Germany	Insurance International	Investment Management	AWD	Other	Total before eliminations	Eliminations	Total
INCOME										
Premiums earned on insurance contracts	7 056	2 514	1 620	44	–	–	35	11 269	–164	11 105
Premiums earned on investment contracts with discretionary participation	673	12	–	–	–	–	–	685	–	685
Premiums ceded to reinsurers	–33	–283	–22	–7	–	–	–17	–362	171	–191
Net earned premiums	7 696	2 243	1 598	37	–	–	18	11 592	7	11 599
Policy fees earned on insurance contracts	16	23	–	0	–	–	–	39	–	39
Policy fees earned on investment and unit-linked contracts	45	108	20	83	–	–	–	256	–	256
Net earned policy fees	61	131	20	83	–	–	–	295	–	295
Commission income	19	93	34	13	301	692	42	1 194	–301	893
Investment income	2 876	658	651	30	1	2	29	4 247	–31	4 216
Net gains/losses on financial assets	361	45	142	34	0	–2	–30	550	–	550
Net gains/losses on financial instruments at fair value through profit or loss	–615	–81	–75	–34	–	1	–16	–820	–	–820
Net gains/losses on investment property	399	105	9	–	–	–	0	513	–	513
Other income	43	1	2	–1	0	5	8	58	–13	45
TOTAL INCOME	10 840	3 195	2 381	162	302	698	51	17 629	–338	17 291
of which inter-segment	181	–139	1	–15	195	53	62	338	–338	
EXPENSES										
Benefits and claims under insurance contracts	–8 287	–2 055	–1 782	–20	–	–	–1	–12 145	137	–12 008
Benefits and claims under investment contracts with discretionary participation	–696	–13	–	–	–	–	–	–709	–	–709
Benefits and claims recovered from reinsurers	19	221	6	1	–	–	0	247	–144	103
Net insurance benefits and claims	–8 964	–1 847	–1 776	–19	–	–	–1	–12 607	–7	–12 614
Policyholder participation	–450	–102	–237	–14	–	–	2	–801	10	–791
Interest expense	–77	–168	–15	–15	0	–1	0	–276	2	–274
Commission expense	–313	–363	–69	–29	–29	–474	–8	–1 285	302	–983
Employee benefits expense	–268	–187	–81	–55	–101	–105	–7	–804	0	–804
Depreciation and amortisation expense	–185	–237	–89	–5	–1	–34	–3	–554	–	–554
Impairment of property and equipment and intangible assets	–6	–	–2	–	–	–3	–	–11	–	–11
Other expenses	–101	–167	–54	–35	–41	–94	–17	–509	2	–507
TOTAL EXPENSES	–10 364	–3 071	–2 323	–172	–172	–711	–34	–16 847	309	–16 538
of which inter-segment	–336	131	–64	–20	–14	0	–6	–309	309	
SEGMENT RESULT	476	124	58	–10	130	–13	17	782	–29	753
of which inter-segment	–155	–8	–63	–35	181	53	56	29	–29	
Unallocated corporate costs										–54
RESULT FROM OPERATIONS										699
Borrowing costs	–129	0	–5	–6	–	–	–9	–149	29	–120
Share of profit or loss of associates	1	3	0	–	0	–	2	6	–	6
Income tax expense										21
NET RESULT										**606**
Additions to non-current assets	1 232	144	126	4	14	3	4	1 527	–	1 527

BALANCE SHEET AS AT 31 DECEMBER 2012

In CHF million	Insurance Switzer-land	Insurance France	Insurance Germany	Insurance Inter-national	Invest-ment Manage-ment	AWD	Other	Total before elimi-nations	Elimi-nations	Total
ASSETS										
Cash and cash equivalents	2 565	495	213	2 850	109	119	130	6 481	0	6 480
Derivatives	1 355	204	102	1	–	–	1	1 663	–27	1 636
Assets held for sale	–	–	–	–	–	–	–	–	–	–
Financial assets at fair value through profit or loss	2 715	7 966	994	15 438	–	13	58	27 183	–	27 183
Financial assets available for sale	58 671	14 821	6 365	990	35	–	294	81 176	–	81 176
Loans and receivables	14 646	1 861	9 956	96	149	209	1 359	28 276	–2 788	25 488
Financial assets held to maturity	–	–	–	–	–	–	–	–	–	–
Financial assets pledged as collateral	–	964	–	–	–	–	–	964	–	964
Investment property	13 505	1 789	928	–	–	–	3	16 225	–	16 225
Reinsurance assets	30	376	34	2	–	–	14	456	–87	369
Property and equipment	238	48	87	0	3	42	16	433	–	433
Intangible assets including intangible insurance assets	589	458	1 248	157	12	422	7	2 893	–	2 893
Other assets	401	35	1	2	25	2	1	466	–90	376
SEGMENT ASSETS	94 715	29 017	19 926	19 536	333	805	1 882	166 215	–2 992	163 223
Investments in associates										87
Income tax assets										90
TOTAL ASSETS										163 400
LIABILITIES AND EQUITY										
LIABILITIES										
Derivatives	815	15	9	0	–	–	27	866	–27	839
Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–	–	–
Financial liabilities at fair value through profit or loss	1 943	592	567	18 061	–	–	–	21 162	–	21 162
Investment contracts	1 733	9 140	36	644	–	–	–	11 553	–	11 553
Other financial liabilities	4 289	3 059	581	181	20	208	175	8 513	–791	7 722
Insurance liabilities	68 097	12 590	16 652	200	–	–	44	97 583	–110	97 474
Policyholder participation liabilities	5 635	1 596	1 125	21	–	–	0	8 378	–2	8 376
Employee benefit liabilities	1 053	79	42	6	47	–	1	1 227	–	1 227
Provisions	26	13	7	29	5	106	0	188	–	188
Other liabilities	136	94	11	6	2	48	1	299	–24	274
SEGMENT LIABILITIES	83 727	27 179	19 030	19 148	75	362	248	149 768	–954	148 814
Borrowings										2 768
Income tax liabilities										1 532
EQUITY										10 286
TOTAL LIABILITIES AND EQUITY										163 400

BALANCE SHEET AS AT 31 DECEMBER 2011

In CHF million	Insurance Switzer-land	Insurance France	Insurance Germany	Insurance Inter-national	Invest-ment Manage-ment	AWD	Other	Total before elimi-nations	Elimi-nations	Total
ASSETS										
Cash and cash equivalents	1 130	898	129	2 545	85	87	210	5 084	0	5 084
Derivatives	1 087	163	70	11	–	–	8	1 339	–21	1 318
Assets held for sale	–	22	–	–	–	–	–	22	–	22
Financial assets at fair value through profit or loss	2 262	6 911	915	13 965	–	10	57	24 120	–	24 120
Financial assets available for sale	49 556	11 276	5 150	837	32	–	413	67 264	–	67 264
Loans and receivables	15 645	1 650	10 098	52	149	226	873	28 693	–1 491	27 202
Financial assets held to maturity	3 716	1 304	26	–	–	–	–	5 046	–	5 046
Financial assets pledged as collateral	–	969	–	–	–	–	–	969	–	969
Investment property	12 921	1 619	902	–	–	–	3	15 445	–	15 445
Reinsurance assets	40	385	26	1	–	–	27	479	–99	380
Property and equipment	271	124	79	1	2	46	16	539	–	539
Intangible assets including intangible insurance assets	698	484	1 314	177	12	1 028	9	3 722	–	3 722
Other assets	571	34	1	2	27	2	1	638	–103	535
SEGMENT ASSETS	87 897	25 839	18 710	17 591	307	1 399	1 617	153 360	–1 714	151 646
Investments in associates										74
Income tax assets										155
TOTAL ASSETS										151 875
LIABILITIES AND EQUITY										
LIABILITIES										
Derivatives	1 083	30	73	0	–	–	21	1 207	–21	1 186
Liabilities associated with assets held for sale	–	15	–	–	–	–	–	15	–	15
Financial liabilities at fair value through profit or loss	1 469	566	453	16 294	–	–	–	18 782	–	18 782
Investment contracts	1 413	9 356	21	568	–	–	–	11 358	–	11 358
Other financial liabilities	3 932	2 686	502	162	30	241	377	7 930	–705	7 225
Insurance liabilities	65 716	11 335	16 187	194	–	–	53	93 485	–120	93 365
Policyholder participation liabilities	4 228	295	609	20	–	–	0	5 152	–2	5 150
Employee benefit liabilities	1 107	65	41	6	41	–	1	1 261	–	1 261
Provisions	22	21	10	10	5	81	1	150	–	150
Other liabilities	257	38	3	4	6	52	1	361	–28	333
SEGMENT LIABILITIES	79 227	24 407	17 899	17 258	82	374	454	139 701	–876	138 825
Borrowings										2 624
Income tax liabilities										1 264
EQUITY										9 162
TOTAL LIABILITIES AND EQUITY										151 875

PREMIUMS AND POLICY FEES FROM EXTERNAL CUSTOMERS

In CHF million	Net earned premiums		Net earned policy fees	
	2012	2011	2012	2011
LIFE				
Individual life	**3 757**	3 620	**300**	287
Group life	**7 726**	7 584	**8**	8
TOTAL LIFE	**11 483**	11 204	**309**	295
NON-LIFE				
Accident and health	**14**	13	–	–
Property, casualty and other	**374**	382	–	–
TOTAL NON-LIFE	**388**	395	–	–
TOTAL	**11 871**	11 599	**309**	295

The Swiss Life Group operates in selected countries. The Group's income and non-current assets by geographical location are detailed below:

In CHF million	Total income		Non-current assets	
	2012	2011	31.12.2012	31.12.2011
Switzerland	**12 195**	10 792	**13 828**	13 305
France	**3 669**	3 342	**2 176**	2 077
Germany	**2 815**	2 784	**1 762**	2 336
Liechtenstein	**40**	47	**149**	169
Luxembourg	**188**	176	**62**	57
Other countries	**168**	150	**4**	4
TOTAL	**19 075**	17 291	**17 982**	17 948

Non-current assets for this purpose consist of investment property, property and equipment and intangible assets (except for intangible assets arising from insurance contracts).

INFORMATION ABOUT MAJOR CUSTOMERS

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue.

5 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 sound and strong depends on a number of risk factors. The Group's risk map can be broadly divided into financial, insurance, strategic 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 and aggregated. Monthly reports covering interest rate risk, equity price risk, currency risk, credit risk and insurance risk are prepared on a consolidated basis. Additionally, market risks and financial risk limits are reported 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. From this strategic asset allocation a scenario-based expected return is calculated which forms the basis for the mid-term planning of the Group.

Risk management functions are performed at several levels by different bodies within the Swiss Life Group, such as the Investment and Risk Committee at the level of the Board of Directors of the Swiss Life Group and the Group Risk Committee at the level of the Corporate Executive Board of the Swiss Life Group. The risk management functions at the level of the individual operations of the Swiss Life Group are organised accordingly.

Group risk management is responsible for the definition of the group-wide methodology for the measurement of the risks and produces a consolidated risk report which consolidates the main quantitative elements of the risk management of the Swiss Life Group's operations. Furthermore, Group risk management also produces consolidated views on the operational and strategic risks of the Swiss Life Group.

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.

5.1 CONTRACTS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS

The assets relating to 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, private placement life insurance). They are segregated and managed to meet specific investment objectives of the policyholders. The 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 financial and insurance guarantees. The liabilities relating to this part are included in the financial and insurance liabilities.

The assets and liabilities from separate account/unit-linked contracts and private placement life insurance 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

In CHF million

	Notes	31.12.2012	31.12.2011
Cash and cash equivalents		**2 767**	2 446
Financial assets at fair value through profit or loss			
Debt securities	10	**5 526**	6 083
Equity securities	10	**3 165**	3 311
Investment fund units	10	**12 444**	9 150
Other	10	**1 494**	1 356
TOTAL ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS		**25 396**	22 346

LIABILITIES LINKED TO ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS

In CHF million

	Notes	31.12.2012	31.12.2011
Unit-linked contracts	10	**20 570**	18 216
Investment contracts	20	**2 994**	2 828
Insurance liabilities	23	**1 603**	1 108
TOTAL LIABILITIES LINKED TO ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS		**25 167**	22 152

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:

In CHF million		For the account and risk of the Swiss Life Group		For the account and risk of the Swiss Life Group's customers		Total	
	Notes	2012	2011	2012	2011	2012	2011
Investment income	8	**4 297**	4 216	**0**	0	**4 297**	4 216
Net gains/losses on financial assets	8	**691**	515	**86**	35	**776**	550
Net gains/losses on financial instruments at fair value through profit or loss (FVPL)	8	**629**	–803	**–49**	–17	**580**	–820
Net gains/losses on investment property		**390**	513	**–**	–	**390**	513
Share of profit or loss of associates		**8**	6	**–**	–	**8**	6
FINANCIAL RESULT		**6 015**	4 447	**36**	18	**6 051**	4 465

5.2 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 or by direct observation of market values. The available risk capital is defined as the difference of the economic value of the assets compared to 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 rests with the Corporate Executive Board.

Risk capital and exposure limits are defined to control and limit the exposure to these risks. The limit systems and processes are set in a way that the sublimits are not utilised simultaneously in full.

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

5.3 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, ALM comprises the following main activities: the determination of the strategic asset allocation and of the risk capital and exposure sublimits.

The ALM process is centrally coordinated at Group level by means of local asset and liability management committees with representatives from local senior management and representatives from the Group. The local units are in charge of implementing the decisions. The process requires the involvement of investment management, finance, actuarial and risk functions.

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.

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

Defining the strategic asset allocation is the first major task of the ALM process and aims at achieving an efficient risk capital allocation, i.e. optimising the returns on the asset portfolio for the available risk capital defined within the risk budgeting process, taking into account all known constraints.

The liabilities are largely predefined in terms of amount and timing of the payments and the associated assumptions are regularly reviewed. The corresponding asset portfolios mainly comprise fixed-income instruments. This way, the impact of interest rate fluctuations and the risk capital consumption are strategically optimised under a risk/return point of view, thus ensuring that the policyholders receive the benefits consistent with their products. 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 been applied in all relevant insurance operations of the Swiss Life Group.

DISTRIBUTION POLICY

The distribution policy seeks to align the interests of the different groups of stakeholders. Holders of traditional life insurance policies favour a guaranteed 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. 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 the statutory minimum distribution ratio ("legal quote"), which strongly depend on the regulatory environments of the Swiss Life Group's insurance operations.

PRODUCT DESIGN

The targets of risk management are supported by product design principles. 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 ensure that each individual product generates a sufficient contribution margin. To ensure that the Group's principles are observed, guidelines on product management and underwriting have been introduced to harmonise the local guidelines and to ensure that they are in line with the guidelines of the Group. As the Group's insurance entities operate in a number of different countries, the local regulatory constraints may have an impact on the business units' product range. These constraints must always be obeyed.

5.4 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, interest rate risk capital, currency risk capital and credit risk capital limits as well as exposure limits for currencies and net equity for each relevant insurance operation are defined based on the risk appetite. These limits are assessed and reported on a monthly basis.

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, counterparties 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, currency forwards in order to manage currency risk and credit default swaps in order to manage counterparty 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 as well as the list of allowed over-the-counter trading partners have been approved by the Group Risk Committee.

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 to 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.

INTEREST-SENSITIVE INSURANCE LIABILITIES

In CHF million

	CHF	EUR	Other	Total
CARRYING AMOUNTS AS AT 31 DECEMBER 2012				
Minimum guaranteed interest rate 0 – < 2%	**28 725**	**5 110**	**3**	**33 837**
Minimum guaranteed interest rate 2 – < 3%	**14 480**	**5 626**	**3**	**20 109**
Minimum guaranteed interest rate 3 – < 4%	**17 944**	**7 361**	**57**	**25 361**
Minimum guaranteed interest rate 4 – < 5%	**1**	**6 863**	**28**	**6 892**
Minimum guaranteed interest rate 5 – < 6%	**–**	**–**	**3**	**3**
TOTAL INTEREST-SENSITIVE INSURANCE LIABILITIES	**61 150**	**24 960**	**94**	**86 203**
Insurance liabilities with no minimum guaranteed interest rate				**9 667**
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers				**1 603**
TOTAL INSURANCE LIABILITIES				**97 474**
CARRYING AMOUNTS AS AT 31 DECEMBER 2011				
Minimum guaranteed interest rate 0 – < 2%	13 158	4 614	1	17 773
Minimum guaranteed interest rate 2 – < 3%	29 103	4 560	4	33 667
Minimum guaranteed interest rate 3 – < 4%	17 828	7 754	57	25 639
Minimum guaranteed interest rate 4 – < 5%	0	7 354	32	7 386
Minimum guaranteed interest rate 5 – < 6%	–	3	4	7
TOTAL INTEREST-SENSITIVE INSURANCE LIABILITIES	60 089	24 285	98	84 472
Insurance liabilities with no minimum guaranteed interest rate				7 785
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers				1 108
TOTAL INSURANCE LIABILITIES				93 365

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 Switzerland for instance the minimum guaranteed interest rate for the occupational pensions segment (mandatory BVG savings account) stood at 1.5% in 2012 and will remain at 1.5% for 2013 (2011: 2%).

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 and interest rate volatility risk by managing the interest rate and volatility sensitivity of its investment portfolio against the corresponding sensitivity of liabilities issued.

The interest rate and volatility exposure of the liabilities is determined by projecting the expected cash flows from the contracts using best estimates of mortality, disability, expenses, surrender and exercise of policyholder options in combination with interest rate and volatility scenarios. The ALM process defines the strategic asset allocation optimising the net interest rate sensitivity of the investment and liability portfolios. To the extent that this is not practicable, swap contracts and other instruments are used to hedge interest rate risk. In certain markets payer swaptions are used to hedge the risk of fair value changes of interest-sensitive financial assets. Strategically, a minimum interest rate risk will remain, since a perfect interest rate hedge can either not be achieved or would not be targeted.

Regarding 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 increasing interest rates.

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 also negatively affects the Swiss Life Group's results of operations and financial condition.

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 that the impairment criteria were met.

A portion of Swiss Life's investment portfolio comprises 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.

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

To reduce the credit exposure relating to derivatives a collateral management process has been established. Contractually all outstanding positions must be fully collateralised if they reach a very low agreed minimum transfer amount. The collateral is called at least weekly, but in times of turbulent markets the frequency is increased. As leverage is not permitted, certain coverage rules apply with regard to cash or long positions. Counterparties for derivative transactions, over-the-counter and exchange-traded, have to be approved by both the Group Chief Risk Officer and the Group Chief Investment Officer. The minimum rating for a counterparty is A– (Standard & Poor's or equivalent) for the Swiss Life Group's insurance operations. During periods of market turmoil reliance on ratings is of limited value; therefore an additional qualitative and quantitative counterparty monitoring process has been established to allow for immediate proactive measures.

Counterparty risk is managed through the holding of credit default swaps or credit default swap indices. A credit default swap provides insurance to the debt holder against a default of the debt issuer. It is traded over-the-counter and itself underlies the collateral management process described above. The credit default swap index is a hedge on credit risk of a basket of counterparties and is an exchange-traded derivative.

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 and also 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 the total exposure per counterparty is aggregated and reported to the Group Risk Committee. 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. In addition, limits regarding single counterparty exposure are in place which depend on the rating and amount of exposure in relation to total investments. 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.

The non-rated loans primarily comprise mortgages and policy loans. For the bulk of the mortgages a risk class system is in place which allows the company to identify, measure, monitor and manage the risks at the level of portfolios, borrowers and loans at all times. The risk class system also enables a risk-adequate pricing of the loans. Implementation, parametrisation and control of the system are set out in an internal directive which has been approved by the Group Chief Investment Officer.

In certain countries, specific additional guidelines and rules have been defined locally to monitor credit risk. Such guidelines cover investments in fixed-income securities which are mostly based on the average rating of the issuers (calculated by weighting default probabilities). Minimum and maximum thresholds apply with regard to permitted investments in non-government bonds. For investments in government bonds with a rating lower than AA- (according to Standard & Poor's or equivalent) and non-government bonds 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 at least annually. The majority of the bond portfolio is invested in government bonds (including supranational and sovereigns) and bonds issued by the financial sector covered by collateral or government guarantees.

MAXIMUM EXPOSURE TO CREDIT RISK

In CHF million	For the account and risk of the Swiss Life Group		For the account and risk of the Swiss Life Group's customers		Total	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
DEBT SECURITIES						
Debt securities at fair value through profit or loss	**694**	1 906	**5 526**	6 083	**6 220**	7 989
Debt securities available for sale	**78 670**	64 883	**–**	–	**78 670**	64 883
Debt securities held to maturity	**–**	5 046	**–**	–	**–**	5 046
Debt securities pledged as collateral	**964**	969	**–**	–	**964**	969
Debt securities classified as loans	**6 932**	8 608	**–**	–	**6 932**	8 608
TOTAL DEBT SECURITIES	**87 259**	81 412	**5 526**	6 083	**92 785**	87 495
LOANS AND RECEIVABLES						
Mortgages	**5 464**	5 123	**–**	–	**5 464**	5 123
Policy and other originated loans	**1 247**	1 708	**–**	–	**1 247**	1 708
Note loans	**7 970**	8 176	**–**	–	**7 970**	8 176
Receivables	**3 876**	3 587	**–**	–	**3 876**	3 587
TOTAL LOANS AND RECEIVABLES	**18 556**	18 594	**–**	–	**18 556**	18 594
OTHER ASSETS						
Cash and cash equivalents	**3 714**	2 638	**2 767**	2 446	**6 480**	5 084
Derivatives	**1 636**	1 318	**–**	–	**1 636**	1 318
Reinsurance assets	**369**	380	**–**	–	**369**	380
TOTAL OTHER ASSETS	**5 719**	4 336	**2 767**	2 446	**8 486**	6 782
UNRECOGNISED ITEMS						
Financial guarantees	**54**	130	**–**	–	**54**	130
Loan commitments	**149**	119	**–**	–	**149**	119
TOTAL UNRECOGNISED ITEMS	**203**	249	**–**	–	**203**	249
TOTAL EXPOSURE TO CREDIT RISK	**111 737**	104 591	**8 293**	8 529	**120 030**	113 120

The following table shows the extent to which collateral and other credit enhancements mitigate credit risk in respect of the maximum exposure to credit risk:

CREDIT RISK MITIGATION – COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS AS AT 31 DECEMBER 2012

In CHF million	Debt securities	Loans and receivables	Cash and cash equivalents	Derivatives (assets)	Reinsurance assets	Financial guarantees and loan commitments	Total
SECURED BY							
Cash collateral	–	–	–	1 523	56	–	1 579
Securities collateral	–	544	–	–	198	76	818
Mortgage collateral	9 236	8 213	–	–	–	124	17 573
Other collateral	–	314	–	–	–	4	318
Guarantees	208	1 140	260	–	–	–	1 607
Netting agreements	–	113	–	6	–	–	119
TOTAL SECURED	9 444	10 325	260	1 529	254	203	22 015
UNSECURED							
Governments and supranationals	37 559	4 209	1 925	–	–	–	43 693
Other	40 257	4 022	1 529	106	115	–	46 029
TOTAL UNSECURED	77 815	8 232	3 454	106	115	–	89 722
TOTAL	87 259	18 556	3 714	1 636	369	203	111 737

CREDIT RISK MITIGATION – COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS AS AT 31 DECEMBER 2011

In CHF million	Debt securities	Loans and receivables	Cash and cash equivalents	Derivatives (assets)	Reinsurance assets	Financial guarantees and loan commitments	Total
SECURED BY							
Cash collateral	–	–	–	1 269	70	–	1 339
Securities collateral	–	994	–	8	207	161	1 370
Mortgage collateral	7 707	8 255	–	–	–	85	16 047
Other collateral	–	341	–	–	–	3	344
Guarantees	2 845	1 319	149	–	–	–	4 313
Netting agreements	–	90	–	–	–	–	90
TOTAL SECURED	10 552	10 999	149	1 277	277	249	23 503
UNSECURED							
Governments and supranationals	37 599	3 783	594	–	–	–	41 976
Other	33 261	3 812	1 895	41	103	–	39 112
TOTAL UNSECURED	70 860	7 595	2 489	41	103	–	81 088
TOTAL	81 412	18 594	2 638	1 318	380	249	104 591

