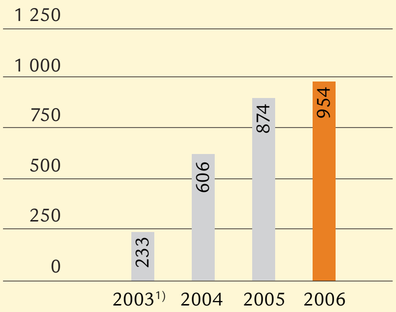
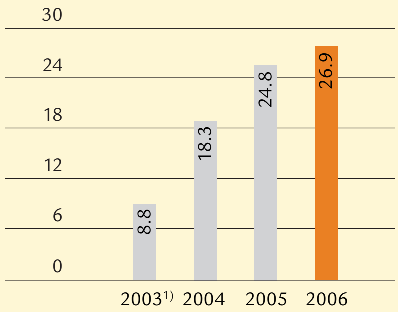
SwissLife

Key Figures

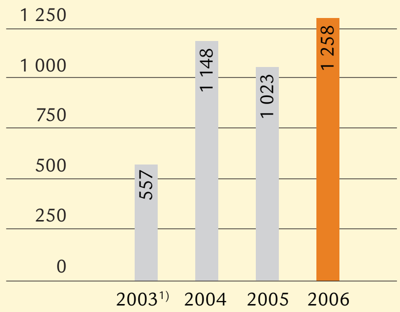
Net profit CHF million



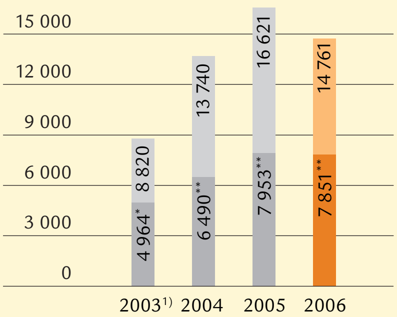
Diluted earnings per share CHF



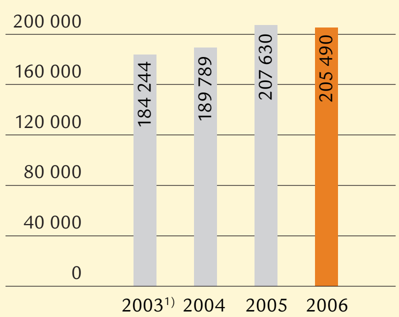
Profit from operations CHF million



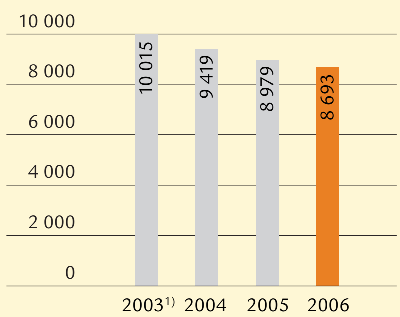
Core capital CHF million



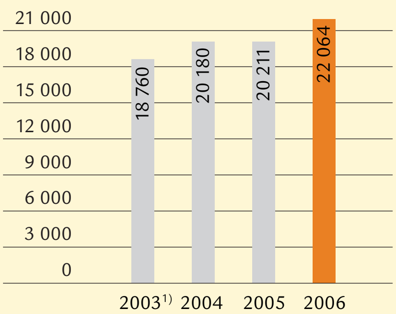
Assets under management CHF million



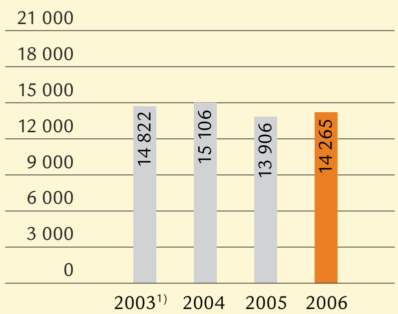
Employees (full-time equivalents)



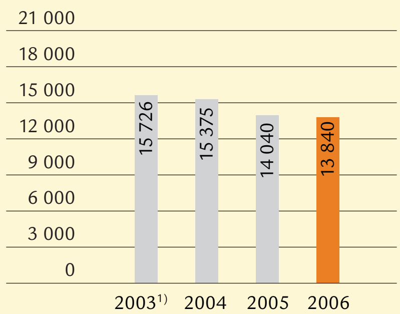
Gross written premiums, policy fees and deposits received CHF million



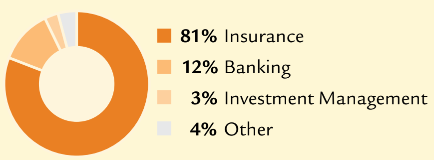
Net earned premiums and policy fees earned CHF million



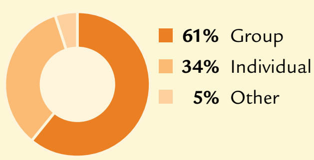
Net insurance benefits and claims CHF million



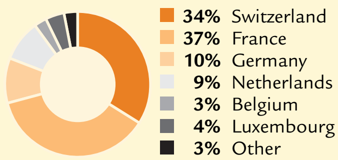
Segment result



Direct written premiums by type of insurance



Gross written premiums, policy fees and deposits received by country



1) The 2003 figures were not adjusted to the financial reporting requirements as at 1 January 2005.
* Equity
** Equity (incl. minority interest)

Review

- Net profit up 9% to CHF 954 million
- Profit from operations improved by 23% to CHF 1258 million
- Premium income up 9% to CHF 22.1 billion
- Growth momentum sustained in international markets with premiums up 16%
- Quality of earnings improved and operating costs reduced in Switzerland
- Significantly expanded strategic and financial flexibility
- Dividend up 40% to CHF 7 per share

Swiss Life in brief

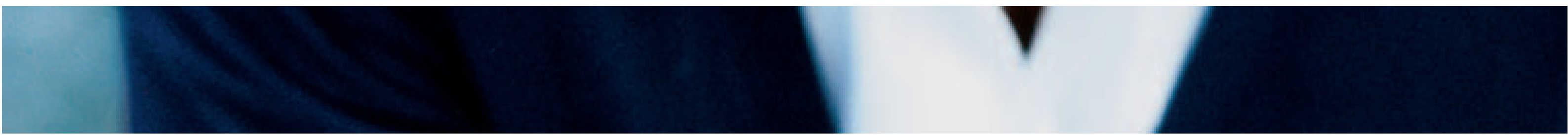
The Swiss Life Group is one of Europe's leading providers of pension and life insurance products. The Swiss Life Group offers individuals and companies comprehensive advice across a broad range of products via agents, brokers and banks in its domestic market, Switzerland, where it is market leader, and selected European markets. Multinational companies are serviced with tailor-made solutions by a network of partners in over 60 countries and regions. With Banca del Gottardo, the Swiss Life Group is also active in private banking. The bank, with its head office in Lugano, has an extended national and international network and around CHF 36 billion in customer assets under management.

Swiss Life Holding, registered in Zurich, dates back to Schweizerische Rentenanstalt founded in 1857. Shares of Swiss Life Holding are listed on the SWX Swiss Exchange (SLHN). The Swiss Life Group employs a staff of around 9000.

My father was a beekeeper and so was my grandfather. I was more interested in beetles than bees. My friends and I spent a lot of time outdoors. We collected frogs and lizards and put them in terrariums or aquariums. At home, we had a large garden and space for my collections. Later I studied zoology.

I wrote my thesis on sheet weaver spiders (money spiders). These days I'm more involved with technological webs than natural ones. I look after the intranet and web applications of Swiss Life in Germany. One of my first projects was to build a platform for insurance brokers. I no longer do any programming, but coordinate projects, which requires thinking "outside the box".

Thomas Schmidt is a Swiss Life employee based in Munich and responsible for web-based technologies.



Expertise is not simply a matter of having specialist skills. It also involves the acquisition, extension and transfer of knowledge, and the readiness to learn new things on an ongoing basis. Every day I experience new things, work on my expertise, and on our IT. I do my bit so that Swiss Life can offer its customers top-class solutions.

They wanted to be chefs, artists or kindergarten teachers. But life doesn't always go according to plan. In our annual report we introduce five people who now work at or for Swiss Life. Their professional life is characterised by values which are also decisive for Swiss Life: **expertise, proximity, openness, clarity and commitment.**

Bruno Gehrig
Chairman of the Board of Directors

Rolf Dörig
Group Chief Executive Officer

Dear Shareholders,

The Swiss Life Group again achieved good results in 2006. Profit increased by 9% to CHF 954 million. The return on equity stood at 12.2%, which is in line with our target of achieving an ROE of more than 10%. Earnings per share amounted to CHF 26.92. Based on these strong results, the Board of Directors will recommend an increase in the dividend from CHF 5 to CHF 7 at the General Meeting of Shareholders on 8 May 2007. As in previous years, the dividend will take the form of a repayment of par value.

The implementation of our strategy continues to proceed according to plan. Our company has developed into a focused European life insurer over the past several years. The turnaround achieved in 2003 and 2004 was quite impressive. In 2005 and 2006, we made good progress towards our stated goal of sustained, profitable growth. Measured by premium volume, we are now the sixth largest life insurer in our markets with a market share of approximately 5%. We are ranked eighth in Europe overall and are one of the very few international players that is exclusively focused on pensions and long-term savings. This clearly sets us apart from the competition. We are still the market leader in Switzerland, our home market, with a 28% share. In the international markets we are growing above the average and are successfully establishing Swiss Life as a leading specialist for occupational and personal pension products, despite competition from large local players. We have built up an attractive portfolio of business activities and will continue to expand it going forward.

Further improvements in earning power and efficiency The strategic and operational progress is clearly reflected in the results for the 2006 financial year. Profit went up by 9% to CHF 954 million thanks to the rise in earning power and the enhanced operational efficiency. The quality of earnings improved as well. The contribution of the financial result declined by CHF 368 million, primarily because fewer capital gains were realised on bonds, but efficiency gains and the good risk experience lifted the basic insurance result to CHF 598 million compared to CHF 148 million in the previous year.

Profit from operations rose by 23% to CHF 1258 million. Insurance operations accounted for the bulk of this figure, at CHF 1105 million, of which approximately 60% was generated in Switzerland and the remaining 40% in other markets. The Swiss Life Group achieved a segment result of CHF 165 million in Banking and CHF 43 million in Investment Management. The performance of the Swiss Life share reflects the positive course of business, ranking among the best performers in the Swiss Market Index (SMI) in 2006 with a gain of 28%. Market capitalisation stood at CHF 10.3 billion as per 31 December 2006, double the figure of three years ago. The value of the Swiss Life Group as measured by embedded value rose 20% to CH 10.7 billion.

Growing in attractive market segments The Swiss Life Group increased its gross written premiums by another 9% in 2006 to CHF 22.1 billion. The growth momentum in our international markets showed no sign of weakening. Swiss Life generated gross written premiums of CHF 14.5 billion outside Switzerland, a rise of 16% from the previous year. This better than average growth is proof that our products and services satisfy customers' needs and their high expectations. More than 40% of the premium growth outside Switzerland was achieved by the subsidiaries in Liechtenstein and Luxembourg, where Swiss Life is focusing on structured insurance solutions for high net worth individuals. We continued to strengthen our position selectively in this attractive business. As announced in December 2006, the Liechtenstein-based CapitalLeben was acquired in early 2007 and will be merged with our subsidiary in Liechtenstein. These two companies' business models and products are similar and there is little geographical overlap. Through this acquisition Swiss Life has become one of the leading providers in the area of pension planning for a wealthy international clientele.

Our French operations accounted for another 40% of the premium growth generated abroad. There is still considerable unsatisfied demand in the French market for pension and long-term savings solutions. Swiss Life is very well positioned in this highly competitive market. With our outstanding products, our effective, well diversified distribution network, our focus on attractive client segments and our strong brand, we stand to benefit substantially from the growing demand for pensions and long-term savings products in the future as well. We are also on track to achieve our profitability and growth targets in Germany, the Netherlands and Belgium.

In Switzerland, Swiss Life's gross written premiums in the life business rose only slightly (as expected) to CHF 7.6 billion. Group insurance showed a 3% increase and performance-oriented products with capital protection were well received by the market. The consolidation and standardisation of internal IT systems proceeded according to plan. Operating costs in Switzerland declined by 2% due to various measures to enhance operational efficiency and further savings are expected going forward.

Banca del Gottardo generates solid result 2006 was a year of realignment under largely new leadership for the Swiss Life Group's Banca del Gottardo, an important part of the Swiss Life Group. The bank defended its market position despite the transition process and the additional strain this put on its employees. The cooperation between Swiss Life's banking and insurance operations was reinforced further. Banca del Gottardo's consolidated net profit under local accounting rules rose by 17% to CHF 97 million. In view of the progress already made, we are confident that Banca del Gottardo will reach its targets.

Holistic ALM approach pays off The Swiss Life Group's equity declined by 6% in the first half of 2006 but rose during the second half to the level recorded as the year began. These developments were largely driven by interest trends. Revaluation reserves for the bond portfolio declined in the first six months of the year as interest rates moved sharply higher. The subsequent drop in the interest level in the latter half of the year and the profit achieved made up for the decline in the first half. Balance sheet risks are actively managed as part of a holistic asset and liability management (ALM) process. The improved capital structure increases our flexibility for tactical investment measures. Moreover, under the holistic ALM approach, the asset allocation differentiates by product line to a greater extent, thereby facilitating optimisation of the equity exposure. As announced in December 2006, the Swiss Life Group's equity exposure can therefore exceed the previous range of 0% to 7%. The principles of holistic ALM are also already compliant with those applied in the Swiss Solvency Test. The solvency margin of the Swiss Life Group came to a comfortable 194% as at 31 December 2006 (previous year: 211%).

Strong commitment of Swiss Life employees The trend in employee attitudes is particularly gratifying. Employee commitment, a reflection of employee identification with the company and job satisfaction, is measured annually and showed further improvement in 2006. At 73 index points, the Group-wide commitment value rose by another 3 points from the 2005 level. Employee commitment has thus improved by 15 points since 2003. The survey reflected very favourably on the skills and resources of Swiss Life managers but individual career development prospects were still viewed somewhat critically. We have therefore intensified our training and development efforts in response and will expand these activities in line with our strategic priorities.

150 years of Swiss Life In September 2007, it will have been 150 years since Conrad Widmer, of Thurgau, established Schweizerische Rentenanstalt, the first national life insurance company under Swiss law, in a small, tucked-away building near Zurich's Paradeplatz. Swiss Life looks back on a successful 150-year history. We have arranged a number of activities under the recurring theme "Perspectives for people" to mark the occasion and show our pride and gratitude. "Perspectives for people" is derived from our mission: "Swiss Life is committed to helping people create a financially secure future. For life." The aforementioned theme reflects our perception of ourselves as a company of people for people that offers interesting perspectives to its customers, staff and shareholders and is also committed to building perspectives for society beyond the scope of its business activities. A few examples of our anniversary activities are "Young people design living space", a national project in which Switzerland's youth are invited to present their vision for their future living space, the "Kids Festival", a football tournament organised in cooperation with the Swiss Football Association for young children at more than 40 locations throughout Switzerland, and the founding of the non-profit "Perspectives" foundation so we can strengthen and better coordinate our long-standing social commitment. Our strong regional ties to our home market will also be highlighted by ten client events organised in all regions of Switzerland.

Outstanding perspectives The Swiss Life Group is on track to achieve the goals it has set for 2008. We have further improved our earning power and financial strength as well as our operational efficiency. We have established a sound foundation for the company to ensure long-term success as a leading specialist in the growing market for pension and long-term savings solutions. Swiss Life will thus remain an excellent choice. For customers wanting a reliable pensions partner to whom they can entrust their long-term financial security, and for shareholders seeking an attractive investment proposition.

We thank our customers and our shareholders alike for the confidence they have placed in Swiss Life and we appreciate their continued trust. We are particularly grateful to our employees for their contribution to the successful development of our company. We are confident that we will be able to master whatever challenges the future may bring while steadfastly striving to reach the ambitious goals we have set.

Bruno Gehrig
Chairman of the
Board of Directors

Rolf Dörig
Group Chief
Executive Officer

Strategy The need for pensions and long-term savings is great. Demand for the right products and services will continue to grow. Swiss Life intends to establish a position of leadership in this fast growing market. With its strategic focus on growth, efficiency and leadership, Swiss Life is on track to achieve this ambition and reach the targets defined for 2008.

Pensions and long-term savings is a dynamic market with sustained long-term growth potential. Increasing life expectancy and declining birth rates are forcing policy-makers to make adjustments to state social security systems. This, in turn, is leading to a shift from publicly to privately financed pensions and increasing the demand for personal retirement and savings plans. High growth rates are the result – and not only in emerging markets. Pension plan assets in Western Europe, for example, are projected to double by 2015.

Positioning Swiss Life has developed into a focused European life insurer in recent years. It currently holds a roughly 5% share in its markets and is the only leading international player that concentrates mainly on life insurance and pension and retirement solutions. This puts Swiss Life in an outstanding position to continue to benefit to an above-average extent from the fast growing pensions market.

The strong Swiss Life brand is an essential part of this positive development. Branding is a continuous, market-specific process. Swiss Life received the 2006 “ReBrand 100 Best of Award” for its campaign launched in 2004. The jury acknowledged the company’s rebranding as a key factor in its successful turnaround. Swiss Life was the first Swiss company to win a “Best of Award”, the highest award conferred in the competition, with an international jury assessing the effectiveness of brand repositioning and redesign in meeting strategic goals.

Ambition

Pensions leadership.

Mission

We are committed to helping people create a financially secure future. For life.

