

# Letter to Shareholders

## Half-Year Report 2002

Swiss Life 

Rentenanstalt 

### Dear Shareholder

Swiss Life/Rentenanstalt's result for the first half of 2002 was unsatisfactory on the whole, bearing the mark of extraordinary amortisation charges. At the same time some crucial improvements were achieved. Despite the difficult operating environment, the company produced a clear increase in its financial result, expanded its business volume and lowered its operating expenses. **Gross operating income** rose from CHF 158 million to CHF 500 million. As a consequence of extraordinary write-downs of goodwill (CHF 624 million), the **first half of the year closed with a loss** of CHF 386 million. These write-downs mainly relate to investments in Banca del Gottardo and Schweizerische Treuhandgesellschaft (STG). The **financial result** totalled CHF 3.53 billion and exceeded the result for the same period in the previous year by more than half a billion Swiss francs. **Assets under management** fell by around 2.5% to approximately CHF 198 billion. This was a result of the considerably lower market values of the relevant investments. **Gross premiums** were approximately 5%

higher than in the first half of 2001 (adjusted for currency effects almost 7%). Adjusted for currency effects, non-life premiums written increased by about 14% (excluding policyholder deposits), and those in the life sector by over 9%. There were no significant fluctuations in the **technical result** which continues to remain satisfactory. Total **operating expenses** (prior to extraordinary amortisation of deferred policy acquisition costs) fell by approximately 1% in comparison to the same period last year.

Swiss Life/Rentenanstalt will concentrate on its life insurance business for the future. The management structure is being streamlined and core units organised into functional groups in order to boost efficiency. This will entail trimming another 700 positions within the Group as a whole by the end of 2004.

Swiss Life/Rentenanstalt plans to introduce a holding company structure at its parent company in conjunction with a capital increase. An extraordinary general meeting is scheduled for 23 October 2002 in this connection.

Enclosed we are sending you a brochure with information about the conversion to



Photo: Urs Marry

Andres F. Leuenberger

a holding structure and the capital increase. I would like to extend my deepest thanks for the faith you continue to place in us.

Yours sincerely

Andres F. Leuenberger  
Chairman of the Board of Directors

### Key figures

in CHF million (unless otherwise indicated)

	Life		Non-life		Total	
	30/06/02 6 months	30/06/01 6 months	30/06/02 6 months	30/06/01 6 months	30/06/02 6 months	30/06/01 6 months (restated)
Gross written premiums, policy fees, other related income and deposits from policyholder investment contracts	10 379	9 961	1 305	1 180	11 684	11 141
Net investment income including net trading income					3 654	2 384
Net realised and unrealised gains/losses, as restated					- 126	626
Net half-year loss, as restated					- 386	- 1
					<b>30/06/02</b>	<b>31/12/01</b>
Assets under management					198 138	203 334
Members of staff (number)					12 715	12 784

## Interview with Roland Chlapowski, Group CEO "Setting the direction for the future"



Photo: Urs Merly

**On 18 September 2002 Swiss Life/Rentenanstalt presented its new strategy. In future the company will be concentrating on the life insurance business in its core markets. Management structure is being streamlined and core units organised into functional groups in an effort to boost the company's efficiency.**

**Mr Chlapowski, on 18 September 2002 Swiss Life/Rentenanstalt presented its new strategy. Critics are saying that the new strategy has been developed by top management under considerable pressure and that it lacks vision. How do you react to this?**

**Roland Chlapowski:** A company does not act in a vacuum. It is certainly the case that the continuing difficulties on the economic front have had a particularly negative impact on several areas of our business. A responsible management, which is geared towards the future, must take these developments into account in its strategic considerations. The kind of entrepreneurial activity which leads to positive results is based on two principles: a correct analysis of the current situation and realistic future planning. We have been busy with both of these activities over the past few months – even if at times the wind has been against us.

**What is going to happen to those business units and areas that no longer belong to the strategic core business?**

These units will be kept in place for the time being. At the same time we will endeavour to maximise their value so that they can be sold at a good price at a later date. Selling, just like buying, shouldn't be pressured by time constraints.

**You are also striving to achieve success with a different investment strategy. What is it?**

Since the beginning of this year the Group has been pursuing an investment policy that is based on lower investment risk, successively reducing the equity segment. As of 13 September 2002 around 3% of our investments were in equities.