EXPOSURE TO CREDIT RISK OF DEBT INSTRUMENTS – CREDIT RATING BY CLASS AS AT 31 DECEMBER 2012

In CHF million	AAA	AA	A	BBB	Below BBB	Not rated	Past due or impaired	Total
DEBT SECURITIES								
Supranational	**2 066**	**87**	**46**	**17**	**–**	**–**	**–**	**2 216**
Governments	**18 102**	**11 103**	**1 601**	**984**	**86**	**58**	**1**	**31 935**
Sovereign	**194**	**1 118**	**626**	**1 295**	**175**	**–**	**–**	**3 408**
Covered/guaranteed	**7 525**	**1 162**	**447**	**231**	**10**	**68**	**–**	**9 444**
Corporates	**876**	**5 881**	**17 196**	**14 624**	**1 604**	**19**	**2**	**40 203**
Other	**54**	**–**	**–**	**–**	**–**	**–**	**0**	**54**
TOTAL DEBT SECURITIES	**28 817**	**19 352**	**19 916**	**17 150**	**1 875**	**146**	**3**	**87 259**
MORTGAGES								
Commercial	**–**	**–**	**–**	**–**	**–**	**2 501**	**12**	**2 513**
Residential	**–**	**–**	**–**	**–**	**–**	**2 928**	**23**	**2 951**
TOTAL MORTGAGES	**–**	**–**	**–**	**–**	**–**	**5 429**	**35**	**5 464**
OTHER LOANS AND RECEIVABLES								
Policy and other originated loans	**159**	**34**	**360**	**123**	**–**	**570**	**0**	**1 247**
Note loans	**3 910**	**2 783**	**815**	**368**	**94**	**–**	**–**	**7 970**
Receivables	**80**	**103**	**118**	**53**	**6**	**3 456**	**60**	**3 876**
TOTAL OTHER LOANS AND RECEIVABLES	**4 149**	**2 920**	**1 294**	**544**	**100**	**4 026**	**60**	**13 092**

EXPOSURE TO CREDIT RISK OF DEBT INSTRUMENTS – CREDIT RATING BY CLASS AS AT 31 DECEMBER 2011

In CHF million	AAA	AA	A	BBB	Below BBB	Not rated	Past due or impaired	Total
DEBT SECURITIES								
Supranational	2 071	–	159	16	–	–	–	2 246
Governments	27 086	3 772	1 177	608	104	85	11	32 843
Sovereign	225	763	465	866	191	–	–	2 510
Covered/guaranteed	6 613	1 286	1 455	957	216	25	–	10 552
Corporates	1 068	5 397	13 451	10 437	2 597	137	3	33 090
Other	97	19	11	8	9	27	0	171
TOTAL DEBT SECURITIES	37 160	11 237	16 718	12 892	3 117	274	14	81 412
MORTGAGES								
Commercial	–	–	–	–	–	2 558	6	2 564
Residential	–	–	–	–	–	2 530	29	2 559
TOTAL MORTGAGES	–	–	–	–	–	5 088	35	5 123
OTHER LOANS AND RECEIVABLES								
Policy and other originated loans	149	69	858	14	–	618	0	1 708
Note loans	4 829	1 893	933	510	11	–	–	8 176
Receivables	110	49	92	49	7	3 222	58	3 587
TOTAL OTHER LOANS AND RECEIVABLES	5 088	2 011	1 883	573	18	3 840	58	13 471

FINANCIAL ASSETS PAST DUE (NOT IMPAIRED) – AGE ANALYSIS AS AT 31 DECEMBER 2012

In CHF million	Up to 3 months	3–6 months	6–12 months	More than 1 year	Total
MORTGAGES					
Commercial	–	6	–	–	6
Residential	13	6	2	2	22
TOTAL	13	12	2	2	28
OTHER LOANS AND RECEIVABLES					
Receivables	21	2	2	3	28
TOTAL	21	2	2	3	28

FINANCIAL ASSETS PAST DUE (NOT IMPAIRED) – AGE ANALYSIS AS AT 31 DECEMBER 2011

In CHF million	Up to 3 months	3–6 months	6–12 months	More than 1 year	Total
MORTGAGES					
Commercial	–	–	–	–	–
Residential	13	9	2	2	26
TOTAL	13	9	2	2	26
OTHER LOANS AND RECEIVABLES					
Receivables	13	2	3	8	26
TOTAL	13	2	3	8	26

FINANCIAL ASSETS INDIVIDUALLY DETERMINED AS IMPAIRED

In CHF million	Gross amount		Impairment losses		Carrying amount	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
DEBT SECURITIES						
Governments	1	52	0	–41	1	11
Corporates	78	78	–76	–75	2	3
Other	466	493	–466	–493	0	0
TOTAL	546	623	–542	–609	3	14
MORTGAGES						
Commercial	20	20	–14	–14	6	6
Residential	2	4	–1	–1	1	3
TOTAL	22	24	–15	–15	7	9
OTHER LOANS AND RECEIVABLES						
Policy and other originated loans	8	7	–8	–7	0	0
Receivables	37	39	–5	–7	32	32
TOTAL	45	46	–13	–14	32	32

FINANCIAL ASSETS INDIVIDUALLY DETERMINED AS IMPAIRED – IMPAIRMENT LOSS ALLOWANCE FOR THE YEAR 2012

In CHF million	Balance as at 1 January	Impairment losses recognised	Write-offs and disposals	Foreign currency translation differences	Balance as at end of period
DEBT SECURITIES					
Governments	**41**	**1**	**–41**	**0**	**0**
Corporates	**75**	**1**	**–**	**–**	**76**
Other	**493**	**–**	**–27**	**–**	**466**
TOTAL	**609**	**2**	**–68**	**0**	**542**
MORTGAGES					
Commercial	**14**	**1**	**–**	**–**	**14**
Residential	**1**	**0**	**0**	**0**	**1**
TOTAL	**15**	**0**	**0**	**0**	**15**
OTHER LOANS AND RECEIVABLES					
Policy and other originated loans	**7**	**1**	**–**	**–**	**8**
Receivables	**7**	**2**	**–3**	**0**	**5**
TOTAL	**14**	**2**	**–3**	**0**	**13**

FINANCIAL ASSETS INDIVIDUALLY DETERMINED AS IMPAIRED – IMPAIRMENT LOSS ALLOWANCE FOR THE YEAR 2011

In CHF million	Balance as at 1 January	Impairment losses recognised	Write-offs and disposals	Foreign currency translation differences	Balance as at end of period
DEBT SECURITIES					
Governments	–	56	–15	0	41
Corporates	76	1	–2	0	75
Other	507	1	–15	–	493
TOTAL	583	58	–32	0	609
MORTGAGES					
Commercial	16	–1	–	–1	14
Residential	1	0	0	0	1
TOTAL	17	–1	0	–1	15
OTHER LOANS AND RECEIVABLES					
Policy and other originated loans	7	–	–	–	7
Receivables	8	2	–3	0	7
TOTAL	15	2	–3	0	14

The criteria used for the assessment of financial assets for impairment are described in note 2.8.

EXPOSURE TO CREDIT RISK OF OTHER ASSETS

In CHF million

	AAA	AA	A	BBB	Below BBB	Not rated	Total
CREDIT RATING AS AT 31 DECEMBER 2012							
Cash and cash equivalents	**2 089**	**422**	**1 084**	**50**	**0**	**68**	**3 714**
Derivatives	**111**	**94**	**962**	**2**	**–**	**466**	**1 636**
Reinsurance assets	**0**	**121**	**189**	**9**	**–**	**50**	**369**
TOTAL	**2 200**	**638**	**2 235**	**61**	**0**	**585**	**5 719**
CREDIT RATING AS AT 31 DECEMBER 2011							
Cash and cash equivalents	883	334	1 207	96	0	118	2 638
Derivatives	185	30	900	1	–	202	1 318
Reinsurance assets	–	114	186	12	–	68	380
TOTAL	1 068	478	2 293	109	0	388	4 336

EXPOSURE TO CREDIT RISK OF UNRECOGNISED ITEMS

In CHF million

	AAA	AA	A	BBB	Below BBB	Not rated	Total
CREDIT RATING AS AT 31 DECEMBER 2012							
Financial guarantees	**–**	**–**	**–**	**–**	**–**	**54**	**54**
Loan commitments	**–**	**–**	**–**	**–**	**–**	**149**	**149**
TOTAL	**–**	**–**	**–**	**–**	**–**	**203**	**203**
CREDIT RATING AS AT 31 DECEMBER 2011							
Financial guarantees	–	–	–	–	–	130	130
Loan commitments	–	–	–	–	–	119	119
TOTAL	–	–	–	–	–	249	249

CURRENCY RISK

The Swiss Life Group operates internationally and its exposures to currency risk primarily arise with respect to the euro, US dollar and British pound. Most of the investments and liabilities are denominated in Swiss francs, euros and US dollars, the values of which are 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 said foreign 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 contract liabilities, which mitigates the currency risk for these operations. As a result, currency risk arises from recognised assets and liabilities denominated in other currencies and net investments in foreign operations. Although the Swiss Life Group 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 the Swiss Life Group'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 mainly 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.

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 balance sheet currency exposure is to a large extent hedged using foreign currency derivatives. The following table shows the Group's foreign currency exposure against the major functional currencies Swiss franc and euro:

CURRENCY EXPOSURE AS AT 31 DECEMBER 2012

In CHF million

	CHF	EUR	USD	GBP	JPY	Other
BALANCE SHEET CURRENCY EXPOSURE						
Entities with functional currency CHF	–	**7 197**	**18 410**	**4 165**	**110**	**3 041**
Entities with functional currency EUR	**–21**	–	**1 961**	**179**	**0**	**185**
HEDGING EFFECT						
Entities with functional currency CHF	–	**–6 323**	**–17 533**	**–3 732**	**–100**	**–2 840**
Entities with functional currency EUR	–	–	**–1 434**	**–174**	–	**–163**

CURRENCY EXPOSURE AS AT 31 DECEMBER 2011

In CHF million

	CHF	EUR	USD	GBP	JPY	Other
BALANCE SHEET CURRENCY EXPOSURE						
Entities with functional currency CHF	–	13 820	13 919	3 872	100	2 838
Entities with functional currency EUR	6	–	1 335	301	7	373
HEDGING EFFECT						
Entities with functional currency CHF	–	–12 595	–13 490	–3 169	–100	–2 211
Entities with functional currency EUR	–	–	–906	–111	–	–207

LIQUIDITY RISK

Liquidity risk is the risk that not enough cash resources may be available to pay obligations when due (primarily obligations arising from the insurance business and debt) 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. The Swiss Life Group faces the risk of not being able to refinance its debt obligations due to unexpected long-term market disruptions.

At operational level, rolling forecasts are in place to address situational liquidity risk, which primarily arises on unexpected calls on cash resources from claims, amounts payable at maturity and surrenders arising from insurance and investment contracts. To overcome unexpected liquidity shortfalls at times asset disposals are not desired, repurchase agreements are used to ensure short-term refinancing at minimal cost.

At strategic level, the Swiss Life Group holds substantial liquidity and uses active debt maturity planning to ensure full financial flexibility and efficient liquidity management.

The liquidity analysis of financial liabilities and commitments is based on undiscounted cash flows by remaining contractual maturities, whereas insurance and policyholder participation liabilities are analysed by estimated timing of net cash outflows. For derivative financial instruments, the maturity analysis shows the fair values by contractual maturity. The analysis is made for amounts for the account and risk of the Swiss Life Group.

EXPOSURE TO LIQUIDITY RISK AS AT 31 DECEMBER 2012

In CHF million	Carrying amount	Cash flows					
		Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years
FINANCIAL LIABILITIES							
Investment contracts with discretionary participation	8 469	23	41	221	1 936	1 805	4 444
Investment contracts without discretionary participation	90	3	4	29	6	1	47
Borrowings	2 768	0	1	135	1 804	1 168	493
Other financial liabilities	7 722	2 567	719	3 403	372	264	461
TOTAL	19 049	2 593	766	3 788	4 119	3 237	5 444
INSURANCE AND POLICYHOLDER PARTICIPATION LIABILITIES							
Insurance liabilities	95 871	242	233	3 128	6 869	12 565	72 834
Policyholder participation liabilities	8 376	59	85	2 680	4 460	27	1 065
TOTAL	104 246	300	318	5 809	11 329	12 592	73 898
GUARANTEES AND COMMITMENTS							
Financial guarantees	–	–	–	54	–	–	–
Loan commitments	–	44	38	48	17	2	–
Capital commitments	–	243	–	–	170	32	–
TOTAL	–	288	38	101	187	34	–

In CHF million	Contractual Maturity						For the account and risk of the Swiss Life Group's customers	Total
	Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years		
DERIVATIVE ASSETS								
Currency	145	131	173	–	–	–	–	449
Interest rate	–	–	–	218	22	622	–	862
Equity	0	22	190	113	–	–	–	325
Other	–	–	–	–	–	–	–	–
TOTAL	145	152	364	331	22	622	–	1 636
DERIVATIVE LIABILITIES								
Currency	2	13	289	58	2	–	–	365
Interest rate	2	–	–	283	41	59	–	385
Equity	0	14	74	–	–	–	–	89
Other	0	0	–	–	–	–	–	0
TOTAL	5	28	364	340	43	59	–	839

EXPOSURE TO LIQUIDITY RISK AS AT 31 DECEMBER 2011

In CHF million	Carrying amount	Cash flows					
		Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years
FINANCIAL LIABILITIES							
Investment contracts with discretionary participation	8 445	24	43	235	1 937	1 904	4 302
Investment contracts without discretionary participation	85	4	5	13	14	8	41
Borrowings	2 624	–	1	132	2 476	760	–
Other financial liabilities	7 225	570	1 224	4 324	354	222	532
TOTAL	18 379	598	1 273	4 704	4 781	2 894	4 875
INSURANCE AND POLICYHOLDER PARTICIPATION LIABILITIES							
Insurance liabilities	92 257	238	222	3 044	7 077	12 542	69 134
Policyholder participation liabilities	5 150	25	16	1 520	3 016	27	546
TOTAL	97 407	263	238	4 564	10 093	12 569	69 680
GUARANTEES AND COMMITMENTS							
Financial guarantees	–	–	–	130	–	–	–
Loan commitments	–	67	24	24	4	–	–
Capital commitments	–	401	182	–	262	32	–
TOTAL	–	468	206	154	266	32	–

In CHF million	Contractual Maturity						For the account and risk of the Swiss Life Group's customers	Total
	Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years		
DERIVATIVE ASSETS								
Currency	65	60	286	31	–	–	–	442
Interest rate	–	–	–	46	59	543	–	648
Equity	–	0	42	47	139	–	–	228
TOTAL	65	60	328	124	198	543	–	1 318
DERIVATIVE LIABILITIES								
Currency	233	213	90	178	3	–	–	717
Interest rate	–	–	–	9	247	155	–	411
Equity	–	7	11	40	–	–	–	58
Other	–	–	–	–	0	–	–	0
TOTAL	233	220	101	227	250	155	–	1 186

CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The table below shows the expected recovery or settlement of assets and liabilities. Assets are classified as current if they are expected to be realised within twelve months after the balance sheet date. Liabilities are classified as current if they are due to be settled within twelve months after the balance sheet date. All other assets and liabilities are classified as non-current.

In CHF million	Current		Non-current		For the account and risk of the Swiss Life Group's customers		Total	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
ASSETS								
Cash and cash equivalents	**3 714**	2 638	**–**	–	**2 767**	2 446	**6 480**	5 084
Derivatives	**698**	614	**938**	704	**–**	–	**1 636**	1 318
Assets held for sale	**–**	22	**–**	–	**–**	–	**–**	22
Financial assets at fair value through profit or loss	**3 743**	2 235	**811**	1 985	**22 629**	19 900	**27 183**	24 120
Financial assets available for sale	**3 568**	2 483	**77 608**	64 781	**–**	–	**81 176**	67 264
Loans and receivables	**6 289**	6 441	**19 198**	20 761	**–**	–	**25 488**	27 202
Financial assets held to maturity	**–**	174	**–**	4 872	**–**	–	**–**	5 046
Financial assets pledged as collateral	**–**	–	**964**	969	**–**	–	**964**	969
Investment property	**–**	–	**16 225**	15 445	**–**	–	**16 225**	15 445
Investments in associates	**–**	–	**87**	74	**–**	–	**87**	74
Reinsurance assets	**326**	323	**43**	57	**–**	–	**369**	380
Property and equipment	**–**	–	**433**	539	**–**	–	**433**	539
Intangible assets including intangible insurance assets	**–**	–	**2 893**	3 722	**–**	–	**2 893**	3 722
Current income tax assets	**5**	2	**–**	–	**–**	–	**5**	2
Deferred income tax assets	**–**	–	**85**	153	**–**	–	**85**	153
Other assets	**248**	401	**129**	134	**–**	–	**376**	535
TOTAL ASSETS	**18 591**	15 333	**119 413**	114 196	**25 396**	22 346	**163 400**	151 875
LIABILITIES								
Derivatives	**402**	563	**438**	623	**–**	–	**839**	1 186
Liabilities associated with assets held for sale	**–**	15	**–**	–	**–**	–	**–**	15
Financial liabilities at fair value through profit or loss	**592**	566	**–**	–	**20 570**	18 216	**21 162**	18 782
Investment contracts	**321**	325	**8 238**	8 205	**2 994**	2 828	**11 553**	11 358
Borrowings	**1**	1	**2 767**	2 623	**–**	–	**2 768**	2 624
Other financial liabilities	**6 732**	6 116	**989**	1 109	**–**	–	**7 722**	7 225
Insurance liabilities	**3 603**	3 504	**92 267**	88 753	**1 603**	1 108	**97 474**	93 365
Policyholder participation liabilities	**2 824**	1 562	**5 552**	3 588	**–**	–	**8 376**	5 150
Employee benefit liabilities	**103**	88	**1 124**	1 173	**–**	–	**1 227**	1 261
Current income tax liabilities	**74**	120	**–**	–	**–**	–	**74**	120
Deferred income tax liabilities	**–**	–	**1 458**	1 144	**–**	–	**1 458**	1 144
Provisions	**74**	70	**114**	80	**–**	–	**188**	150
Other liabilities	**240**	305	**34**	28	**–**	–	**274**	333
TOTAL LIABILITIES	**14 965**	13 235	**112 983**	107 326	**25 167**	22 152	**153 114**	142 713

5.5 INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

Insurance contracts are contracts under which one party (the insurer) agrees to compensate the other party (the policyholder) if a specified uncertain future event affects the policyholder. 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 risk taken. The amount of risk taken must be in line with the Group's strategy and risk policy, and must also meet the profitability targets.

NATURE OF INSURANCE RISK

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 needs. The Swiss Life Group generally favours transparent and simple product design with a reliable pricing basis with sufficient statistical data available. Insurance risk arises when biometric parameters deviate adversely from expectations. The uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts is due to the unpredictability of long-term changes in overall levels of mortality and disability, for instance. Furthermore, deviations from the expected outcome of a portfolio can also arise because of random fluctuations. The impact of random fluctuations depends on the extent of diversification within a portfolio of contracts, that is, on the size of the portfolio.

The quantification of life insurance risk is based on a sensitivity analysis. Insurance risk is thus measured as the deviation of (the realisations of) the insurance risk factors from the corresponding best estimate values. Life insurance risk factors include mortality rates, disability rates and longevity, among others.

The nature of insurance risk can be summarised as follows:

MORTALITY AND LONGEVITY
Mortality and longevity risks respectively reflect the financial consequences of insured people dying sooner or living longer than expected. For example, a life insurer with an annuity portfolio making payments to the policyholders until their death is financially exposed to those individuals who live longer than expected. Conversely, an insurer writing life insurance business that pays out amounts contingent on death of the policyholders is exposed to increases in mortality levels.

In Switzerland, the Swiss occupational pensions (BVG) segment of the group life insurance business is a significant part of the Group's overall life insurance business. The BVG business provides an example of a minimum return guarantee. The guarantee takes the form of the right to convert an assured sum into a life annuity at a guaranteed conversion rate: The prevalent annuity conversion rate for the mandatory part of the BVG business is set at 6.85% for men (retirement age 65) and 6.8% for women (retirement age 64) for retirements in 2013 (6.9% for men and 6.85% for women for retirements in 2012). Under an amendment to the BVG legislation, which took effect on 1 January 2005, the rate will be reduced in stages to 6.8% by 2014.

With regard to mortality, morbidity and longevity risk the most important annuities payable (annuities in payment phase) or insured (annuities in deferral phase) as well as sums insured are as follows:

ANNUITIES PAYABLE PER ANNUM BY TYPE OF ANNUITY – INDIVIDUAL LIFE

In CHF million

	31.12.2012	31.12.2011
Life annuities – in payment	604	570
Life annuities – deferred	1 615	1 192
Annuities certain – in payment	17	16
Annuities certain – deferred	45	47
Disability income and other annuities – in payment	228	232
Disability income and other annuities – deferred	7 598	7 661
TOTAL INDIVIDUAL LIFE	10 106	9 718

ANNUITIES PAYABLE PER ANNUM BY TYPE OF ANNUITY – GROUP LIFE

In CHF million

	31.12.2012	31.12.2011
Retirement annuities – in payment	**704**	605
Retirement annuities – deferred	**768**	432
Survivors' annuities – in payment	**116**	115
Survivors' annuities – deferred	**2 288**	2 144
Disability income and other annuities – in payment	**373**	403
Disability income and other annuities – deferred	**14 528**	14 311
TOTAL GROUP LIFE	**18 778**	18 010

LIFE BENEFITS INSURED BY TYPE OF INSURANCE – INDIVIDUAL LIFE

In CHF million

	31.12.2012	31.12.2011
Whole life and term life	**11 330**	11 531
Disability lump-sum payment	**23**	20
Other	**5 593**	5 828
TOTAL INDIVIDUAL LIFE	**16 946**	17 379

LIFE BENEFITS INSURED BY TYPE OF INSURANCE – GROUP LIFE

In CHF million

	31.12.2012	31.12.2011
Term life	**71 917**	73 247
Disability lump-sum payment	**475**	596
Other	**976**	988
TOTAL GROUP LIFE	**73 368**	74 831

MORBIDITY AND DISABILITY

Disability risk reflects the financial consequences of groups of individuals getting disabled more often and/or recovering less quickly than expected. With regard to morbidity, the most significant risk factors are epidemics, widespread changes in lifestyle, such as eating, smoking and exercise habits or economic effects.

EMBEDDED 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 insurer's liability 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).

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 coverage 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 amount of coverage offered. Insurance coverage exceeding set limits is 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.

NON-LIFE

The Swiss Life Group has non-life operations in France covering risks associated with accident and health (disability) as well as property and casualty.

Claims arising from the accident and health business primarily cover refunds for medical treatment, 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 in 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).

The Group manages the risks arising from these contracts by means of its underwriting strategy and reinsurance arrangements.

DEVELOPMENT OF CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS

In CHF million	Estimate of ultimate claim costs by year of loss occurrence									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
At end of year of loss occurrence	400	416	384	447	416	345	392	323	311	303	n/a
1 year later	420	395	360	403	383	387	373	369	362	–	n/a
2 years later	393	388	377	365	353	310	320	314	–	–	n/a
3 years later	417	370	360	350	296	275	293	–	–	–	n/a
4 years later	544	346	341	292	272	259	–	–	–	–	n/a
5 years later	422	337	287	266	261	–	–	–	–	–	n/a
6 years later	392	284	268	256	–	–	–	–	–	–	n/a
7 years later	345	260	255	–	–	–	–	–	–	–	n/a
8 years later	318	247	–	–	–	–	–	–	–	–	n/a
9 years later	309	–	–	–	–	–	–	–	–	–	n/a
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	309	247	255	256	261	259	293	314	362	303	2 859
Cumulative payments to date	–278	–223	–225	–221	–213	–207	–228	–227	–204	–109	–2 134
LIABILITIES BEFORE DISCOUNTING	31	25	30	35	48	52	66	86	158	194	725
Effect of discounting	–	–	–	–	–	–	–	–	–	–	–
LIABILITIES FOR THE CURRENT AND 9 PREVIOUS YEARS	31	25	30	35	48	52	66	86	158	194	725
Liabilities for prior years											229
TOTAL GROSS CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS											954

The development of claims under non-life insurance contracts comprises the non-life business in France. A minor part of the non-life business is very short-tailed. The claims incurred are almost completely settled within one year. The amount of unpaid claims as at the balance sheet date is therefore not material and does not underlie any significant variation in its temporal development. The claims data regarding this type of business is not included in the figures above.

Acceptance rules for risks are consistent with both the Code des Assurances and the French regulations. 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.

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.