Values

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

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

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

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

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

In its home market of Switzerland, Swiss Life has the leading position in terms of total premiums. More than a million customers in Switzerland entrust Swiss Life with their personal or occupational pension plans. Swiss Life is a preferred alternative to local players in the French, German, Dutch and Belgian markets, especially for high net worth individuals and corporate customers, by virtue of its competence, high-performance sales channels and strong brand. Subsidiaries in Liechtenstein and Luxembourg have a leading position in the market for structured pension solutions for high net worth individuals.

The Swiss Life Group is also active in private banking with Banca del Gottardo. The bank makes an important contribution to the Group's earnings that is not dependent on the insurance business. Banca del Gottardo is pursuing a growth strategy focused on Switzerland and Italy. Revenue and cost synergies with the insurance business will be exploited even more effectively. During the year under review, for example, administrative operations for the Swiss Life Group's mortgage business in Switzerland were bundled into a single competency centre at Banca del Gottardo.

Key market trends in continental European life insurance

Underlying developments …

- Increase in ratio of pensioners to working population
- Changing customer requirements
- New possibilities due to technology
- Low interest rates on capital markets

… and resulting sector trends

- Growing pension markets
- Shifting importance of client segments
- Increasing impact of pension regulations
- Changing distribution patterns
- Internationalisation of products and services
- Industrialisation of the value chain

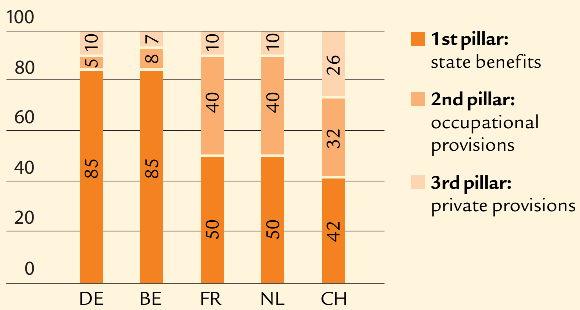
Ambitious goals The Swiss Life Group is aiming to achieve a net profit of CHF 1 billion and a sustainable return on equity of more than 10% by 2008. Shareholders should be compensated for the provision of risk capital by the distribution of an appropriate dividend. Swiss Life also wants to be seen as an attractive employer – a company its employees are proud to work for.

To realise these targets, Swiss Life's strategic focus is on growth, efficiency and leadership.

Growth Swiss Life aims to benefit from the growing pensions market and establish itself as the preferred provider of solutions for individuals and companies in the markets in which it operates. A steady increase in customer satisfaction is an important driver for this. In the life insurance business the Swiss Life Group wants to maintain its leading position while reinforcing its development of pension products and services. It wants to further sharpen its focus on the more sophisticated customer segments. Distribution in the different markets will be further diversified to create additional contact points for customers. Swiss Life expects to grow at least 1% faster than the market average in the countries in which it operates as a result of these efforts.

Swiss Life increased its market share in Switzerland to 28%. In individual business, innovative performance-oriented products with capital protection helped to expand its market share. In the increasingly competitive occupational pensions market, the product portfolio was enhanced with a flexible, modular solution. Retaining full-coverage insurance solutions, through which companies transfer all pension-related risks to Swiss Life, proved to be a wise decision. Improvements in quality and productivity on the sales side as well as the selective focus on specific customer segments in which Swiss Life was underrepresented are expected to have a lasting positive impact on future growth and profitability.

Pension systems: Income sources of pensioners (in %)



In the longer run, the importance of the second and third pillars will rise. This means the market for private providers of pension solutions will also grow.

Swiss Life has sustained its strong growth momentum in markets outside Switzerland. Sales productivity has been further improved through selective measures and the expansion of multi-channel distribution structures continues. Non-traditional pension solutions accounted for a considerably higher share of the total business. Product innovation is primarily targeted at high income and high net worth individuals as well as the self-employed and corporate customers. Thanks to its flexible products, concentration on clients with sophisticated needs and targeted market measures, Swiss Life is benefiting strongly from demographically-driven growth opportunities. Through the acquisition of CapitalLeben, a life insurer headquartered in Liechtenstein that focuses on high net worth individuals, Swiss Life can accelerate its dynamic growth in the global market for structured pension solutions.

In keeping with its strategy of focusing on selected core markets, Swiss Life sold its two insurance companies active in Italy. The Swiss Life Network will continue to offer occupational pension solutions in Italy for large international accounts.

Efficiency Swiss Life intends to further improve its basic profitability in the insurance business while reducing its reliance on the financial result. A basic profitability of CHF 500 million was targeted for 2008. This target was already exceeded in 2006, due to the alignment of premiums with costs and risks and strict cost management. Operating costs showed no increase despite the substantial growth in premiums of 9% and the ongoing strategic initiatives.

In Switzerland, further savings will be achieved over the next few years by consolidating and standardising internal IT systems and by simplifying and optimising operational processes. Outside Switzerland efficiency gains were achieved primarily through greater cross-border cooperation. Various Group-wide initiatives in the areas of product development, process optimisation and expansion of distribution channels should unlock growth potential and facilitate further efficiency gains at the international level.

Leadership Swiss Life fosters a performance-oriented culture and entrepreneurial thinking throughout its workforce. An important strategic aim is further raising employee job satisfaction and identification with the company by 2008. Additional progress on this front will be driven by shorter decision-making processes, performance-oriented remuneration and the systematic recording and development of employee skills and abilities. Employee satisfaction and identification with the company continued to rise in the year under review. This was reflected by the results of the employee survey. Clear objectives, trust in management, improved communications and the general level of satisfaction were the main drivers behind the increase.

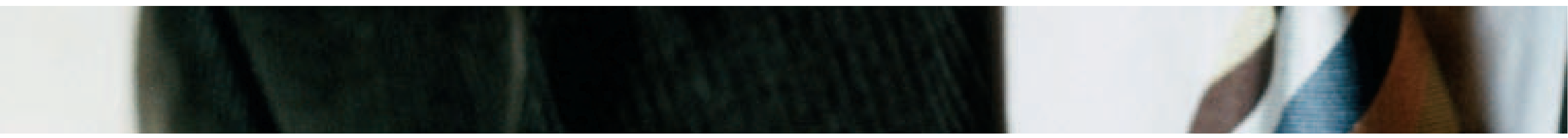
Swiss Life is committed to finding sustainable solutions for the political debate surrounding retirement provisions. In addition to Switzerland, where it has traditionally played a key role in forming political opinion, the company is now more active in its international markets as well. In Belgium, for example, the company hosts the annual “Swiss Life Pension Day”, at which experts from various areas discuss the issue of retirement planning. In Germany, Swiss Life encourages dialogue with the key players in the worlds of politics, economics and media through its “Salon Palais Leopold” range of events. In addition, it supports the EuropVital e.V. senior citizens association, whose main purpose is to uphold the social and political interests of its members.

The section on the insurance business from page 21 contains further details of market-specific developments.

A love of music was present from day one. As a child, I sung and played the piano. I followed every parade on the street, totally enthralled. Recorder, guitar, saxophone ... I played every instrument I got my hands on. Aged 18, I performed with my band. But my parents thought that I should choose a “proper” career – with a secure income.

I attended a commercial school and then discovered my second passion: sales. I love convincing others of the quality of a good product. When it comes to security and financial provisions, trust is especially important. My affinity for people and their needs helps me do my job well.

François Jouvin is an independent insurance consultant who sells Swiss Life products in Paris.



Proximity is usually a matter of course when I speak to someone. I've learned to listen and to respond to what I hear – rationally but also emotionally. This connection enables me to empathise with others and recognise their needs. This results in a professional consultation with the customer as the focus.

Summary of Group Results The Swiss Life Group generated a profit of CHF 954 million and a return on equity of 12.2% in 2006. Thanks to operational advances, Swiss Life not only increased its profit, but also significantly enhanced the quality of earnings. Implementation of the strategy is proceeding according to plan.

The Swiss Life Group increased profits by 9% to CHF 954 million vis-à-vis the previous year, which was above all attributable to the 23% rise in profit from operations to CHF 1258 million. This marked improvement reflects the company's consistent focus on profitable growth, the implementation of additional measures to enhance efficiency and the good risk experience. After allowing CHF 21 million for minority interests, CHF 933 million is available for the shareholders of Swiss Life Holding. This translates into (diluted) earnings per share of CHF 26.92 and a return on equity of 12.2%, (2005: 12.3%).

Profit from operations up 23% The segment result generated by the insurance business totalled CHF 1105 million, which corresponds to approximately 80% of the segment profit. The home market in Switzerland made up CHF 668 million or 60% of the result generated in the Insurance segment. In the European markets, Swiss Life realised a segment result of CHF 437 million (France: CHF 217 million, Germany: CHF 84 million; the Netherlands: CHF 135 million; Belgium: CHF 5 million; Luxembourg: CHF 10 million; other: CHF –14 million). The segment result for Banking, to which Banca del Gottardo contributed with a solid performance, came to CHF 165 million (2005: CHF 109 million). In Investment Management, Swiss Life generated a segment result of CHF 43 million (2005: CHF 61 million). The segment "other" (which mainly comprises financing and holding companies) and "eliminations" totalled CHF 4 million (2005: CHF –73 million).

International premium income up 16% Gross premiums, policy fees and deposits received under insurance and investment contracts climbed 9% to CHF 22.1 billion. This rise was largely attributable to international business, where the premium volume grew by 16%. Swiss Life outpaced the market in France (+11%), Germany (+3%), the Netherlands (+19%), Belgium (–2%), Luxembourg (+78%) and Liechtenstein (+295%) in some cases by a wide margin. In Switzerland, Swiss Life increased its gross written premiums in the life business by 1% to CHF 7.6 billion. However, due to the sale of the non-life business, Swiss Life's reported premium income fell 3% in Switzerland.

As in the previous year, total income amounted to CHF 21.5 billion. Net earned premiums rose 2% to CHF 13.8 billion and policy fees were up 17% to CHF 460 million in the period under review. Deposits received under insurance and investment contracts (usually counted as premiums for sector comparisons but not included in the income statement) grew by 27% to CHF 7.6 billion. At CHF 493 million, the fee income from asset management and banking matched the 2005 figure.

Lower contribution from financial result The financial result for investments held at own risk came to CHF 6.6 billion, down 5% on the prior-year figure. At CHF 5.2 billion, direct investment income remained at the previous year's level, but realised and unrealised gains on assets dropped considerably. The direct return on insurance portfolio investments came to 3.6% (2005: 3.7%) and the total return to 1.8% (2005: 5.5%). The reason for this decline vis-à-vis the previous year was rising interest rates, which adversely affected the value of bond holdings. Having significantly shorted the duration by mid 2006, Swiss Life again lengthened the average term of the portfolio to 8.4 years by the end of the financial year. Net equity exposure stood at 6.7% as at 31 December 2006.

Efficiency enhanced further Due to the good risk experience, insurance benefits fell slightly to CHF 13.8 billion compared with the previous year. At CHF 2.3 billion, total policyholder participation matched the previous year's level. Interest expenses (excluding borrowing costs) went up 5% to CHF 908 million. Despite the strong growth in premiums, operating costs remained stable at CHF 2.0 billion, which indicates another increase in efficiency. All in all, operating expenses fell 5% to CHF 3.2 billion, which was partly due to the sharp drop in depreciation and amortisation expense. Following a tax credit of CHF 21 million in the previous year, tax expenses totalled CHF 128 million in the period under review. The low tax rate was the result of special situations in the Netherlands and France.

Solid capital base In the first half of 2006, shareholder's equity fell by 6% to CHF 7.2 billion because of the significant hike in interest rates and the resultant reduction in the revaluation reserves for the bond portfolio. However, thanks to the annual profit achieved and the slight ease in interest rates, equity gained ground later in the year and totalled CHF 7.6 billion as at 31 December 2006. The core capital came to CHF 14.8 billion. The goodwill position was unchanged at CHF 692 million, which represents less than 10% of equity. As at 31 December 2006, the Swiss Life Group's assets under management totalled CHF 205.5 billion (–1%), CHF 175.8 billion of which was carried on its own balance sheet (+6%).

Embedded value (which serves to indicate the value of the existing insurance portfolio) rose by 20% in the period under review to stand at CHF 10.7 billion. This represents an embedded value per share of CHF 316. The rise can be attributed to operational advances, growth and the improved economic environment. The value of new business accounted for CHF 121 million of this increase.

As at 31 December 2006, the Swiss Life Group employed a workforce of 8693 on a full-time equivalent basis (286 less than at the end of 2005). This decrease is due to the sale of Banca del Gottardo (Monaco) and Dreieck Industrie Leasing Ltd, as well as Swiss Life's merger with «La Suisse».

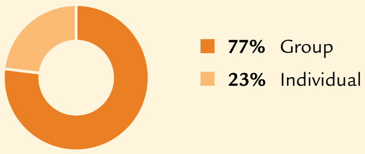
Insurance The insurance segment generated a result of CHF 1105 million, to which Switzerland – as the home market – contributed CHF 668 million. The above-average growth continued abroad, with gross written premiums up 16%.

Switzerland According to estimates by the Swiss Insurance Association (SIA), premiums in the Swiss Life insurance market fell by 1.9% to CHF 27 billion. This decrease on last year was primarily due to the newly acquired autonomy of several Vorsorgewerke (employee benefit units), in addition to low interest rates, which adversely affected the demand for individual insurance.

With a market share of 28% for 2006, Swiss Life again maintained its position as the market leader in its home market. The financial year was characterised by a focus on future growth and further enhancement of efficiency: Swiss Life selectively strengthened its distribution capabilities, expanded its product portfolio and exploited the synergies from its merger with «La Suisse». In the period under review, the company generated a segment result of CHF 688 million, thereby maintaining the previous year's performance despite the significant decline of about CHF 300 million in "other income" and the substantially lower financial result. This has set the groundwork for a further increase in profitability.

Gross written premiums in the Swiss life insurance business climbed 1% to CHF 7611 million. The premium volume of CHF 7807 million published for the previous year included CHF 290 million in premiums from the non-life business, which was sold to Helsana and Vaudoise in the second half of 2005. In 2006, Swiss Life increased its gross written premiums for group insurance by 3% to CHF 5799 million. This growth is mainly attributable to the premiums fully included for the first time from the group life insurance business acquired from Vaudoise. In addition, expiring contracts were fully offset by new business, despite a shrinking market. Developments in the individual life insurance sector were shaped by trends in interest rates and the diverse reactions of market participants. The significant hike in interest rates in the first half of the year saw many competitors launch time-limited promotions or promise higher bonuses, Swiss Life, however, bided its time until August to adjust the terms of individual products to the new interest environment. When interest rates dipped unexpectedly in the second half of 2006, Swiss Life readjusted its bonus rates downward and will continue to pursue this cautious approach in 2007. Swiss Life's policy is to promise its clients only what it can deliver. This has proven very successful in the past: Swiss Life is the only company in the Swiss market that has never had to cut its bonuses on current pensions, and clients appreciate this reliability.

Premiums for Switzerland, by type of insurance



Key figures Insurance Switzerland

In CHF million	2006	2005	+/–%
Gross written premiums, policy fees and deposits received	**7 611**	7 807	–2.5%
Net earned premiums and policy fees earned	**7 373**	7 416	–0.6%
Financial result	**2 773**	2 938	–5.6%
Other income	**35**	341	–89.7%
Total income	**10 181**	10 695	–4.8%
Net insurance benefits and claims	**–7 719**	–7 936	–2.7%
Policyholder participation	**–864**	–938	–7.9%
Interest expense	**–131**	–106	23.6%
Operating expense	**–799**	–1 044	–23.5%
Segment result	**668**	671	–0.4%
Assets under management	**69 392**	70 355	–1.4%
Insurance reserves	**65 749**	66 337	–0.9%
Number of employees (full-time equivalents)	**2 963**	3 182	–6.9%

Due to the market slowdown and Swiss Life's conservative bonus policy (also with a view to profitability), premium volume for the traditional individual insurance business declined by 7% to CHF 1594 million. In contrast, the volume for performance-oriented pension products rose by over 60% to CHF 322 million in line with the company's strategic targets.

The financial result fell by 6% to CHF 2773 million. Investment income was stable, but realised and unrealised capital gains fell by CHF 153 million due to the fact that the previous year's result included considerably higher gains realised from the sale of bonds. A decrease of CHF 306 million was posted for "other income", which in 2005 had included foreign currency gains and profit from portfolio sales.

Net insurance benefits and claims fell by 3% to CHF 7719 million. This reduction stems from the dropping of the non-life business, the positive risk experience and the decreased need for provisions for future risk. In keeping with the decline in the financial result and "other income", policyholder participation for 2006 was down slightly on the previous year, but – at CHF 864 million – remained at a high level.

Operating expenses diminished by 24% to CHF 799 million. However, the 2005 figure included three special factors: Restructuring costs in connection with the integration of the life business of «La Suisse», a one-off amortisation of the present value of future profits on the group life insurance business acquired from Vaudoise, and the extraordinary write-downs on deferred acquisition costs due to altered actuarial assumptions. Operating costs declined by 2%. This is above all due to various measures implemented to boost efficiency, in particular last year's merger of Swiss Life and «La Suisse», and strict cost management.

In 2006, Swiss Life focused on improving its distribution capabilities and expanding its range of products in order to facilitate further growth. The company stepped up training and development measures for its insurance consultants with the aim of improving the sales performance and ensuring high-quality advisory services. In the individual insurance business, Swiss Life extended its range of performance-oriented pension products, and, in the fourth quarter, launched a GarantiePlus product financed by periodic premiums and Swiss Life Vitality. Swiss Life GarantiePlus is a unit-linked savings insurance with a contractually agreed amount in the case of survival, combining a performance-oriented pension product with the greatest possible level of security. Swiss Life Vitality is a unit-linked life insurance financed by a single premium or periodic premiums. As regards group insurance, Swiss Life continues to emphasize full coverage because this is the best occupational benefits solution for small and medium-sized companies in view of their typically restricted risk capacity. Swiss Life has introduced additional components to its new product line, Swiss Life Modula, which is a modularly structured, cost-effective and transparent full insurance solution. Swiss Life generally meets the expectations of its clients in terms of the quality of its products and services, as is shown in the continual increase in customer satisfaction, which is gauged from regular surveys.