**In this context we should mention the debate on the BVG minimum interest rate, which has received a great deal of attention from the Swiss press and political circles throughout the summer. What effect will the new company strategy have on this extremely topical and sensitive political issue? Will you be content to accept a minimum interest rate of 3.25% as the Federal Council is proposing?**

It is definitely a step in the right direction. With regard to the BVG minimum interest rate, it must be pointed out that returns from risk-free securities are currently standing at around 3%, significantly below the guaranteed interest rate of 4%. We at Swiss Life/Rentenanstalt cannot guarantee any benefits which are not achievable on the basis of the current situation on the financial markets. So much for the economic and political situation. Regardless of this, we will prepare our own parameters for our BVG business.



Can you give any details of these yet? On what criteria will Swiss Life/Rentenanstalt base its own BVG business?

Our corporate approach to the BVG business – naturally within the given legal framework – will be aimed at achieving a balance between risk and return. Concretely, this means that premiums be adjusted to reflect costs. Or, to put it clearer still: guarantees have a price, and that price is the premium. In addition to structural measures, the watchwords of raising efficiency and reducing costs also apply to our BVG business.

Many investors have been hit by the slump in share prices. The price of Swiss Life/Rentenanstalt shares has dropped too. How are you planning to counteract this?

The strategy revision sends a clear signal about the future orientation of our company and thus increases our company's attractiveness to investors, regardless of the extremely difficult and uncertain market conditions.

Why should customers and shareholders continue to have faith in you?

The results of the operational and strategic measures will have a positive effect on our company. The risk profile has already improved significantly and we still have sufficient technical reserves at our disposal. In the face of today's weakened financial markets this is an important factor. With the commitment and support of our staff we will survive the current tough environment and uphold our company's proud tradition of success and sterling reputation.



**In the last year and a half, conditions on the market in which Swiss Life/Rentenanstalt does business have changed fundamentally. As a result, the entire organisation has been subjected to a rigorous analysis. On the basis of the insights gained, the Board of Directors and the Corporate Executive Board have elaborated a new strategy and vision that will bring radical changes to the Group.**

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We want to be an attractive provider of products in the area of life insurance and pensions. Through our efficiency and product design, we want to create value for both our customers and our shareholders. Our stability is based on our financial strength and our conservative investment style. The new strategy has five basic cornerstones.

### 1. Business focus

Today's Swiss Life/Rentenanstalt is a very complex enterprise that is active in the fields of life insurance, non-life insurance, private banking, investment management and E-business. This makes the company very difficult to manoeuvre.

In future we intend to establish a clear focus with two different dimensions:

1. our core business of life insurance
2. the Swiss market and selected countries in Europe.

This focus implies a move away from our diversification strategy of recent years.

In view of the current market environment we consider this to be a necessary and correct step, which is in the interests of our customers, shareholders and staff.

### 2. Streamlined structure

Our focus on life insurance and selected regional markets will enable us to have a lean cross-border management structure. In addition, the Corporate Executive Board will create new responsibilities for our core competencies of distribution, products, operations/IT and asset management. We will shape our operating units so that they are consistent with these new areas of responsibility. In Switzerland this has already happened.

### 3. Operational excellence

So that we can offer both security to our customers and attractive returns to our shareholders we have developed a business model based on low-risk investment.

We will continue to consistently implement economic product pricing that is commensurate with the risks.

If this cannot be guaranteed in some markets in the short to medium term, then we will search for alternatives or withdraw from these markets.

In Switzerland we are therefore continuing to call for a lowering of the minimum BVG interest rate to 3%.

Focusing our business and shaping up our processes in line with the core competencies will allow us to increase efficiency considerably. We have increased the cost reduction targets presented in May by a significant degree. This will lead to the loss of another 700 jobs.

### 4. Financial strength

Swiss Life/Rentenanstalt has sufficient capital available to meet both its obligations to policyholders and the requirements of the supervisory authorities. Our single-A rating from Standard & Poor's remains unchanged.

In order to create value for the transformation of our company and to expand our core business we are planning a capital increase of between CHF 0.9 billion and CHF 1.2 billion for autumn of this year.

At the same time we propose creating a holding company as a means of improving transparency for insured persons and shareholders alike.

An extraordinary general meeting will be held on 23 October 2002.

### 5. Performance culture

The implementation of the new strategy will follow clear performance and operational targets with well-defined areas of responsibility.