In accordance with its retention policy, for mortality and disability benefits, the Group limits its exposure to CHF 5 million per life. Retention limits can be lower for other products (e.g. critical illness or long-term care) or for exposure in international markets. In addition, catastrophe reinsurance is in place to protect against accumulation of losses from a single event or a series of connected events.

The reinsurance team at Group level is responsible for implementing the retention policy by way of intra-group reinsurance. Intra-group reinsurance is transacted at arm's length.

As far as property and casualty insurance is concerned, the reinsurance arrangements mostly include non-proportional coverage on any single risk and/or event, and are adapted to the specific exposure. This includes excess of loss, stop-loss and catastrophe coverage, as well as facultative reinsurance for protection against specific risks.

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

Approximately 1.5% in terms of earned insurance premiums was ceded as at 31 December 2012 (2011: 1.6%).

OTHER RISK TRANSFER

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

Insurance risks are regularly reported to the Group Risk Committee.

SENSITIVITY ANALYSIS

The Swiss Life Group uses the market consistent embedded value (MCEV) following the guidelines of the European Insurance CFO Forum Market Consistent Embedded Value Principles©[1], as one of the main management tools, for its sensitivity analysis with regard to insurance risk and market risk. From the shareholders' point of view, the embedded value serves as an indicator of the value of the existing insurance portfolios. It is composed of two components: the net asset value (NAV) attributable to shareholders and the value of in-force business (VIF). Future new business is not included.

The market consistent embedded value of the Swiss Life Group amounted to CHF 9.6 billion as at 31 December 2012 (2011: CHF 7.7 billion). Due to different valuation principles, changes in the embedded value are typically not reflected to the same extent in the consolidated balance sheet and consolidated statement of income of the Swiss Life Group and vice versa.

The market consistent embedded value calculations are based on economic scenarios which are calibrated to market conditions at valuation date. Best estimate assumptions were made regarding a number of factors, in particular asset allocation, policyholder participation, development of costs and claims, policyholder behaviour, mortality and morbidity. Business is assumed to be continuing

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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 for maintaining classic solvency capital funded by the shareholders and which underpins the insurance business are charged to the MCEV. The Swiss Life Group calculates the embedded value for all its life and health insurance companies. All other companies are taken into account at their IFRS net asset value. As a consequence, embedded value sensitivities do not affect the value of these companies.

An analysis of sensitivity indicates to what extent the embedded value is affected by variations in risk factors. The analysis is based on changes in the assumptions used in the embedded value calculation 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. In the event of a change in a specific risk factor, the effect of different allocations to policyholder participation as a consequence is considered in the analysis. The changes in a specific risk factor are applied to the entire projection period.

The sensitivity analysis with regard to insurance risk is as follows:

Higher overall mortality would have a significant positive effect on the embedded value of life annuities (survival risk) whereas the negative effect on the embedded value of contracts with mortality risk is comparatively limited due to corresponding reductions in policyholder bonuses. Therefore, this sensitivity is considered not significant as an adverse risk for the embedded value.

At 31 December 2012, if the longevity improvement parameter had increased by 5%, the embedded value would have been CHF 60 million lower (2011: CHF 37 million lower).

At 31 December 2012, if morbidity had been 5% higher, the embedded value would have been CHF 61 million lower (2011: CHF 87 million lower).

At 31 December 2012, if morbidity had been 5% lower, the embedded value would have been CHF 54 million higher (2011: CHF 85 million higher).

The sensitivity analysis with regard to market risk is as follows:

The MCEV calculations of the Swiss Life Group are based on economic scenarios which are calibrated to market conditions at valuation date.

At 31 December 2012, if the interest rates had been 100 basis points higher, the embedded value would have been CHF 166 million higher (2011: CHF 283 million higher).

At 31 December 2012, if the interest rates had been 100 basis points lower, the embedded value would have been CHF 567 million lower (2011: CHF 729 million lower).

At 31 December 2012, if the swaption implied volatilities (interest rates) had been 25% higher, the embedded value would have been CHF 444 million lower (2011: CHF 709 million lower).

At 31 December 2012, if the swaption implied volatilities (interest rates) had been 25% lower, the embedded value would have been CHF 15 million lower (2011: CHF 544 million higher).

At 31 December 2012, if the market value of equity securities and property had been 10% higher, the embedded value would have been CHF 653 million higher (2011: CHF 746 million higher).

At 31 December 2012, if the market value of equity securities and property had been 10% lower, the embedded value would have been CHF 732 million lower (2011: CHF 814 million lower).

At 31 December 2012, if the equity securities and property implied volatilities had been 25% higher, the embedded value would have been CHF 261 million lower (2011: CHF 243 million lower).

At 31 December 2012, if the equity securities and property implied volatilities had been 25% lower, the embedded value would have been CHF 211 million higher (2011: CHF 200 million higher).

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).

6 Earnings per Share

Basic earnings per share (EPS) are calculated on the weighted average number of shares outstanding during the reporting period, excluding the average number of shares purchased by the Group and held as treasury shares.

Diluted earnings per share include the dilutive effect of convertible bonds and share options issued. In the diluted EPS calculation, 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.

In CHF million (if not noted otherwise)

	2012	2011
BASIC EARNINGS PER SHARE		
Net result attributable to equity holders of Swiss Life Holding	92	605
Weighted average number of shares outstanding	31 902 670	31 893 573
BASIC EARNINGS PER SHARE FOR THE NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF SWISS LIFE HOLDING (IN CHF)	2.88	18.97
DILUTED EARNINGS PER SHARE		
Net result attributable to equity holders of Swiss Life Holding	92	605
RESULT USED TO DETERMINE DILUTED EARNINGS PER SHARE	92	605
Weighted average number of shares outstanding	31 902 670	31 893 573
Adjustments (number of shares)		
Equity compensation plans	142 012	166 740
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	32 044 682	32 060 313
DILUTED EARNINGS PER SHARE FOR THE NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF SWISS LIFE HOLDING (IN CHF)	2.86	18.87

7 Premiums, Policy Fees and Deposits Received

WRITTEN PREMIUMS

In CHF million

	2012	2011
Direct	**11 786**	11 527
Assumed	**262**	262
GROSS WRITTEN PREMIUMS	**12 048**	11 789
Ceded	**–175**	–191
NET WRITTEN PREMIUMS	**11 873**	11 598

EARNED PREMIUMS

In CHF million

	2012	2011
Direct	**11 784**	11 528
Assumed	**262**	262
GROSS EARNED PREMIUMS	**12 046**	11 790
Ceded	**–175**	–191
NET EARNED PREMIUMS	**11 871**	11 599

WRITTEN POLICY FEES

In CHF million

	2012	2011
Direct	**303**	291
Assumed	**1**	0
GROSS WRITTEN POLICY FEES	**303**	291
Ceded	**0**	0
NET WRITTEN POLICY FEES	**303**	291

EARNED POLICY FEES

In CHF million

	2012	2011
Direct	**308**	295
Assumed	**1**	0
GROSS EARNED POLICY FEES	**309**	295
Ceded	**0**	0
NET EARNED POLICY FEES	**309**	295

Under the accounting principles adopted, deposits received under insurance and investment contracts for which deposit accounting is used are not recognised as income:

In CHF million

	2012	2011
Gross written premiums and policy fees	12 351	12 080
Deposits received under insurance and investment contracts	4 695	5 063
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	17 046	17 143

8 Details of Certain Items in the Consolidated Statement of Income

COMMISSION INCOME

In CHF million

	2012	2011
Brokerage commissions	545	634
Asset management commissions	122	123
Other commissions and fees	159	136
TOTAL COMMISSION INCOME	826	893

INVESTMENT INCOME

In CHF million

	Notes	2012	2011
Interest income on financial assets held to maturity and available for sale		2 644	2 430
Interest income on loans and receivables		996	1 110
Other interest income		11	15
Dividend income on financial assets available for sale		61	75
Net income on investment property		585	586
TOTAL INVESTMENT INCOME	5	4 297	4 216

NET GAINS/LOSSES ON FINANCIAL ASSETS

In CHF million

	Notes	2012	2011
Sale of			
financial assets held to maturity		483	–
financial assets available for sale	27	782	344
loans		156	140
Net gains/losses from sales		1 421	484
Impairment losses on			
debt securities available for sale	27	–1	–57
equity securities available for sale	27	–28	–87
loans and receivables	13	–7	–4
Impairment losses on financial assets		–36	–148
Foreign currency gains/losses		–608	214
TOTAL NET GAINS/LOSSES ON FINANCIAL ASSETS	5	776	550

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

In CHF million

	Notes	2012	2011
Interest rate derivatives		–52	–45
Equity derivatives		–63	–101
Currency derivatives		405	–532
Other derivatives		–2	0
Financial assets designated as at fair value through profit or loss		463	–155
Financial liabilities designated as at fair value through profit or loss		–122	30
Financial instruments for the account and risk of the Swiss Life Group’s customers		–49	–17
TOTAL NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	5	580	–820

OTHER INCOME

In CHF million

	2012	2011
Realised gains/losses on sales of subsidiaries and other assets	2	–1
Other foreign currency gains/losses	17	40
Other	6	6
TOTAL OTHER INCOME	25	45

NET INSURANCE BENEFITS AND CLAIMS

In CHF million

	2012	2011
Benefits and claims under insurance contracts		
Life benefits and claims paid, gross	9 468	9 728
Change in liability for future life policyholder benefits, gross	3 495	2 028
Non-life claims paid, gross	248	259
Change in reserve for non-life claims, gross	3	–7
Benefits and claims recovered from reinsurers	–79	–103
Net benefits and claims under insurance contracts	13 134	11 905
Benefits and claims under investment contracts with discretionary participation		
Life benefits and claims paid, gross	374	437
Change in liability for future life policyholder benefits, gross	311	272
Benefits and claims recovered from reinsurers	–	–
Net benefits and claims under investment contracts with discretionary participation	685	709
TOTAL NET INSURANCE BENEFITS AND CLAIMS	13 819	12 614

INTEREST EXPENSE

In CHF million

	Notes	2012	2011
Interest expense on deposits		25	43
Interest expense on investment contracts	20	99	97
Interest expense on deposits under insurance contracts	23	84	100
Other interest expense		44	34
TOTAL INTEREST EXPENSE		253	274

COMMISSION EXPENSE

In CHF million

	2012	2011
Insurance agent and broker commissions	790	911
Asset management and banking commissions	61	52
Other commissions and fees	21	20
TOTAL COMMISSION EXPENSE	871	983

EMPLOYEE BENEFITS EXPENSE

In CHF million

	Notes	2012	2011
Wages and salaries		571	585
Social security		123	120
Defined benefit plans	24	110	84
Defined contribution plans		1	1
Other employee benefits		66	45
TOTAL EMPLOYEE BENEFITS EXPENSE		871	835

DEPRECIATION AND AMORTISATION EXPENSE

In CHF million

	Notes	2012	2011
Depreciation of property and equipment	17	28	30
Amortisation of present value of future profits (PVP)	18	1	1
Amortisation of deferred acquisition costs (DAC)	18	565	461
Amortisation of deferred origination costs (DOC)	18	53	27
Amortisation of other intangible assets	18	39	35
TOTAL DEPRECIATION AND AMORTISATION EXPENSE		685	554

OTHER EXPENSES

In CHF million

	2012	2011
Marketing and advertising	59	64
Information technology and systems	72	65
Rental, maintenance and repair	67	72
Professional services	171	174
Premium taxes and other non-income taxes	55	58
Other	98	97
TOTAL OTHER EXPENSES	521	530

Net gains/losses on financial instruments at fair value through profit or loss include interest and dividend income of CHF 77 million for the period ended 31 December 2012 (2011: CHF 79 million). Net gains/losses on liabilities designated as at fair value through profit or loss include changes attributable to credit risk: nil for the period ended 31 December 2012 (2011: nil).

9 Derivatives

In CHF million	Fair value assets		Fair value liabilities		Contract/notional amount	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
CURRENCY DERIVATIVES						
Forward contracts	405	400	332	689	42 536	36 506
Swaps	–	–	2	3	814	939
Futures	1	–	0	–	66	–
Options (over-the-counter)	43	42	31	25	1 372	6 826
TOTAL CURRENCY DERIVATIVES	449	442	365	717	44 788	44 271
INTEREST RATE DERIVATIVES						
Swaps	152	278	378	332	28 076	11 723
Futures	–	26	–	1	–	256
Options (over-the-counter)	121	105	–	15	2 981	1 947
Other	589	239	7	63	9 105	6 497
TOTAL INTEREST RATE DERIVATIVES	862	648	385	411	40 163	20 423
EQUITY/INDEX DERIVATIVES						
Futures	3	0	0	7	250	147
Options (exchange-traded)	322	228	88	51	8 818	2 962
TOTAL EQUITY/INDEX DERIVATIVES	325	228	89	58	9 067	3 109
OTHER DERIVATIVES						
Derivatives embedded in insurance contracts	–	–	–	0	–	6
Other	–	–	0	–	25	–
TOTAL OTHER DERIVATIVES	–	–	0	0	25	6
TOTAL DERIVATIVES	1 636	1 318	839	1 186	94 043	67 809
of which derivatives designated and accounted for as hedging instruments						
Derivatives designated as fair value hedges	38	0	–	2	1 901	117
Derivatives designated as cash flow hedges	589	239	5	63	9 045	6 497
Derivatives designated as net investment hedges	0	6	–	–	299	365

DERIVATIVES HELD FOR RISK MANAGEMENT

Derivatives held for risk management 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"). The timing of the offset does not match in all cases.

To manage the risks associated with derivative activity, 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.

DERIVATIVES DESIGNATED AND ACCOUNTED FOR AS HEDGING INSTRUMENTS

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

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

In CHF million	Fair value assets		Fair value liabilities		Gains/losses on hedging instruments		Gains/losses on hedged items		Contract/notional amount	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Interest rate risk										
Interest rate swaps to hedge available-for-sale bond portfolios	**37**	–	**–**	–	**23**	–154	**–24**	154	**1 829**	–
Interest rate swaps to hedge note loans	**–**	–	**–**	–	**–**	–42	**–**	40	**–**	–
Foreign currency risk										
Currency forwards to hedge investments in hedge funds	**1**	0	**–**	2	**1**	–4	**–2**	4	**72**	117
TOTAL DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES	**38**	0	**–**	2	**24**	–200	**–26**	198	**1 901**	117

The Swiss Life Group uses interest rate swaps to hedge available-for-sale fixed-rate bonds in USD against changes in the fair value attributable to interest rate risk. The nominal amount of these bonds as at 31 December 2012 was USD 2 billion.

Forward contracts are used as hedging instruments to protect investments in hedge funds against adverse movements in euro and US dollar exchange rates.

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

In CHF million	Fair value assets	Fair value liabilities	Amounts recognised in other comprehensive income	Ineffectiveness recognised in profit or loss	Amounts transferred to profit or loss	Contract/ notional amount	Cash flows expected to occur (year)	Cash flows expected to affect profit or loss (year)
31 DECEMBER 2012								
Interest rate risk								
Forward starting swaps/bonds	**589**	**5**	**408**	**–**	**–**	**9 045**	**2014-2022**	**2014-2047**
TOTAL DERIVATIVES DESIGNATED AS CASH FLOW HEDGES	**589**	**5**	**408**	**–**	**–**	**9 045**	**n/a**	**n/a**
31 DECEMBER 2011								
Interest rate risk								
Forward starting swaps/bonds	239	63	175	–	–	6 497	2014–2021	2015–2045
Foreign currency risk								
Currency futures	–	–	0	0	–2	–	2011	2011
TOTAL DERIVATIVES DESIGNATED AS CASH FLOW HEDGES	239	63	175	0	–2	6 497	n/a	n/a

In 2011 and 2012, the Group used forward starting swaps and forward starting bonds to hedge the exposure to variability in interest cash flows arising on the highly probable purchase of bonds in order to achieve an adequate yield level for reinvestments.

In 2011, the Group entered into futures to hedge the cash flows in euro arising from policy fees earned on investment and unit-linked contracts against foreign currency movements. In 2011, CHF 2 million was transferred to the income statement and was included in policy fees earned on investment and unit-linked contracts.

DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES

In CHF million	Fair value assets		Fair value liabilities		Amounts recognised in other comprehensive income		Ineffectiveness recognised in profit or loss		Notional amount	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Currency forwards	**0**	6	**–**	–	**3**	9	**–1**	0	**299**	365
TOTAL DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES	**0**	6	**–**	–	**3**	9	**–1**	0	**299**	365

In 2012 and 2011, the Group entered into forward contracts to hedge the foreign currency translation risk for a portion of its investment in AWD Holding. As at 31 December 2012, the hedged portion amounted to EUR 248 million (31.12.2011: EUR 300 million).

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

In CHF million	Notes	**31.12.2012**	31.12.2011
FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Debt securities		**693**	1 905
Money market instruments		**1**	1
Equity securities		**558**	796
Investment fund units – debt		**1 970**	780
Investment fund units – equity		**869**	605
Investment fund units – mixed		**443**	20
Hedge funds		**20**	113
Assets for the account and risk of the Swiss Life Group's customers	5	**22 629**	19 900
TOTAL FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS		**27 183**	24 120
FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Unit-linked contracts	5	**20 570**	18 216
Share of net assets of investment funds attributable to minority unitholders		**592**	566
TOTAL FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS		**21 162**	18 782

11 Financial Assets Available for Sale

In CHF million	Cost/amortised cost		Net unrealised gains/losses		Fair value (carrying amount)	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Debt securities	**70 696**	60 733	**7 917**	4 110	**78 613**	64 843
Money market instruments	**57**	40	**–**	–	**57**	40
Equity securities	**399**	493	**76**	44	**475**	537
Investment fund units – debt	**88**	148	**3**	2	**91**	150
Investment fund units – equity	**1 051**	887	**16**	–45	**1 067**	842
Investment fund units – mixed	**226**	220	**6**	7	**232**	227
Private equity	**417**	368	**54**	30	**472**	398
Hedge funds	**104**	149	**66**	78	**170**	227
TOTAL FINANCIAL ASSETS AVAILABLE FOR SALE	**73 038**	63 038	**8 138**	4 226	**81 176**	67 264

Financial assets held to maturity of CHF 1.3 billion were reclassified to financial assets available for sale in 2012.

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.

12 Financial Assets Pledged as Collateral

In CHF million	Carrying amount	
	31.12.2012	31.12.2011
Debt securities reclassified from		
financial assets available for sale	**964**	969
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**964**	969

Financial assets that have been sold under a repurchase agreement or lent under an agreement to return them, are not derecognised when substantially all the risks and rewards of ownership are retained by Swiss Life. If the transferee has the right to sell or repledge the financial assets given as collateral, they are reclassified in the balance sheet as financial assets pledged at their respective carrying amounts.

13 Loans and Receivables

In CHF million	Notes	Gross amount 31.12.2012	Gross amount 31.12.2011	Allowance for impairment losses 31.12.2012	Allowance for impairment losses 31.12.2011	Cost/amortised cost (carrying amount) 31.12.2012	Cost/amortised cost (carrying amount) 31.12.2011
LOANS							
Mortgages		**5 488**	5 147	**–24**	–24	**5 464**	5 123
Policy loans		**299**	330	**–**	–	**299**	330
Other originated loans		**955**	1 292	**–8**	–7	**948**	1 285
Note loans		**7 970**	8 176	**–**	–	**7 970**	8 176
Debt securities previously classified as available for sale		**6 434**	7 976	**–31**	–31	**6 403**	7 945
Debt securities designated as loans		**529**	663	**–**	–	**529**	663
Repurchase agreements		**–**	93	**–**	–	**–**	93
TOTAL LOANS	33	**21 675**	23 677	**–63**	–62	**21 612**	23 615
RECEIVABLES							
Insurance receivables		**1 180**	972	**–19**	–23	**1 162**	949
Reinsurance receivables		**240**	167	**–**	–	**240**	167
Accrued income		**1 651**	1 758	**–**	–	**1 651**	1 758
Settlement accounts		**40**	172	**–**	–	**40**	172
Other		**784**	542	**–1**	–1	**783**	541
TOTAL RECEIVABLES	33	**3 895**	3 611	**–20**	–24	**3 876**	3 587
TOTAL LOANS AND RECEIVABLES		**25 570**	27 288	**–82**	–86	**25 488**	27 202

ALLOWANCE FOR IMPAIRMENT LOSSES

In CHF million	Individual evaluation of impairment 2012	Individual evaluation of impairment 2011	Collective evaluation of impairment 2012	Collective evaluation of impairment 2011	Total 2012	Total 2011
LOANS						
Balance as at 1 January	**53**	70	**9**	9	**62**	79
Impairment losses	**1**	0	**–**	0	**1**	0
Write-offs	**0**	–17	**–**	0	**0**	–17
Foreign currency translation differences	**0**	0	**–**	–	**0**	0
BALANCE AS AT END OF PERIOD	**54**	53	**9**	9	**63**	62
RECEIVABLES						
Balance as at 1 January	**7**	8	**17**	16	**24**	24
Impairment losses	**2**	2	**4**	2	**6**	4
Write-offs	**–3**	–3	**–7**	–1	**–10**	–4
Foreign currency translation differences	**0**	0	**0**	0	**0**	0
BALANCE AS AT END OF PERIOD	**5**	7	**14**	17	**20**	24
TOTAL ALLOWANCE FOR IMPAIRMENT LOSSES	**59**	60	**23**	26	**82**	86

Interest income accrued on impaired loans was CHF 1 million as at 31 December 2012 (2011: CHF 1 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.

As at 1 July 2008, certain financial assets were reclassified from financial assets available for sale to loans due to the disappearance of an active market. The financial assets reclassified primarily consist of corporate debt instruments and debt instruments relating to emerging markets. The fair value as at 1 July 2008 of the financial assets reclassified amounted to CHF 14 966 million. At the date of reclassification the effective interest rate ranged from 0.8% to 9.7%, and the amount of cash flows expected to be recovered was estimated at CHF 32 658 million. In 2008, unrealised losses of CHF 740 million were recognised in equity in respect of these assets.

Further details with regard to the financial assets reclassified are as follows:

DEBT SECURITIES PREVIOUSLY CLASSIFIED AS AVAILABLE FOR SALE

In CHF million	2012	2011
Carrying amount as at 31 December	**6 403**	7 945
Fair value as at 31 December	**7 647**	8 680
Gains (+)/losses (–) that would have been recognised in other comprehensive income if the assets had not been reclassified (excluding adjustments for income tax and policyholder participation)	**679**	–58
Gains (+)/losses (–) recognised in profit or loss (including impairment)	**–46**	–19
Interest income	**423**	490

14 Financial Assets Held to Maturity

In CHF million		Gross amount		Allowance for impairment losses		Cost/amortised cost (carrying amount)	
	Notes	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Debt securities		**–**	5 046	**–**	–	**–**	5 046
Other		**–**	–	**–**	–	**–**	–
TOTAL FINANCIAL ASSETS HELD TO MATURITY	33	**–**	5 046	**–**	–	**–**	5 046

Financial assets held to maturity of CHF 4.1 billion were sold in 2012 due to the unstable situation in the euro zone. The remaining financial assets held to maturity of CHF 1.3 billion were reclassified to financial assets available for sale.

15 Investment Property

In CHF million

	Notes	2012	2011
Balance as at 1 January		**15 445**	14 142
Additions		**744**	1 221
Capitalised subsequent expenditure		**230**	187
Classification as assets held for sale and other disposals		**–731**	–594
Gains/losses from fair value adjustments		**390**	513
Transfers from/to property and equipment	17	**168**	36
Foreign currency translation differences		**–20**	–60
BALANCE AS AT END OF PERIOD		**16 225**	15 445
Investment property consists of			
completed investment property		**15 961**	15 243
investment property under construction		**264**	202
TOTAL INVESTMENT PROPERTY		**16 225**	15 445

Investment property held by the Group includes residential, commercial and mixed-use properties primarily located within Switzerland, and comprises both completed investment property and investment property under construction. 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 761 million for the period ended 31 December 2012 (2011: CHF 751 million). Operating expenses arising from investment property that generated rental income stood at CHF 176 million for the period ended 31 December 2012 (2011: CHF 165 million). Operating expenses arising from investment property that did not generate rental income during the period stood at nil for the period ended 31 December 2012 (2011: nil).

16 Investments in Associates

In CHF million

	2012	2011
Balance as at 1 January	**74**	63
Additions	**–**	10
Addition due to a subsidiary becoming an associate	**8**	–
Classification as assets held for sale and other disposals	**0**	0
Share of profit or loss	**8**	6
Share of other comprehensive income	**0**	–
Dividends paid	**–3**	–4
Foreign currency translation differences	**0**	–1
BALANCE AS AT END OF PERIOD	**87**	74

Goodwill relating to investments in associates is included in the carrying amount of investments in associates.