France The growth trend in the French life insurance market continued in 2006. Premium income was up 17% to EUR 141 billion. However, the high level of market growth can be partly explained by switchings from building society and traditional life insurance products to unit-linked products as a result of a change in legislation. Adjusted for this special factor, the market growth was 9%. Unit-linked insurance policies in particular remained in great demand. The rise in these products amounted to 45%. Premium income in health insurance rose by 6% to EUR 14 billion. Swiss Life's market share for life and health insurance totalled 3%.

Swiss Life in France posted a segment result of CHF 217 million, which corresponds to an increase of CHF 112 million vis-à-vis the previous year.

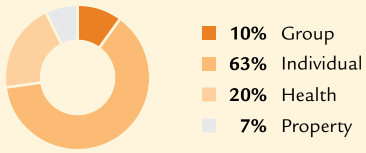
The company grew its gross premium income in the French life insurance business by 12% (11% in local currency) to CHF 5932 million, thus lying above the adjusted market growth. The growth in unit-linked life insurance policies was also very pleasing, surging 158% (154% in local currency) to CHF 1979 million and clearly outperforming the market. Swiss Life increased its premium volume in health insurance by 10% (8% in local currency) to CHF 1691 million.

Income increased by a total of 7% to CHF 5056 million. In addition to earned premiums, which were up 8%, higher policy fees (+16%) also made a contribution. Net insurance benefits and claims rose 3% to CHF 2268 million, reflecting the course of business. The outlay for policyholder participation rose 5% to CHF 857 million. Along with the strong growth in premiums, commission expense increased by 9% to CHF 666 million, which also largely explains the 9% rise in operating expenses to CHF 1171 million.

Swiss Life also again won a number of awards this year. It received the "Grand Prix de la Transparence" from the trade press for the "Swiss Life Strategic" product. In addition, Swiss Life was the first health insurance company in France to receive the "Excell Santé" quality seal from the certification company Bureau Veritas Quality International.

Swiss Life in France is well positioned to benefit to an above-average degree from the continued growing demand for financial provisions. In addition to its own, high-performance distribution channel, Swiss Life will continue to strengthen its relationships with private banks and independent asset managers.

Premiums for France, by type of insurance



Key figures Insurance France

In CHF million	2006	2005	+/–%
Gross written premiums, policy fees and deposits received	**8 204**	7 397	10.9%
Net earned premiums and policy fees earned	**3 287**	3 011	9.2%
Financial result	**1 714**	1 702	0.7%
Other income	**55**	35	57.1%
Total income	**5 056**	4 748	6.5%
Net insurance benefits and claims	**–2 268**	–2 198	3.2%
Policyholder participation	**–857**	–816	5.0%
Interest expense	**–543**	–553	–1.8%
Operating expense	**–1 171**	–1 076	8.8%
Segment result	**217**	105	n.a.
Assets under management	**47 093**	41 844	12.5%
Insurance reserves	**40 161**	35 670	12.6%
Number of employees (full-time equivalents)	**2 274**	2 287	–0.6%

Germany With premium volume of around EUR 78 billion, Germany is the third largest life insurance market in Europe after the United Kingdom and France. Market growth in 2006 amounted to 4%, with Swiss Life's share of the German market at about 2%.

Swiss Life increased its gross premium income by 3% (2% in local currency) to CHF 2116 million. Although the company outperformed the market in previous years, premium growth trailed slightly behind the market in 2006. The increase in premium volume stems mainly from group business. Swiss Life is a leader in occupational pension provision and intends to further expand its activities in this area.

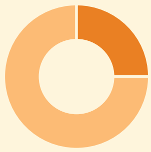
Income increased by a total of 3% to CHF 2868 million on the back of the premium growth and a higher financial result. The company used the good stock market year to realise gains on equity investments.

Net insurance benefits and claims dropped 4% to CHF 1988 million. The improved technical result and higher financial result led to an 82% increase in policyholder participation to CHF 420 million. Meanwhile, operating expenses went down 8% to CHF 350 million. Adjustments to the model assumptions used to calculate the deferred acquisition costs led to a decline in the cost for their amortisation. Furthermore, measures to increase efficiency and reduce costs had an effect. At CHF 84 million, the segment result was similar to that of the previous year.

The German life insurance market is undergoing change. The EU insurance mediation directive entered into force in 2007, and sets out new liability, training, auditing and documentation standards. The new regulations apply to agencies and tied agents – the main distribution channels of Swiss Life in Germany. Furthermore, the maximum guaranteed interest rate for newly concluded traditional life and annuity insurance policies in individual and group business has been reduced to 2.25%. The revised Law on Insurance Contracts (VVG) will also enter into force in 2008. These legislative changes pose major challenges for the whole insurance sector. For this reason, investments were made as early as 2006 in client retention measures, cost reduction programmes and making the product portfolio more flexible. Swiss Life extended its range of products in 2006 and introduced both an index-linked and a unit-linked annuity insurance product. Awards from well-known independent rating agencies such as Assekurata, Franke & Bornberg and Morgen & Morgen confirm the high quality of Swiss Life's products and services.

In 2007, Swiss Life will continue to optimise its distribution and service concepts and will extend its range of products and services to include a unit-linked Riester product. MetallRente, Germany's largest employee benefits institution, remains an attractive business area with high growth potential. On the cost side, Swiss Life has defined further measures to significantly reduce administrative costs by 2008.

Premiums for Germany, by type of insurance



Key figures Insurance Germany

In CHF million	2006	2005	+/–%
Gross written premiums, policy fees and deposits received	**2 116**	2 061	2.7%
Net earned premiums and policy fees earned	**1 950**	1 935	0.8%
Financial result	**872**	834	4.6%
Other income	**46**	26	76.9%
Total income	**2 868**	2 795	2.6%
Net insurance benefits and claims	**–1 988**	–2 066	–3.8%
Policyholder participation	**–420**	–231	81.8%
Interest expense	**–26**	–34	–23.5%
Operating expense	**–350**	–379	–7.7%
Segment result	**84**	85	–1.2%
Assets under management	**19 574**	18 995	3.0%
Insurance reserves	**19 576**	18 248	7.3%
Number of employees (full-time equivalents)	**791**	825	–4.1%

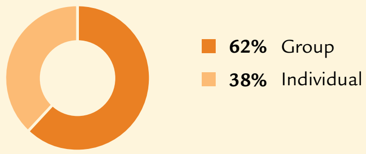
Netherlands With an estimated premium volume of EUR 25 billion, the life insurance market in the Netherlands grew by 2% in 2006. Swiss Life's share of the market stood at around 5%.

Swiss Life increased its gross written premiums by 19% (18% in local currency) compared with the previous year, clearly outpacing the market's growth. The strong advance in premium income was also due to a contract concluded with a large pension fund, which led to a one-off premium of CHF 204 million. An increasing number of autonomous pension funds in the Netherlands are looking for the security of a life insurer. Swiss Life's know-how and service quality in this area makes it one of the leading providers.

Income rose 3% on the previous year's level to stand at CHF 2090 million, with net earned premiums and policy fees coming in CHF 77 million higher. Net insurance benefits and claims also increased to CHF 1512 million for a year-on-year rise of 4%, reflecting the trend in premiums. The outlay for policyholder participation declined from CHF 229 million to CHF 168 million because of the lower investment gains realised on separate-account contracts. The 25% rise in operating expenses to CHF 260 million was due above all to adjustments in model assumptions for calculating deferred acquisition costs and to an increase in amortisation expense. The segment result in the Netherlands improved by 17% to CHF 135 million.

The year 2006 saw new legislation take effect in the Netherlands which had repercussions for the life insurance market. Insurers are subject to new transparency requirements with regard to costs and commissions, particularly where unit-linked life insurance is concerned, and the scaling back of tax-exempt contributions led to stiffer competition with the banks. For Swiss Life, this meant that the year under review was marked by the launch of innovative products and services. The company is focusing increasingly on a multichannel distribution strategy. Swiss Life has introduced innovations such as internet sales and a franchising concept featuring "advice lounges". Modern consulting and sales facilities have been set up in Amsterdam and Scheveningen. On the product front, Swiss Life launched its "levensloop" policy as a savings vehicle with tax incentives for companies' employees. With "i-Pensioen", a standardised pension product for small and medium-sized enterprises, Swiss Life enables its customers to conclude and fully manage their contracts via the internet. Swiss Life intends to lead the way in 2007 as well with another innovative product specially developed for small businesses.

Premiums for the Netherlands, by type of insurance



Key figures Insurance Netherlands

In CHF million	2006	2005	+/–%
Gross written premiums, policy fees and deposits received	**1 901**	1 592	19.4%
Net earned premiums and policy fees earned	**1 254**	1 177	6.5%
Financial result	**810**	811	–0.1%
Other income	**26**	37	–29.7%
Total income	**2 090**	2 025	3.2%
Net insurance benefits and claims	**–1 512**	–1 456	3.8%
Policyholder participation	**–168**	–229	–26.6%
Interest expense	**–15**	–17	–11.8%
Operating expense	**–260**	–208	25.0%
Segment result	**135**	115	17.4%
Assets under management	**19 665**	18 556	6.0%
Insurance reserves	**15 381**	14 951	2.9%
Number of employees (full-time equivalents)	**744**	738	0.8%

Belgium For Swiss Life in Belgium, a highlight of the 2006 financial year was the merger of Swiss Life (Belgium) and Zelia S.A. into Swiss Life (Belgium) S.A., which was successfully completed in July.

A premium tax on individual insurance contributions, which was introduced on 1 January 2006 led to a fall in demand for life insurance in the reporting period. Swiss Life's gross premium income came to CHF 742 million (–2%). The 19% growth in group insurance helped to keep the overall premium decline within bounds.

The financial result, at CHF 184 million, was CHF 20 million lower than the previous year, when the gains realised on the sale of bonds in connection with asset and liability management had a positive impact. This also adversely affected the segment result, which came to CHF 5 million.

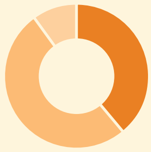
Operating expenses increased by 7% to CHF 123 million. The rise was due to the one-off additional costs connected with the merger of the Belgian insurance business mentioned above.

On 9 November 2006 at the second annual "Swiss Life Pension Day", politicians and experts met to discuss the challenges facing a sustainable and financially viable pension system. The event, in addition to other targeted communication measures, enabled Swiss Life to establish itself as the opinion leader in Belgium on this important subject.

Luxembourg In Luxembourg, Swiss Life's gross written premiums surged 78% to CHF 841 million (75% in local currency). This gratifying development can be primarily attributed to the cross-border business with structured insurance solutions for high net worth individuals. The local group insurance market also contributed to the premium growth. Swiss Life in Luxembourg is one of the leading providers in both these areas.

Income increased by 9% to CHF 71 million. This increase was primarily due to higher earned premiums and policy fees. Expenses for net insurance benefits and claims were down 35% at CHF 26 million. In 2005, the increased reserves requirement in connection with higher life expectancy adversely affected the result. Expenses went down 19% overall to CHF 61 million, resulting in a segment result of CHF 10 million.

Premiums for Belgium, by type of insurance

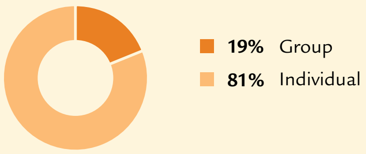


Key figures Insurance Belgium

In CHF million	2006	2005	+/–%
Gross written premiums, policy fees and deposits received	**742**	754	–1.6%
Net earned premiums and policy fees earned	**333**	309	7.8%
Financial result	**184**	204	–9.8%
Other income	**11**	14	–21.4%
Total income	**528**	527	0.2%
Net insurance benefits and claims	**–314**	–318	–1.3%
Policyholder participation	**–8**	–7	14.3%
Interest expense	**–78**	–56	39.3%
Operating expense	**–123**	–115	7.0%
Segment result	**5**	31	–83.9%
Assets under management	**4 480**	4 051	10.6%
Insurance reserves	**4 067**	3 605	12.8%
Number of employees (full-time equivalents)	**337**	338	–0.3%

Swiss Life in Luxembourg was named "Best provider of retirement solutions" for the fourth year in a row. International cooperation, in particular with Swiss Life (Liechtenstein) and Banca del Gottardo, is being further strengthened with a view to the targeted acquisition of high net worth customers.

Premiums for Luxembourg, by type of insurance



Key figures Insurance Luxembourg

In CHF million	2006	2005	+/–%
Gross written premiums, policy fees and deposits received	**841**	473	77.8%
Net earned premiums and policy fees earned	**48**	42	14.3%
Financial result	**28**	29	–3.4%
Other income	**–5**	–6	–16.7%
Total income	**71**	65	9.2%
Net insurance benefits and claims	**–26**	–40	–35.0%
Policyholder participation	**–3**	–8	–62.5%
Interest expense	**–13**	–12	8.3%
Operating expense	**–19**	–15	26.7%
Segment result	**10**	–10	n.a.
Assets under management	**663**	623	6.4%
Insurance reserves	**603**	562	7.3%
Number of employees (full-time equivalents)	**55**	53	3.8%

Other The results realised in Liechtenstein and Italy were presented together in this reporting period for the last time.

Liechtenstein In Liechtenstein Swiss Life reported gross written premiums for 2006 totalling CHF 646 million. This represents a quadrupling of premium volume vis-à-vis the previous year. The positive trend in premiums demonstrates that Swiss Life's offering is meeting an increasing customer requirement. Policies under Liechtenstein law make it possible for high net worth individuals to place their assets in a life insurance policy and thus profit from the attractive taxation framework as well as advantages with regard to asset growth and succession planning.

Income totalled CHF 4 million for the period under review. The unit, which is still in the development stage, posted a segment loss of CHF 5 million for its second year of business.

As announced in December 2006, Swiss Life acquired Liechtenstein-based CapitalLeben at the beginning of 2007. The companies have a comparable business model and similar products. CapitalLeben posted gross premium income for 2006 of CHF 1.3 billion with customer assets under management of CHF 4.0 billion. The acquisition makes Swiss Life, with its companies in Liechtenstein and in Luxembourg, one of the leading providers of structured pension solutions for international high net worth individuals, and will enable it to accelerate its dynamic growth in this global market.

Italy Swiss Life generated gross written premiums of CHF 19 million in Italy for 2006. The sale of both Italian subsidiaries to the Italian banking group bancApulia, announced in August 2006, was completed at the end of January 2007. Due to currency factors, a loss on deconsolidation amounting to CHF 11 million was realised.

Key figures Insurance: Other

In CHF million	2006	2005	+–%
Gross written premiums, policy fees and deposits received	**665**	183	n.a.
Net earned premiums and policy fees earned	**20**	16	25.0%
Financial result	**10**	11	–9.1%
Other income	**–13**	2	n.a.
Total income	**17**	29	–41.4%
Net insurance benefits and claims	**–14**	–18	–22.2%
Interest expense	**–1**	0	n.a.
Operating expense	**–16**	–16	n.a.
Segment result	**–14**	– 5	n.a.
Assets under management	**230**	260	–11.5%
Insurance reserves	**–**	227	n.a.
Number of employees (full-time equivalents)	**13**	31	–58.1%

Banking In 2006, the Swiss Life Group posted a segment result of CHF 165 million in Banking. The repositioning of Banca del Gottardo was successfully completed.

The Banking segment result was primarily generated by Banca del Gottardo and represented an increase of CHF 56 million (51%) vis-à-vis the previous year.

Banca del Gottardo 2006 was a year of repositioning for Banca del Gottardo under largely new leadership. Under local accounting practices, the bank reported a consolidated net profit of CHF 97 million, which corresponded to an increase of 17% on the prior-year figure. The implementation of the new strategy meant that the accounts included significant special factors, but the overall impact on the net profit was neutral.

Net income was down 9% to CHF 447 million compared to the previous year. This decline is largely due to the sale of Dreieck Industrie Leasing and Banca del Gottardo (Monaco), two subsidiaries that were no longer part of core business activities.

Business expenses were reduced by 3% to CHF 325 million. Excluding special factors, the cost/income ratio remained at the previous year's level of 65%.

The special factors mainly pertained to a net capital gain of CHF 72 million from the sale of companies which were no longer part of core business activities, in addition to costs, provisions and impairments of CHF 44 million related to strategic projects and CHF 24 million in provisions following a reassessment of credit and process risks. These figures also take tax effects into consideration.

Assets under management as at 31 December 2006 amounted to CHF 36 billion, down from CHF 39 billion at the end of 2005. This reduction is largely attributable to the sale of Banca del Gottardo (Monaco). Net new customer assets in the Private Banking division amounted to CHF 240 million. Including the custody business – which mainly consists of securities held for the Swiss Life Group – total assets under management at the end of 2006 amounted to CHF 89 billion, compared to CHF 77 billion at the end of 2005.

As planned, Banca del Gottardo repaid CHF 100 million in capital to Swiss Life Holding in the year under review. With a core capital ratio (BIS Tier 1) of 13% at the end of 2006 (2005: 12%), Banca del Gottardo is still adequately capitalised and has enough funds to implement its growth strategy.

This year Banca del Gottardo is celebrating its 50th anniversary and Swiss Life its 150th. To mark the occasion, the bank will be staging various events and actively sponsoring social and cultural events under the motto "50 Years – Looking Forward".