**Transaction to establish the holding structure and strengthen the capital base**

The planned structural and financial measures announced on 18 September 2002 which will be implemented in the following months are a direct consequence of the new strategy. They include the introduction of a holding structure and a capital increase. This transaction will proceed in stages.

**Establishment of the new holding company and public exchange offer**

As a first step, Swiss Life/Rentenanstalt created a new subsidiary called Swiss Life Holding. This company has launched

a public exchange offer for all shares of Swiss Life/Rentenanstalt in which Swiss Life/Rentenanstalt shareholders can exchange each Swiss Life/Rentenanstalt share they hold for one share in the newly created Swiss Life Holding. Swiss Life Holding is planning to delist the shares of the former parent company Swiss Life/Rentenanstalt.

**Swiss Life/Rentenanstalt extraordinary general meeting of shareholders**

Swiss Life/Rentenanstalt shareholders will be invited to an extraordinary general meeting on 23 October 2002 to vote on modifications to the articles of association that will permit the transaction to take place.

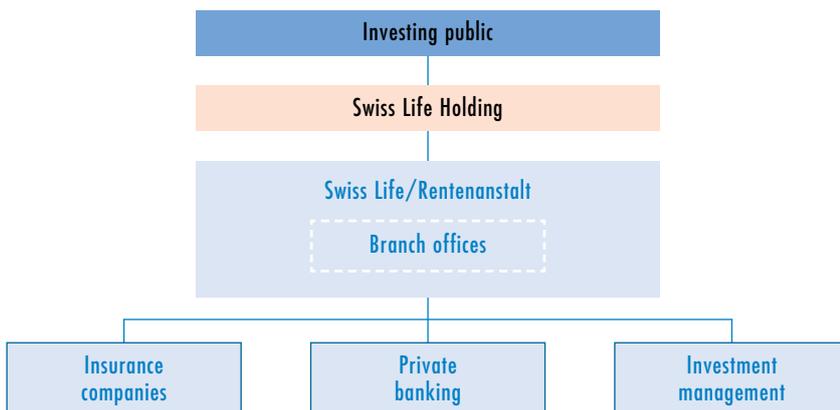
**Capital increase of Swiss Life Holding**

As soon as the exchange offer has been carried out, Swiss Life Holding will effect a capital increase – possibly in combination with a convertible loan issue – to raise additional equity of between CHF 0.9 billion and CHF 1.2 billion. The new shares of Swiss Life Holding will be offered to those shareholders who tendered their Swiss Life/Rentenanstalt shares in response to Swiss Life Holding’s exchange offer. Shareholders will receive negotiable subscription rights.

**Information for shareholders concerning the transaction**

Along with this Letter to Shareholders you are receiving the information brochure “On course for the new Swiss Life Holding”. You should also have received all necessary documents for the exchange offer and the extraordinary general meeting of shareholders. If you have any questions, you are welcome to visit our webpage [www.swisslife.com](http://www.swisslife.com) or call our hotline number +41 1 284 61 10 (Shareholder Services).

**The organisation after the transaction**





Photos: Urs Marty

**In the first half of 2002 Swiss Life/Rentenanstalt was able to increase gross premiums in both the life and non-life segments. In the life insurance business premiums for pure insurance rose in particular. In the non-life segment premium income experienced growth of 14%. This clear rise reflects the transfer of our daily sickness benefit business to «La Suisse» (thus removing it from the Swiss Life/Rentenanstalt Switzerland portfolio where it formed part of the life segment). Private banking generated profits of CHF 75 million and investment management CHF 119 million.**

#### Life sector

In the first half of 2002, gross premiums in the life business totalled about CHF 10.4 billion (a rise of 6% after adjusting for currency effects). Policyholder deposits recorded a clear decline of 9% from the corresponding period of the previous year. On the other hand, premiums on pure insurance business expanded by more than 9% after adjustment for currency effects. Costs went down by around 6%, not taking into account an extraordinary amortisation of deferred policy acquisition costs. The adjusted expense ratio also fell considerably, standing at 8.5% for the first half-year (compared to 9.6% in the corresponding period of the previous year). Gains realised on the trading portfolio had a strongly positive impact on the segment result for the period under report, bringing it up to CHF 384 million (prior-year figure CHF 14 million). Despite the noticeable decline in market value of the investments concerned, assets under management increased in value by approximately CHF 1.5 billion from the end of 2001.