In 2012, the Swiss Life Group set up Assuristance, Paris.

In 2011, the Swiss Life Group acquired a 25% share of Prigest, Paris.

INVESTMENTS IN ASSOCIATES: SUMMARISED FINANCIAL INFORMATION

Amounts in CHF million	Assets	Liabilities	Net assets	Share of net assets	Revenues	Results	Share of results	Direct share
2012								
Crédit et services financiers (CRESERFI), Paris	**243**	**106**	**137**	**46**	**136**	**4**	**1**	**33.4%**
Technopark Immobilien, Zürich	**104**	**59**	**46**	**15**	**14**	**4**	**1**	**33.3%**
Other	**109**	**52**	**58**	**26**	**57**	**15**	**5**	**n/a**
TOTAL	**457**	**217**	**240**	**87**	**207**	**23**	**8**	**n/a**
2011								
Crédit et services financiers (CRESERFI), Paris	241	107	134	45	50	7	3	33.4%
Technopark Immobilien, Zürich	103	58	45	15	14	4	1	33.3%
Other	42	20	22	14	43	6	2	n/a
TOTAL	386	185	201	74	107	17	6	n/a

17 Property and Equipment

PROPERTY AND EQUIPMENT FOR THE YEAR 2012

In CHF million	Notes	Land and buildings	Furniture and fixtures	Hardware	Other equipment	Total
COST						
Balance as at 1 January		**700**	**52**	**50**	**16**	**818**
Additions		**13**	**4**	**6**	**10**	**33**
Additions from business combinations	29	**–**	**0**	**0**	**0**	**0**
Classification as assets held for sale and other disposals		**–5**	**–3**	**–2**	**–1**	**–11**
Transfers to investment property	15	**–193**	**–**	**–**	**–**	**–193**
Revaluation in respect of transfers to investment property		**62**	**–**	**–**	**–**	**62**
Foreign currency translation differences		**–3**	**0**	**0**	**0**	**–3**
BALANCE AS AT END OF PERIOD		**576**	**53**	**54**	**25**	**708**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January		**–201**	**–35**	**–34**	**–9**	**–279**
Depreciation		**–15**	**–4**	**–7**	**–2**	**–28**
Impairment losses		**–**	**–1**	**0**	**–**	**–1**
Classification as assets held for sale and other disposals		**3**	**3**	**2**	**0**	**8**
Transfers to investment property	15	**25**	**–**	**–**	**–**	**25**
Foreign currency translation differences		**1**	**0**	**0**	**0**	**1**
BALANCE AS AT END OF PERIOD		**–189**	**–37**	**–39**	**–10**	**–275**
TOTAL PROPERTY AND EQUIPMENT AS AT END OF PERIOD		**386**	**17**	**15**	**15**	**433**
of which assets held under a finance lease		**–**	**–**	**2**	**–**	**2**
of which buildings in the course of construction		**25**				

PROPERTY AND EQUIPMENT FOR THE YEAR 2011

In CHF million	Notes	Land and buildings	Furniture and fixtures	Hardware	Other equipment	Total
COST						
Balance as at 1 January		720	61	48	8	837
Additions		18	1	10	4	33
Additions from business combinations	29	–	0	0	0	0
Classification as assets held for sale and other disposals		–2	–9	–7	–2	–20
Reclassifications and transfers to investment property	15	–44	–	–	6	–38
Revaluation in respect of transfers to investment property		16	–	–	–	16
Foreign currency translation differences		–8	–1	–1	0	–10
BALANCE AS AT END OF PERIOD		700	52	50	16	818
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January		–194	–35	–34	–5	–268
Depreciation		–16	–5	–7	–2	–30
Impairment losses		–	–5	–	–	–5
Classification as assets held for sale and other disposals		2	9	7	1	19
Reclassifications and transfers to investment property	15	5	–	–	–3	2
Foreign currency translation differences		2	1	0	0	3
BALANCE AS AT END OF PERIOD		–201	–35	–34	–9	–279
TOTAL PROPERTY AND EQUIPMENT AS AT END OF PERIOD		499	17	16	7	539
of which assets held under a finance lease		–	–	3	–	3
of which buildings in the course of construction		14				

No borrowing costs were capitalised in property and equipment in 2012 and 2011.

18 Intangible Assets including Intangible Insurance Assets

In CHF million	31.12.2012	31.12.2011
Intangible insurance assets	**1 605**	1 817
Other intangible assets	**1 288**	1 905
TOTAL INTANGIBLE ASSETS	**2 893**	3 722

INTANGIBLE INSURANCE ASSETS

In CHF million	Present value of future profits from acquired insurance portfolios (PVP)		Deferred acquisition costs (DAC)		Deferred origination costs (DOC)		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Balance as at 1 January	**15**	16	**1 743**	1 986	**59**	31	**1 817**	2 033
Additions	**1**	2	**391**	389	**31**	55	**422**	446
Amortisation	**–1**	–1	**–565**	–461	**–53**	–27	**–619**	–489
Impairment	**–**	–2	**–2**	–1	**–**	–	**–2**	–3
Effect of shadow accounting	**0**	0	**–4**	–139	**–**	–	**–4**	–139
Foreign currency translation differences	**0**	0	**–9**	–31	**0**	0	**–10**	–31
BALANCE AS AT END OF PERIOD	**15**	15	**1 554**	1 743	**36**	59	**1 605**	1 817

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. It relates to contracts acquired in Germany and France and is amortised in proportion to gross profits or margins over the effective life of the acquired insurance and investment contracts.

DEFERRED ACQUISITION COSTS (DAC)

Certain acquisition costs relating to new and renewed insurance contracts and investment contracts with discretionary participation are deferred.

DEFERRED ORIGINATION COSTS (DOC)

These costs are recoverable and are directly attributable to securing the right for investment management services within investment contract policies. They relate to contracts in Luxembourg and Switzerland.

OTHER INTANGIBLE ASSETS

In CHF million		Goodwill		Customer relationships		Brands and other		Total	
	Notes	2012	2011	2012	2011	2012	2011	2012	2011
COST									
Balance as at 1 January		**1 727**	1 745	**311**	316	**236**	230	**2 274**	2 291
Additions		**–**	–	**–**	–	**22**	20	**22**	20
Additions from business combinations	29	**7**	9	**–**	2	**1**	–	**7**	11
Additions from internal software development		**–**	–	**–**	–	**6**	–	**6**	–
Classification as assets held for sale and other disposals		**0**	–	**–**	–	**–3**	–8	**–3**	–8
Foreign currency translation differences		**–8**	–27	**–2**	–7	**–2**	–6	**–12**	–40
BALANCE AS AT END OF PERIOD		**1 726**	1 727	**309**	311	**258**	236	**2 293**	2 274
ACCUMULATED AMORTISATION AND IMPAIRMENT									
Balance as at 1 January		**–157**	–157	**–112**	–83	**–100**	–102	**–369**	–342
Amortisation		**–**	–	**–28**	–29	**–11**	–6	**–39**	–35
Impairment losses		**–393**	–	**–115**	–2	**–94**	–1	**–601**	–3
Classification as assets held for sale and other disposals		**–**	–	**–**	–	**3**	8	**3**	8
Foreign currency translation differences		**0**	–	**1**	2	**1**	1	**1**	3
BALANCE AS AT END OF PERIOD		**–550**	–157	**–255**	–112	**–200**	–100	**–1 005**	–369
TOTAL OTHER INTANGIBLE ASSETS AS AT END OF PERIOD		**1 176**	1 570	**54**	199	**58**	136	**1 288**	1 905

GOODWILL

Goodwill represents the excess of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, if applicable, over the fair value of the assets and liabilities recognised at the date of acquisition. Goodwill includes amounts relating to both the Swiss Life Group's interest and the non-controlling interest in the business acquired in the case where non-controlling interest is measured at fair value. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on associates is included in the carrying amount of the investment.

Goodwill relating to the acquisition of aXenta AG, Baden, in May 2012 amounted to CHF 7 million.

In 2011, the Swiss Life Group acquired a majority share of Viveris REIM, Marseilles. The goodwill relating to this transaction amounted to CHF 9 million.

Goodwill relating to Lloyd Continental has been allocated to the "Insurance France" segment. Goodwill relating to CapitalLeben has been allocated to the "Insurance International" segment. Of the goodwill relating to other acquisitions, CHF 12 million (2011: CHF 12 million) has been allocated to the "Insurance France" segment and CHF 9 million (2011: CHF 9 million) to the "Investment Management" as at 31 December 2012. The goodwill on the acquisition of aXenta AG, Baden, was fully impaired in 2012.

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. The projection covers a four-year period for Lloyd Continental. Due to the duration of the insurance and investment contracts a five-year period was used for CapitalLeben. The calculations for Lloyd Continental and

CapitalLeben are based on present values that traditionally use a single set of estimated cash flows and a single discount rate.

No impairment loss would arise on the goodwill relating to Lloyd Continental if the eternal growth rate were reduced to 1% or the discount rate were increased by 1%.

No impairment loss would arise on the goodwill relating to CapitalLeben if the eternal growth rate were set to nil (instead of 1%) or operating costs were to remain flat starting from 2013 (i.e. no further cost reductions achieved).

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

In CHF million	Lloyd Continental		CapitalLeben		Other	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Net carrying amount of goodwill	**287**	287	**149**	149	**21**	21
Impairment losses	**–**	–	**–**	–	**7**	–
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS						
Growth rate	**2.0%**	1.0%	**1.0%**	1.0%	**1-2%**	1.0%
Discount rate	**11.8%**	10.5%	**8.6%**	9.3%	**9.4-11.8%**	10.5%

The growth rates were adjusted in 2012 to reflect the long-term inflation expectations of the International Monetary Fund for the respective markets.

Goodwill relating to the acquisitions of AWD Holding AG and Deutsche Proventus AG has been allocated to the “Insurance Switzerland”, “Insurance Germany” and “AWD” segments. The reportable segments in these financial statements reflect the management structure that was in place until the end of 2012. For the purpose of impairment testing, goodwill was allocated to the cash-generating units according to the new management structure and reportable segments in place as of 2013.

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.

For the impairment test in 2012, the financial budgets are based on the new management structure that came into effect on 1 January 2013. Under the new management structure, the legal entities of AWD have been assigned to the individual markets in which they operate. The projection covers a three-year period for Switzerland, Germany and International (AWD AT/CEE, UK). The calculations are based on present values that traditionally use a single set of estimated cash flows and a single discount rate. The key assumptions used for the impairment testing on the carrying amount of goodwill relating to AWD were as follows:

AWD GOODWILL RELATING TO "INSURANCE SWITZERLAND" AND "INSURANCE GERMANY" SEGMENTS

In CHF million	Insurance Switzerland		Insurance Germany	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Net carrying amount of goodwill	81	81	256	258
Impairment losses	–	–	–	–
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS				
Growth rate	1.0%	1.0%	2.0%	1.0%
Discount rate	9.4%	9.3%	10.7%	10.5%

No impairment loss would arise on the AWD goodwill relating to "Insurance Switzerland" if the eternal growth rate were reduced to nil or the discount rate were increased by 1%.

AWD GOODWILL RELATING TO "AWD" SEGMENT

In CHF million	Switzerland	Germany	Austria Eastern Europe UK	Total	Total
				31.12.2012	31.12.2011
Net carrying amount of goodwill	72	230	80	382	774
Impairment losses	–	218	168	386	–
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS					
Growth rate	1.0%	2.0%	2.0%	n/a	1.0%
Discount rate	9.4%	10.7%	9.0%	n/a	9.4%

In 2012, CHF 386 million impairment losses were recognised on the goodwill relating to the "AWD" segment. Therefore, any adverse movement in a key assumption would lead to a further impairment. The impairment losses under the old management structure would not have been significantly different.

On the carrying amount of goodwill, no other impairment losses were recognised in 2012, and no impairment losses were recognised in 2011.

CUSTOMER RELATIONSHIPS

As at 31 December 2012, customer relationships comprise customer relationships relating to the "AWD" segment CHF 35 million (2011: CHF 156 million), "Insurance France" segment CHF 18 million (2011: CHF 21 million), "Insurance International" segment nil (2011: CHF 20 million) and "Investment Management" segment CHF 1 million (2011: CHF 2 million). On the customer relationships relating to AWD, CHF 98 million was recognised as an impairment loss in 2012 due to higher than originally projected fluctuation rates of financial advisers in Austria and Switzerland. On the customer relationships relating to "Insurance International" CHF 17 million was recognised as an impairment loss in 2012. The impairment loss arose due to the pursued two-carrier strategy with the strong focus on new business in Luxembourg and Singapore.

BRANDS AND OTHER

Consists of brands, trademarks, computer software and other intangible assets relating to AWD CHF 5 million (2011: CHF 98 million) and other CHF 53 million (2011: CHF 38 million) as at 31 December 2012. Due to the rebranding strategy relating to the AWD brand CHF 94 million was recognised in 2012 as an impairment loss on the carrying amount of brands and other.

19 Other Assets and Liabilities

OTHER ASSETS

In CHF million

	31.12.2012	31.12.2011
Deferred charges and prepaid expenses	**179**	317
Employee benefit assets	**128**	134
Sundry assets	**69**	84
TOTAL OTHER ASSETS	**376**	535

OTHER LIABILITIES

In CHF million

	31.12.2012	31.12.2011
Deferred income	**157**	259
Sundry liabilities	**117**	74
TOTAL OTHER LIABILITIES	**274**	333

20 Investment Contracts

In CHF million

	Notes	31.12.2012	31.12.2011
Investment contracts with discretionary participation with deposit accounting		**9 694**	9 605
Investment contracts with discretionary participation with actuarial valuation		**1 678**	1 463
Investment contracts without discretionary participation at amortised cost	33	**43**	53
Investment contracts without discretionary participation at fair value through profit or loss		**138**	237
TOTAL INVESTMENT CONTRACTS		**11 553**	11 358
of which for the account and risk of the Swiss Life Group's customers			
investment contracts with discretionary participation		**2 903**	2 623
investment contracts without discretionary participation		**91**	205

INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION WITH DEPOSIT ACCOUNTING

In CHF million

	2012	2011
Balance as at 1 January	**9 605**	9 694
Deposits received	**1 551**	1 797
Interest credited	**98**	95
Participating bonuses	**164**	187
Policy fees	**–107**	–108
Deposits released	**–1 209**	–1 188
Other movements	**494**	–
Reclassifications and other disposals	**–826**	–626
Foreign currency translation differences	**–76**	–246
BALANCE AS AT END OF PERIOD	**9 694**	9 605

INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION WITH ACTUARIAL VALUATION

In CHF million

	Notes	2012	2011
Balance as at 1 January		**1 463**	1 179
Additions from acquisition of insurance portfolio	31	**–**	15
Savings premiums		**660**	684
Accretion of interest		**23**	25
Liabilities released for payments on death, surrender and other terminations during the year		**–374**	–437
Effect of changes in actuarial assumptions and other movements		**2**	0
Reclassifications and other disposals		**–95**	–
Foreign currency translation differences		**–1**	–3
BALANCE AS AT END OF PERIOD		**1 678**	1 463

In the case of contracts that do not have significant insurance risk but contain discretionary participation features, the Swiss Life Group primarily 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 relate to contracts issued in France and Luxembourg.

In the case of 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. For participating contracts where the contribution principle applies to the allocation of the policyholder bonus, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest rate assumptions. These amounts relate to contracts issued in Switzerland and France.

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

INVESTMENT CONTRACTS WITHOUT DISCRETIONARY PARTICIPATION AT AMORTISED COST

In CHF million

	2012	2011
Balance as at 1 January	53	170
Deposits received	36	20
Interest credited	1	2
Policy fees	0	0
Deposits released	–28	–136
Other movements	0	–1
Reclassifications and other disposals	–18	–
Foreign currency translation differences	0	–2
BALANCE AS AT END OF PERIOD	43	53

INVESTMENT CONTRACTS WITHOUT DISCRETIONARY PARTICIPATION AT FAIR VALUE THROUGH PROFIT OR LOSS

In CHF million

	2012	2011
Balance as at 1 January	237	236
Deposits received	15	16
Fair value changes	6	6
Policy fees	0	–2
Deposits released	–7	–20
Other movements	0	6
Reclassifications and other disposals	–111	–
Foreign currency translation differences	–2	–5
BALANCE AS AT END OF PERIOD	138	237

21 Borrowings

In CHF million

	Notes	31.12.2012	31.12.2011
Hybrid debt		**2 609**	2 464
Bank loans		**156**	156
Other		**3**	4
TOTAL BORROWINGS	33	**2 768**	2 624

HYBRID DEBT

In November 2012, Swiss Life Insurance Finance Ltd. offered to existing lenders under the subordinated perpetual step-up loan placed in 1999 by Swiss Life AG to purchase their loan holdings against a consideration consisting of both a cash component and a credit component. Altogether, EUR 265 million and CHF 290 million were purchased from lenders. The cash component amounted to a total of CHF 139 million. The credit component consists of a tranche of a subordinated dated step-up loan newly issued by Swiss Life AG. The subordinated dated step-up loan placed in connection with the offer amounts to CHF 471 million, is guaranteed by Swiss Life Holding, has a tenor of thirty years and is first repayable on 30 November 2022 at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The rate of interest is 6-month Libor plus a margin of 4.20% p.a. until 30 November 2022. If the bonds are not redeemed on 30 November 2022, the margin increases by 1%.

On 22 October 2012, Swiss Life AG issued subordinated perpetual callable bonds in the amount of CHF 300 million. The bonds are guaranteed by Swiss Life Holding, have no fixed maturity date and are first callable on 22 August 2018 or at each interest payment date thereafter at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 5.50% p.a. until 22 August 2018. If the bonds are not redeemed on 22 August 2018, the interest resets at a rate fixed for the subsequent five years, consisting of the aggregate of the then prevailing five-year CHF swap rate and the initial margin of 5.091%.

On 4 April 2011, Swiss Life AG raised CHF 325 million with a placement of subordinated perpetual callable bonds guaranteed by Swiss Life Holding. CHF 75 million was additionally issued in June 2011 and CHF 100 million in October 2011. The bonds have no fixed maturity date but are first callable on 4 October 2016 or at each interest payment date thereafter at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed for the first five and a half years at 5.25% p.a. If the bonds are not redeemed on 4 October 2016, the interest resets at a rate fixed for the subsequent five years, consisting of the aggregate of the then prevailing five-year CHF swap rate and the initial margin of 3.551%.

On 12 April 2007, ELM B.V., a Dutch repackaging vehicle, issued EUR 700 million in fixed/floating rate subordinated perpetual notes at a price of par to finance loan notes granted to Swiss Life AG, which are guaranteed by Swiss Life Holding. Swiss Life AG may repay the loan notes in full on 12 April 2017 or on any interest payment date thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The notes bear interest from 12 April 2007 to 12 April 2017 at a rate of 5.849% p.a. If the notes are not redeemed on 12 April 2017, the interest will be the aggregate of Euribor 3-month deposits and a margin of 2.5%.

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 AG. Swiss Life AG 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 Swiss Financial Market Supervisory Authority. 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 Euribor for 3-month deposits and a margin of 2.43%.

In March 1999, Swiss Life AG 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 is the aggregate of Euribor plus a margin of 2.05%). In 2009, Swiss Life AG renounced the right to call the loan on its first call date. Following the purchase offer by Swiss Life Insurance Finance Ltd. in 2012, EUR 192 million remain outstanding. Swiss Life AG can next call the outstanding loan on 6 April 2014 or at five-year intervals thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority.

Amounts in CHF million (if not noted otherwise)	Nominal value in year of issue	Nominal value at 31.12.2012	Interest rate	Year of issue	Optional redemption	Carrying amount	Carrying amount
Issuer						**31.12.2012**	31.12.2011
Swiss Life AG	CHF 471	CHF 471	Libor +4.200%	2012	2022	**467**	–
Swiss Life AG	CHF 300	CHF 300	5.500%	2012	2018	**297**	–
Swiss Life AG	CHF 500	CHF 500	5.250%	2011	2016	**492**	490
Swiss Life AG [1]	EUR 700	EUR 590	5.849%	2007	2017	**710**	715
Swiss Life AG [2]	EUR 350	EUR 343	5.000%	2005	2015	**410**	412
Swiss Life AG	EUR 443	EUR 192	Euribor +2.050%	1999	2014	**232**	538
Swiss Life AG	CHF 290	–	Libor +2.050%	1999	2014	**–**	290
Swiss Life AG	EUR 215	–	Euribor +2.050%	1999	2014	**–**	19
TOTAL						**2 609**	2 464

1 Hybrid loan notes granted by ELM B.V.
2 Hybrid bank loan originally granted by J.P. Morgan Bank Luxembourg S.A.

BANK LOANS

Bank loans relate to mortgage loans for real estate acquired in 2011.

Amounts in CHF million	Currency	Interest rate	Maturity	Carrying amount	Carrying amount
Type				**31.12.2012**	31.12.2011
Mortgage loan	CHF	3.165%	2016	**156**	156
TOTAL				**156**	156

22 Other Financial Liabilities

In CHF million

	Notes	31.12.2012	31.12.2011
Insurance payables		**2 511**	2 502
Policyholder deposits		**1 418**	1 474
Reinsurance deposits		**105**	116
Customer deposits		**1 118**	866
Repurchase agreements		**958**	1 050
Amounts due to banks		**586**	464
Accrued expenses		**302**	211
Settlement accounts		**2**	81
Other		**722**	461
TOTAL OTHER FINANCIAL LIABILITIES	33	**7 722**	7 225

23 Insurance Liabilities and Reinsurance Assets

In CHF million	Gross		Reinsurance assets		Net	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Claims under non-life insurance contracts	**954**	960	**191**	196	**763**	764
Unearned premiums non-life	**66**	66	**0**	0	**65**	66
Claims under life insurance contracts	**6 414**	6 332	**87**	92	**6 328**	6 240
Future life policyholder benefits	**84 177**	80 172	**91**	92	**84 085**	80 080
Unearned premiums life	**38**	43	**0**	–	**38**	43
Deposits under insurance contracts	**5 825**	5 792	**–**	–	**5 825**	5 792
TOTAL INSURANCE LIABILITIES AND REINSURANCE ASSETS	**97 474**	93 365	**369**	380	**97 104**	92 985
of which for the account and risk of the Swiss Life Group's customers	**1 603**	1 108	**–**	–	**1 603**	1 108

UNEARNED PREMIUMS

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

CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS

In CHF million

	2012	2011
BALANCE AS AT 1 JANUARY		
Gross claims under non-life insurance contracts	**960**	998
Less: reinsurance recoverable	**–196**	–203
NET CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS	**764**	795
CLAIMS AND CLAIM SETTLEMENT COSTS INCURRED		
Reporting period	**313**	344
Prior reporting periods	**–58**	–76
TOTAL CLAIMS AND CLAIM SETTLEMENT COSTS INCURRED	**256**	268
CLAIMS AND CLAIM SETTLEMENT COSTS PAID		
Reporting period	**–121**	–144
Prior reporting periods	**–130**	–129
TOTAL CLAIMS AND CLAIM SETTLEMENT COSTS PAID	**–250**	–273
Reclassifications and other disposals	**–**	–6
Foreign currency translation differences	**–6**	–20
BALANCE AS AT END OF PERIOD		
NET CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS	**763**	764
Plus: reinsurance recoverable	**191**	196
TOTAL GROSS CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS	**954**	960

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

In CHF million		Gross		Reinsurance assets		Net	
	Notes	2012	2011	2012	2011	2012	2011
Balance as at 1 January		**6 332**	6 274	**92**	66	**6 240**	6 208
Additions from acquisition of insurance portfolio	31	**–**	146	**–**	12	**–**	134
Accretion of interest		**100**	102	**1**	1	**99**	101
Claims incurred, benefits paid and surrenders		**–66**	–72	**–2**	17	**–64**	–89
Effect of changes in actuarial assumptions and other movements		**64**	–69	**–4**	–2	**67**	–67
Reclassifications and other disposals		**0**	–	**–**	–	**0**	–
Foreign currency translation differences		**–15**	–49	**–1**	–2	**–15**	–47
BALANCE AS AT END OF PERIOD		**6 414**	6 332	**87**	92	**6 328**	6 240

Claims under life insurance contracts represent the liability for unpaid portions of claims incurred. It includes an estimate of the liability for claims incurred but not reported (IBNR). The measurement at reporting date is a best estimate of ultimate future claim payments.