Key figures Banking

In CHF million	2006	2005	+/–%
Asset management and other commission income	**310**	312	–0.6%
Financial result	**324**	509	–36.3%
Other income	**99**	–132	n.a.
Total income	**733**	689	6.4%
Interest expense	**–146**	–94	55.3%
Operating expense	**–422**	–486	–13.2%
Segment result	**165**	109	51.4%
Assets under management[1]	**92 289**	77 282	19.4%
Number of employees (full-time equivalents)	**1 011**	1 120	–9.7%

1) incl. intragroup assets

Investment Management Swiss Life's Investment Management generated a segment result of CHF 43 million. Assets under management at the end of 2006 totalled CHF 74.4 billion, of which CHF 71.1 billion consisted of insurance assets and CHF 3.3 billion was third-party mandates.

The Investment Management segment is primarily responsible for managing Swiss Life's insurance assets in Switzerland and third-party mandates. The main companies grouped under Swiss Life Investment Management Holding AG include key firms in this segment, namely, Swiss Life Asset Management, Swiss Life Funds AG and Swiss Life Funds Business AG, as well as two companies that are active in the real estate sector, Swiss Life Property Management AG and Livit AG. The key objective of the Investment Management segment is to generate an optimal return on the insurance portfolio while maintaining a competitive cost structure. Furthermore, the available know-how should be applied to the management of third-party mandates, thereby generating additional income.

Swiss Life Investment Management Holding AG was founded in 2005 to simplify Investment Management's operational structures and to enhance the transparency and efficiency of the asset management activities. In 2006, Swiss Life transferred some tasks, such as the processing of securities transactions and the exercise of control functions, from the Insurance segment to the Investment Management segment to further optimise operational structures. Approximately 70 employees have been transferred as a result of these measures. The Investment Management segment companies receive compensation for managing the insurance assets and providing other services on the basis of service agreements. Due to these changes, a year-on-year comparison of segment results is not very informative. For example, income for 2006 amounted to CHF 212 million while expenses amounted to CHF 169 million, an increase of 18% and 42%, respectively, vis-à-vis the previous year. Continued growth in income and the segment result is expected in the years ahead. Swiss Life also adjusted the method used to calculate assets under management, which resulted in the elimination of certain double counts and the exclusion of the real estate assets managed by Livit AG. On a comparable basis, assets under management were up 13% to CHF 74.4 billion, of which CHF 71.1 billion consisted of insurance assets and CHF 3.3 billion of third-party mandates.

After optimising the Investment Management segment structures in 2005 and 2006, the primary goal now is to fully exploit the existing income and synergy potential. Another major aim is to enhance efficiency by intensifying cooperation throughout the entire Group. In the coming years, investments will also be made to improve the asset management infrastructure to ensure that these goals are reached.

Key figures for Investment Management

In CHF million	2006	2005	+/–%
Asset management and other commission income	202	173	16.8%
Financial result	2	1	n.a.
Other income	8	6	33.3%
Total income	212	180	17.8%
Interest expense	0	0	n.a.
Operating expenses	–169	–119	42.0%
Segment result	43	61	–29.5%
Assets under management[1]	74 423	80 217	–7.2%
Number of employees (full-time equivalents)	505	405	24.7%

1) incl. intragroup assets

Swiss Life Network

The Swiss Life Network specialises in employee benefit solutions for multinational companies. The Network is made up of 52 partners and serves around 430 multinationals in over 60 countries. In the year under review, the Swiss Life Network generated business amounting to CHF 1.6 billion.

Business volume increased slightly in the year under review to CHF 1.6 billion. Although 2006 was also characterised by strong competitive pressure, the Network reaffirmed its leading market position. This was largely due to its longstanding and strong relationships with its Network partners and customers. Over the past year, the Network managed 4,000 contracts for 430 customers.

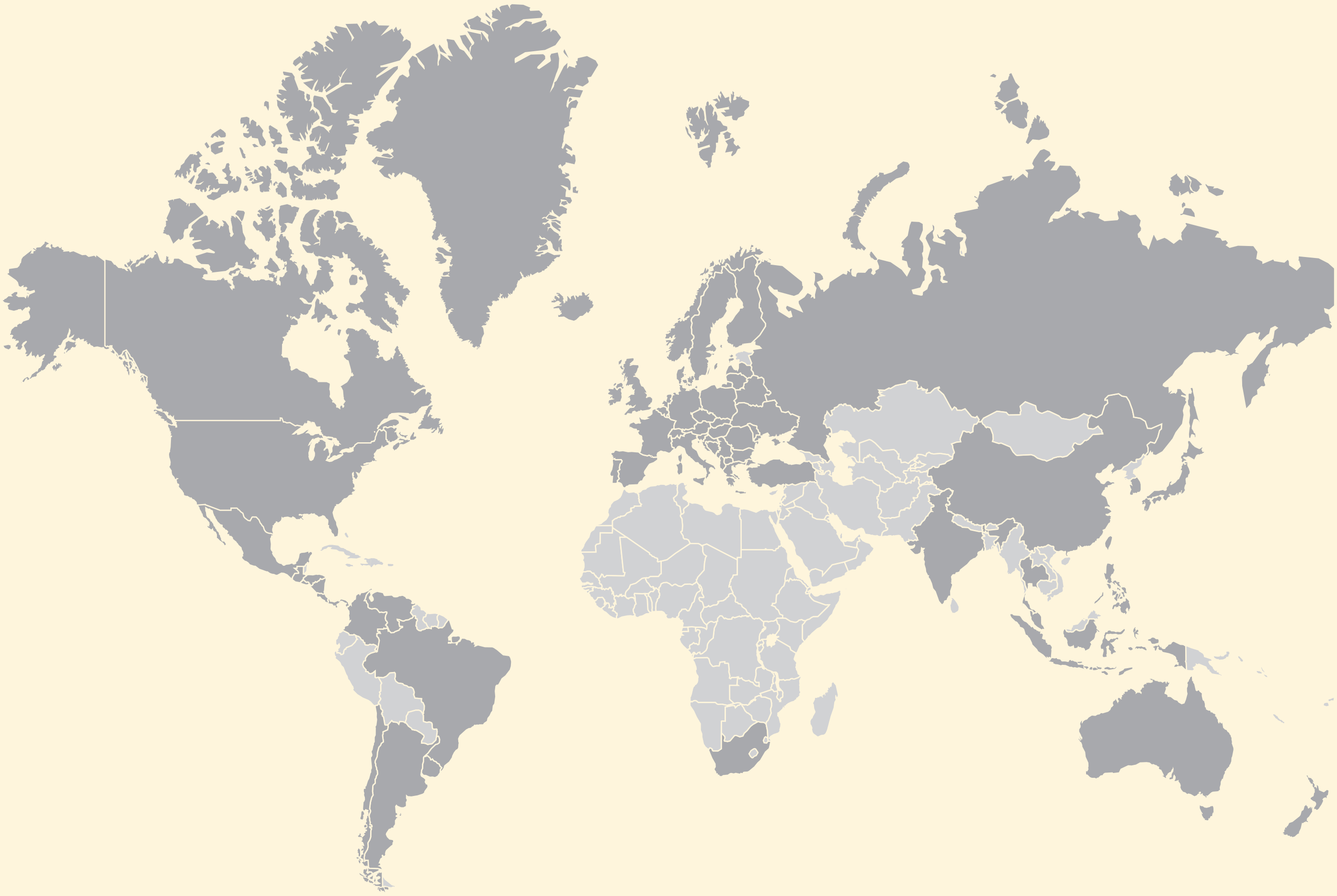
The Swiss Life Network offers employee benefit solutions worldwide for employees of international companies. These solutions are tailored to the country-specific requirements and risk profile of each customer. The services are based on bundling together, or pooling, local group contracts. In this way, multinational corporate clients benefit from a greater risk spread and the ability to centrally coordinate and optimise the benefits and costs of their employee benefit plans around the world. Companies within the Swiss Life Group and partnerships with leading local insurance companies ensure global coverage.

The year under review saw a further increase in requests for services such as the provision of country-specific information, and advice on local benefit plans and market developments. Customers make full use of the Network's extensive knowledge of international employee benefit solutions, saving themselves the need to develop their own resources in this area. From its head office in Zurich, the Swiss Life Network team of around 40 specialists works closely with its Network partners to win new clients and serve existing customers.

A key strategic reassessment took place in the year under review. The Swiss Life Network intends to offer more products that go beyond pure risk coverage and incorporate a stronger savings component. The Network's international presence will be extended through forging additional partnerships with local insurance providers. Beyond western Europe and the USA, there is a special focus on Asia and eastern Europe, where the Network's presence has already been increased during the reporting period and will continue to develop throughout 2007. The Swiss Life Network has set itself the goal of achieving significant growth in new business over the next three years, generating annual double-digit growth rates. It will also continue to intensively manage and expand its existing business.

The newly-established Swiss Life Network Board brings together representatives from Network partners with senior executives from the Swiss Life Network to discuss developments in international employee benefits. The aim is to recognise and analyse trends in the global employee benefit market early on, and to create suitable responses.

In November 2006, the Swiss Life Network held its second Asia Pacific Conference. Approximately 100 Network partners, customers and brokers attended the event in Mumbai, India, exchanging views on regional market developments, and strengthening the Network's presence in the Asia-Pacific region while intensifying cooperation with local partners.



The dark-shaded areas on the world map represent the 67 countries and regions in which the Swiss Life Network provides services through its Network partners.

I was in a world of my own when I played. I have fond memories of my time at kindergarten. I liked the lively atmosphere. The teacher gave us a lot of freedom. We were allowed to play alone or in groups and to try out whatever crossed our minds. However, she always had the overview. I wanted to be like her.

Today I'm a construction manager. I love being outside on the building site. In construction, there are no second chances; everything must work the first time round. Therefore, the search for the right solution is often very lively, almost hectic. But there is something playful about it – like in the old days – but in another dimension.

Ingrid Baldinger works as a construction manager at GMS Partner AG and headed one of Swiss Life's construction projects in Zurich.

Openness is a must for my work. I am the contact person for many different people: building contractors, architects, builders, tradesmen, officials. I listen to their ideas and try to implement them as best I can. The size and speed of construction projects calls for open and direct dialogue with all participants. This creates trust, on which I can build.

Corporate Governance The Swiss Life Group supports good corporate governance. The company is committed to openness and transparency in the context of responsible management.

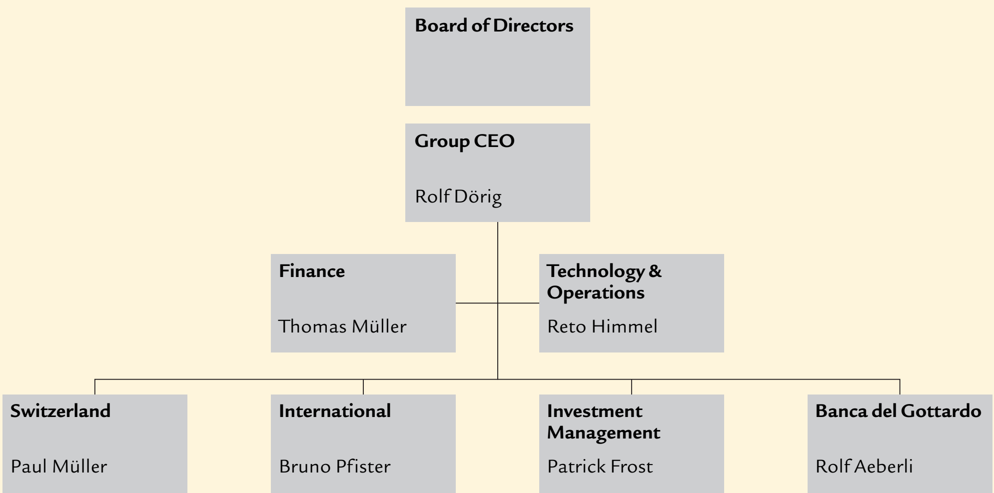
This report shows the essential features of corporate governance at the Swiss Life Group. The breakdown largely follows the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange, which came into force on 1 July 2002.

On 1 January 2006, the Swiss Life Group introduced a Code of Compliance which is binding across the Group, thereby further anchoring corporate governance throughout the company. In addition to the basic values of the Swiss Life Group, the Code of Compliance describes the ethical principles and minimum standards in the key areas of compliance. It aims to ensure the legally and ethically correct conduct of business.

Group structure and shareholders

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

Management structure



The most important companies falling within the Group's scope of consolidation are presented in the Financial Statements (note 41). Details concerning the listing on the SWX Swiss Exchange and market capitalisation can be found on page 40. The organisational structure of the Group reflects the company's main areas of business. The resulting allocation of functional responsibilities is reflected in the division of responsibilities in the Corporate Executive Board and can be seen in the market units. With regard to the insurance business, each country has one person with market responsibility who is also responsible for the results.

Shareholders On 16 January 2006, Premafin Finanziaria S.P.A. reported that it had fallen below the 5% limit notifiable under stock exchange law. It stated that the group consisting of Premafin Finanziaria S.P.A. Rome; Fondiaria-SAI SPA, Florence; Fondiaria Nederland BV, Amsterdam; and Milano Assicurazioni S.P.A., Milan, which had held a 9.93% stake (3 141 026 shares) in Swiss Life Holding on 8 June 2004, no longer held any Swiss Life Holding shares. No further disclosure reports were received in the year under review.

No shareholders are known to Swiss Life Holding whose direct or indirect interest on the balance sheet date (31 December 2006) exceeded the threshold level of 5% of the registered shares in issue requiring notification.

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

Shareholder structure On the balance sheet date a total of 194 578 shareholders and nominees were listed in the Swiss Life share register, of which about 5000 are institutional shareholders. Taken together, the shareholders entered in the share register held over 50% of the shares issued. Around half of these shares were owned by shareholders domiciled in Switzerland; almost a quarter of the registered shares were in private hands.

Capital structure

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

- Ordinary share capital: CHF 1 384 827 029, divided into 33 776 269 fully paid registered shares with a par value of CHF 41 each
- Conditional share capital: CHF 150 374 511, divided into 3 667 671 registered shares with a par value of CHF 41 each
- Authorised share capital: none

Since the establishment of Swiss Life Holding on 17 September 2002 with a share capital of CHF 250 000, divided into 5000 registered shares with a par value of CHF 50 each, a number of capital market transactions have been conducted. In a first step, this included the offer presented to the then Swiss Life/Rentenanstalt shareholders to exchange their registered shares for Swiss Life Holding registered shares on a 1:1 basis. Around 92% of Swiss Life/Rentenanstalt's shareholders accepted the public exchange offer, and on 18 November 2002 the Swiss Life Holding share capital was increased, through taking delivery of 10 834 704 Swiss Life/Rentenanstalt registered shares with a par value of CHF 50 each, to CHF 541 985 200 (divided into 10 839 704 registered shares).

The Swiss Life Holding General Meeting on 18 November 2002 approved the creation of conditional capital of no more than CHF 270 992 600 through the issuance of a maximum number of 5 419 852 registered shares to be paid in full, with a par value of CHF 50 each. The conditional capital was (and the remaining conditional 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 existing and new loan debentures or similar bonds issued by Swiss Life Holding and companies belonging to the Group. The shareholders are excluded from subscription rights, however their advance subscription rights remain safeguarded. The Board of Directors sets the terms of conversion and option conditions.

In December 2002, Swiss Life Holding completed an ordinary capital increase of CHF 541 985 200, divided into 10 839 704 registered shares with a par value of CHF 50 each, in which existing shareholders were granted negotiable subscription rights for each share. As a result, the share capital increased to CHF 1 083 970 400, divided into 21 679 408 registered shares with a par value of CHF 50 each. Also in December 2002, pursuant to the issue of the MCS I (2002–2005) mandatory convertible securities, 1 768 535 registered shares with a par value of CHF 50 each were created from the conditional capital. As a result, the ordinary share capital rose by CHF 88 426 750 from CHF 1 083 970 400 to CHF 1 172 397 150, divided into 23 447 943 registered shares. The conditional capital decreased accordingly, to CHF 182 565 850 or 3 651 137 registered shares with a par value of CHF 50 each.

At the end of 2003, Swiss Life Holding simplified its shareholder structure by making an offer to purchase the minority interests remaining in its Swiss Life/Rentenanstalt subsidiary after the exchange of Swiss Life/Rentenanstalt shares for Swiss Life Holding shares in 2002. The company issued the MSC II (2003–2004) mandatory convertible securities so as to be able to purchase these Swiss Life/Rentenanstalt shares as efficiently as possible. In conjunction with this issue, on 30 December 2003 a further 1 586 098 registered shares, with a par value of CHF 50 each, were issued from conditional capital. Ordinary share capital thus expanded by CHF 79 304 900 to CHF 1 251 702 050, divided into 25 034 041 fully paid registered shares with a par value of CHF 50 each, while conditional capital fell to CHF 103 260 950 or 2 065 219 registered shares with a par value of CHF 50 each.

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

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

Due to partial conversion of the 0.625% convertible bond issue (2004–2010) (cf. section on "Convertible bonds and options" on page 41), 19 registered shares in all were created from conditional capital in 2004. The share capital thereby rose to CHF 1 688 790 900, divided into 33 775 818 registered shares with a par value of CHF 50 each, and the conditional capital was reduced by CHF 950 to stand at CHF 183 406 100, divided into 3 668 122 registered shares with a par value of CHF 50 each.

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

Again as a result of conversions of the 0.625% convertible bond issue (2004–2010), another 260 registered shares were created from conditional capital in 2005. Swiss Life Holding's ordinary share capital as at 31 December 2005 therefore amounted to CHF 1 553 699 588, divided into 33 776 078 fully paid registered shares with a par value of CHF 46 each. The conditional capital amounted to CHF 168 721 652, divided into 3 667 862 registered shares with a par value of CHF 46 each.