#### Non-life sector

Gross premiums advanced more than 14% on a currency-adjusted basis. This clear rise reflects the transfer of our daily sickness benefit business to «La Suisse» (thus removing it from the Swiss Life/Rentenanstalt Switzerland portfolio where it formed part of the life segment). Costs remained at practically the same level as the prior-year figure in spite of this transfer of business. The operating income (gross) did not quite match the corresponding figure for the previous year but remains positive at CHF 12 million. Expansion of business in the first half of 2002 is also reflected in the increase in assets under management to over CHF 2.8 billion.

## Foreign currency translation

in CHF

	30/06/2002	31/12/2001
1 EUR	1.4706	1.4833
1 GBP	2.2674	2.3733
1 USD	1.4794	1.6425



### Private banking sector

The profit figure for the first half of 2002 came to CHF 75 million. Income equalled CHF 459 million for the period, against expenses of CHF 384 million. Banca del Gottardo experienced a drop of 10.1% in income from commission business and 5.4% in income from interest business compared to the same period in the previous year.

Private banking encompasses asset management and investment consultancy for private clients. Swiss Life/Rentenanstalt conducts this business through two principal channels: Banca del Gottardo, based in Ticino and Schweizerische Treuhandgesellschaft (STG) in Basle.

The private banking segment held assets under management totalling CHF 38.8 billion as of 30 June 2002, a drop of CHF 5.6 billion since 31 December 2001.

This was due to the following reasons:

- Falling share prices on the stock exchange caused a continual decline in share positions recorded at market value under IAS rules.
- As a result of a law passed in Italy regarding the return under favourable conditions, and virtually free of penalties, of assets that had illegally been held offshore many Italian customers withdrew their funds from Banca del Gottardo and repatriated them. These funds came to CHF 2.9 billion in all at Banca del Gottardo.
- A majority of the currency rate adjustments had a negative effect on assets.

Staff costs fell by CHF 1.7 million from the same period in the previous year to CHF 135.5 million. The number of employees went down in the course of the first half of the year by 55 to 1881.

### Investment management sector

The investment management sector's statement of income closed the first half of the year with a profit before taxes of CHF 119 million. Income totalled CHF 192 million, expenditure CHF 73 million. This includes the net proceeds on the sale of Swiss Life Hedge Fund Partners AG.

On a groupwide basis, Swiss Life/Rentenanstalt held assets under management totalling CHF 198.1 billion as of 30 June 2002. The tense situation on the stock exchange also left its mark here. Assets under management declined by CHF 5.2 billion or 2.6% from the end of 2001.

In the investment management sector, as well as funds from the insurance business, assets are also managed on behalf of third parties in the form of off-balance sheet assets. These came to CHF 14.1 billion at mid-year.

In May Swiss Life/Rentenanstalt conducted a reorganisation of its hedge fund and leveraged finance activities. The subsidiary Swiss Life Hedge Fund Partners, a joint venture with RMF, was fully integrated into the RMF Investment Group. Shortly afterwards Swiss Life sold its 23.5% stake in the RMF Investment Group to the British MAN Group. The sale of Swiss Life/Rentenanstalt investments in hedge funds produced a capital gain of CHF 329.6 million.

The number of staff fell by 24 (or 3.9%) to 588 as of 30 June 2002.

## Personnel Matters

### Changes on the Board of Directors and the Corporate Executive Board

#### Board of Directors

At the annual general meeting of shareholders on 24 May 2002 Albert Egli and Pierre de Chastonay retired from the Board of Directors for reasons of age. They had served on this body for ten and seventeen years respectively. At the same time Christine Beerli, a Member of the Council of States, submitted her resignation to the Board of Directors after nine years of service. Gilbert Coutau and Josef Kühne were each re-elected for a three-year term of office. Ulrich Oppikofer was confirmed for a two-year term of office. The Board of Directors now consists of nine members.

#### Corporate Executive Board

Our Corporate Executive Board has been strengthened since August 2002 by the arrival of the new CFO Bruno Pfister, who brings to Swiss Life/Rentenanstalt the benefit of his wide-ranging experience in financial services.

Dominique P. Morax, Chief Investment Officer, will leave Swiss Life/Rentenanstalt on 1 October 2002. His departure is at his own request and comes in the wake of our sharper focus on the life insurance business and our new investment strategy.