FUTURE LIFE POLICYHOLDER BENEFITS

In CHF million		Gross		Reinsurance assets		Net	
	Notes	2012	2011	2012	2011	2012	2011
Balance as at 1 January		**80 172**	77 173	**92**	95	**80 080**	77 078
Additions from acquisition of insurance portfolio	31	**–**	1 459	**–**	–	**–**	1 459
Savings premiums		**7 658**	7 329	**149**	36	**7 510**	7 293
Accretion of interest		**1 852**	1 923	**1**	1	**1 851**	1 922
Claims incurred, benefits paid and surrenders		**–7 931**	–8 182	**–140**	–50	**–7 791**	–8 132
Effect of changes in actuarial assumptions and other movements		**1 830**	998	**–10**	11	**1 840**	987
Reclassifications and other disposals		**757**	–	**–**	–	**757**	–
Foreign currency translation differences		**–162**	–528	**0**	–1	**–162**	–527
BALANCE AS AT END OF PERIOD		**84 177**	80 172	**91**	92	**84 085**	80 080

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

The valuation of other long-duration contracts is also based on the net-level-premium method with actuarial assumptions as to mortality, persistency, expenses and investment returns including provisions for adverse deviation.

DEPOSITS UNDER INSURANCE CONTRACTS

In CHF million	2012	2011
Balance as at 1 January	**5 792**	5 742
Deposits received	**257**	282
Interest credited	**84**	100
Participating bonuses	**21**	27
Policy fees and insurance charges	**–30**	–35
Deposits released for payments on death, surrender and other terminations during the year	**–565**	–582
Other movements	**8**	370
Reclassifications and other disposals	**293**	–
Foreign currency translation differences	**–35**	–112
BALANCE AS AT END OF PERIOD	**5 825**	5 792

For investment-type contracts with significant insurance risk, savings premiums collected are reported as deposits (deposit accounting).

INSURANCE LIABILITIES WITH AND WITHOUT DISCRETIONARY PARTICIPATION

In CHF million

	31.12.2012	31.12.2011
Insurance liabilities with discretionary participation	**83 706**	81 943
Insurance liabilities without discretionary participation	**12 164**	10 314
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers	**1 603**	1 108
TOTAL INSURANCE LIABILITIES	**97 474**	93 365

24 Employee Benefits

EMPLOYEE BENEFIT LIABILITIES

In CHF million

	31.12.2012	31.12.2011
Employee benefit liabilities consist of		
gross defined benefit liabilities	**1 123**	1 173
other long-term employee benefit liabilities	**0**	0
other employee benefit liabilities	**104**	88
TOTAL EMPLOYEE BENEFIT LIABILITIES	**1 227**	1 261

DEFINED BENEFIT 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 are eliminated. Insurance contracts issued to defined benefit plans covering own employees have been issued in Switzerland and France. Certain assets relating to these plans qualify as plan assets and are therefore not eliminated. To the extent these plans are not funded by amounts included in the plan assets, the defined benefit liabilities are backed by the investments relating to the eliminated insurance contracts. These investments are part of the investments presented in the consolidated balance sheet of the Swiss Life Group.

The net asset/liability position does not incorporate any reimbursement rights.

The major part of the defined benefit liability arises from plans covering employees in Switzerland. The primary benefit of those plans is an old-age pension paid out after reaching retirement age. There are options for early retirement (with reduction of the pension amount determined using actuarial methods) and for choosing to receive a lump-sum payment instead of a pension. Other benefits comprise survivors'/orphans' pensions in case of death as well as disability pensions (if disabled before retirement age). The plans are funded by the employer through ordinary contributions determined using actuarial methods where, under Swiss law, a part (generally less than 50% of the total contribution) is deducted from the employee's gross salary. Further funding comprises mandatory transfers of funds made by new employees from plans of former employers, discretionary contributions by employees (within plan restrictions) and the earnings on the plan assets.

In January 2011, CHF 684 million in cash was transferred from the Swiss Life Group to two major defined benefit plans in Switzerland. This amount is included in the contribution by the employer. The investment risks are now borne by the plan participants themselves whereas mortality and disability risks are still reinsured with the Swiss Life Group.

The contributions expected to be paid for the year ending 31 December 2013 are CHF 57 million. These contributions include amounts payable under insurance contracts issued to defined benefit plans covering own employees.

AMOUNTS RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

In CHF million

	31.12.2012	31.12.2011
Present value of defined benefit obligation	–2 666	–2 646
Fair value of plan assets	1 213	1 059
Unrecognised actuarial gains (–)/losses (+)	458	547
NET DEFINED BENEFIT ASSET (+)/LIABILITY (–)	–995	–1 040
The net defined benefit asset/liability consists of		
gross defined benefit liabilities	–1 123	–1 173
gross defined benefit assets	128	133
Amount of insurance contracts not included in plan assets	1 389	1 393

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME

In CHF million

	2012	2011
Current service cost	82	71
Interest cost	58	63
Expected return on plan assets	–39	–35
Net actuarial gains (–)/losses (+)	32	9
Employee contributions	–23	–24
TOTAL DEFINED BENEFIT EXPENSE	110	84
Actual return on plan assets (gains (–)/losses (+))	–106	–31

DEFINED BENEFIT PLANS

In CHF million

	2012	2011
CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		
Balance as at 1 January	**–2 646**	–2 370
Current service cost	**–82**	–71
Interest cost	**–58**	–63
Contributions by plan participants	**–36**	–45
Actuarial gains (+)/losses (–)	**–11**	–268
Benefits paid	**167**	167
Business combinations	**–3**	–
Effect of reclassifications and other disposals	**–**	0
Foreign currency translation differences	**1**	4
BALANCE AS AT END OF PERIOD	**–2 666**	–2 646
CHANGES IN THE FAIR VALUE OF PLAN ASSETS		
Balance as at 1 January	**1 059**	289
Expected return on plan assets	**39**	35
Actuarial gains (+)/losses (–)	**67**	–4
Contributions by the employer	**76**	749
Contributions by plan participants	**35**	44
Benefits paid	**–65**	–51
Business combinations	**2**	–
Foreign currency translation differences	**–1**	–3
BALANCE AS AT END OF PERIOD	**1 213**	1 059
CATEGORIES OF PLAN ASSETS		
Equity instruments	**305**	237
Debt instruments	**666**	474
Property	**7**	188
Other assets	**235**	160
TOTAL PLAN ASSETS	**1 213**	1 059
Plan assets include		
own equity instruments	**9**	6

DEFINED BENEFIT PLANS

In CHF million

	2012	2011	2010	2009	2008
HISTORICAL INFORMATION					
Present value of defined benefit obligation	**–2 666**	–2 646	–2 370	–2 385	–2 292
Fair value of plan assets	**1 213**	1 059	289	296	268
DIFFERENCE	**–1 454**	–1 587	–2 081	–2 089	–2 024
Experience adjustments on plan liabilities	**6**	–30	33	–23	5
Experience adjustments on plan assets	**67**	–1	–8	26	–108

PRINCIPAL ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGES)

	2012	2011
Discount rate	2.1%	2.7%
Expected rate of return on plan assets	3.6%	3.6%
Future salary increases	1.6%	1.6%
Future pension increases	0.2%	0.8%

DEFINED CONTRIBUTION 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 expenses under these plans amounted to CHF 1 million in 2012 (2011: CHF 1 million).

EQUITY COMPENSATION PLANS

For 2009 and 2010, a share-based payment programme was established which gives the members of the Corporate Executive Board and other senior management members of the Swiss Life Group the right to receive a certain number of Swiss Life Holding shares (performance share units, PSUs) after three years of service if certain conditions are fulfilled. 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 600 Insurance Index. For the PSUs issued in 2010, a maximum possible factor of 2.0 applies. For the PSUs issued in 2009, the maximum possible factor is 1.5. No minimum possible factor is applied in 2009 and 2010 so that the number of PSUs could drop to zero after three years.

For 2012 and 2011, participants in the share-based payment programme are allocated restricted share units (RSUs) instead of PSUs. As with PSUs, RSUs grant the holder future subscription rights, entitling him to receive Swiss Life Holding shares free of charge after a three-year period has elapsed and if certain conditions are fulfilled, but without additional performance leverage. The attribution of shares after the expiry of the three-year deferral period will be effected on a 1:1 basis (1 RSU = 1 share). The value of the RSUs during the three-year term develops linearly with the Swiss Life Holding share price and systematically corresponds with shareholder interests. The plan also provides for adjustment and reclaiming mechanisms (clawback).

In 2009, the number of PSUs granted under this programme amounted to 53 216. The fair value at the measurement date amounted to CHF 51.22. The date of grant was 1 April 2009.

In 2010, the number of PSUs granted under this programme amounted to 68 510. The fair value at the measurement date amounted to CHF 149.98. The date of grant was 1 April 2010.

In 2011, the number of RSUs granted under this programme amounted to 68 730. The fair value at the measurement date amounted to CHF 140.05. The date of grant was 1 April 2011.

In 2012, the number of RSUs granted under this programme amounted to 94 040. The fair value at the measurement date amounted to CHF 93.77. The date of grant was 1 April 2012.

The fair value of the PSUs and RSUs granted for each programme is determined at the grant date. The fair value was determined by an independent consulting company 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 share-based payment amounted to CHF 10 million in 2012 (2011: CHF 7 million).

SHARE-BASED PAYMENT PROGRAMMES (RESTRICTED SHARE UNITS)

Number of restricted share units	Balance as at 1 January	Issued	Employee departures	Vested	Balance as at end of period
2012					
Granted in 2011	**68 070**	**–**	**–1 300**	**–**	**66 770**
Granted in 2012	**–**	**94 040**	**–**	**–**	**94 040**
2011					
Granted in 2011	–	68 730	–660	–	68 070

SHARE-BASED PAYMENT PROGRAMMES (PERFORMANCE SHARE UNITS)

Number of performance share units	Balance as at 1 January	Issued	Employee departures	Vested	Balance as at end of period
2012					
Granted in 2009	**43 528**	**–**	**–253**	**–43 275**	**–**
Granted in 2010	**61 030**	**–**	**–1 545**	**–**	**59 485**
2011					
Granted in 2009	48 339	–	–4 811	–	43 528
Granted in 2010	68 510	–	–7 480	–	61 030
2010					
Granted in 2009	51 301	–	–2 962	–	48 339
Granted in 2010	–	68 510	–	–	68 510
2009					
Granted in 2009	–	53 216	–1 915	–	51 301

25 Income Taxes

INCOME TAX EXPENSE

In CHF million

	2012	2011
Current income tax expense	145	18
Deferred income tax expense	–9	–39
TOTAL INCOME TAX EXPENSE	137	–21

The expected weighted-average tax rate for the Group in 2012 before impairment losses on the intangible assets relating to the "AWD" segment was 26.1% and after these impairment losses 10.9% (2011: 26.5%). This rate was derived by obtaining a weighted average of the expected income tax rates in the various jurisdictions in which the Group operates. The change 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 expense differs from the expected amount as follows:

RECONCILIATION OF INCOME TAX EXPENSE

In CHF million

	2012	2011
PROFIT BEFORE INCOME TAX	229	585
Income tax calculated using the expected weighted-average tax rate	25	155
Increase/reduction in taxes resulting from		
lower taxed income	–141	–169
non-deductible expenses	239	112
other income taxes (incl. withholding taxes)	6	20
change in unrecognised tax losses	10	28
adjustments for current tax of prior periods	20	–96
changes in tax rates	0	–41
intercompany effects	–24	–26
other	2	–4
INCOME TAX EXPENSE	137	–21

In 2012, non-deductible expenses include CHF 123 million relating to the impairment loss on the "AWD" goodwill.

In 2011, the Swiss Life Group realised a tax benefit of CHF 90 million due to the final assessment of the disposal of business activities in prior periods.

In 2011, a change in the tax rate in Switzerland led to a positive income tax effect of CHF 41 million.

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.

DEFERRED INCOME TAX ASSETS AND LIABILITIES

In CHF million	Deferred tax assets		Deferred tax liabilities	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Financial assets	195	250	879	552
Investment property	2	1	520	496
Intangible assets	48	56	183	279
Property and equipment	17	25	1	3
Financial liabilities	19	15	8	11
Insurance liabilities	51	56	111	62
Employee benefits	24	22	58	53
Deferred income	2	2	1	3
Other	61	54	38	22
Tax losses	9	9		
DEFERRED INCOME TAX ASSETS/LIABILITIES	426	490	1 799	1 481
Offset	–341	–337	–341	–337
TOTAL DEFERRED INCOME TAX ASSETS/LIABILITIES	85	153	1 458	1 144

The movements in net deferred income tax assets/liabilities during the period were as follows:

In CHF million	Balance as at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Acquisitions and disposals	Foreign currency translation differences	Balance as at end of period
MOVEMENTS BY TYPE OF TEMPORARY DIFFERENCE DURING THE YEAR 2012						
Financial assets	–302	0	–381	–	–1	–684
Investment property	–495	–15	–8	–	0	–518
Intangible assets	–223	93	–6	–	1	–135
Property and equipment	22	–7	–	–	0	16
Financial liabilities	4	11	–3	–	0	11
Insurance liabilities	–6	–55	1	–	0	–60
Employee benefits	–31	–4	–	0	0	–34
Deferred income	–1	2	–	–	0	1
Other	32	–15	7	–	0	23
Tax losses	9	–1	–	–	0	9
NET DEFERRED INCOME TAX ASSETS/LIABILITIES	–991	9	–390	0	0	–1 373
MOVEMENTS BY TYPE OF TEMPORARY DIFFERENCE DURING THE YEAR 2011						
Financial assets	55	21	–372	–2	–4	–302
Investment property	–455	–26	–2	–13	1	–495
Intangible assets	–274	21	28	–1	3	–223
Property and equipment	25	–3	–	0	0	22
Financial liabilities	–6	7	3	0	0	4
Insurance liabilities	–5	0	0	–	–1	–6
Employee benefits	–32	1	–	0	0	–31
Deferred income	–1	0	–	–	0	–1
Other	8	23	0	1	0	32
Tax losses	14	–5	–	–	0	9
NET DEFERRED INCOME TAX ASSETS/LIABILITIES	–671	39	–343	–15	–1	–991

Deferred tax liabilities have not been recognised on the aggregate amount of temporary differences with consolidated investments in subsidiaries to the extent the Group considers such undistributed earnings as being indefinitely reinvested. The foreign entities are controlled by the Group and these earnings are not expected to be repatriated in the foreseeable future. The amount of such temporary differences was approximately CHF 5.6 billion as at 31 December 2012 (2011: CHF 4.4 billion). If such earnings are ever repatriated, no material tax liabilities would be incurred due to participation exemption rules, unrecognised tax loss carryforwards and applicable double taxation treaties.

Deferred tax assets are recognised for tax-loss carryforwards only to the extent that realisation of the related tax benefit is probable. Swiss tax assets are calculated in accordance with cantonal and municipal tax legislation. The uncertainty of the utilisation of tax losses is taken into account in establishing the valuation allowance. For the following tax-loss carryforwards, which will expire as follows, no deferred tax asset has been recognised:

UNRECOGNISED TAX LOSSES

Amounts in CHF million	Tax losses		Tax rate	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
2013	**1**	1	**16.5%**	16.7%
2014	**8**	8	**16.0%**	16.0%
2015	**1**	1	**17.8%**	17.7%
Thereafter	**1 115**	1 126	**12.3%**	13.1%
TOTAL	**1 125**	1 136	**n/a**	n/a

26 Provisions

In CHF million		Restructuring		Other		Total	
	Notes	2012	2011	2012	2011	2012	2011
Balance as at 1 January		**28**	45	**122**	86	**150**	131
Additions from business combinations	29	**–**	–	**0**	–	**0**	–
Additional provisions made during the reporting period		**19**	4	**61**	65	**81**	69
Amounts used during the reporting period		**–14**	–20	**–18**	–14	**–32**	–34
Unused amounts reversed during the reporting period		**–2**	–1	**–9**	–10	**–11**	–11
Reclassifications and other disposals		**–**	–	**0**	–1	**0**	–1
Foreign currency translation differences		**0**	0	**–1**	–4	**–1**	–4
BALANCE AS AT END OF PERIOD		**32**	28	**156**	122	**188**	150

RESTRUCTURING PROVISIONS

Under the “Swiss Life 2015” programme, provisions for restructuring were set up in Switzerland, Liechtenstein and Luxembourg in 2012. The outflow of the amounts is expected within the following one to three years.

OTHER PROVISIONS

Other provisions were primarily set up for warranties and litigation. Also included in other provisions are customer claims mainly relating to AWD.

27 Equity

SHARE CAPITAL

As at 31 December 2012 and 2011, the share capital of SLH consisted of 32 081 054 fully-paid shares with a par value of CHF 5.10 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. Conditional share capital was CHF 12 032 868.60 as at 31 December 2012 (2011: CHF 12 032 868.60).

As approved by the shareholders at the General Meeting of Swiss Life Holding (SLH) on 5 May 2011, a reduction in the par value of CHF 4.50 per registered SLH share was effected in 2011. The payout took place on 28 July 2011 and led to a reduction in the share capital of SLH of CHF 144 million.

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 and equity compensation benefits.

In 2012, a distribution to shareholders out of the capital contribution reserve of CHF 144 million (CHF 4.50 per registered share) was made.

Due to the reduction in the par value of CHF 4.50 per registered SLH share in 2011, an amount of CHF 1 million was credited to share premium in respect of treasury shares.

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

	2012	2011
SHARES ISSUED		
SHARES ISSUED AS AT END OF PERIOD	**32 081 054**	32 081 054
TREASURY SHARES		
Balance as at 1 January	**224 330**	168 556
Purchases of treasury shares	**10 000**	66 900
Sales of treasury shares	**–10 000**	–11 126
Allocation under equity compensation plans	**–73 978**	–
BALANCE AS AT END OF PERIOD	**150 352**	224 330

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.

GAINS/LOSSES RECOGNISED DIRECTLY IN EQUITY

Gains/losses recognised directly in equity comprise fair value changes of available-for-sale investments, unrealised losses on financial assets reclassified from available for sale to loans due to the disappearance of an active market, 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, deferred acquisition costs, deferred income taxes and non-controlling interests.

AMOUNTS RECOGNISED DIRECTLY IN EQUITY FOR THE YEAR 2012

In CHF million	Notes	Foreign currency translation differences	Gains/losses recognised directly in equity				Total
			Financial assets available for sale	Cash flow hedges	Other	Total	
Net balance as at 1 January		–833	1 523	145	–124	1 544	711
Net other comprehensive income		–22	971	153	68	1 192	1 170
NET BALANCE AS AT END OF PERIOD		–855	2 494	299	–56	2 736	1 882
DETAILS OF NET OTHER COMPREHENSIVE INCOME							
Gains/losses arising during the period		–25	4 567	–	–	4 567	4 542
Hedging gains/losses arising during the period	9	3	–	408	–	408	412
Revaluation surplus on investment property	17	–	–	–	62	62	62
Share of other comprehensive income of associates	16	–	–	–	0	0	0
Gains/losses on assets held for sale		–	–	–	1	1	1
Gains/losses transferred to the income statement	8, 9	–	–753	–	170	–583	–583
Effects of							
policyholder participation		–	–2 506	–219	–128	–2 854	–2 854
shadow accounting		–	–11	6	–13	–19	–19
income tax		0	–326	–41	–23	–390	–390
disposals of subsidiaries		0	–	–	0	0	0
foreign currency translation differences		–	0	0	0	0	0
Net other comprehensive income before non-controlling interests		–21	972	153	67	1 192	1 171
Non-controlling interests		0	0	0	0	0	0
NET OTHER COMPREHENSIVE INCOME		–22	971	153	68	1 192	1 171

AMOUNTS RECOGNISED DIRECTLY IN EQUITY FOR THE YEAR 2011

In CHF million	Notes	Foreign currency translation differences	Gains/losses recognised directly in equity				Total
			Financial assets available for sale	Cash flow hedges	Other	Total	
Net balance as at 1 January		–762	369	2	–162	209	–553
Net other comprehensive income		–71	1 154	143	38	1 335	1 264
NET BALANCE AS AT END OF PERIOD		–833	1 523	145	–124	1 544	711
DETAILS OF NET OTHER COMPREHENSIVE INCOME							
Gains/losses arising during the period		–80	3 360	–	–	3 360	3 280
Hedging gains/losses arising during the period	9	9	–	175	–	175	184
Revaluation surplus on investment property	17	–	–	–	16	16	16
Transfer in respect of assets classified as held for sale		–	0	–	0	–	–
Gains/losses transferred to the income statement	8, 9	–	–200	–2	109	–93	–93
Effects of							
policyholder participation		–	–1 655	42	–25	–1 638	–1 638
shadow accounting		–	–70	–27	–44	–141	–141
income tax		0	–281	–45	–17	–343	–343
foreign currency translation differences		–	0	0	–1	–1	–1
Net other comprehensive income before non-controlling interests		–71	1 154	143	38	1 335	1 264
Non-controlling interests		0	0	0	0	0	0
NET OTHER COMPREHENSIVE INCOME		–71	1 154	143	38	1 335	1 264

The gains/losses transferred to the income statement of CHF 170 million in 2012 (2011: CHF 109 million) shown in “Other” relate to financial assets reclassified to loans in 2008.

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 restrictions 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 until they have been ratified at the General Meeting.

28 Capital Management

The Group’s objectives when managing capital are as follows: to comply with the regulatory capital requirements, to define and manage economic capital and to fulfill the company’s target on rating capital. The company also actively manages the composition and quality of the capital to continuously optimise its capital structure and interest cover ratio.

REGULATORY REQUIREMENTS

In accordance with the federal act on the supervision of insurance companies and corresponding decree, the Swiss Life Group reports as an insurance group to the Swiss Financial Market Supervisory Authority (FINMA). The reporting covers risk management as outlined in note 5, Group Solvency I, legal structure, management organisation and intragroup transactions. The reporting is submitted on an ad-hoc, monthly, half-yearly or yearly basis depending on the topic and is reviewed on a yearly basis by the statutory auditor according to the legal requirements. As at 31 December 2012 and 2011, the Group was compliant with the legal requirements.

In addition to the Group's solvency requirements, the Solvency I and other statutory constraints at local level are considered to address the specific situation of each country and business unit.

29 Acquisitions and Disposals of Subsidiaries

ASSETS AND LIABILITIES FROM ACQUISITIONS

In CHF million

	Notes	2012	2011
CONSIDERATION			
Cash consideration		2	10
Contingent consideration arrangement(s)		5	–
TOTAL CONSIDERATION		7	10
ACQUISITION-RELATED COSTS			
Commission expense		–	0
Other expenses		0	–
TOTAL		0	0
IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED			
Cash and cash equivalents		1	1
Financial assets available for sale		–	2
Loans and receivables		0	2
Property and equipment	17	0	0
Intangible assets including intangible insurance assets	18	1	2
Other assets		0	0
Financial liabilities		0	0
Employee benefit liabilities		–1	–1
Provisions	26	0	–
Deferred income tax liabilities		–	–1
Other liabilities		–1	–1
TOTAL IDENTIFIABLE NET ASSETS		0	4
Non-controlling interests		–	–3
Goodwill	18	7	9
TOTAL		7	10
ACQUIRED LOANS AND RECEIVABLES			
Fair value		0	2
Gross contractual amounts receivable		0	2
Estimated uncollectible cash flows		0	0

In May 2012, the Swiss Life Group acquired a 100% share of aXenta AG, Baden, a company specialised in software development for pension funds.

In March 2011, the Swiss Life Group acquired a majority share of Viveris REIM, Marseilles, a real estate management company.

ASSETS AND LIABILITIES FROM DISPOSALS

In CHF million

	2012
CONSIDERATION	
NON-CASH CONSIDERATION RECEIVED	8
ASSETS AND LIABILITIES DISPOSED	
Cash and cash equivalents	1
Financial assets at fair value through profit or loss	0
Financial assets available for sale	15
Loans and receivables	12
Reinsurance assets	0
Property and equipment	1
Intangible assets including intangible insurance assets	0
Other assets	0
Financial liabilities	–12
Insurance liabilities	–8
Employee benefit liabilities	–1
Provisions	–1
Other liabilities	0
NET ASSETS DISPOSED OF	7
GAIN/LOSS ON DISPOSALS	
Consideration received	8
Net assets disposed of	–7
Amounts recognised in other comprehensive income	0
GAIN (+)/LOSS (–) ON DISPOSALS	1

In June 2012, the French non-life operation Garantie Assistance S.A., Paris, was sold. In December 2012, the Swiss Life Group sold AWD s.r.o., Bratislava.