At Swiss Life Holding's Annual General Meeting on 9 May 2006, shareholders once more approved a reduction in par value of CHF 5 per registered share instead of a dividend distribution. The share capital was thus reduced to CHF 1 384 819 198, divided into 33 776 078 registered shares with a par value of CHF 41 each, and the conditional capital went down to CHF 150 382 342, divided into 3 667 862 registered shares of CHF 41 each.

In the year under review, the 0.625% convertible bond (2004-2010) was also partially converted to create 191 new registered shares. Ordinary share capital increased as a result to CHF 1 384 827 029, divided into 33 776 269 registered shares of CHF 41 each, and the conditional capital was reduced accordingly to CHF 150 374 511, divided into 3 667 671 registered shares of CHF 41 each.

Shares 33 776 269 fully paid Swiss Life Holding registered shares with a par value of CHF 41 each were outstanding on the balance sheet date. Subject to the 10% limit on voting rights set out in the Articles of Association (cf. the section below on "Shareholders' participation rights" on page 52), each share conveys a right to one vote at the General Meeting 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. Moreover, no registration restrictions apply to Swiss Life Holding shares.

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

Swiss Life share details

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

Key figures as at 31 December

Amounts in CHF	2006	2005	+/-%
Shares outstanding	33 776 269	33 776 078	–
Share price	305.25	237.70	+28%
Market capitalisation	10 310 206 112	8 028 573 740	+28%
Diluted earnings per share	26.92	24.82	+8%

Limitations on transferability and nominee registrations

Swiss Life Holding shares are not subject to any limitations on transferability. According to the Articles of Association, resolutions for the introduction, amendment or repeal of restrictions on transferability must be put before the General Meeting of Shareholders and must be approved by at least two-thirds of the voting shares represented and by at least an absolute majority of the share par value represented. Swiss and foreign banks, securities brokers and companies acting on their behalf may be entered in the share register as nominees if they are holding shares of Swiss Life Holding in their custody for the account of the beneficial owners. Professional asset managers may also be registered as 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 rights of nominees are restricted to 10% of the share capital, whereby nominees who are connected with regard to capital or voting rights under uniform management or contractual agreement will be counted as a single shareholder. The Board of Directors may approve exceptions to these restrictions on registration, observing the principle of responsible judgement. No such exceptions were granted during the period under review.

Convertible bonds and options One convertible bond issue was outstanding on the balance sheet date, the Swiss Life Holding 0.625% issue (2004–2010) amounting to CHF 317 000 000. The specific conditions attached to these convertible securities can be found in the Financial Statements (note 23) as well as in the issue prospectus of 8 June 2004.

Information on options granted by Swiss Life Holding or by Group companies on rights to participate in Swiss Life Holding under equity compensation plans for employees can be found in the Financial Statements (note 25).

Board of Directors

Function The Board of Directors is responsible for all matters that are not reserved for the consideration of the General Meeting of Shareholders (formally the supreme decision-making body of a public limited company) under the terms of the law (Art. 698 of the Swiss Code of Obligations (OR)) or by the company's Articles of Association. In addition to its non-transferable duties (stipulated in Art. 716a OR) the Board of Directors is responsible, in particular, for the ultimate direction of the Group, including determination of strategy as well as supervision of the Corporate Executive Board.

Elections and terms of office Pursuant to the Articles of Association, the Board of Directors shall consist of no fewer than five and no more than fourteen members. The members of the Board are elected by the General Meeting of Shareholders for a term of office not exceeding three years, and as a rule individually. The Organisational Regulations stipulate that a member of the Board of Directors shall automatically resign from the Board at the General Meeting of Shareholders in the year in which the member reaches the age of 70.

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

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

There are no mutual cross-directorships with boards of directors of listed companies. Acceptance of an appointment to the board of directors of other companies by members of the Swiss Life Holding Board of Directors requires the permission of the Board of Directors. Information on additional board mandates held by individual members of the Board of Directors is presented in the following pages.

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

Name	Functions	Year appointed/ reelected	Elected until
Bruno Gehrig	Chairman Chairman's Committee, Chairman	2003/2006	2009
Gerold Bührer	Vice Chairman Chairman's Committee Investment and Risk Committee, Chairman	2002/2003/2005 [1)]	2008
Volker Bremkamp	Member Audit Committee, Chairman	2003/2004	2007
Paul Embrechts	Member Audit Committee	2003/2005	2008
Rudolf Kellenberger	Member Chairman's Committee Investment and Risk Committee	2003/2004	2007
Henry Peter	Member Audit Committee	2006	2009
Peter Quadri	Member Audit Committee	2003/2004	2007
Pierfranco Riva	Member Investment and Risk Committee	2003/2006	2009
Franziska Tschudi	Member Investment and Risk Committee	2003/2005	2008

1) Member of the Board of Directors of Swiss Life/Rentenanstalt since 2000

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

Bruno Gehrig received his doctorate in economics (Dr. rer. pol.) in 1975 from the University of Berne where, following studies at the University of Rochester, New York, he also qualified as a lecturer in 1978 with a paper on monetary policy. From 1971 to 1980 Mr Gehrig was an assistant and lecturer at the University of Berne, becoming Assistant Professor in 1978. In 2006 he received an honorary doctorate from the University of Rochester and became a Doctor of Laws.

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

Other appointments:
- Roche Holding AG, Basel, Vice Chairman of the Board of Directors and Independent Lead Director
- Swiss Air Transport Foundation, Chairman of the Board of Trustees

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

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

Other appointments:
- economiesuisse, Zurich, Chairman
- Bank Sal. Oppenheim jr. & Cie. (Schweiz) AG, Zurich, Member of the Board of Directors
- Cellere AG, St. Gallen, Member of the Board of Directors
- Georg Fischer AG, Schaffhausen, Member of the Board of Directors
- Züblin Immobilien Holding AG, Zurich, Member of the Board of Directors

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

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

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

Volker Bremkamp will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 8 May 2007.

Other appointments:
- Everpublic AG, Hamburg, Chairman of the Supervisory Board
- WAVE Management AG, Hamburg, Chairman of the Supervisory Board
- AON International Insurance Broker, Hamburg, Member of the Supervisory Board
- UKE University Clinic Hamburg, Member of the Supervisory Board

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

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

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

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

Rudolf Kellenberger received his degree in civil engineering from the Swiss Federal Institute of Technology (ETH), Zurich in 1970. Between 1970 and 1978 he was employed as a project planning engineer in the bridge construction industry, including three years in the United Kingdom. He joined Swiss Re in 1978, where he served as Head of the Engineering Department from 1990 to 1992. In 1993 he was appointed Member of the Executive Board with responsibility for Europe. From 2000 to the end of December 2004 Mr Kellenberger served as Deputy Chief Executive Officer at Swiss Re. He has exercised various advisory functions in the area of insurance since retiring in March 2005.

Rudolf Kellenberger will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 8 May 2007.

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

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 at 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, now Peter · Bernasconi & Partners. In addition, he has been Professor of Business Law at the University of Geneva since 1997. Henry Peter frequently acts as arbitrator in commercial and sport cases. He has been a member of the Swiss Takeover Board since 2004, and a member of the Sanction Commission of the SWX Swiss Exchange since 2007.

Other appointments:
- Casino de Montreux SA, Montreux, Member of the Board of Directors
- Otis, Fribourg, Member of the Board of Directors
- Autogrill Switzerland LTD, Olten, Member of the Board of Directors
- Ferrari (Suisse) SA, Nyon, Member of the Board of Directors
- Swiss Olympic Association, Berne, Vice-Chairman of the disciplinary chamber in charge of doping cases
- America's Cup, Member of the Jury

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 spent in the USA, Denmark and Switzerland, he held the position of CEO of IBM

Switzerland from 1998 to April 2006. He now acts as a management and technology consultant.

Peter Quadri will be put forward for re-election at the Swiss Life Holding Annual General Meeting of Shareholders on 8 May 2007.

Other appointments:
- Vontobel Holding AG, Zurich, Member of the Board of Directors
- Bühler AG, Uzwil, Member of the Board of Directors
- Zurich Chamber of Commerce, Chairman
- economiesuisse, Zurich, Member of the Board

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

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

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

Franziska Tschudi
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 US law at Georgetown University, Washington DC, earning an LL.M., and passed the bar exam for the US states of New York and Connecticut in 1987. Franziska Tschudi also did postgraduate studies at the University of St. Gallen (1991 to1993), receiving an Executive MBA. After initially working as an Assistant for Media Law at the Institute for Constitutional and Administrative Law at the University of Berne and practising business and media law in Zurich, Washington DC and Geneva, she served as Secretary General at SIG Holding AG from 1992 to 1995. Ms Tschudi then became a member of the Executive Board of WICOR Holding AG ("Weidmann Group"), Rapperswil in 1995, where she was Head of Corporate Development and from 1998 Head of the Business Area Electrical Technology Asia/Pacific. She has been Chief Executive Officer and Managing Director of WICOR Holding AG since 2001.

Other appointments:
- SCRJ Sport AG, Rapperswil, Vice-Chairperson of the Board of Directors
- BIOMED AG, Dübendorf, Member of the Board of Directors
- Swiss-American Chamber of Commerce, Member of the Executive Committee
- Chamber of Commerce Germany-Switzerland, Member of the Executive Committee
- St. Gallen – Appenzell Chamber of Commerce and Industry, Member of the Executive Committee

Resignations The term of office of Georges Muller expired with the Annual General Meeting of Swiss Life Holding on 9 May 2006. Georges Muller decided not to stand for re-election. Henry Peter was appointed to the Board of Directors in his stead.

Internal organisational structure In line with the Articles of Association, and in observance of local and international standards for corporate governance, the Board of Directors decided to introduce a revision of the Organisational Regulations, effective 1 December 2003. These regulations are reviewed regularly in line with current practice and developments in national and international best practice, and are updated whenever necessary. They apply to the internal organisation and delineate the tasks and competencies of the Board of Directors, the Board of Directors' committees, the Chairman of the Board of Directors and the Corporate Executive Board.

The Chairman 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 it takes a decision. If a timely decision cannot be reached by the Board of Directors, the Chairman is empowered to take a decision.

The Board of Directors meets as often as business requires, but at least six times a year as a rule. Meetings are generally called by the Chairman of the Board of Directors. However, any member of the Board of Directors may request that a meeting be called, as can the Corporate Executive Board. In addition to the members of the Board of Directors, the Group CEO generally also 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 seven times during the year under review, with the meetings lasting around three and a half hours on average. All the Board members took part in all the meetings with the exception of a single absence of one member of the Board of Directors. The Group CEO also attended all the meetings. The other members of the Corporate Executive Board were also invited to all the meetings of the Board of Directors. Parts of the meetings on specific subject areas are regularly held in closed conference among the Board of Directors only.

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

Three standing committees support the work of the Board of Directors as a whole: the Chairman's 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 in external consultants for their work and assess their work themselves 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).

In the year under review, all the Board members took part in all the meetings of the Board's committees to which they belong.

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

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 meetings in an advisory capacity. Further members of the Corporate Executive Board or in-house specialists may also be invited to attend.

The Chairman's Committee meets at least six times a year. It held nine meetings during the year under review. The average duration of each meeting was around two hours.

Investment and Risk Committee The Investment and Risk Committee assists the Board of Directors in matters concerning investment management, financial management and risk management within the Group. The tasks and competencies of the Investment and Risk Committee include, among others, submitting proposals on the principle features of asset and liability management 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.

As a rule, the Group CIO and Group CFO 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 or in-house specialists may also be invited to attend.

The Investment and Risk Committee meets at least four times a year. Four meetings of the Investment and Risk Committee were held in the year under review, with a duration of around two and a half hours.

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

As a rule, the Group CFO and the Head of the Corporate Internal Audit attend the Audit Committee meetings or parts of 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 53). 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. The Audit Committee met four times during the year under review, with the meetings lasting around three and a half hours on average.

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

Control instruments vis-à-vis the Corporate Executive Board The Board of Directors is kept continually and comprehensively informed regarding the activities of the Corporate Executive Board. The Group CEO keeps the Chairman of the Board of Directors as well as the Board of Directors and its committees regularly informed about the conduct of business, new business activities and significant projects. The Group CEO informs the Chairman of the Board of Directors immediately about extraordinary matters.

The Chairman of the Board of Directors may participate (without voting rights) in the meetings of the Corporate Executive Board. He receives the invitations and the minutes of the meetings of the Corporate Executive Board. The Chairman of the Board of Directors attended the majority of the Corporate Executive Board meetings or parts of meetings in the year under review.

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. Moreover, 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.

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

Corporate Executive Board

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

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

Members of the Corporate Executive Board

On 31 December 2006, the Corporate Executive Board of Swiss Life Holding was composed of the following members:

Name	Function	Member of the Corporate Executive Board since
Rolf Dörig	Group CEO	06.11.2002
Bruno Pfister	CEO International	01.08.2002
Paul Müller	CEO Switzerland	15.01.2003
Reto Himmel	Group CTO	20.01.2003
Thomas Müller	Group CFO	01.01.2006
Patrick Frost	Group CIO	01.07.2006

Rolf Dörig
Born 1957, Swiss national
Group Chief Executive Officer (Group CEO)

Rolf Dörig laid the groundwork for his professional career by obtaining a doctorate in law (Dr. iur.) from the University of Zurich before being called to the bar in Zurich. Joining Credit Suisse in 1986, he assumed a number of executive responsibilities in various areas of banking and in different geographical markets. He subsequently became Chief of Staff and Chief Communications Officer for Credit Suisse Group. As a member of the Executive Board, he was assigned responsibility for Swiss Corporate and Retail Banking from 2000 onwards. In spring 2002 he became Chairman Switzerland for Credit Suisse Group.

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

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

Bruno Pfister
Born 1959, Swiss national
Chief Executive Officer International (CEO International)

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 1996 Mr Pfister became Chief of Staff of the Private Banking division at Liechtenstein Global Trust (LGT) where he managed a global strategic project before being appointed Chief Financial Officer of LGT 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.

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

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

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

Paul Müller studied economics at the University of St. Gallen. After graduating with a master's degree (lic. oec. HSG) in 1975 he launched his career by joining Winterthur Versicherungen. In 1982 he moved to Baloise Insurance where he held a number of leading positions. As a member of the Executive Board he was ultimately assigned responsibility for the German, Austrian, French, Belgian and Luxembourg markets. From 1995 Mr Müller served as CEO of Helvetia Patria Assurances' Swiss Division in Basel.

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

Other appointments:
- Chamber of Commerce Germany-Switzerland, Member of the Executive Committee
- Society for the Promotion of the Institute of Insurance Economics of the University of St. Gallen, Member of the Board
- Board of Trustees of WBZ Reinach, Canton of Basel-Land (Wohn- und Bürozentrum für körperlich Behinderte)

Reto Himmel
Born 1956, Swiss national
Group Chief Technology & Operations Officer (Group CTO)

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

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

Other appointments:
- SWX Swiss Exchange, Member of the Board of Directors and the Audit Committee
- Technopark Zurich, Member of the Board of Trustees

Thomas Müller
Born 1965, Swiss national
Group Chief Financial Officer (Group CFO)

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

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

Other appointments:
- Castle Alternative Invest AG, Freienbach, Member of the Board of Directors
- The Sustainability Forum, Zurich, Chairman of the Board of Directors

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, 1993), economics (Dr. rer. pol., 1998) and law (lic. iur., 2001). He began his professional career in 1996 as a portfolio manager and analyst in financial engineering at Winterthur Group. Between 1991 and 2001 he was a Senior Bond Portfolio Manager at Winterthur Investment Management Corp. in New York. He was head of Global Fixed Income at Winterthur Group from 2001, where he played a key role in the further strategic development of its asset management.

Patrick Frost has been Group Chief Investment Officer (Group CIO) for the Swiss Life Group since July 2006.

Resignations Martin Senn, Group Chief Investment Officer (Group CIO) from 1 January 2003 to 31 March 2006, resigned from the Corporate Executive Board and moved to Zurich Financial Services Group. The new Group CIO for the Swiss Life Group is Patrick Frost.

Transfer of management tasks

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

Compensation, participation in equity, loans

Practice and procedure Pursuant to the Organisational Regulations, the Board of Directors as a whole is responsible for determining the level and the make-up of compensation for its members. The Chairman's Committee, in its capacity as a Compensation Committee, is responsible for putting forward corresponding proposals. The Board of Directors also establishes guidelines for the compensation policy within the Group. In so doing, it takes into consideration the compensation policies of other organisations of comparable size and in comparable industries, with its findings drawn from publicly available information or, as necessary, studies by external experts. Based on these guidelines, the Chairman's Committee determines the compensation for individual members of the Corporate Executive Board and informs the entire Board of Directors accordingly.

The share option programme for Swiss Life Group management, which was introduced in 2000, was discontinued at the end of 2002. Accordingly, no more share options have been allocated since 2003. The share options issued in the years 2000 and 2001 expired worthless at the end of March 2004 and the end of May 2006.

Within the framework of the compensation arrangements for the members of the Corporate Executive Board and other key performers within the Swiss Life Group, set by the Corporate Executive Board with the concurrence of the Chairman's Committee, a long-term remuneration component was introduced in 2004 on the basis of corresponding regulations. This equity compensation programme was adjusted slightly in 2005 by defining specific performance criteria. These take account of both the performance of the Swiss Life Holding share and its performance vis-à-vis other companies in the market. Participants are granted future subscription rights, in the form of Performance Share Units (PSU) on Swiss Life Holding shares, entitling them to receive Swiss Life Holding shares free of charge after a period of three years has elapsed insofar as the relevant prerequisites have been satisfied. The number of PSUs can increase no more than by a factor of 1.5, or drop by 0.5, within three years, depending on how the performance criteria develop. In 2005, 37 members of the Swiss Life Group senior management participated in this programme. A total of 67 412 PSUs were allocated in 2005; a total of 33 297 for the Corporate Executive Board, of which 9604 to the Group CEO.