Hannes A. Meyer, hitherto a member of the Corporate Executive Board, will also be leaving the company at his own request following seventeen years of service. The timeframe for the implementation of the new strategy exceeds the period of time he had planned to remain with our company.

The Board of Directors and the Corporate Executive Board would like to thank both Mr Morax and Mr Meyer for their contribution to Swiss Life/Rentenanstalt.

# Consolidated Balance Sheet (unaudited)

Half-year ended 30 June 2002 and full year ended 31 December 2001, respectively

in CHF million

<b>Assets</b>	<b>30/06/2002</b>	31/12/2001
<b>Investments</b>		(restated)
Held to maturity fixed maturities	4 682	5 000
Available for sale fixed maturity and equity securities	79 370	81 220
Financial assets held for trading	3 499	2 411
Investment property	10 399	9 815
Loans originated by the enterprise	31 103	29 769
Investments in associates, partnerships and joint ventures	289	410
Other investments	1 050	1 070
<b>Total investments</b>	<b>130 392</b>	<b>129 695</b>
<b>Other assets</b>		
Cash and cash equivalents	5 261	6 374
Insurance and other receivables	4 201	3 476
Accruals and deferrals	1 661	1 830
Reinsurance assets	1 481	1 498
Deferred policy acquisition costs	2 835	2 815
Owner-occupied property, equipment and other assets	1 763	1 755
Goodwill and other intangible assets	1 803	2 501
Deferred tax assets	1 292	1 006
Sundry assets	876	895
Investments for the benefit of life-insurance policyholders who bear the investment risk	11 561	11 434
<b>Total other assets</b>	<b>32 734</b>	<b>33 584</b>
<b>Total assets</b>	<b>163 126</b>	<b>163 279</b>

Half-year ended 30 June 2002 and full year ended 31 December 2001, respectively

in CHF million

<b>Liabilities and equity</b>	<b>30/06/2002</b>	31/12/2001 (restated)
<b>Liabilities</b>		
Financial liabilities held for trading	2 159	1 345
Policyholder investment contracts, client deposits and other funds on deposit	27 161	27 868
Insurance policy and claim reserves	100 956	98 827
Borrowings	7 705	8 240
Deferred tax liabilities	1 961	1 837
Accruals and deferrals	7 483	8 498
Liabilities arising from contracts for the benefit of life-insurance policyholders who bear the investment risk	11 574	11 469
<b>Total liabilities</b>	<b>158 999</b>	<b>158 084</b>
<b>Minority interest</b>	<b>219</b>	<b>213</b>
<b>Equity</b>		
Retained earnings, as restated	2 486	2 872
Unrealised gains/losses not yet recorded in income statement, net of taxes, as restated	- 609	283
Share capital	587	587
Share premium	1 529	1 780
Less: Treasury shares	- 85	- 540
<b>Total equity</b>	<b>3 908</b>	<b>4 982</b>
<b>Total liabilities and equity</b>	<b>163 126</b>	<b>163 279</b>

Total Core Capital

in CHF million

	<b>30/06/2002</b>	31/12/2001 (restated)
Total equity	3 908	4 982
Minority interest	219	213
Hybrid capital instruments	1 403	1 402
Subordinated debt	195	201
Deferred Group-related funds, as restated	- 54	946
<b>Total core capital, as restated</b>	<b>5 671</b>	<b>7 744</b>