In 2011, no significant disposals of subsidiaries took place.

30 Assets Held for Sale and Associated Liabilities

The assets and associated liabilities of the French non-life operation Garantie Assistance S.A., Paris, were reclassified as held for sale in 2011. The sale was completed in June 2012. Garantie Assistance S.A., Paris, was presented in the "Insurance France" segment.

In CHF million	Disposal groups		Non-current assets		Total	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Cash and cash equivalents	–	0	–	–	–	0
Financial assets at fair value through profit or loss	–	1	–	–	–	1
Financial assets available for sale	–	14	–	–	–	14
Loans and receivables	–	6	–	–	–	6
Reinsurance assets	–	0	–	–	–	0
Property and equipment	–	0	–	–	–	0
Intangible assets including intangible insurance assets	–	0	–	–	–	0
Other assets	–	1	–	–	–	1
TOTAL ASSETS HELD FOR SALE	–	22	–	–	–	22
Financial liabilities	–	6	–	–	–	6
Insurance liabilities	–	6	–	–	–	6
Employee benefit liabilities	–	1	–	–	–	1
Provisions	–	1	–	–	–	1
Other liabilities	–	1	–	–	–	1
TOTAL LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	–	15	–	–	–	15
Amounts recognised in other comprehensive income relating to assets held for sale	–	0	–	–	–	0

31 Acquisition of Insurance Portfolio

In April 2011, the Swiss Life Group acquired the group life insurance portfolio of Nationale Suisse. The assets acquired and liabilities assumed were as follows:

In CHF million

	01.04.2011
ASSETS ACQUIRED AND LIABILITIES ASSUMED	
Cash and cash equivalents	111
Financial assets available for sale	1 298
Loans and receivables	91
Investment property	256
Reinsurance assets	12
Present value of future profits	2
Other assets	2
Derivatives	0
Investment contracts	–15
Other financial liabilities	–58
Insurance liabilities	–1 605
Policyholder participation liabilities	–79
Deferred income tax liabilities	–1
Other liabilities	–3
TOTAL NET ASSETS ACQUIRED	11

32 Related Party Transactions

CONSOLIDATED STATEMENT OF INCOME

In CHF million	Associates	Key management personnel	Other	Total 2012	Total 2011
Asset management and other income	1	–	–	1	0
Investment income	0	–	–	0	1
Interest expense	–	–	0	0	0
Employee benefits expense	–	–18	–	–18	–18
Other expenses	–	–	–	–	0

CONSOLIDATED BALANCE SHEET

In CHF million	Associates	Key management personnel	Other	Total 31.12.2012	Total 31.12.2011
Loans and receivables	22	–	–	22	21
Borrowings	–	–	–1	–1	–1
Other financial liabilities	–3	–	–	–3	–

Outstanding balances at year-end are unsecured and settlement is made in cash. There have been no guarantees provided or received for any related party receivables. For the years ended 31 December 2012 and 2011, no impairment allowance has 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.

KEY MANAGEMENT COMPENSATION

In CHF million	2012	2011
Short-term employee benefits	13	13
Post-employment benefits	2	2
Equity-settled share-based payments	3	3
TOTAL	18	18

Key management comprises the members of the Board of Directors of Swiss Life Holding and the members of the Corporate Executive Board of Swiss Life Holding. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Swiss Life Group, directly or indirectly.

The details regarding key management compensation in accordance with the Swiss Code of Obligations, article 663b^{bis} and article 663c, are set out in the Swiss Life Holding financial statements.

33 Fair Value of Financial Instruments

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In CHF million	Quoted prices (level 1)	Valuation technique – observable inputs (level 2)	Valuation technique – unobservable inputs (level 3)	Total
FAIR VALUE HIERARCHY AS AT 31 DECEMBER 2012				
FINANCIAL ASSETS				
Derivatives	**324**	**1 312**	**–**	**1 636**
Debt securities at fair value through profit or loss	**157**	**383**	**154**	**694**
Debt securities available for sale	**73 498**	**5 168**	**4**	**78 670**
Equity securities at fair value through profit or loss	**3 657**	**176**	**27**	**3 860**
Equity securities available for sale	**1 263**	**484**	**759**	**2 506**
Financial assets pledged as collateral	**964**	**–**	**–**	**964**
Financial assets for the account and risk of the Swiss Life Group's customers	**20 315**	**2 246**	**68**	**22 629**
TOTAL FINANCIAL ASSETS	**100 178**	**9 769**	**1 012**	**110 959**
FINANCIAL LIABILITIES				
Derivatives	**89**	**750**	**–**	**839**
Investment contracts	**–**	**138**	**–**	**138**
Unit-linked contracts	**–**	**20 502**	**68**	**20 570**
Other financial liabilities	**–**	**592**	**–**	**592**
TOTAL FINANCIAL LIABILITIES	**89**	**21 982**	**68**	**22 139**
FAIR VALUE HIERARCHY AS AT 31 DECEMBER 2011				
FINANCIAL ASSETS				
Derivatives	228	1 090	–	1 318
Debt securities at fair value through profit or loss	1 450	269	187	1 906
Debt securities available for sale	61 517	3 364	2	64 883
Equity securities at fair value through profit or loss	2 147	139	28	2 314
Equity securities available for sale	1 139	484	758	2 381
Financial assets pledged as collateral	969	–	–	969
Financial assets for the account and risk of the Swiss Life Group's customers	18 735	919	246	19 900
TOTAL FINANCIAL ASSETS	86 185	6 265	1 221	93 671
FINANCIAL LIABILITIES				
Derivatives	60	1 126	–	1 186
Investment contracts	–	237	–	237
Unit-linked contracts	–	17 970	246	18 216
Other financial liabilities	–	566	–	566
TOTAL FINANCIAL LIABILITIES	60	19 899	246	20 205

The fair value of financial instruments included in level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. If all significant inputs to these valuation techniques are observable (directly and indirectly) in the market, the financial instruments are included in level 2.

If one or more significant inputs to these valuation techniques are not observable in the market, the financial instruments are included in level 3. Such inputs may include information that is derived through extrapolation which is not substantiated by observable market data or that reflects own assumptions about what market participants would use in pricing the asset or liability.

For more detailed descriptions of the determination of the fair values of financial instruments refer to note 3.

No significant transfers were made between level 1 and level 2 of the fair value hierarchy.

As at 31 December 2012, financial assets of CHF 944 million (2011: CHF 975 million) were included in level 3 of the fair value hierarchy (excluding financial assets for the account and risk of the Swiss Life Group's customers). The exposure primarily consists of alternative investments such as hedge funds, private equity, infrastructure and real estate funds. These investments are valued based on regular reports from the issuing funds. Fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding.

FINANCIAL ASSETS MEASURED AT FAIR VALUE BASED ON LEVEL 3 FOR THE YEAR 2012

In CHF million	Derivatives	Debt securities		Equity securities		Financial assets for the account and risk of the Swiss Life Group's customers
		At fair value through profit or loss	Available for sale	At fair value through profit or loss	Available for sale	
Balance as at 1 January	–	187	2	28	758	246
Total gains/losses recognised in profit or loss	–	5	1	1	39	53
Total gains/losses recognised in other comprehensive income	–	–	2	–	13	–
Purchases	–	–	3	–	93	–
Sales	–	–37	–3	–1	–142	–231
Transfers out of level 3	–	–	–	–	–	–
Foreign currency translation differences	–	–2	0	–	–1	–
BALANCE AS AT END OF PERIOD	–	154	4	27	759	68
Total gains/losses recognised in profit or loss are presented in						
net gains/losses on financial assets	–	–	1	–	39	–
net gains/losses on financial instruments at fair value through profit or loss	–	5	–	1	–	53
Gains/losses recognised in profit or loss for assets held at end of period are presented in						
net gains/losses on financial assets	–	–	0	–	–9	–
net gains/losses on financial instruments at fair value through profit or loss	–	5	–	1	–	0

FINANCIAL ASSETS MEASURED AT FAIR VALUE BASED ON LEVEL 3 FOR THE YEAR 2011

In CHF million	Derivatives	Debt securities		Equity securities		Financial assets for the account and risk of the Swiss Life Group's customers
		At fair value through profit or loss	Available for sale	At fair value through profit or loss	Available for sale	
Balance as at 1 January	–	194	12	13	812	284
Total gains/losses recognised in profit or loss	–	–2	–1	0	49	0
Total gains/losses recognised in other comprehensive income	–	–	0	–	–1	–
Purchases	–	–	–	18	158	0
Sales	–	–	–9	–3	–257	–38
Foreign currency translation differences	–	–5	–	–	–3	–
BALANCE AS AT END OF PERIOD	–	187	2	28	758	246
Total gains/losses recognised in profit or loss are presented in						
net gains/losses on financial assets	–	–	–1	–	49	–
net gains/losses on financial instruments at fair value through profit or loss	–	–2	–	0	–	0
Gains/losses recognised in profit or loss for assets held at end of period are presented in						
net gains/losses on financial assets	–	–	–1	–	–15	–
net gains/losses on financial instruments at fair value through profit or loss	–	–2	–	0	–	0

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:

In CHF million	Carrying amount		Fair value	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
ASSETS				
Loans	**21 612**	23 615	**24 658**	25 812
Receivables	**3 876**	3 587	**3 876**	3 587
Financial assets held to maturity	**–**	5 046	**–**	5 369
LIABILITIES				
Investment contracts without discretionary participation	**43**	53	**43**	53
Borrowings	**2 768**	2 624	**3 090**	2 849
Other financial liabilities	**7 722**	7 225	**7 722**	7 225

34 Guarantees and Commitments

In CHF million

	31.12.2012	31.12.2011
Financial guarantees	54	130
Loan commitments	149	119
Private equity commitments	161	266
Other capital commitments	284	611
Operating lease commitments	41	18
Contractual obligations to purchase or construct investment property	173	329
Other contingent liabilities and commitments	353	320
TOTAL	1 215	1 793

FUTURE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES – LESSEE

In CHF million

	31.12.2012	31.12.2011
Not later than 1 year	8	1
Later than 1 year and not later than 5 years	25	17
Later than 5 years	8	–
TOTAL	41	18

FINANCIAL GUARANTEES

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.

LOAN COMMITMENTS

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 2012, committed principal amounts stood at EUR 15 million and CHF 105 million (2011: EUR 13 million and CHF 68 million). The range of committed interest rates is 2.5% to 5.9% for commitments in euro and 1.0% to 2.4% for commitments in Swiss francs.

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.

OTHER CAPITAL COMMITMENTS

Other capital commitments include commitments to make investments (capital calls) and agreements to provide liquidity to protection funds in the insurance industry.

OPERATING LEASE COMMITMENTS

The Group has entered into various operating leases as a lessee. Rental expenses recognised in income for these items totalled CHF 40 million for the year ended 31 December 2012 (2011: CHF 42 million). Minimum lease payments totalled CHF 40 million in 2012 (2011: CHF 42 million).

OTHER CONTINGENT LIABILITIES AND COMMITMENTS

Contractual obligations for repairs and maintenance of investment property amounted to CHF 85 million as at 31 December 2012, which are included in this line item (2011: CHF 69 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 the management these matters are adequately provided for as at the balance sheet date.

35 Collateral

ASSETS PLEDGED AS COLLATERAL

The following table provides details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition because substantially all risks and rewards of ownership are retained. Repurchase agreements and securities lending transactions are discussed in Notes 2.7 and 12. Securities pledged under other transactions include debt securities pledged as collateral under reinsurance contracts issued and debt securities pledged as collateral under prime broker contracts to cover margins due in respect of derivative transactions. Other financial assets pledged include cash collateral provided for OTC derivative liabilities.

ASSETS PLEDGED AS COLLATERAL

In CHF million	Carrying amount		Fair value	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
Securities under repurchase agreements [1]	**964**	969	**964**	969
Securities under derivative and other transactions	**1 815**	1 871	**1 815**	2 000
Other financial assets	**273**	608	**273**	608
Investment property	**227**	227	**227**	227
TOTAL	**3 279**	3 675	**3 279**	3 804
1) of which can be sold or repledged by transferee	**964**	969	**964**	969

COLLATERAL HELD

The Group holds marketable securities as collateral in respect of reverse repurchase agreements which it is permitted to sell or repledge in the absence of default by the counterparty.

In CHF million	Fair value	
	31.12.2012	31.12.2011
Securities under reverse repurchase agreements	–	93
TOTAL	–	93

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

In CHF million	31.12.2012	31.12.2011
Not later than 1 year	276	295
Later than 1 year and not later than 5 years	884	921
Later than 5 years	755	816
TOTAL	1 915	2 032
Contingent rents recognised in profit or loss	0	0

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

37 Scope of Consolidation

	Segment[1]	Consolidation period		Group share	Direct share	Currency	Authorised share capital in 1000
SWITZERLAND							
Adroit Private Equity AG, Zürich	Ins. CH			100.0%	100.0%	CHF	5 000
AWD Allgemeiner Wirtschaftsdienst AG, Zug	AWD			100.0%	100.0%	CHF	5 600
aXenta AG, Baden-Dättwil	Ins. CH	from	01.05.2012	100.0%	100.0%	CHF	150
GENBLAN AG, Zürich	Ins. CH	from	31.05.2011	100.0%	100.0%	CHF	17 628
Livit AG, Zürich	IM			100.0%	100.0%	CHF	3 000
Livit FM Services AG, Zürich	IM			100.0%	100.0%	CHF	100
Neue Warenhaus AG, Zürich	Ins. CH			100.0%	100.0%	CHF	5 000
Oscar Weber AG, Zürich	Ins. CH			100.0%	100.0%	CHF	5 000
Oscar Weber Holding AG, Zürich	Ins. CH			100.0%	100.0%	CHF	50
Swiss Life AG, Zürich	Ins. CH			100.0%	100.0%	CHF	587 350
Swiss Life Asset Management AG, Zürich	IM			100.0%	100.0%	CHF	250
Swiss Life Capital Holding AG, Zürich	Other			100.0%	100.0%	CHF	5 514
Swiss Life Funds AG, Lugano	IM			100.0%	100.0%	CHF	20 000
Swiss Life Holding AG, Zürich	Other			–	–	CHF	163 613
Swiss Life Intellectual Property Management AG, Zürich	Other			100.0%	100.0%	CHF	250
Swiss Life International Holding AG, Zürich	Other			100.0%	100.0%	CHF	1 000
Swiss Life International Services AG, Schaan, Branch Zürich, Zürich	Ins. Int.			100.0%	100.0%	–	–
Swiss Life Investment Management Holding AG, Zürich	IM			100.0%	100.0%	CHF	50 000
Swiss Life Pension Services AG, Zürich	Ins. CH			100.0%	100.0%	CHF	250
Swiss Life Private Equity Partners AG, Zürich	IM			100.0%	100.0%	CHF	250
Swiss Life Products (Luxembourg) S.A., Strassen, Branch Zürich, Zürich	Ins. Int.			100.0%	100.0%	–	–
Swiss Life Property Management AG, Zürich	IM			100.0%	100.0%	CHF	250
Swiss Life Schweiz Holding AG, Zürich	Ins. CH	from	11.12.2012	100.0%	100.0%	CHF	250
Swissville Centers Holding AG, Zürich	Ins. CH			100.0%	100.0%	CHF	7 100
Swissville Commerce AG, Zürich	Ins. CH			100.0%	100.0%	CHF	17 000

[1] Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment [1]	Consolidation period		Group share	Direct share	Currency	Authorised share capital in 1000
LIECHTENSTEIN							
Swiss Life (Liechtenstein) AG, Schaan	Ins. Int.			100.0%	100.0%	CHF	5 000
Swiss Life International Services AG, Schaan	Ins. Int.			100.0%	100.0%	CHF	100
FRANCE							
AGAMI, Paris	Ins. FR			100.0%	100.0%	EUR	1 250
ATIM Université SCI, Levallois Perret	Ins. FR	from	20.06.2012	100.0%	100.0%	EUR	7 933
AXYALIS PATRIMOINE, Montbonnet-Saint-Martin	Ins. FR	from	28.12.2011	76.8%	96.0%	EUR	100
Carte Blanche Partenaires, Paris	Ins. FR			95.0%	95.1%	EUR	500
Cegema, Villeneuve-Loubet	Ins. FR			100.0%	100.0%	EUR	300
CGPI 2014, Levallois Perret	Ins. FR	from	28.11.2012	100.0%	100.0%	EUR	1
Financière du Capitole, Balma	Ins. FR			80.0%	80.0%	EUR	1 700
Financière du Patrimoine, Balma	Ins. FR			80.0%	100.0%	EUR	8
MA Santé Facile, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	1 388
SAS Placement Direct, Pau	Ins. FR			100.0%	100.0%	EUR	40
SCI SWISSLIFE 148 UNIVERSITE, Levallois Perret	Ins. FR	from	07.06.2012	100.0%	100.0%	EUR	1
Swiss Life Asset Management (France), Levallois Perret	IM			100.0%	100.0%	EUR	3 000
SwissLife Assurance et Patrimoine, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	169 036
SwissLife Assurances de Biens, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	80 000
SwissLife Banque Privée, Paris	Ins. FR			60.0%	60.0%	EUR	37 902
SwissLife Dynapierre, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	7 317
SwissLife France, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	267 767
SwissLife Gestion Privée, Paris	Ins. FR			60.0%	100.0%	EUR	205
SwissLife Immobilier, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	37
SwissLife Prestigimmo, Levallois Perret	Ins. FR			100.0%	100.0%	EUR	2 340
SwissLife Prévoyance et Santé, Paris	Ins. FR			99.8%	99.8%	EUR	150 000
Viveris REIM, Marseille	IM	from	15.03.2011	68.3%	68.3%	EUR	340
GERMANY							
Allgemeiner Wirtschaftsdienst Gesellschaft für Wirtschaftsberatung und Finanzbetreuung mbH, Hannover	AWD			100.0%	100.0%	EUR	2 700
AWD Gastronomie GmbH, Hannover	AWD			100.0%	100.0%	EUR	25
AWD Gruppe Deutschland GmbH, Hannover	AWD			100.0%	100.0%	EUR	1 501
AWD Holding AG, Hannover	AWD			100.0%	100.0%	EUR	38 639
AWD – Versicherungsmakler und -beratungs GmbH, Hannover	AWD	until	15.02.2011	–	–		
AWD Zweite Vermögensverwaltungsgesellschaft mbH, Hannover	AWD			100.0%	100.0%	EUR	25
Bizztools GmbH, Bremen	AWD	until	23.03.2012	–	–		

[1] Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment [1]	Consolidation period		Group share	Direct share	Currency	Authorised share capital in 1000
GERMANY (CONTINUED)							
DEUTSCHE PROVENTUS AG, Bremen	AWD			100.0%	100.0%	EUR	511
Faircompare GmbH, Hannover	AWD			100.0%	100.0%	EUR	100
Financial Solutions AG Service & Vermittlung, München	Other			100.0%	100.0%	EUR	200
Horbach Wirtschaftsberatung GmbH, Köln	AWD			100.0%	100.0%	EUR	260
ProVentus Akademie- und Vertriebs GmbH, Bremen	AWD			100.0%	100.0%	EUR	25
SL Beteiligungs-GmbH & Co. Grundstücksverwaltung KG, München	Ins. DE			100.0%	100.0%	EUR	50
SL Beteiligungs-GmbH & Co. Immobilien I KG, München	Ins. DE			100.0%	100.0%	EUR	10
SL Beteiligungs-GmbH & Co. Immobilien II KG, München	Ins. DE			100.0%	100.0%	EUR	10
SL Beteiligungs-GmbH & Co. Immobilien III KG, München	Ins. DE			100.0%	100.0%	EUR	10
SL Beteiligungs-GmbH & Co. Immobilien Ost KG, München	Ins. DE			100.0%	100.0%	EUR	50
SL-Immobilien-Beteiligungs-Gesellschaft mbH, München	Ins. DE			100.0%	100.0%	EUR	25
SL Private Equity GmbH, Frankfurt am Main	Ins. DE			98.9%	98.9%	EUR	91
SLPM Schweizer Leben PensionsManagement GmbH, München	Ins. DE			100.0%	100.0%	EUR	150
Swiss Life AG, München (Branch Swiss Life AG)	Ins. DE			100.0%	100.0%	–	–
Swiss Life Asset Management GmbH, München	IM			100.0%	100.0%	EUR	1 000
Swiss Life Assurance Solutions S.A., Branch Germany, München	Other			100.0%	100.0%	–	–
Swiss Life Deutschland Holding GmbH (formerly Swiss Life Beteiligungs GmbH), Hannover	Other			100.0%	100.0%	EUR	25
Swiss Life Deutschland Holding GmbH, München	Ins. DE	from	11.08.2011	100.0%	100.0%	EUR	50
Swiss Life Grundstücksmanagement, München	Ins. DE	until	01.11.2012	–	–		
Swiss Life Grundstücksmanagement GmbH & Co. Münchner Tor KG, München	Ins. DE	until	01.06.2012	–	–		
Swiss Life Insurance Solutions AG, München	Other			100.0%	100.0%	EUR	7 500
Swiss Life Insurance Solutions S.A. Branch Germany, München	Other			100.0%	100.0%	–	–
Swiss Life Partner Service- und Finanzvermittlungs GmbH, München	Ins. DE			100.0%	100.0%	EUR	300
Swiss Life Pensionsfonds AG, München	Ins. DE			100.0%	100.0%	EUR	3 000
Swiss Life Pensionskasse AG, München	Ins. DE			100.0%	100.0%	EUR	3 000
Swiss Life Products (Luxembourg) S.A. Branch Germany, München	Ins. Int.			100.0%	100.0%	–	–
Swiss Life Service GmbH, Leipzig	Ins. DE			100.0%	100.0%	EUR	100
Swiss Life Vermittlungs GmbH, München	Ins. DE			100.0%	100.0%	EUR	50
tecis Finanzdienstleistungen AG, Hamburg	AWD			100.0%	100.0%	EUR	500

[1] Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment [1]	Consolidation period		Group share	Direct share	Currency	Authorised share capital in 1000
LUXEMBOURG							
Heralux S.A., Luxembourg	Ins. FR			99.8%	100.0%	EUR	3 500
SWISS LIFE (LUXEMBOURG), Strassen	Ins. Int.			100.0%	100.0%	EUR	23 000
Swiss Life Assurance Solutions S.A., Strassen	Other			100.0%	100.0%	EUR	6 000
Swiss Life Funds (Lux) Management Company S.A., Luxembourg	IM			100.0%	100.0%	CHF	400
Swiss Life Immo-Arlon, Société Anonyme, Strassen	Other			100.0%	100.0%	EUR	1 000
Swiss Life Insurance Solutions S.A., Strassen	Other			100.0%	100.0%	EUR	24 450
Swiss Life International Pension Fund ASBL, Strassen	Ins. Int.			–	–	–	–
Swiss Life Invest Luxembourg S.A., Strassen	Other			100.0%	100.0%	EUR	60 211
Swiss Life Participations Luxembourg S.A., Strassen	Other			100.0%	100.0%	EUR	75 198
Swiss Life Products (Luxembourg) S.A., Strassen	Ins. Int.			100.0%	100.0%	EUR	79 031
Swiss Life REIM (Luxembourg) S.A., Strassen	IM	from	22.08.2012	100.0%	100.0%	EUR	1 500
Swiss Life Solutions S.A., Strassen	Other	until	24.04.2012	–	–		

[1] Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment [1]	Consolidation period		Group share	Direct share	Currency	Authorised share capital in 1000
UNITED KINGDOM							
AWD Chase de Vere Consulting Limited, London	AWD			100.0%	100.0%	GBP	1 935
AWD Chase de Vere Corporate Services Limited, Manchester	AWD	until	29.03.2011	–	–		
AWD Chase de Vere Direct Limited, Manchester	AWD	until	10.05.2011	–	–		
AWD Chase de Vere Limited, London	AWD			100.0%	100.0%	GBP	5 000
AWD Group Plc, London	AWD			100.0%	100.0%	GBP	14 000
AWD Group Services Limited, London	AWD			100.0%	100.0%	GBP	0
AWD Loans Limited, Manchester	AWD			100.0%	100.0%	GBP	1 000
AWD Private Client Trustees Limited, London	AWD			100.0%	100.0%	GBP	0
AWD Trustees Limited, Leicestershire	AWD			100.0%	100.0%	GBP	0
Chase de Vere Financial Solutions Limited, Manchester	AWD			100.0%	100.0%	GBP	0
AUSTRIA							
AWD CEE Holding GmbH, Wien	AWD			100.0%	100.0%	EUR	35
AWD Gesellschaft für Wirtschaftsberatung GmbH, Wien	AWD			100.0%	100.0%	EUR	727
Swiss Life International Services AG, Branch Austria, Wien	Ins. CH	from	19.12.2012	100.0%	100.0%	–	–
Swiss Life Österreich GmbH (formerly Swiss Life Österreich AG), Wien	Ins. CH			100.0%	100.0%	EUR	70
Swiss Life Products (Luxembourg) S.A., Branch Austria, Wien	Ins. Int.			100.0%	100.0%	–	–
CAYMAN ISLANDS							
Adroit Investment (Offshore) Ltd., Grand Cayman	Ins. CH			100.0%	100.0%	CHF	0
Adroit Partnerships (Offshore) L.P., Grand Cayman	Ins. CH			100.0%	100.0%	CHF	6 580
Swiss Life Financial Services (Cayman) Ltd., Grand Cayman	Other			100.0%	100.0%	CHF	50
Swiss Life Insurance Finance Ltd., Grand Cayman	Other			100.0%	100.0%	EUR	5

[1] Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment [1]	Consolidation period		Group share	Direct share	Currency	Authorised share capital in 1000
CZECH REPUBLIC							
AWD Česká republika s.r.o., Brno	AWD			100.0%	100.0%	CZK	1 000
HUNGARY							
AWD Magyarország Pénzügyi Szolgáltató Korlátolt Felelősségű Társaság, Budapest	AWD			100.0%	100.0%	HUF	5 000
ECG Oktatási Korlátolt Felelősségű Társaság, Budapest	AWD	until	23.07.2012	–	–		
IRELAND							
Swiss Life Private Placement (Ireland) Limited, Dublin	Other	until	13.01.2011	–	–		
ITALY							
Swiss Life Insurance Solutions AG, Branch Italy, Milano	Other			100.0%	100.0%	–	–
POLAND							
AWD Spólka z ograniczona odpowiedzialnoscia, Warszawa	AWD			100.0%	100.0%	PLN	250
European Consulting Group Sp.z o.o., Warszawa	AWD	until	21.10.2011	–	–		
ROMANIA							
AWD Consultanta Financiara SRL, Târgu Mureş	AWD	until	15.04.2011	–	–		
AWD Romania Broker de Asigurare Srl, Târgu Mureş	AWD	until	24.11.2011	–	–		
SINGAPORE							
Swiss Life Network (Asia) Pte.Ltd., Singapore	Ins. Int.			100.0%	100.0%	SGD	0
Swiss Life (Singapore) Pte. Ltd., Singapore	Ins. Int.			100.0%	100.0%	SGD	11 000
SLOVAKIA							
AWD s.r.o., Bratislava	AWD	until	01.12.2012	–	–		
UNITED ARAB EMIRATES							
Swiss Life Private Placement (Middle East) Limited, Dubai	Ins. Int.			100.0%	100.0%	USD	8 100

[1] Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

Report of the Statutory Auditor

Report of the Statutory Auditor
to the General Meeting of
Swiss Life Holding Ltd
Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Swiss Life Holding Ltd, which comprise the consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 106 to 223), for the year ended 31 December 2012.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2012 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Ray Kunz	Christian Schacher
Audit expert	Audit expert
Auditor in charge	

Zurich, 13 March 2013

Swiss Life Holding Financial Statements

Review of Operations

Swiss Life Holding generated a profit of CHF 106 million in the 2012 financial year compared with CHF 238 million the previous year.