During the review period, 36 members of the Swiss Life Group senior management participated in the corresponding continued equity compensation programme. A total of 46 651 PSUs were allocated; a total of 22 255 for the Corporate Executive Board, of which 7153 to the Group CEO.

With a view to the upcoming 2007 equity compensation programme, the Chairman's Committee of the Board of Directors has decided that the retention component (factor of 0.5) which was appropriate during the turnaround phase will be rescinded in future so that the number of PSUs could drop to zero after three years. The maximum possible factor of 1.5 will be maintained. Furthermore, the programme will continue to be based on two performance criteria, each with a 50% weighting. One criterion is the Total Shareholder Return on Swiss Life Holding shares (TSR Swiss Life Holding), whereby a performance in excess of 20% is required for the subscription right to share allocation to arise. The TSR of the company's own shares will also be compared with the TSR of the companies included in the Dow Jones STOXX 600 Insurance Index (TSR outperformance); on the basis of this criterion, a subscription right arises if the performance is above the first quartile in comparison with the companies in question on expiry of the three-year period.

Further details on compensation and benefit expenditure for the Swiss Life Group management and employees can be found in the Financial Statements (notes 25 and 33).

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

In CHF	2006	2005
Board of Directors	1 479 300	1 367 000
Corporate Executive Board	8 859 305	7 633 850

The following compensation was received by acting members of the Board of Directors of Swiss Life Holding in 2006 during the year under review.

Name	Remuneration in cash		Shares[1]
Bruno Gehrig	CHF	615 000	349
Gerold Bührer	CHF	302 300 [2]	214
Volker Bremkamp	CHF	106 000	161
Paul Embrechts	CHF	72 000	121
Rudolf Kellenberger	CHF	96 000	154
Georges Muller	CHF	36 000	91
Henry Peter	CHF	36 000	30
Peter Quadri	CHF	72 000	121
Pierfranco Riva	CHF	72 000	121
Franziska Tschudi	CHF	72 000	121

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

There was one resignation from both the Board of Directors and the Corporate Executive Board during the review period; in 2006 a new member of the Board of Directors was appointed, and two new members of the Corporate Executive Board were approved.

Compensation paid to former members of governing bodies None.

Share allotment in the year under review Swiss Life Holding shares were allocated to members of the Board of Directors and the Corporate Executive Board as follows during the 2006 financial year:

Board of Directors	1483 shares allocated at values of CHF 255.25, 229.22 and 226.28[1]. They are subject to a three-year vesting period
Corporate Executive Board	6949 shares[2] allocated at a value of CHF 257.55[3]. They are subject to a one-year vesting period.

1) Economic value equivalent to the taxable value taking the vesting period into account. The share prices on allocation amounted to CHF 304.00, 273.00 and 269.50.
2) The 6949 shares were allocated under the 2004 regulations governing the long-term remuneration component.
3) Economic value equivalent to the taxable value taking the vesting period into account. The share price on allocation amounted to CHF 273.00.

No shares were allocated to closely linked parties[4] within the meaning of the law.

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

Board of Directors	10 276 shares
Corporate Executive Board	26 670 shares

Options No share options have been granted in the Swiss Life Group since 2003. Options on shares of Swiss Life/Rentenanstalt were allocated to the members of the Board of Directors and Corporate Executive Board in 2000, 2001 and 2002 in the context of the share option plan introduced in 2000 for the entire senior management of the Swiss Life Group, and were subsequently converted into options on Swiss Life Holding shares. At the end of 2002 this share option programme was discontinued with effect from 2003. The share options allocated in the years 2000 and 2001 expired worthless at the end of March 2004 and the end of May 2006. In connection with the exchange of Swiss Life/Rentenanstalt shares for shares of Swiss Life Holding and the capital increases in autumn 2002 and spring 2004 as well as the reductions in par value of the Swiss Life Holding shares in August 2005 and 2006, the parameters of the options allocated in 2001 and 2002 were adjusted in accordance with Eurex guidelines. No other changes have been made to the allocated share options.

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

Board of Directors	
Allotment year	
2006	No share options issued
2005	No share options issued
2004	No share options issued
2003	No share options issued
2002	11 400 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.59
	Exercise price: CHF 224.10
2001	11 250 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.58
	Exercise price: CHF 686.50

Corporate Executive Board	
Allotment year	
2006	No share options issued
2005	No share options issued
2004	No share options issued
2003	No share options issued
2002	22 000 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.59
	Exercise price: CHF 224.10
2001	23 500 options
	Option life: 5 years
	Vesting period: 3 years
	Subscription ratio: 1.58
	Exercise price: CHF 686.50

Additional honorariums and remunerations During the period under review no additional honorarium or remuneration payments were made to 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 members of the Corporate Executive Board.

Board of Directors	none
Corporate Executive Board	none

Expenditure for occupational provisions Details on benefit expenditure can be found in the Financial Statements (notes 25 and 33). For reasons of transparency, details of the following benefits are provided here:

As Chairman of the Board of Directors, Bruno Gehrig is affiliated to the employee benefits institutions of Swiss Life for the purpose of occupational provisions. The same conditions as for other insured persons apply. The expenditure for occupational provisions for Bruno Gehrig assumed by Swiss Life in the period under review amounted to CHF 92 022. No such affiliation exists for other members of the Board of Directors; no contributions have been made on their behalf.

Expenditure for occupational provisions in favour of members of the Corporate Executive Board totalled CHF 689 796 in the period under review, of which CHF 190 040 for Rolf Dörig as Group CEO. No special allocations in the form of purchases of insurance years, etc. were made.

As a result of the changes in the law which became effective on 1 January 2006 pertaining to occupational provisions and the associated reduction in employee benefits, as well as the simultaneous reduction of expenditure for occupational provisions on the part of the employer, Swiss Life paid a sum of CHF 1 240 000 to Rolf Dörig to equalise the limitation of the insurable salary. Tax advantages which cease to apply under the new legal provisions governing the insurable salary are not compensated. No additional expenditure arises for Swiss Life as a result of this measure.

Highest total compensation, Board of Directors

The highest total compensation for a member of the Board of Directors in 2006 was paid to Bruno Gehrig as Chairman of the Board. The total compensation paid in the year under review is as follows:

Compensation[1]	CHF	615 000	
Shares[2]	CHF	79 998	349 SLHN shares at CHF 229.22
Share options		none	
Total compensation 2006:			
in cash and shares	CHF	694 998	
including contribution to occupational provisions	CHF	787 020	
Total compensation 2005:			
in cash and shares	CHF	601 496	
including contribution to occupational provisions	CHF	693 518	

1) including bonus in cash

2) The 349 allocated shares are subject to a vesting period of three years. The share price at the time of allocation was CHF 273.00; the allocation, subject to a three-year vesting period, took place at an economic value of CHF 229.22, which corresponds to the tax value.

Highest total compensation, Corporate Executive Board The highest total compensation for a member of the Corporate Executive Board was paid to Rolf Dörig as Group CEO. The total compensation paid in 2006 was as follows:

Compensation[1]	CHF 3 312 635	
Shares[2]	CHF 447 364	1 737 SLHN shares at CHF 257.55
Share options	none	
Total compensation 2006:		
in cash and shares	CHF 3 759 999	
including contribution to occupational provisions	CHF 3 950 039	
Total compensation 2005:		
in cash and shares	CHF 3 321 339	
including contribution to occupational provisions	CHF 3 598 709	

1) including bonus in cash

2) In accordance with the 2004 regulations, these shares are allocated via the long-term remuneration component and blocked for one year until the end of March 2007. The share price at the time of allocation was CHF 273.00; the allocation, subject to a one-year vesting period, took place at an economic value of CHF 257.55, which corresponds to the tax value.

Shareholders' participation rights

Restrictions on voting rights In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of his own shares and those he represents. Legal entities and partnerships which are connected through capital, voting rights, uniform management or in any other way, as well as individuals or legal entities and partnerships which act in concert by virtue of agreement, as a syndicate or in any other way, are deemed to be a single person. Any amendment to or revocation of restrictions on voting rights must be approved by at least two-thirds of the voting shares represented at the General Meeting of Shareholders and an absolute majority of the share par value represented. The Board of Directors can permit exceptions to this limit on the basis of its discretionary powers; however, during the year under review no exceptions were granted.

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

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

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

Convocation of the General Meeting of Shareholders and agenda The rules set out in the Articles of Association for convening a General Meeting of Shareholders and drawing up the agenda encompass the stipulations of the law. Shareholders representing shares with a par value of at least one million francs can submit a written request within a time limit published in advance by Swiss Life Holding for the inclusion on the agenda of an item for discussion, together with the relevant motions. The written application must be accompanied by a certificate issued by a bank to confirm that the shares are deposited with it until after the General Meeting of Shareholders is held.

Entry in the share register Entries can be made in the share register up to, but not including, the day before the General Meeting of Shareholders. In all cases, however, the company reserves the right to adhere to the legal maximum period of 20 days for refusal to recognise entries in the share register in accordance with Art. 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 Voting at Swiss Life Holding is generally by a show of hands; A written vote may be requested by the presiding officer at the General Meeting of Shareholders, or by shareholders who together represent at least 10% of the entire share capital. The presiding officer may use electronic voting for a written vote. Swiss Life Holding uses a certified electronic voting system to permit balloting with remote-controlled handsets and to record the exact number of voting shares represented.

Changes of control and defence measures

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

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

Auditors

PricewaterhouseCoopers (PwC) serves as external statutory auditor for 84% of the Swiss Life Group companies that are directly or indirectly held by Swiss Life Holding under its scope of consolidation. PwC is also the Group auditor for Swiss Life Holding. The remaining auditing mandates for subsidiaries are carried out by Ernst & Young (11%) and other auditing firms (5%).

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

Duration of the mandates and term of office of the lead auditor The Articles of Association stipulate that the external auditor is to be elected by the General Meeting of Shareholders for one financial year at a time. At the time Swiss Life Holding was established in 2002, PwC was named as Group auditor. Since then PwC has been re-elected without fail, most recently for the year 2006 at Swiss Life Holding's Annual General Meeting of Shareholders in May 2006. PwC has also acted as Group auditor for Swiss Life/Rentenanstalt since 1994. The partner in charge of auditing the Swiss Life Holding consolidated financial statements at PwC (lead auditor) has held that function since the 2004 financial year.

Auditing fees In 2006 the auditing fees credited to PwC came to CHF 12 million (2005: CHF 11.3 million). This includes the fees for reviewing the 2006 half-year accounts.

Additional fees In 2006 PwC received additional fees totalling around CHF 2.1 million for advisory services (2005: CHF 1.2 million), approximately a quarter of which was for financial and auditing advice, respectively. The remainder resulted from legal, fiscal and strategic advice, as well as other advisory services.

Supervisory and control instruments vis-à-vis the auditors The Audit Committee maintains regular contact with the external auditors. It assesses the quality and effectiveness of the external reporting, ascertains the independence of the statutory auditors and identifies possible conflicts of interest. Representatives from the external auditing firms may be called upon by the Audit Committee to attend any meetings it may hold. The Audit Committee held four meetings during the year under review. Representatives from the external auditors attended all the meetings, either in their entirety or for specific items on the agenda.

Information policy

In addition to its comprehensive Annual Report and Financial Statements, Swiss Life Holding also publishes its half-year results. All the Swiss Life annual and half-year reports since 1997 can be accessed on the www.swisslife.com website. Twice a year, a report with important facts and figures is sent to all the shareholders listed in the share register. In addition, the fourth Investor's Day was held on 5 December 2006.

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

Board of Directors

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

Corporate Executive Board

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

Responsible Corporate Conduct

Swiss Life takes its social responsibility seriously – for 150 years now, and into the future. Various long-range activities are planned for the anniversary year under the recurring theme "Perspectives for people", thereby enabling Swiss Life to build on its tradition of social commitment.

Swiss Life is committed to serving its customers, employees and the general public. Group-wide corporate values and our Code of Compliance provide the foundation for this. Responsible action is also evident in its modern personnel policy, open communication and active championing of social causes and environmental protection.

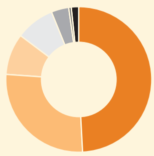
Values and Code of Compliance At Swiss Life, the values expertise, proximity, openness, clarity and commitment shape our conduct in dealings with customers, partners and colleagues. These values put our corporate culture on a strong footing. On top of this, the Code of Compliance sets out specific rules of conduct. Adherence to these rules is an essential prerequisite for legally and ethically correct business conduct as well as for economic profitability. The principles in the Code of Compliance apply to the entire Group. Outside Switzerland and Liechtenstein, they are supplemented or modified in accordance with the local legal requirements.

Personnel policy Swiss Life offers modern conditions of employment and actively promotes a motivating working environment.

The personnel policy instruments available include the annual discussion of objectives and the performance assessment process. These are paired with customised development programmes and performance-related and results-oriented remuneration.

Employees (full-time equivalents) by country as at 31.12.2006

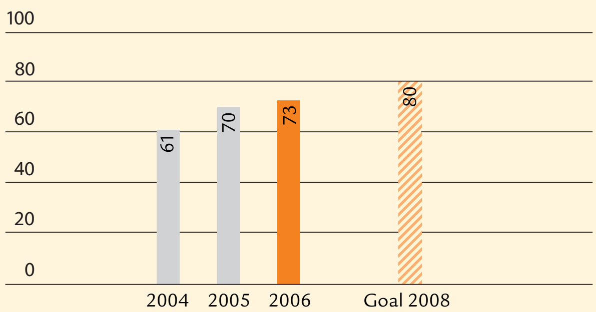
Total Swiss Life Group: 8693 employees



4 286	Switzerland
2 349	France
791	Germany
738	Netherlands
337	Belgium
65	Luxembourg
127	Other

The goal of personnel development is the promotion of all employees. It is aimed at developing strengths, plugging gaps in competencies and maintaining and improving each and every individual's employability. All employees can take advantage of the internal training courses in this context. In Switzerland, the "Life Learn" learning platform introduced in the year under review created greater flexibility. This platform includes around 600 courses for Internal Services and External Sales staff. Besides courses that are entirely online, courses requiring attendance and various combinations are offered. The plan is to employ this platform throughout the Group following its successful introduction in Switzerland. The training resources also include a Group-wide development programme for the promotion of employees with development potential.

Employee commitment (in index points)



Alongside the training and development measures, Swiss Life relies on ideas from its employees on improving the work environment. Employees can play an active part in shaping their area of work by assessing their own activities each year and rating their job environment and their immediate superior. 84% of all employees availed themselves of this opportunity last year. The measurement of commitment is the central evaluation criterion in the Employee Survey. This value shows how strongly the employees identify with their employer and their work, and reflects their level of satisfaction. In the year under review, the value given to commitment was 73 out of 100 index points on average. The strategic target is 80 index points in all business units.

Active cooperation with various social partners also has a high priority. Action plans exist with the social partners in Switzerland and Germany, for instance, for employees who need to find other work as a result of restructuring projects. The Europa Forum represents the interests of employees at the international level.

Outside their jobs, employees benefit from the availability of sports and cultural activities, as well as programmes for the promotion of health and partnerships with child care services. Insurance products are available to employees at favourable rates and season tickets for public transport facilities are partially subsidised.

Communication Swiss Life communicates actively and openly with its internal and external partners. Investor Relations and Public Relations provide up-to-date reports to private and institutional investors, financial analysts, journalists and the general public. Dates and information are available on the internet at www.swisslife.com.

The aim of internal communication processes is to provide employees with transparent information on the development of the company. In this connection, the most important communications channel is the intranet, which provides country-specific and Group-wide information. Periodic rounds of talks with executive board members at corporate and company level encourage a dialogue between staff and management. Employees receive first-hand information on the course of business at information events concerning the annual and half-year results and on other suitable occasions. Moreover, the Group-wide staff magazine “Life” comes out five times a year in Dutch, French and German.

Sponsoring Sponsoring is a way of positioning Swiss Life in the market and cultivating relationships. In Switzerland, Swiss Life is a partner of the Swiss Football Association as sponsor of the teams for international competitions – from the national side to the U15 juniors. Swiss Life supports running events with a national and an international profile, such as the Zurich marathon. With regard to cultural activities, the company’s sponsorship mainly lies in the areas of music and the circus. Banca del Gottardo, a member of the Swiss Life Group, is the only bank with its own art gallery, the Galleria Gottardo. This gallery is run in close cooperation with the Peggy Guggenheim Foundation.

In the Netherlands, Swiss Life (Zwitserleven) is the main sponsor of the “Ronde om Texel” event and the Zwitserleven sailing team. Sailing is also instrumental in Belgium in building client relationships.

Foundations The foundation Jubiläumsstiftung für Volksgesundheit und medizinische Forschung, set up in 1957, supports public and private charitable institutions in Switzerland which are engaged in public health and medical research activities.

To commemorate its 150th anniversary, Swiss Life established the "Perspectives" foundation to support charitable, scientific, cultural and sports activities which promote public welfare. The foundation's keynote themes for the years ahead are integration and education.

Professional involvement Swiss Life is active in professional associations and supports educational initiatives. Swiss Life employees serve on various committees and commissions of the Swiss Insurance Association. The Group supports projects and courses at several universities and collaborates with professional and specialist associations. Swiss Life is a member of the Sustainability Forum in Zurich and the Standard Setting Board of the Federal Office of Private Insurance, among others.

Initiatives in the markets In its individual markets, Swiss Life is involved in various activities for the benefit of the public.