# Consolidated Statement of Income (unaudited)

Half-year ended 30 June	in CHF million	
	2002 HY 6 months	2001 HY 6 months (restated)
<b>Revenue</b>		
Net investment income	2 834	2 847
Net realised and unrealised gains/losses, as restated	- 126	626
Net trading income	820	- 463
Investment management, banking and other fee income	307	299
Insurance premiums, policy fees and other related income <sup>1</sup>	9 379	8 646
Other income	72	47
<b>Total revenue, as restated</b>	<b>13 286</b>	<b>12 002</b>
<b>Benefits, losses and interest expenses</b>		
Interest credited to policyholder account balances and deposits	- 464	- 367
Interest on borrowings, as restated	- 263	- 254
Provisions for insurance reserves and benefits paid	- 10 241	- 9 112
Policyholder dividends and participation in profit	- 176	- 567
<b>Total benefits, losses and interest expenses, as restated</b>	<b>- 11 144</b>	<b>- 10 300</b>
<b>Operating expenses</b>		
Investment management, banking and other operating expenses	- 389	- 347
Insurance underwriting, policy acquisition costs and other operating expenses	- 870	- 810
Corporate and other operating and administrative expenses	- 383	- 387
<b>Total operating expenses</b>	<b>- 1 642</b>	<b>- 1 544</b>
<b>Operating income, as restated, gross</b>	<b>500</b>	<b>158</b>
Amortisation of goodwill and other intangible assets	- 706	- 71
<b>Operating income before tax, as restated</b>	<b>- 206</b>	<b>87</b>
Income tax expenses, as restated	- 169	- 70
<b>Net income from operations after tax, as restated</b>	<b>- 375</b>	<b>17</b>
Extraordinary items, net of income tax	-	-
<b>Net income before minority interest, as restated</b>	<b>- 375</b>	<b>17</b>
Minority interest	- 11	- 18
<b>Net half-year loss, as restated</b>	<b>- 386</b>	<b>- 1</b>
Basic earnings per share (in CHF), as restated	- 34.4	- 0.1
Diluted earnings per share (in CHF), as restated	- 31.1	- 0.1
<sup>1</sup> Under the accounting principles adopted, deposits from policyholder investment contracts are not included in premium income:		
Insurance premiums, policy fees and other related income, as reported	9 379	8 646
Deposits from policyholder investment contracts	1 925	2 118
<b>Insurance premiums, policy fees, other related income and deposits from policyholder investment contracts</b>	<b>11 304</b>	<b>10 764</b>



Although more and more economic indicators have been pointing towards general economic recovery since the turn of the year, the financial markets have failed to react to these positive signs. On the contrary: the global indexes have fallen by more than 20% since June 2002. The shares of companies in the financial services sector were hit particularly hard by this collapse in prices.

At the end of January 2002, Swiss Life/Rentenanstalt announced that it would review its current strategy and implement a cost-reduction programme. This announcement led to some degree of uncertainty regarding the Group's future which was reflected in a drop in our share price the following month. Prices visibly recovered following changes in top-level management at the end of February and the announcement of the expected net profit

for 2001. In the second quarter the share price moved broadly parallel to the SMI and SPI Insurance indexes. The fall in the share price in the first half-year amounted to 51.2%.

Our market capitalisation as of 30 June 2002 stood at approximately CHF 4 billion. There have been no major changes to the composition of our shareholders since the end of 2001.

## Share statistics

Amounts in CHF (unless otherwise indicated)

	30/06/2002	31/12/2001 (restated)
Number of shares (weighted average)	11 234 118	11 075 893
Earnings per share	-34.4	-10.4
Shareholders' equity per share	347.9	449.8
Share price <sup>1</sup>	349	715
Market capitalisation	4 099 703 000	8 399 105 000
Security code (SWX)	802 678	802 678
Price/earnings ratio	n. a.	n. a.
Price/shareholders' equity ratio	1.0	1.6

<sup>1</sup> Annual high/low: 729.- (11/01/2002) / 332.- (27/06/2002)

## Price Performance of Swiss Life/Rentenanstalt Shares 2001/2002





Photos: Urs Marry

**The equity markets experienced further setbacks in July and August. The Swiss Life/Rentenanstalt Group made allowances for this and reduced its positions in shares and equity funds. The current portfolio in equities is around 3%. Further risks as of 30 June 2002 were reduced by impairments and additional amortisation of goodwill from Banca del Gottardo and the STG Group.**

Up to the end of 2002 all efforts will be focused on strengthening the equity base and increasing operational excellence. The planned capital increase is an essential component of this. In addition, priority must be given to implementing operational measures and the new strategy as swiftly as possible. This will entail trimming another 700 positions within the Group as a whole; these reductions cannot be achieved by natural turnover alone. To help prevent cases of hardship, a redundancy programme has been put together at the request of the Board of Directors and the Corporate Executive Board with the cooperation of the personnel commission.

Andres F. Leuenberger  
Chairman of the Board of Directors

Roland Chlapowski  
Group CEO

18 September 2002

## Agenda 2002/2003

### 23 October 2002

Extraordinary general meeting of shareholders in Zurich

### 8 April 2003

Information meeting for financial analysts and press conference in Zurich

### 27 May 2003

General meeting in Zurich

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### Picture caption:

"SwissLove", the Swiss Life/Rentenanstalt's Expo project, is meeting with great interest among visitors to the arteplage in Yverdon-les-Bains.