The annual profit largely resulted from interest and fee income. Interest earned on loans to Group companies increased from CHF 38 million to CHF 50 million. Fees on guarantees rose from CHF 21 million to CHF 35 million. Most of the new loans and guarantees were granted to subsidiaries in the previous year. Dividend payouts by subsidiaries declined from CHF 191 million to CHF 24 million. Improved management of liquid funds produced an increase in interest income on fixed-interest securities from CHF 2 million in the previous year to CHF 8 million in 2012. Total expenditure remained unchanged at CHF 11 million.

Swiss Life Holding continued to streamline the Group structure during the reporting period. The establishment of the new subsidiary Swiss Life Schweiz Holding AG has brought the legal structure further into line with the new management structure. This new holding company comprises the Swiss unit of AWD, now known as Swiss Life Select Schweiz. In order to continue to finance the insurance business, CHF 50 million was made available to Swiss Life International Holding AG, including CHF 30 million through the conversion of debt capital into equity capital. The total value of participations grew as a result of these transactions from CHF 3545 million to CHF 3658 million, while internal loans fell by CHF 82 million.

Swiss Life Holding's profit distribution to shareholders in the period under review came to CHF 144 million or CHF 4.50 per share. The distribution was made out of the capital contribution reserve. The par value of the Swiss Life Holding share thus remained the same at CHF 5.10. The company's overall nominal share capital at the end of the year totalled CHF 163.6 million.

Swiss Life Holding paid CHF 0.5 million in interest on an intra-group current account debit balance in 2012. The account was closed at the end of the year; as a result, Swiss Life Holding is financed exclusively by equity.

Swiss Life Holding's liquid assets (liquid funds, time deposits, and bonds and investments) amounted to CHF 316 million on 31 December 2012. Liquid funds and time deposits contracted from CHF 279 million to CHF 88 million, while easily tradable bonds and capital-protected investments accounted for CHF 228 million at the end of the year. These share certificates are all eligible for repos and can generate liquidity at any time.

Statement of Income

STATEMENT OF INCOME FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2012	2011
Dividends received	24	191
Realised gain/loss on non-current assets	0	1
Unrealised gain/loss on non-current assets	3	5
Other finance income	58	40
Other financial expense	–2	–1
Foreign currency gains/losses	–2	–8
NET INVESTMENT INCOME	82	228
OPERATING EXPENSE	–5	–7
OTHER INCOME	35	21
OTHER EXPENSES	–	–
INCOME TAX	–6	–4
NET PROFIT	**106**	238

Balance Sheet

BALANCE SHEET

In CHF million

	31.12.2012	31.12.2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**88**	149
Time deposits and similar investments	**–**	130
Receivables from Group companies	**53**	15
Receivables from third parties	**0**	0
Accrued income	**5**	4
TOTAL CURRENT ASSETS	**146**	298
NON-CURRENT ASSETS		
Shares	**16**	19
Debt securities	**175**	285
Participations	**3 658**	3 545
Loans to Group companies	**713**	795
Other assets	**53**	60
TOTAL NON-CURRENT ASSETS	**4 616**	4 704
TOTAL ASSETS	**4 762**	5 002
LIABILITIES AND EQUITY		
LIABILITIES		
Payables to Group companies	**–**	200
Liabilities towards third parties	**50**	52
Total short-term liabilities	**50**	252
TOTAL LIABILITIES	**50**	252
EQUITY		
Share capital	**164**	164
General reserves	**32**	32
Reserve for treasury shares	**17**	26
Capital contribution reserve	**1 389**	1 533
Total legal reserves	**1 439**	1 591
Free reserves	**3 002**	2 753
Balance carried forward from previous year	**2**	4
Net profit	**106**	238
Total profit shown in the balance sheet	**107**	242
TOTAL EQUITY	**4 712**	4 750
TOTAL LIABILITIES AND EQUITY	**4 762**	5 002

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 (CO). The Swiss Life Holding's Financial Statements are presented in millions of Swiss francs (CHF), which is the presentation currency. Figures may not add up exactly due to rounding.

EXPLANATIONS ON THE BALANCE SHEET AND STATEMENT OF INCOME
PARTICIPATIONS

	Currency	Authorised share capital in 1000	Direct share	Currency	Authorised share capital in 1000	Direct share
		31.12.2012			31.12.2011	
Swiss Life AG, Zürich	**CHF**	**587 350**	**100.00%**	CHF	587 350	100.00%
Swiss Life Deutschland Holding GmbH, Hannover	**EUR**	**25**	**100.00%**	EUR	25	100.00%
Swiss Life Intellectual Property Management AG, Zürich	**CHF**	**250**	**100.00%**	CHF	250	100.00%
Swiss Life International Holding AG, Zürich	**CHF**	**1 000**	**100.00%**	CHF	1 000	100.00%
Swiss Life Investment Management Holding AG, Zürich	**CHF**	**50 000**	**100.00%**	CHF	50 000	100.00%
Swiss Life Schweiz Holding AG, Zürich	**CHF**	**250**	**100.00%**	–	–	–

LOANS TO GROUP COMPANIES
CHF 331 million of the loans to Group companies is classified as subordinated.

MAJOR SHAREHOLDERS
The following shareholders hold over 5% of Swiss Life Holding's share capital:

As % of total share capital	31.12.2012	31.12.2011
Talanx AG	**9.27%**	9.27%

SHARE CAPITAL
As at 31 December 2012, the share capital of Swiss Life Holding consisted of 32 081 054 fully-paid shares with a par value of CHF 5.10 each. 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. As at 31 December 2011, Swiss Life Holding had 32 081 054 registered shares outstanding with a par value of CHF 5.10 per share. Conditional share capital was CHF 12 032 868.60 as at 31 December 2012 (2011: CHF 12 032 868.60).

LEGAL RESERVES
Legal reserves comprise the general reserves (plus the additional paid-in capital in excess of the par value, net of transaction costs), the reserve for treasury shares (equivalent in value to own Swiss Life Holding shares held by the Swiss Life Group) and the capital contribution reserve of CHF 1389 million. Following the distribution of CHF 4.50 per share, the capital contribution reserve was reduced by CHF 144 million during the year under review from CHF 1533 million to CHF 1389 million as at 31 December 2012. Of this amount CHF 1219 million is recognised by the Federal Tax Administration, while the legal qualification of CHF 170 million is still open and is to be reassessed according to future legal developments.

FREE RESERVES AND RETAINED EARNINGS

Free reserves and retained earnings comprise accumulated retained earnings which have not been distributed to the shareholders, or which have not been allocated to the reserve for treasury shares.

TREASURY SHARES

In the year under review the companies in the Swiss Life Group purchased a total of 10 000 Swiss Life Holding shares at an average price of CHF 122.62. In the same period, they sold 10 000 shares at an average price of CHF 123.95. As at 31 December 2012, the Swiss Life Group held 150 352 treasury shares.

PERSONNEL EXPENSES

No direct personnel expenses are included under operating expenses.

CONTINGENCIES

Swiss Life Holding acts as warrantor for all Swiss Life Ltd liabilities with regard to the various tranches of the subordinated perpetual step-up loan (hybrid debt), which amounted to an equivalent value of CHF 3078 million at the balance sheet date.

Swiss Life Holding further gives several capital guarantees for a maximum net asset value of CHF 1100 million to Swiss Life Ltd, CHF 150 million to Swiss Life Funds, CHF 150 million to Swiss Life Funds (Lux) Management Company and CHF 97 million to Swiss Life Products.

In addition, Swiss Life Holding grants a credit line of CHF 18 million to Swiss Life Products.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2012	2011
SHARE CAPITAL		
Balance as at 1 January	164	308
Reduction in par value	–	–144
TOTAL SHARE CAPITAL	164	164
LEGAL RESERVES		
General reserves		
Balance as at 1 January	32	1 139
Allocation to capital contribution reserve	–	–1 107
Total general reserves	32	32
Reserve for treasury shares		
Balance as at 1 January	26	19
Allocation to reserve for treasury shares	–8	7
Total reserve for treasury shares	17	26
Capital contribution reserve		
Balance as at 1 January	1 533	–
Allocation to capital contribution reserve	–	1 533
Distribution of profit from the capital contribution reserve	–144	–
Total capital contribution reserve	1 389	1 533
TOTAL LEGAL RESERVES	1 439	1 591
FREE RESERVES		
Balance as at 1 January	2 753	2 986
Allocation to free reserves	240	200
Reserve for treasury shares	8	–7
Allocation to capital contribution reserve	–	–426
TOTAL FREE RESERVES	3 002	2 753
PROFIT SHOWN IN THE BALANCE SHEET		
Balance as at 1 January	242	204
Allocation to free reserves	–240	–200
Net profit	106	238
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	107	242
TOTAL EQUITY	4 712	4 750

RISK ASSESSMENT

For information on risk assessment, please refer to Note 5 of the Swiss Life Group's Consolidated Financial Statements.

DISCLOSURE OF COMPENSATION TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE BOARD IN ACCORDANCE WITH THE SWISS CODE OF OBLIGATIONS (CO) ART. 663B^{BIS} AND ART. 663C

COMPENSATION IN 2012

The specifications below take into consideration the transparency regulations relating to compensation set out in the Swiss Code of Obligations Art. 663b^{bis} and Art. 663c and the directives on information relating to corporate governance issued by the SIX Swiss Exchange as well as Circular 2010/1 of the Swiss Financial Market Supervisory Authority FINMA on minimum standards for remuneration schemes of financial institutions. Further information on compensation and benefit expenditure can be found in the Corporate Governance section on pages 48 to 59 and in the Consolidated Financial Statements (Notes 24 and 32) on pages 196 to 200 and 211.

The description of the compensation received by the members of the Board of Directors and the Corporate Executive Board and the tables showing the relevant amounts are based on those of previous years. The variable cash compensation to the Corporate Executive Board members (cash bonus and deferred compensation in cash) for the 2012 financial year, which was determined by the Board of Directors at the beginning of 2013, is published in the compensation tables on an accrual basis as compensation for the 2012 financial year. The members of the Board of Directors are granted exclusively fixed compensation, payable 70% in cash and 30% in Swiss Life Holding shares; the allocated shares are subject to a three-year blocking period.

The compensation received by each member of the Board of Directors and the compensation received by the Chairman of the Corporate Executive Board (Group CEO), who received the highest compensation of the members of the Corporate Executive Board during the period under review, is disclosed individually.

COMPENSATION POLICY PRINCIPLES

The Board of Directors as a whole is responsible for establishing guidelines on the Group's compensation policy (incl. variable compensation and equity compensation plans) and on employee benefit institutions. The compensation policy underpins the performance culture required by the corporate strategy and forms part of the HR policy. The aim is to retain well-qualified employees and gain new, highly skilled staff. The compensation system is in line with the market environment and must be competitive. The individual overall compensation takes into account the employee's professional skills, engagement and personal performance. It is made up of the basic salary, a variable bonus based on achievement of the annual objectives, which is generally paid in cash and possibly in shares, if applicable deferred compensation in cash and a mid- to long-term equity compensation plan, as well as contributions for occupational provisions and risk insurance.

The salary is determined according to the employee's function and skill set, and is annually reassessed and adjusted if appropriate. Salary comparison studies and recognised job evaluation systems are used to check appropriateness and to ensure internal and external comparability.

Salary	
Variable compensation	
Compensation component based on achievement of annual objectives (Bonus in cash and possibly in shares)	Deferred mid- to long-term compensation component (Equity compensation plan and, if applicable, deferred compensation in cash)
Contributions to occupational provisions and risk insurance	

The variable compensation components are linked to the strategic objectives of the Group and the individual divisions, and the associated financial and HR-related targets. They are based on the achievement of annual objectives defined in advance for a period of three years as part of medium-term planning and determined on the basis of the actual performance of individuals or teams (performance-linked payment) in relation to the objectives set and on the degree of achievement of the Swiss Life Group targets as reflected in its annual result (share in the company's success). Quantitative and qualitative performance is assessed also on the basis of the competencies required for the function held, such as professional expertise, entrepreneurship, task fulfilment, cooperation and leadership. The percentage weighting between the individual and/or team performance and the share in the company's success depends on the position and responsibilities of the function holder.

The share in the company's success is measured using quantitative Group targets (Key Performance Indicators, KPIs), which are defined in advance for a period of three years as part of medium-term planning. The main KPIs, besides the key figures relating to annual profit, costs, business volume, investment return, return on equity and solvency, are the profitability of in-force and new business, margin performance and the share of non-traditional products in new business. In order to avoid conduct aimed at the short-term achievement of key indicators with a higher weighting, the individual KPIs are not mechanistically weighted in advance. Their individual weighting is determined at the end of each financial year by the Board of Directors as a whole on the basis of a proposal by the Nomination and Compensation Committee (NCC) taking all developments into account and consideration (discretionary decision).

Personal performance based on the specified quantitative and qualitative objectives is assessed annually in the employee appraisal procedure implemented throughout the Group (Group Performance System, GPS). Two assessment elements/models are used for determining objectives and evaluating performance: the Group Objectives Model (GOM) relating to qualitative and quantitative objectives and the Group Competency Model (GCM) for measuring and assessing individual competencies and behaviour, incl. the compliance regulations.

For persons responsible for risk management and risk control, the quantitative objectives are set in such a way that performance is not linked to the result of the monitored business unit, specific products or transactions.

In order to be eligible for any variable compensation, a GPS target achievement of at least 80% is required.

Permanent employment contracts in Switzerland contain notice periods of between three and twelve months, depending on position and seniority. All current employment contracts with members of the Corporate Executive Board specify a notice period of twelve months.

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, whereas the Nomination and Compensation Committee (NCC) is responsible for putting forward appropriate proposals (for the internal organisation of the Board of Directors see Corporate Governance / Internal Organisational Structure, pages 37 to 40). The Board of Directors as a whole also establishes the guidelines for the Group's compensation policy. In doing so, it takes into consideration the compensation policies of other companies in the financial services industry, drawing its findings from publicly available information and studies by independent external experts. Comparable companies in the insurance sector in Switzerland used for the purposes of providing relevant information for the current compensation policy included Allianz, AXA, Baloise Insurance, Swiss Re and Zurich Insurance Group.

The Board of Directors as a whole sets the level and distribution of the variable compensation pool for all employees on the basis of its compensation policy guidelines and a proposal by the Nomination and Compensation Committee. When determining the level of the allocation to the compensation pool, it takes into consideration the annual result, as well as medium-term planning and the degree of target achievement. The Board of Directors as a whole is also responsible for determining the individual compensation of members of the Corporate Executive Board. It carries out an annual performance assessment of all members of the Corporate Executive Board, based on preparatory work by the Nomination and Compensation Committee. In addition, current aspects of HR policy and, in particular, succession planning are regularly discussed at meetings of the Nomination and Compensation Committee and the Board of Directors as a whole.

The Board of Directors may consult independent professionals where deemed appropriate. In the year under review, Swiss Life was advised by PricewaterhouseCoopers (PwC) on the structuring of the equity compensation plan and the wording of the corresponding plan regulations.

COMPENSATION TO MEMBERS OF THE BOARD OF DIRECTORS

The members of the Board of Directors are granted exclusively fixed compensation, payable 70% in cash and 30% in Swiss Life Holding shares; the shares are subject to a three-year blocking period from the date of allocation.

The compensation takes into account membership of the Board of Directors of Swiss Life Holding and its subsidiary Swiss Life Ltd, as well as membership of the individual Board Committees, and is commensurate with the individual's function and workload. The compensation is determined annually by the Board of Directors. The amount of compensation granted to members of the Board of Directors on an annual basis takes into consideration compensation paid to board members in comparable companies within the insurance sector (Allianz, AXA, Baloise Insurance, Swiss Re and Zurich Insurance Group).

As Chairman of the Board of Directors, Rolf Dörig is affiliated to the employee benefits institutions of Swiss Life for the purpose of occupational provisions. No such affiliation exists for other members of the Board of Directors and no contributions have been made on their behalf.

COMPENSATION TO MEMBERS OF THE CORPORATE EXECUTIVE BOARD

Compensation remitted to members of the Corporate Executive Board comprises the basic salary, variable compensation in cash and other compensation (child allowances, company cars, premium contributions to 3rd pillar pension plans). The variable compensation in cash is allocated as a bonus and, if applicable, as deferred compensation in cash. The deferred compensation in cash is paid out after a period of three years has elapsed and provided that the regulatory requirements have been satisfied. In addition, a mid- to long-term compensation component is in place in the form of an equity compensation plan (RSU plan), which is linked to the performance of the Swiss Life Holding share price, respectively to medium-term planning and corresponding target achievement. The equity compensation plan grants an entitlement to Swiss Life Holding shares after a period of three years has elapsed and provided that the relevant requirements are satisfied at the time of allocation.

Salary is determined annually by the Board of Directors, on the basis of a proposal by the Nomination and Compensation Committee, taking into account the individual member's function-related responsibility and the current market conditions.

The variable compensation components are determined by the Board of Directors in accordance with the described compensation policy principles and based on the company result and the achievement of personal goals assessed in the employee appraisal procedure implemented throughout the Group (Group Performance System, GPS).

The variable compensation in cash (cash bonus and, if applicable, deferred compensation in cash) is set at a maximum of 117% of the fixed basic salary ("bonus cap") and requires that all objectives have been considerably exceeded. In the case of 100% target achievement, variable compensation in cash of 80% of the fixed basic salary is provided for at Corporate Executive Board level ("on-target bonus"), which can be reduced by the Board of Directors in consideration of all the circumstances.

In the same way the allocation of future subscription rights to Swiss Life Holding shares (equity compensation plan, RSU plan) is dependent on the respective target achievement. The cash bonus thereby serves as a reference value, whereby the deferred compensation components (RSU plan and, if applicable, deferred compensation in cash) are considered as a whole. The allocation of future subscription rights to Swiss Life Holding shares is also limited in value to 117% of the fixed basic salary or, if deferred compensation in cash is simultaneously allocated, to 64% of the fixed basic salary.

At Corporate Executive Board level, the amount of the variable compensation depends 60% directly on the company's success. The Key Performance Indicators (KPIs) used to assess company success include, as mentioned above, key figures relating to annual profit, costs, business volume, investment return, return on equity and solvency, as well as the profitability of in-force and new business, margin performance and the share of non-traditional products in new business.

40% of the variable compensation is based on Corporate Executive Board members' achievement of specified personal goals. On the one hand, these personal goals are linked back to the company's success, in that each Corporate Executive Board member has to meet personal quantitative objectives contributing to the company's success in relation to his division. On the other hand, the personal goals cover qualitative factors, namely project targets, risk management and compliance goals, as well as requirements relating to leadership and to supporting and further developing corporate culture.

Swiss Life achieved significant operational improvements during the year under review. Adjusted annual operating profit significantly exceeded expectations despite a very challenging economic, regulatory and political environment, increasing by 26% compared with the previous year. The reduction in reported profit is primarily due to the one-off effect caused by the writedown in AWD's intangible assets. Furthermore, Swiss Life generated an investment result of CHF 5.7 billion and a resulting net investment return of 4.8%, as well as an investment performance of 8.5%, which is an excellent result also in a direct peer comparison. The cost targets were surpassed, business volume met expectations, and the share of non-traditional products in new business was increased beyond the target level. Profitability targets were only partly achieved due to the difficult market conditions, whereas return on equity and the solvency ratio came within the target range. As far as the weighting of these KPIs is concerned, the Board of Directors took the very good operating result and above-average investment result of 2012 into particular consideration in view of the very challenging market situation.

Within the framework of the compensation arrangements for members of the Corporate Executive Board, “deferred compensation in cash” was introduced as a new compensation component on 1 January 2012. On the basis of the corresponding regulations, the Board of Directors determines every year from what amount and, if applicable, what portion of the variable cash compensation is not paid immediately but is allocated in the form of “deferred compensation in cash”. As in the previous year, the Board of Directors determined that, for the 2012 financial year, as of a variable cash compensation level of CHF 500 000, a 23% share of the total variable cash compensation will be allocated as deferred compensation.

The allocated deferred compensation in cash represents an entitlement during the three-year deferral period. The underlying “deferred cash plan” also provides for adjustment and reclaiming mechanisms (clawback). Full or partial reduction of the deferred compensation is provided for in the following cases: negative impact of the key figures applying to the allocation of deferred compensation due to a restatement of the annual accounts or damage to Swiss Life as a result of a violation of statutory, regulatory or compliance standards by participants of the plan. If the employment relationship is terminated by a participant during the three-year deferral period, the entitlements expire worthless (retention component).

As a mid-to long-term compensation component linked to the performance of the Swiss Life Holding share price, respectively to medium-term planning and corresponding target achievement, an equity compensation plan has been in place since 2004 for members of the Corporate Executive Board and other key performers within the Swiss Life Group, who are determined by the Corporate Executive Board with the approval of the Nomination and Compensation Committee. Based on this plan, participants are granted future subscription rights to Swiss Life Holding shares free of charge after a period of three years has elapsed and provided that the requirements under the plan are satisfied at that point.