Customers in Switzerland and France are offered a number of prevention programmes, focusing on health issues, preventive measures and help with illnesses as major themes. In addition, support is given in dealing with dependency, stress and burnout. In Switzerland, Swiss Life also endeavours to make experts on social and health issues accessible to its policyholders, and to provide help with reintegration in the event of illness.

In France, Swiss Life supports the annual solidarity event for the Institut Curie. The Institut Curie is a hospital and treatment and research facility whose mission is to fight cancer. At the "Courir pour la vie, courir pour Curie" run, money is collected for every metre that is run and used to finance cancer research.

In Germany, Swiss Life launched the "Salon Palais Leopold" series of events. Decision-makers from the worlds of business, politics and media hold regular discussions on important social and political subjects. The subsidiary in Germany also helped to set up the new EuropVital e.V. senior citizens association, whose main purpose is to uphold the social and political interests of its members.

In the Netherlands, Zwitserleven underlines its commitment to society by supporting volunteer work. For instance, during their working time, employees look after severely disabled people as part of a relaxation therapy session in a swimming pool.

In Belgium, Swiss Life supports active public discussion of financial provisions for the future. The subjects go beyond short-term political and financial debates and take in developments around the world. Swiss Life also conducts surveys in this area. Since 2005, the company has been asking people questions about pension issues. The goal is to provide a sounding board for the articulation of the population's requirements to decision-makers, employers and politicians. As an example: The second "Swiss Life Pension Day" took place in November 2006. Around 350 people participated – including business leaders, members of parliament, academics and insurance brokers.

Environmental protection Swiss Life intends to reduce its energy consumption in Switzerland by 15% from 2000 to 2010. The aim is to increase energy efficiency at the Zurich locations by at least 1.5% per year, while energy consumption and emissions are continuously reduced. In 2005, Swiss Life became a member of the Swiss climate foundation. The foundation was set up by the "Energy Model Zurich" and supports various climate protection measures in Switzerland as well as providing funds for small and medium-sized enterprises committed to cutting their CO_2 emissions.

Moreover, Swiss Life has subscribed to an international charter, joining other financial institutions in signing a commitment to the environment and sustainable development as part of the United Nations Environment Programme (UNEP).

The company also takes ecological factors into consideration for construction projects and as one of the biggest private real estate owners in Switzerland. Swiss Life installs measuring devices to monitor water consumption in its rental properties in order to encourage a more enlightened approach to water use. Usage-based costing reduces water consumption by 20% on average.

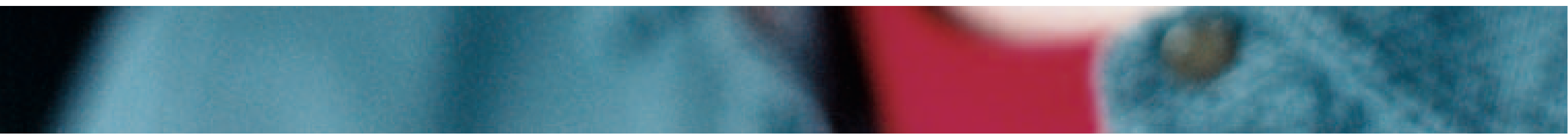
The refurbishment of the head office building on General-Guisan-Quai in Zurich was completed in 2006. MINERGIE® principles and ecological criteria were observed in the construction design and in the selection of building materials. Materials and products with a low emission potential were employed. This systematic implementation made Swiss Life the first company in Switzerland to earn the "GI Gutes Innenraumklima" (good indoor atmosphere) label for air quality in office premises. The label is awarded by S-Cert AG, an accredited, neutral inspection and certification company for construction products in Switzerland.

Anniversary In 2007, Swiss Life is celebrating its 150th anniversary with a variety of activities focusing on people in Switzerland. "Perspectives for people" – the recurring theme of the anniversary year – is based on the company's mission: "Swiss Life is committed to helping people create a financially secure future. For life." This leitmotif reflects the organisation's perception of itself as a company of people for people. Swiss Life offers perspectives to its customers, staff and shareholders and is also committed to building perspectives for society beyond the scope of its business activities. Further information on the anniversary is available at www.swisslife.ch/150jahre.

My uncle was a painter. I was happy to see how much people respected him and his paintings. I also wanted to be an artist and copied comic figures from books. At school, too, I was only really interested in pictures. If a teacher brought pictures into school I was wide awake in seconds. Later I studied painting at the academy of arts.

I've been working in printing for 18 years now. Some people would regard that as a demotion, from artist to printer, but that's not how it is. I have pictures of art in my mind when I'm printing, I need them to work. Art has taught me how to see. And I'm always working with pictures. They make me happy, let me dream.

Bart Mols from Michiels printers in Booischot prints brochures for Swiss Life Belgium.



Clarity and print quality go hand in hand. Paper, colours, circulation – all these details must be agreed before the client issues the print approval. I prefer complex print orders because extreme precision is required. It makes me proud when everything's perfect in the end and the customer is satisfied.

Embedded Value The embedded value of the Swiss Life Group rose by 20% to CHF 10.7 billion as at 31 December 2006.

From the shareholder's point of view, embedded value serves as an indicator of the value of the existing insurance portfolio. It is composed of three components: the present value of future profits (PVFP) minus the present value of the cost of holding capital (CoHC) and the adjusted net asset value attributable to shareholders (ANAV). Future new business is not included.

For the model PVFP calculations, the best possible assumptions were made regarding a number of factors, in particular returns on investment, the development of costs and claims, insurance customers' participation in surplus and the risk discount rate. Business is also assumed to be continuing at the same level (going concern) and the current cost ratios – adjusted for inflation – are thus assumed to hold good for the future as well. Future costs for maintaining classic solvency capital funded by the shareholders, which underpins the insurance business, are charged to the PVFP. This value is listed separately in the table below.

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

Change in 2006 Embedded value for the Swiss Life Group came to CHF 10 665 million as at 31 December 2006. This corresponds to an increase of CHF 1778 million compared with the figure for the previous year and an embedded value per share of CHF 316. The increase can be attributed to growth in the markets abroad and future investment income that exceeded expectations. Other impacts positively affecting performance included fiscal effects, the change in the euro's exchange rate against the Swiss franc and a more precise determination of the equity tied up in connection with the solvency rules. A compilation of other changes in embedded value is given in the "Analysis of change" table on the next page.

Embedded value of the Swiss Life Group as at 31 December

In CHF million	2006	2005	+/–%
Switzerland	**4 053**	3 614	**+12.1%**
Europe without Switzerland	**4 502**	3 460	**+30.1%**
ANAV of Swiss Life Holding[1,2]	**2 110**	1 813	
Swiss Life Group	**10 665**	8 887	**+20.0%**
of which ANAV[1]	**6 793**	5 942	
of which PVFP[3]	**4 922**	4 809	
of which cost of holding capital	**–1 050**	–1 864	

1) Adjusted Net Asset Value
2) Equity of Swiss Life Holding less book value of Swiss Life/Rentenanstalt and embedded value of Swiss Life Luxembourg (for 2006)
3) Present Value of Future Profits

Economic assumptions

	Switzerland		Europe without Switzerland	
	Current	**In 5 years**	**Current**	**In 5 years**
Risk discount rate	**7.0%**	7.0%	**8.0%**	8.0%
Total weighted return on new money	**3.6%**	3.7%	**4.4%**	4.5%
Return assumptions per asset class				
Return on bonds and loans	**2.8%**	2.9%	**4.2%**	4.4%
Real estate return	**4.4%**	4.7%	**5.1%**	5.1%
Equities return	**6.5%**	6.5%	**7.5%**	7.5%
Return on alternative investments	**6.5%**	6.5%	**7.0%**	7.0%

Analysis of change

In CHF million	
Swiss Life Group embedded value at end of 2005	**8 887**
Par value reduction	**–169**
Unwind 2006	**+705**
2006 investment return: divergence from assumptions made at the end of 2005	**–61**
Future investment return: divergence from assumptions made at the end of 2005	**+167**
Allowance for deductible funds in cost of holding capital	**+500**
Model improvements	**+170**
Fiscal effects: divergence from assumptions made at the end of 2005	**+134**
Exchange rate fluctuations	**+143**
Value of new business 2006	**+121**
Other	**+68**
Swiss Life Group embedded value at end of 2006	**10 665**

Economic sensitivities

In CHF million	**Switzerland**	**Europe without Switzerland**	**ANAV of Swiss Life Holding**	**Total**
Swiss Life Group embedded value at end of 2006	**4 053**	**4 502**	**2 110**	**10 665**
Impact of 100 bp increase in investment return	**+524**	**+506**		**+1 030**
Impact of 100 bp decrease in investment return	**–1 070**	**–603**		**–1 673**
Impact of 100 bp decrease in risk discount rate	**+267**	**+320**		**+587**
Impact of 100 bp increase in return on new bond investments	**+170**	**+299**		**+469**

New business sensitivities

In CHF million	
Value of new business 2006	**121**
Impact of 100 bp increase in investment return	**+66**
Impact of 100 bp decrease in risk discount rate	**+40**
Impact of 100 bp increase in return on new bond investments	**+46**

Attestation regarding embedded value information as at 31.12.2006

"PricewaterhouseCoopers has reported to the Board of Directors, that, based on the procedures performed, in their opinion.

- The methodology set out in the EV-Guidelines, in all material respects and with due regard to the nature of the business, is appropriate and consistent for the purpose of the (traditional) Embedded Value;
- The local implementation of the methodology is, in all material respects and with due regard to the nature of the business, consistent with the prescriptions of the management of the Company and in line with general market practice;
- The assumptions determined by Swiss Life are reasonable to derive the embedded value Information;
- The Embedded Value Information has been properly compiled on the basis of the chosen assumptions and methodology.

The assurance report issued by PricewaterhouseCoopers to the Board of Directors where the assumptions made, the work performed, and the results are outlined, can be seen on www.swisslife.com."

Risk Management Risk management is one of a life insurer's core tasks. In this respect, Swiss Life pursues an integrated approach. For many years now, the company has been using an internal risk model that essentially corresponds to the new risk-based solvency regulations in Switzerland.

Swiss Life pursues an integrated approach in the area of risk management. The economic perspective serves as a basis for all processes. Other relevant aspects also come into play when making decisions on risk. These are primarily statutory considerations such as solvency, annual financial statements and investment regulations. Furthermore, the possible implications for the Group consolidated results in accordance with the International Financial Reporting Standards (IFRS) and considerations about the possible effects on the capital requirements of rating agencies also form part of the risk analysis.

Process The financial risk specialists at head office and in the local units jointly develop the principles and measuring methods for risk management, which are subsequently approved by the Board of Directors. The various risk categories are measured and monitored as part of the risk policy. The Investment and Risk Committee of the Board of Directors determines Swiss Life's risk tolerance based on the preset risk capacity parameters, and this forms the basis for deriving the individual limits for the various risk categories at each Group company. It is the responsibility of the relevant teams in the individual companies to ensure that these limits are complied with at all times. Every month, a central system tracks the limits currently being used; this system is also available to the individual companies.

The Investment and Risk Committee of the Board of Directors receives quarterly reports on the risk situation of the Group companies and the Group as a whole. The Committee appraises the situation, defines suitable measures and informs the Board of Directors.

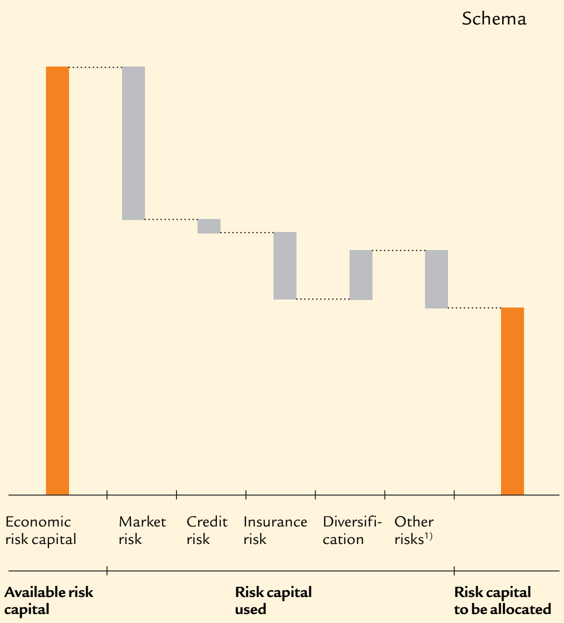
In addition to involvement with the Group-wide risk management process, the relevant local units are responsible for ensuring compliance with the regulatory and legal requirements specific to each country, and support local management in all matters relating to risk management.

Market risks It is imperative that a life insurance company monitors and controls market risks. Swiss Life is obliged to offer insurance contracts with a guaranteed rate of interest to its policyholders. Besides the guarantees, often customers with long-term ties expect to benefit from a positive trend on the financial markets in the form of bonuses. In the individual countries, life insurers are required by law to allocate to policyholders a minimum share of the profit in the form of bonuses. In order to generate the guaranteed interest and the anticipated or legally prescribed bonuses, suitable financial instruments are used on the investment side. These are usually bonds or investments which – like properties – generate regular income and preserve value.

As of 31 December 2006, the Swiss Life Group held assets under management of CHF 205.5 billion. The insurance portfolio came to CHF 147.5 billion, the lion's share of which (60%) was invested in bonds. The net equity exposure – adjusted for positions held on the client's account and allowing for hedging instruments – amounted to 6.7% on the key date. As Swiss Life announced in December 2006, the Group's equity exposure may exceed the previous target range (0% to 7%) in the future.

The market risk corresponds to fluctuations on the financial markets which impact on the value of capital investments and liabilities. As part of the market risk, the interest rate risk arises from fluctuations in interest rates which simultaneously affect both capital investments and liabilities.

Risk budgeting taking all risk categories into account



1) operational, business and strategic risk

Such interest-rate risks are reduced by purchasing corresponding interest instruments, in particular bonds, as the maturity structures of investments and liabilities are harmonised. To diversify the investment portfolio and benefit from the higher longer-term earnings expectations, Swiss Life also opts for other types of investment, such as equities, alternative investments or foreign currency investments. The equity risk replicates fluctuations in global equity markets. The individual business units control this risk by setting investment limits. The currency risk concerns fluctuations in foreign currencies vis-à-vis the Swiss franc and is restricted by exchange rate hedging transactions.

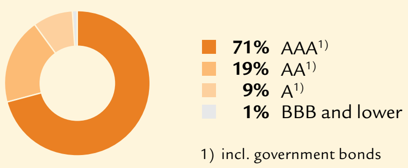
In addition to being monitored and controlled in the individual business units, market risks are also consolidated and centrally managed at Group level.

Credit risk Describes the risk that a counterparty will fail to honour its obligations towards Swiss Life. Such risks are especially common in the reinsurance and investment areas, for instance outstanding interest payments in the case of bonds, loans or mortgages. Stringent guidelines on minimum borrower ratings and guarantees in the event of default are in place throughout the Group to prevent such instances. The guidelines also specify individual limits for each borrower depending on the borrower's rating.

The individual business units constantly monitor the creditworthiness of their borrowers. To avoid concentrations of risk across the Group as a whole, the central risk management team collates the credit positions at Group level and reduces them, as required, in the individual units. In the case of credit business with financial institutions, Swiss Life regularly appraises the outstanding positions and requests additional payments if an agreed limit has been exceeded.

Swiss Life primarily invests in government bonds with excellent ratings (AAA). The remaining credit positions are greatly limited to ensure that the company is exposed to a marginal credit risk only.

Rating structure of bond portfolio as at 31.12.2006



1) incl. government bonds

Underwriting risks These include mortality, disability and cancellations. Swiss Life conducts an annual review of the mortality tables and analyses the mortalities. To manage disability risk and stabilise risk performance, Swiss Life draws up evaluations on specific disability cases in addition to the portfolio analyses. This information is incorporated in the setting of premium rates. The data is also used to form suitable reserves so that Swiss Life can meet its future obligations in the insurance business at any time. Sensitivity analyses quantify the actuarial risk by examining fluctuations in the value of liabilities as a result of variations in risk factors such as mortality, disability and costs. Swiss Life analyses the cancellation rate annually by making comparisons between assumed and actual customer behaviour.

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

Risk-based solvency check The revised Swiss Insurance Supervisory Law (VAG) came into effect on 1 January 2006. With the introduction of the Swiss Solvency Test (SST), Swiss insurers are subject to new regulatory requirements. Large insurers were required to implement the SST as early as 2006. Smaller companies have until 2008 to determine their solvency in accordance with the new risk-based principles. In the Swiss Solvency Test, Swiss Life records the details of the parent company, i.e. the Swiss business as well as activities in the German, French and Dutch subsidiaries.

The risk categories that Swiss Life has been using for several years to steer economic risk are congruent with the corresponding categories of the Swiss Solvency Test. The new Supervisory Act also stipulates that operational risks be included; these have yet to be incorporated in the Swiss Life model.

The European Solvency II project also has the aim of checking solvency based on risk monitoring. Swiss Life is involved in shaping the Solvency II guidelines together with the Swiss Insurance Association (SIA) and the European Insurance and Reinsurance Federation (CEA). Harmonising the Solvency II principles with those of the Swiss Solvency Test is extremely important for the internationally active Swiss Life Group.

Reference to each risk class with page numbers in Financial Statements

Risk	Page
Interest rate risk	123
Equity price risk	126
Credit risk	126
Currency risk	128
Liquidity risk	130

Asset and Liability Management

Matching assets and liabilities is one of the most important aspects of risk management in life insurance. Asset and liability management ensures that benefits can be paid when due and that core capital will always be available to absorb fluctuations in the value of assets and liabilities.