Pursuant to the regulations of the 2010 equity compensation plan, future subscription rights were allocated in the form of so-called Performance Share Units (PSUs), whereby share allocation after expiry of the three-year period was based on two objective performance criteria, each weighted at 50%. The first criterion is the Total Shareholder Return on the Swiss Life Holding share (TSR Swiss Life Holding), requiring a performance of over 20% for a subscription right to shares to arise after three years. The second criterion involves a comparison of the Swiss Life Holding share’s TSR with the TSRs of the shares of the companies included in the Dow Jones STOXX 600 Insurance Index (TSR Outperformance). A subscription right arises if the performance on expiry of the three-year term is above the first quartile in comparison with the companies in question. Depending on the fulfilment of the two performance criteria within the three-year period, the number of PSUs under the 2010 equity compensation plan can increase by up to a factor of 2.0 or drop to zero. The number of PSUs entitling the participant to receive shares after the three-year term is determined in accordance with the following: One half of the PSUs allocated is multiplied by the factor resulting from the TSR Swiss Life Holding target being met, and the other half by the factor resulting from the TSR Outperformance target being met. The factor is 1 or 100% if a performance of 35% is achieved for the first performance criterion, the TSR Swiss Life Holding. Interim values are determined by linear interpolation. In the case of the second performance criterion, TSR Outperformance, the factor is 1 or 100% if the TSR Swiss Life Holding is equal to the median of the benchmark index (Dow Jones STOXX 600 Insurance Index). Here, too, interim values are determined by linear interpolation. The results (TSR Swiss Life Holding factor multiplied by one half of the PSUs and the TSR Outperformance factor multiplied by the other half) are added together. The sum is the number of PSUs, which translates into an entitlement to an equal number of Swiss Life Holding shares.

Since 2011 participants in the equity compensation plan have been allocated Restricted Share Units (RSUs) instead of PSUs. As with PSUs, RSUs grant the holder future subscription rights, entitling them to receive Swiss Life Holding shares free of charge after a three-year period has elapsed, but without any additional leverage effect. The attribution of shares after the expiry of the three-year deferral period is effected on a 1:1 basis (1 RSU = 1 share): the plan is therefore very simple, transparent throughout the whole term and directly linked to the performance of the Swiss Life Holding share price. The value of RSUs during the three-year term develops linear with the Swiss Life Holding share price and thus symmetrically corresponds with shareholder interests. The value of the RSUs allocated equals the fair value as at 1 April of the year of allocation and is determined by an independent consultancy company. 62 members of Swiss Life Group senior management participated in the 2011 equity compensation plan, in which a total of 68 370 RSUs were allocated; 23 630 in total to the Corporate Executive Board, of which 6350 to Bruno Pfister in his capacity as Group CEO. During the period under review, 55 members of Swiss Life Group senior management participated in the 2012 equity compensation plan. A total of 94 040 RSUs were allocated; 28 460 in total to the members of the Corporate Executive Board, of which 7100 RSUs to Bruno Pfister as Group CEO.

The new equity compensation plan, relating to the effective date of 1 April 2013, is based on the Group-wide programme "Swiss Life 2015", which was announced at the Swiss Life Group's Investors' Day on 28 November 2012 (see www.swisslife.com/investorsday2012). On the basis of the medium-term planning 2013-2015, performance criteria relating to cost efficiency (50% weighting), the risk and fee result (25% weighting) and IFRS profit (25% weighting) have been determined by the Board of Directors. After expiry of the three-year period of the RSU plan, the target value for each performance criterion according to the medium-term planning 2013-2015 is compared with the actual result achieved. The share allocation corresponds to the number of allocated RSUs (1 RSU = 1 SLHN) if all three performance targets have been achieved or exceeded after the three-year period has elapsed; overperformance does not lead to a higher share allocation. If the targets are only partly achieved, the share allocation is correspondingly reduced based on the weighting of the performance target concerned or the RSUs expire worthless.

The attribution of mid- to long-term compensation components (RSU plan) is deferred for a period of three years from the date of allocation, as is the case with the deferred compensation in cash. Likewise, the RSU plans provide for adjustment and reclaiming mechanisms (clawback) in the event of a negative impact of the key figures applying to the allocation of deferred compensation due to a restatement of the annual accounts or damage to Swiss Life as a result of a violation of statutory, regulatory or compliance standards. If the employment relationship is terminated by a participant during the three-year deferral period, the entitlements expire worthless.

PERSONNEL CHANGES TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE BOARD IN 2012

There were no resignations from the Board of Directors in the period under review. On 19 April 2012 Wolf Becke was elected to the Board of Directors of Swiss Life Holding.

There were no personnel changes on the Corporate Executive Board during 2012.

COMPENSATION TO THE BOARD OF DIRECTORS IN 2012

For comparison purposes, the corresponding details of the compensation for 2011, as published in the Annual Report 2011, are shown in a separate table below the compensation table for 2012.

Amounts in CHF	Compensation in cash	Compensation in blocked shares[2]			Expenditure for occupational provisions		
	Amount	Number	Amount	Total compensation in cash and shares (amount)[3]	Regular contributions[4]	Extraordinary contributions	Aggregate total (amount)
Rolf Dörig, Chairman of the Board of Directors	**1 008 000**	4 443	362 767	**1 370 767**	283 968	–	**1 654 735**
Gerold Bührer	**244 300**	1 077	87 937	**332 237**			
Frank Schnewlin	**244 300**	1 077	87 937	**332 237**			
Wolf Becke[1]	**68 250**	237	24 575	**92 825**			
Volker Bremkamp	**129 500**	572	46 697	**176 197**			
Damir Filipovic	**91 000**	402	32 814	**123 814**			
Henry Peter	**91 000**	402	32 814	**123 814**			
Peter Quadri	**91 000**	402	32 814	**123 814**			
Franziska Tschudi	**106 400**	470	38 374	**144 774**			
TOTAL BOARD OF DIRECTORS	**2 073 750**	9 082	746 729	**2 820 479**	283 968	–	**3 104 447**

[1] Joined 19.04.2012.

[2] The allocation of shares was effected on 18.06.2012 and 14.12.2012 at economic value, which is equal to the tax value (CHF 67.3375 and CHF 103.6931 respectively), taking into account the blocking period of three years. The share prices (closing prices) on the days of allocation were CHF 80.20 and CHF 123.50 respectively.

[3] All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 185 520 in the year under review.

[4] Pursuant to the fund regulations, occupational provisions were financed by the employer and the employee at a ratio of 70% to 30%.

COMPENSATION TO THE BOARD OF DIRECTORS IN 2011

Amounts in CHF	Compensation in cash	Compensation in blocked shares[4]			Expenditure for occupational provisions		
	Amount	Number	Amount	Total compensation in cash and shares (amount)[5]	Regular contributions[6]	Extra-ordinary contri-butions	Aggregate total (amount)
Rolf Dörig, Chairman of the Board of Directors	**1 008 000**	4 478	362 839	**1 370 839**	225 504	–	**1 596 343**
Gerold Bührer	**244 300**	1 129	88 014	**332 314**			
Frank Schnewlin	**244 300**	1 129	88 014	**332 314**			
Volker Bremkamp	**129 500**	589	46 653	**176 153**			
Paul Embrechts[1]	**34 167**	57	6 332	**40 499**			
Damir Filipovic[2]	**60 667**	298	21 868	**82 535**			
Carsten Maschmeyer[3]	**82 000**	172	15 223	**97 223**			
Henry Peter	**91 000**	413	32 908	**123 908**			
Peter Quadri	**91 000**	413	32 908	**123 908**			
Franziska Tschudi	**106 400**	480	38 390	**144 790**			
TOTAL BOARD OF DIRECTORS	**2 091 334**	9 158	733 150	**2 824 484**	225 504	–	**3 049 988**

1 Left 05.05.2011.

2 Joined 05.05.2011.

3 Resigned 07.12.2011. Swiss Life Ltd, AWD Holding AG and their subsidiaries paid a total of EUR 341 800 in fees for consultancy services to a company in which Carsten Maschmeyer has an important shareholding.

4 Allocation and valuation was effected on 23.06.2011 and 15.12.2011 at an economic value of CHF 111.0817 und CHF 73.3828, which is equal to the tax value, taking into account the blocking period of three years. The share prices on the days of allocation where CHF 132.30 and CHF 87.40.

5 All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 179 034 in the year under review.

6 Pursuant to the pension fund regulations, occupational provisions were financed by the employer and the employee at a ratio of 70% to 30%.

COMPENSATION TO THE CORPORATE EXECUTIVE BOARD IN 2012

The compensation table below shows the variable compensation in cash for the 2012 financial year which was determined by the Board of Directors at the beginning of 2013. It is disclosed on an accrual basis as compensation for 2012.

The members of the Corporate Executive Board did not receive any compensation in shares for the 2012 financial year. They are participating in the current equity compensation plan, which provides for the allocation of Restricted Share Units (RSUs).

For comparison purposes, the corresponding details of the compensation for 2011, as published in the Annual Report 2011, are shown in a separate table below the compensation table for 2012.

Amounts in CHF	Compensation in cash				Compensation in shares		
	Salary	Bonus for 2012 paid in 2013[2]	Other compensation[3]	Total compensation in cash	Number	Amount	Total compensation in cash and shares (amount)
Bruno Pfister, Group CEO	1 500 000	700 000	67 745	**2 267 745**	0	0	**2 267 745**
Other members of Corporate Executive Board[1]	4 238 541	2 916 400	137 555	**7 292 496**	0	0	**7 292 496**
TOTAL CORPORATE EXECUTIVE BOARD	5 738 541	3 616 400	205 300	**9 560 241**	0	0	**9 560 241**

[1] Six individuals were taken into account in the period under review.
[2] The bonus paid in 2013 relates to the 2012 financial year.
[3] Child allowances (CHF 2400), allowance for years of service (CHF 15 625), company cars (CHF 83 391), premium contributions to 3rd pillar pension plans (CHF 99 056), other (CHF 4828), each in total.

Amounts in CHF	Expenditure for occupational provisions		
	Regular contributions[4]	Extraordinary contributions	Aggregate total compensation in cash and in shares and occupational provisions expense (amount)[5]
Bruno Pfister, Group CEO	225 504	0	**2 493 249**
Other members of Corporate Executive Board	1 208 271	0	**8 500 767**
TOTAL CORPORATE EXECUTIVE BOARD	1 433 775	0	**10 994 016**

[4] Pursuant to the pension fund regulations, occupational provisions were financed by the employer and the employee at a ratio of 70% to 30%.
[5] All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 689 418 in the year under review.

Amounts in CHF	Deferred compensation in cash	Restricted Share Units (RSUs)[7,8]		
	Amount[6]	Number	Amount	Aggregate total compensation incl. deferred compensation in cash and RSUs (amount)
Bruno Pfister, Group CEO	**210 000**	7 100	665 767	**3 369 016**
Other members of Corporate Executive Board	**697 000**	21 360	2 002 927	**11 200 694**
TOTAL CORPORATE EXECUTIVE BOARD	**907 000**	28 460	2 668 694	**14 569 710**

[6] The deferred compensation in cash is paid out after a deferral period of three years, provided the requirements are satisfied at that point.
[7] The RSUs represent future subscription rights that entitle the individuals concerned to receive Swiss Life Holding shares after a period of three years, provided the requirements are satisfied at that point.
[8] The allocation of RSUs as at 01.04.2012 was effected at a fair value of CHF 93.77, as calculated by an independent consultancy firm.

COMPENSATION TO THE CORPORATE EXECUTIVE BOARD IN 2011

Amounts in CHF	Compensation in cash				Compensation in shares		
	Salary	Bonus for 2011 paid in 2012[2]	Other compensation[3]	Total compensation in cash	Number	Amount	Total compensation in cash and shares (amount)
Bruno Pfister, Group CEO	1 437 510	1 200 000	47 996	**2 685 506**	0	0	**2 685 506**
Other members of Corporate Executive Board[1]	3 811 229	3 140 500	155 743	**7 107 472**	0	0	**7 107 472**
TOTAL CORPORATE EXECUTIVE BOARD	5 248 739	4 340 500	203 739	**9 792 978**	0	0	**9 792 978**

[1] Six individuals were taken into account in the period under review.

[2] The bonus paid in 2012 relates to the 2011 financial year.

[3] Child allowances (CHF 4150), company cars (CHF 101 439), premium contributions to 3rd pillar pension plans (CHF 93 762), other (CHF 4388), each in total.

Amounts in CHF	Expenditure for occupational provisions		
	Regular contributions[4]	Extraordinary contributions	Aggregate total compensation in cash and in shares and occupational provisions expense (amount)[5]
Bruno Pfister, Group CEO	225 504	0	**2 911 010**
Other members of Corporate Executive Board	1 052 844	0	**8 160 316**
TOTAL CORPORATE EXECUTIVE BOARD	1 278 348	0	**11 071 326**

[4] Pursuant to the pension fund regulations, occupational provisions were financed by the employer and the employee at a ratio of 70% to 30%.

[5] All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 503 257 in the year under review.

Amounts in CHF	Deferred compensation in cash	Restricted Share Units (RSUs)[7,8]		
	Amount[6]	Number	Amount	Aggregate total compensation incl. deferred compensation in cash and RSUs (amount)
Bruno Pfister, Group CEO	**360 000**	6 350	889 318	**4 160 328**
Other members of Corporate Executive Board	**795 500**	17 280	2 420 064	**11 375 880**
TOTAL CORPORATE EXECUTIVE BOARD	**1 155 500**	23 630	3 309 382	**15 536 208**

[6] The deferred compensation in cash is paid out after a deferral period of three years, provided the requirements are satisfied at that point.

[7] The RSUs represent future subscription rights that entitle the individuals concerned to receive Swiss Life Holding shares after a period of three years, provided the requirements are satisfied at that point.

[8] The allocation of RSUs as at 01.04.2011 was effected at a fair value of CHF 140.05, as calculated by an independent consultancy firm.

SHARE OWNERSHIP/PARTICIPATION RIGHTS AS AT 31.12.2012

As at the balance sheet date, acting members of the Board of Directors and the Corporate Executive Board (including closely related parties) held the following number of registered Swiss Life Holding shares and future subscription rights to Swiss Life Holding shares in the form of Restricted Share Units (RSUs) and Performance Share Units (PSUs).

BOARD OF DIRECTORS

	SLH shares 31.12.2012
Rolf Dörig, Chairman of the Board of Directors	44 929
Gerold Bührer	5 172
Frank Schnewlin	2 825
Wolf Becke	237
Volker Bremkamp	2 722
Damir Filipovic	700
Henry Peter	4 053
Peter Quadri	2 753
Franziska Tschudi	2 136
TOTAL BOARD OF DIRECTORS	65 527

CORPORATE EXECUTIVE BOARD

	SLH shares 31.12.2012
Bruno Pfister, Group CEO	10 818
Manfred Behrens	900
Thomas Buess	6 900
Patrick Frost	9 200
Ivo Furrer	3 750
Klaus Leyh	1 000
Charles Relecom	1 750
TOTAL CORPORATE EXECUTIVE BOARD	34 318

	Performance Share Units (PSUs) 31.12.2012[1]	Restricted Share Units (RSUs) 31.12.2012[2]
Bruno Pfister, Group CEO	6 500	13 450
Manfred Behrens	3 200	6 340
Thomas Buess	3 200	6 860
Patrick Frost	3 200	7 520
Ivo Furrer	3 200	6 860
Klaus Leyh	2 500	5 130
Charles Relecom	2 900	5 930
TOTAL CORPORATE EXECUTIVE BOARD	24 700	52 090

[1] Total number of PSUs allocated in the year 2010 in connection with the relevant equity compensation plan. The PSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

[2] Total number of RSUs allocated in the years 2011 and 2012 in connection with the relevant equity compensation plan. The RSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

SHARE OWNERSHIP/PARTICIPATION RIGHTS AS AT 31.12.2011

As at the balance sheet date, acting members of the Board of Directors and the Corporate Executive Board (including closely related parties) held the following number of registered Swiss Life Holding shares and future subscription rights to Swiss Life Holding shares in the form of Restricted Share Units (RSUs) and Performance Share Units (PSUs).

BOARD OF DIRECTORS

	SLH shares 31.12.2011
Rolf Dörig, Chairman of the Board of Directors	40 486
Gerold Bührer	4 095
Frank Schnewlin	1 748
Volker Bremkamp	2 150
Damir Filipovic	298
Henry Peter	3 651
Peter Quadri	2 351
Franziska Tschudi	1 666
TOTAL BOARD OF DIRECTORS	56 445

CORPORATE EXECUTIVE BOARD

	SLH shares
	31.12.2011
Bruno Pfister, Group CEO	3 068
Manfred Behrens	0
Thomas Buess	4 500
Patrick Frost	2 000
Ivo Furrer	0
Klaus Leyh	53
Charles Relecom	0
TOTAL CORPORATE EXECUTIVE BOARD	9 621

	Performance Share Units (PSUs)	Restricted Share Units (RSUs)
	31.12.2011 [1]	31.12.2011 [2]
Bruno Pfister, Group CEO	13 000	6 350
Manfred Behrens	5 800	2 880
Thomas Buess	4 800	2 880
Patrick Frost	5 200	3 390
Ivo Furrer	5 700	2 880
Klaus Leyh	4 000	2 540
Charles Relecom	5 400	2 710
TOTAL CORPORATE EXECUTIVE BOARD	43 900	23 630

[1] Total number of PSUs allocated in the years 2009 and 2010 in connection with the relevant equity compensation plan. The PSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

[2] Total number of RSUs allocated in the year 2011 in connection with the relevant equity compensation plan. The RSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

Appropriation of Profit

Profit and Appropriation of Profit

The net profit for the year amounts to CHF 105 546 993. The Board of Directors proposes to the General Meeting of Shareholders that the profit be appropriated in accordance with the table below. If this proposal is adopted, a distribution of CHF 4.50 per share will be made from the capital contribution reserve.

PROFIT SHOWN IN THE BALANCE SHEET

In CHF

	2012	2011
Balance carried forward from previous year	**1 650 317**	3 793 683
Net profit	**105 546 993**	237 856 634
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	**107 197 310**	241 650 317

APPROPRIATION OF PROFIT

In CHF

	2012	2011
Dividend	–	–
Allocation to legal reserves	–	–
Allocation to free reserves	**105 000 000**	240 000 000
Balance carried forward to new account	**2 197 310**	1 650 317
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	**107 197 310**	241 650 317

Zurich, 13 March 2013

For the Swiss Life Holding Board of Directors

Rolf Dörig Gerold Bührer

Report of the Statutory Auditor

Report of the Statutory Auditor
to the General Meeting of
Swiss Life Holding Ltd
Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Swiss Life Holding Ltd, which comprise the statement of income, balance sheet and notes to the financial statements (pages 228 to 246), for the year ended 31 December 2012.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz	Christian Schacher
Audit expert	Audit expert
Auditor in charge	

Zurich, 13 March 2013

Share Performance and Historical Comparison

The Eurozone debt crisis in 2012 generated a high level of uncertainty among market players. Despite interest rates in Switzerland and Germany reaching record lows, the Swiss Life share price delivered extremely strong performance of 41% in 2012.

SWISS LIFE SHARE DETAILS

Swiss security number	1 485 278
ISIN	CH 001 485 278 1
Ticker symbol SIX	SLHN
Reuters	SLHN.VX
Bloomberg	SLHN VX

SHARE PERFORMANCE

Amounts in CHF

	as at 2012	2012	2011	2010	2009	2008
Number of shares	**31.12.**	**32 081 054**	32 081 054	32 081 054	32 081 054	35 084 554
Annual high	**23.11.**	**130.70**	164.50	152.70	140.20	298.66
Annual low	**04.06.**	**75.85**	83.65	100.30	43.00	63.90
Year-end price	**28.12.**	**121.40**	86.40	135.20	132.00	72.40
Performance Swiss Life (in %)		**+41**	–36	+2	+82	–74
Swiss Market Index (SMI)	**28.12.**	**6 822**	5 936	6 436	6 546	5 535
Performance Swiss Market Index (SMI) (in %)		**+15**	–8	–2	+18	–35
Dow Jones STOXX 600 Insurance Index (in EUR)	**31.12.**	**177.11**	133.25	154.45	152.08	134.68
Performance Dow Jones STOXX 600 Insurance Index (in %)		**+33**	–14	+2	+13	–47
Average trading volume		**172 732**	140 620	220 061	264 910	377 109
Market capitalisation (in CHF million)	**28.12.**	**3 895**	2 772	4 337	4 235	2 540
Basic earnings per share		**2.88**	18.97	17.46	8.86	10.88
Diluted earnings per share		**2.86**	18.87	17.37	8.83	10.88
Dividend paid per share	**27.04.**	**4.50**	4.50	2.40	5.00	17.00
Total dividend payout to shareholders (in CHF million)	**27.04.**	**144**	144	77	160	596
Dividend yield on year-end price (in %)	**28.12.**	**3.71**	5.21	1.78	3.79	23.48

Source: Bloomberg

BREAKDOWN OF REGISTERED SHARES WITH VOTING RIGHTS AS AT 31.12.2012

Number of shares	Number of shareholders	As % of registered shareholders
1 – 25	149 378	83.60
26 – 100	19 461	10.89
101 – 1 000	8 997	5.04
> 1 000	852	0.48
TOTAL	178 688	100.00

STANDARD & POOR'S FINANCIAL STRENGTH RATINGS AS AT 31.12.2012

	Classification	Outlook
Swiss Life Ltd, Zurich	A–	stable
Swiss Life Ltd, Branch Germany, Munich	A–	stable

SWISS LIFE GROUP HISTORICAL COMPARISON

In CHF million (if not stated otherwise)

	2012	2011	2010	2009	2008
PREMIUM VOLUME					
Gross written premiums, policy fees and deposits received	**17 046**	17 143	20 191	20 219	18 515
FIGURES FROM CONSOLIDATED STATEMENT OF INCOME					
Net earned premiums	**11 871**	11 599	11 753	11 867	13 254
Net earned policy fees	**309**	295	298	268	260
Financial result (without share of results of associates)	**6 043**	4 459	4 368	4 588	600
TOTAL INCOME	**19 075**	17 291	17 844	17 816	15 356
Net insurance benefits and claims	**–13 819**	–12 614	–12 704	–11 884	–12 915
Policyholder participation	**–1 104**	–791	–1 073	–1 539	429
Operating expense	**–3 552**	–2 913	–3 062	–3 478	–3 319
TOTAL EXPENSE	**–18 728**	–16 592	–17 150	–17 254	–16 198
RESULT FROM OPERATIONS	**346**	699	694	562	–842
Net result from continuing operations	**93**	606	560	324	–1 143
Net result from discontinued operations	**–**	–	–	–47	1 488
NET PROFIT	**93**	606	560	277	345
Net profit attributable to					
Equity holders of Swiss Life Holding	**92**	605	557	278	350
Non-controlling interests	**1**	1	3	–1	–5
FIGURES FROM CONSOLIDATED BALANCE SHEET					
Equity	**10 286**	9 162	7 437	7 245	6 652
Insurance reserves	**137 973**	128 089	122 279	122 616	113 308
Balance sheet total	**163 400**	151 875	147 203	143 948	134 791
FURTHER KEY FIGURES					
Return on equity (in %)	**0.9**	7.3	7.6	4.0	5.0
Assets under control	**181 330**	164 604	149 899	148 186	134 326
Year-end embedded value [1]	**9 628**	7 728	7 595	6 877	8 457
Value of new business [1]	**158**	150	209	123	78
Number of employees (full-time equivalents)	**7 046**	7 168	7 483	7 820	8 291

[1] Up to 2008, traditional embedded value methodology used; from 2009, market consistent embedded value methodology applied.

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ANNUAL REPORT 2012

The **Annual Report** is published in German and English and contains additional information on risk management, market consistent embedded value (in English only), corporate governance and the annual accounts.
The English text is definitive for the Consolidated Financial Statements.

The Annual Report can be found online at:
www.swisslife.com/report

PUBLISHING DETAILS

PUBLISHER — Swiss Life Holding Ltd, Zurich
EDITORIAL RESPONSIBILITY — Swiss Life, Group Communications, Zurich
CONCEPT AND DESIGN — Eclat AG, Erlenbach, Canton of Zurich
PRODUCTION — Management Digital Data AG, Lenzburg, Canton of Aargau

There may be minor discrepancies in total figures and percentages in this report due to rounding effects.

IMPORTANT DATES

ANNUAL GENERAL MEETING 2013

23 April 2013, Hallenstadion Zurich

INTERIM STATEMENT Q1 2013

23 May 2013

HALF-YEAR RESULTS 2013

14 August 2013

130 286

The future starts here.

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