Asset and liability management (ALM) is aimed at systematically getting the right match of assets and liabilities, thereby ensuring that commitments to policyholders can be met at all times. Another objective is to adequately compensate shareholders for making risk capital available. Based on the underlying economic principles, Swiss Life determines the risk budget, asset allocation, product design and distribution policy, taking the statutory and regulatory framework into account. Asset and liability management addresses the following questions:

- How big are the risks that Swiss Life can assume (risk capacity)? To what extent does Swiss Life want to accept risks and in what form (risk appetite)? The risk capacity and risk appetite determine the risk budget.
- What is the best way the Group can invest the policyholders' funds and the company's free reserves and equity with respect to the given parameters of security, return and liquidity (asset allocation)?
- What principles apply with regard to the distribution of the surplus generated on investments (distribution policy)?
- What benefits do the policyholders receive and at what price (product design)?

Risk budget The amount of risk capital available is determined in the risk management process by an economic valuation of the assets and liabilities. The risk capital at Swiss Life's disposal sets the risk appetite parameters for the Group. Two types of limits are applied:

- Risk capital limits: These limits apply to the market, interest rate, currency and credit risks entered into.
- Exposure limits: These limits apply on a net basis to individual foreign currencies and to equities and equity-like investments.

Both of these limits form the parameters for spreading the funds invested over various types of investment vehicles, i.e. the asset allocation. The risk budget is based on a purely economic perspective. Non-economic restrictions such as regulatory and accounting requirements form part of the determination of the risk appetite and the limits, and are considered in the asset allocation itself.

Asset allocation Swiss Life manages the asset side of the portfolio in such a way that economic risk capital deployment is consistent with its risk appetite. The limits referred to above are set by the following bodies: at the Board of Directors level, the Investment and Risk Committee, and at local level, the Asset and Liability Committees. Within these limits, the individual market units define their asset allocation themselves.

Given that developments on the liabilities side are dynamic, a static asset allocation approach would be unsuitable. Insurance liabilities can be split into a guaranteed segment and a non-guaranteed segment (bonus component). The guaranteed segment corresponds to the guaranteed minimum interest rate. The bonus is subject to change over the course of time, because the amounts to be distributed are directly influenced by developments on the financial markets.

With regard to interest-rate risks, the management of the duration gap between assets, on the one hand, and liabilities, on the other, is decisive. Swiss Life's risk capacity enables it to enter into interest rate risks selectively. In this connection, Swiss Life has lengthened the asset duration since 30 June 2006 by almost three years in response to interest-rate developments, thus shortening the duration gap by two years. Moreover, under the holistic ALM approach, asset allocation differentiates by product line to a greater extent, thereby facilitating optimisation of the equity ratio. As a result, the Group's equity exposure may exceed the previous target range (0% to 7%) in future.

In addition to purely economic considerations, other factors still have to be taken into account for asset allocation, such as regulatory requirements and international accounting standards. Moreover, the level of equity (solvency), the need for liquidity and the requirements of rating agencies also influence the asset allocation.

Distribution policy Swiss Life's distribution policy seeks to harmonise the interests of policyholders and shareholders. For policyholders the accent is firmly on the need for security: They favour a guaranteed minimum interest rate coupled with regular and appropriate discretionary participation. Meanwhile, shareholders place greater emphasis on returns commensurate with the level of risk: They are looking for adequate compensation in the form of dividends and capital gains for the equity capital they provide.

From the company's point of view, the focus is ultimately on ensuring the long-term success of the business model: Swiss Life is therefore interested in a sustainable balance between the different interests of policyholders and shareholders.

Product design Swiss Life offers its customers the products they need. These products include guarantee commitments while allowing customers to participate in positive market trends. In designing products, Swiss Life coordinates asset and liability management and the distribution policy to ensure that future developments on the capital market only have a marginal impact on profitability. Product development guidelines have been introduced throughout the Group to ensure that the product design principles are observed. They serve as standards for the local guidelines. When business is written, therefore, the responsibility does not rest exclusively with the local business unit; in certain cases, it lies with the Corporate Executive Board as stipulated by directive.

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

Swiss Life reviews the product design principles every half year, while the economic viability of new business is examined quarterly. This permits the company to adapt the conditions of sale for the individual products to a dynamically changing environment.

Asset allocation as at 31 December (insurance portfolio)

In CHF million	2006		2005	
Shares	**11 655**	**7.9%**	11 491	8.0%
Alternative investments	**5 016**	**3.4%**	4 597	3.2%
Real estate	**11 802**	**8.0%**	11 491	8.0%
Mortgages	**6 491**	**4.4%**	6 751	4.7%
Loans	**16 670**	**11.3%**	16 949	11.8%
Bonds	**88 811**	**60.2%**	76 415	53.2%
Cash and cash equivalents	**7 081**	**4.8%**	15 944	11.1%
Total	**147 526**		143 638	
Net equity exposure	***6.7%***		*4.1%*	
Duration of bonds	***8.4 years***		*7.6 years*	

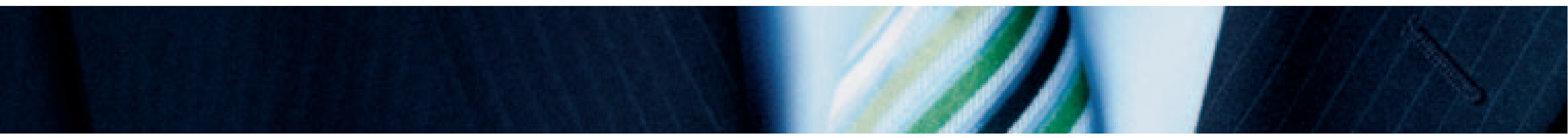
Process management Swiss Life manages the asset and liability process centrally. Responsibility for the Group-wide ALM process rests with the Group Chief Risk Officer. The areas of risk management, asset management, actuarial services, product management and finance management determine the ALM process which is extensively monitored by the Group CFO.

The responsible bodies at local level implement the decisions reached for the Group in close collaboration with the local Asset and Liability Committee at their business unit.

Rösti potatoes and fried eggs got boring after a while. So I learned to cook. I cut out recipes and baked my own bread. And of course desserts! On Sundays, I would make vanilla ice-cream with bananas and hot chocolate for my six siblings. They thought it was great and I became a chef.

I cooked on the Bürgenstock near Lucerne, as well as in Australia and Honolulu. Then I followed in the footsteps of my grandfather. He was a district sales manager at Rentenanstalt. I looked after people's nutritional wellbeing for a long time. But for the last eight years it has been even more enjoyable to look after the financial wellbeing of my customers.

Franz-Toni Schallberger from the General Agency in Stans advises private and corporate clients in Central Switzerland.



Commitment means staying on the ball. In contrast to cooking, contact with people plays a major role in pension consultations. Everyone is different – and that fascinates me. In some discussions, I can lose track of time. I especially like the fact that I can do good for others. Our solutions enable our customers to lead a better, worry-free life.

Consolidated Statement of Income

Consolidated statement of income for the years ended 31 December

In CHF million	Notes	**2006**	2005
Income			
Premiums earned on insurance contracts		**13 960**	13 519
Premiums earned on investment contracts with discretionary participation		**78**	233
Premiums ceded to reinsurers	8	**–233**	–240
Net earned premiums	8	**13 805**	13 512
Policy fees earned on insurance contracts		**128**	114
Policy fees earned on investment and unit-linked contracts	39	**332**	280
Policy fees earned	8	**460**	394
Asset management and other commission income	9, 39	**493**	494
Investment income	6, 9	**5 188**	5 185
Net gains/losses on financial assets	6, 9	**1 045**	2 582
Net gains/losses on financial instruments at fair value through profit or loss	6, 9	**351**	–687
Net gains/losses on investment property	6, 16	**97**	–24
Other income	9	**92**	86
Total income		**21 531**	21 542
Expenses			
Benefits and claims under insurance contracts	39	**–13 909**	–13 944
Benefits and claims under investment contracts with discretionary participation	39	**–91**	–240
Benefits and claims recovered from reinsurers		**160**	144
Net insurance benefits and claims	9	**–13 840**	–14 040
Policyholder participation		**–2 320**	–2 227
Interest expense	9	**–908**	–862
Commission expense	9, 39	**–1 172**	–1 092
Employee benefits expense	9	**–1 215**	–1 208
Depreciation and amortisation expense	18, 19	**–521**	–750
Impairment of property and equipment and intangible assets	18, 19	**–32**	–119
Acquisition and origination costs deferred	19	**538**	572
Other expenses	9, 39	**–803**	–793
Total expenses		**–20 273**	–20 519
Profit from operations		**1 258**	1 023
Borrowing costs		**–177**	–173
Share of results of associates	6, 17	**1**	3
Profit before income tax		**1 082**	853
Income tax expense	26	**–128**	21
Net profit		**954**	874
Net profit attributable to			
equity holders of Swiss Life Holding		**933**	860
minority interest		**21**	14
Net profit		**954**	874
Basic earnings per share for the net profit attributable to equity holders of Swiss Life Holding (in CHF)	7	**27.87**	25.67
Diluted earnings per share for the net profit attributable to equity holders of Swiss Life Holding (in CHF)	7	**26.92**	24.82

Consolidated Balance Sheet

Consolidated balance sheet

In CHF million	Notes	31.12.2006	31.12.2005
Assets			
Cash and cash equivalents		**7 621**	14 170
Insurance receivables and other receivables	10	**4 899**	4 175
Derivatives	11	**859**	777
Financial assets at fair value through profit or loss	12	**29 437**	23 653
Financial assets available for sale	13	**92 916**	80 031
Loans	14, 35	**28 883**	30 280
Financial assets held to maturity	15, 35	**4 090**	4 256
Financial assets pledged as collateral	12, 13, 37	**124**	1 232
Investment property	16	**11 816**	11 439
Investments in associates	17	**75**	76
Reinsurance assets	24	**969**	923
Property and equipment	18	**1 159**	1 263
Intangible assets including intangible insurance assets	19	**3 507**	3 075
Current income tax assets		**22**	53
Deferred income tax assets	26	**94**	79
Assets held for sale	32	**14**	1 409
Other assets	20	**465**	706
Total assets		**186 950**	177 597

Consolidated balance sheet

In CHF million	Notes	31.12.2006	31.12.2005
Liabilities and equity			
Liabilities			
Insurance payables and other payables	10, 39	**4 268**	4 093
Derivatives	11	**2 262**	1 881
Financial liabilities at fair value through profit or loss	12, 39	**9 538**	6 830
Investment contracts	21, 39	**28 853**	24 629
Deposits	22, 35, 39	**7 356**	6 419
Borrowings	23, 35, 39	**6 139**	4 750
Insurance liabilities	24, 39	**109 235**	106 541
Policyholder participation liabilities	39	**7 092**	8 082
Employee benefit liabilities	25, 39	**2 561**	2 576
Current income tax liabilities		**232**	273
Deferred income tax liabilities	26	**865**	1 136
Provisions	27	**202**	212
Liabilities associated with assets held for sale	32	**–**	1 734
Other liabilities	20, 39	**496**	488
Total liabilities		**179 099**	169 644
Equity			
Share capital		**1 385**	1 554
Share premium		**2 459**	2 467
Treasury shares		**–66**	–42
Foreign currency translation differences		**61**	–11
Gains/losses recognised directly in equity	28	**305**	1 185
Retained earnings		**3 435**	2 502
Total shareholders' equity		**7 579**	7 655
Minority interest		**272**	298
Total equity	29	**7 851**	7 953
Total liabilities and equity		**186 950**	177 597

Consolidated Statement of Cash Flow

Consolidated statement of cash flow for the years ended 31 December

In CHF million	Notes	2006	2005
Cash flow from operating activities			
Profit before income tax		**1 082**	853
Adjustments			
Net realised and unrealised gains (–)/losses (+)		**–1 474**	–1 685
Depreciation and amortisation expense		**521**	750
Impairment of property and equipment and intangible assets		**32**	119
Interest and bonuses credited to contract holders		**1 021**	935
Equity-settled share-based payment expense		**5**	4
Borrowing costs		**177**	173
Other non-cash income and expense		**566**	1 095
Profit before income tax after adjustments		**1 930**	2 244
Net changes in operating assets and liabilities			
Derivatives		**–427**	–1 436
Financial instruments at fair value through profit or loss		**897**	–1 287
Financial assets available for sale		**–14 277**	4 007
Loans		**1 823**	–552
Financial assets held to maturity		**309**	–77
Investment property		**–123**	139
Deferred acquisition and origination costs		**–538**	–572
Reinsurance assets		**–12**	7
Investment contracts		**878**	2 579
Deposits		**940**	279
Insurance liabilities		**469**	989
Other operating assets and liabilities		**885**	1 055
Cash generated from operations		**–7 246**	7 375
Income taxes paid		**–92**	–179
Total net cash flow from operating activities		**–7 338**	7 196
Cash flow from investing activities			
Purchases of investments in associates		**–3**	–20
Sales of investments in associates		**3**	0
Purchases of property and equipment		**–113**	–200
Sales of property and equipment		**23**	16
Acquisitions of minority interest		**–31**	–9
Cash received on sale of UK life business		**–**	289
Acquisition of insurance portfolio	31	**–**	11
Acquisitions of subsidiaries, net of cash and cash equivalents	30	**–2**	2
Disposals of subsidiaries, net of cash and cash equivalents	30	**119**	18
Total net cash flow from investing activities		**–4**	107
Balance carried forward to next page		**–7 342**	7 303

Consolidated statement of cash flow for the years ended 31 December

In CHF million	**2006**	2005
Balance carried forward from previous page	**–7 342**	7 303
Cash flow from financing activities		
Issuance of fixed/floating rate subordinated perpetual notes	–	535
Issuance of other debt instruments	**1 644**	245
Repayment of Guaranteed Exchangeable Monetisations of Multiple Shares (GEMMS)	–	–870
Repurchase of hybrid debt	–	–317
Redemption of other debt instruments	**–303**	–1 250
Reduction in par value	**–167**	–126
Premiums paid/received for options on own shares	**–6**	0
Purchases of treasury shares	**–175**	–133
Sales of treasury shares	**160**	130
Capital contributions from minority interest	–	44
Borrowing costs paid	**–163**	–174
Dividends paid to minority interest	**–8**	–9
Total net cash flow from financing activities	**982**	–1 925
Total change in cash and cash equivalents	**–6 360**	5 378
Cash and cash equivalents as at 1 January	**13 762**	8 304
Effect of exchange rate differences	**43**	80
Total change in cash and cash equivalents	**–6 360**	5 378
Cash and cash equivalents as at 31 December	**7 445**	13 762
Cash and cash equivalents as at 1 January	**13 762**	8 304
Cash and cash equivalents for the account and risk of the Swiss Life Group's customers	**408**	345
Total cash and cash equivalents as at 1 January	**14 170**	8 649
Cash and cash equivalents as at 31 December	**7 445**	13 762
Cash and cash equivalents for the account and risk of the Swiss Life Group's customers	**176**	408
Total cash and cash equivalents as at 31 December	**7 621**	14 170
Components of cash and cash equivalents		
Cash on hand and demand deposits	**6 042**	6 923
Cash equivalents	**1 403**	6 839
Cash and cash equivalents for the account and risk of the Swiss Life Group's customers	**176**	408
Total cash and cash equivalents as at 31 December	**7 621**	14 170
Supplemental disclosures on cash flow from operating activities		
Interest received	**4 367**	4 663
Dividends received	**430**	268

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity for the year ended 31 December 2006

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	Minority interest	Total equity
Balance as at 1 January		1 554	2 467	–42	–11	1 185	2 502	7 655	298	7 953
Changes in foreign currency translation differences		–	–	–	58	–	–	58	10	68
Changes in gains/losses recognised directly in equity		–	–	–	–	–880	–	–880	–5	–885
Disposals of subsidiaries		–	–	–	14	0	–	14	1	15
Net profit		–	–	–	–	–	933	933	21	954
Total recognised income and expense for the period		–	–	–	72	–880	933	125	27	152
Reduction in par value	28	–169	2	–	–	–	–	–167	–	–167
Conversion of convertible debt	28	0	0	–	–	–	–	0	–	0
Options on own shares		–	–5	–	–	–	–	–5	–	–5
Obligation to purchase own shares		–	–15	–	–	–	–	–15	–	–15
Equity-settled share-based payments		–	5	–	–	–	–	5	–	5
Purchases of treasury shares		–	–	–175	–	–	–	–175	–	–175
Sales of treasury shares		–	5	151	–	–	–	156	–	156
Acquisitions of minority interest		–	–	–	–	–	–	–	–45	–45
Capital contributions from minority interest		–	–	–	–	–	–	–	–	–
Dividends		–	–	–	–	–	–	–	–8	–8
Balance as at 31 December		1 385	2 459	–66	61	305	3 435	7 579	272	7 851

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

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

Notes to the Consolidated Financial Statements

1 General Information

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

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

Reduction in par value As approved by the shareholders at the General Meeting of Swiss Life Holding on 9 May 2006, a reduction in par value of CHF 5 per registered share was effected in 2006. The payout took place on 3 August 2006 and led to a reduction in the share capital of Swiss Life Holding of CHF 169 million.

Conversion of convertible debt In 2006, convertible bonds were converted into 191 Swiss Life Holding shares in total with a corresponding increase of share capital and share premium (2005: conversion into 260 Swiss Life Holding shares).

Approval of financial statements On 26 March 2007, the Board of Directors approved the annual financial statements and the financial report and authorised them for issue. The financial report therefore only reflects events up to this date.

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

2 Summary of Significant Accounting Policies

The principal accounting policies are set out below. These policies have been applied consistently to all the periods presented unless otherwise stated.

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

In December 2004, the International Accounting Standards Board issued IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease. The Interpretation explains that the requirements of IAS 17 Leases have wider applicability than just those agreements described as leases. Elements of some supply and outsourcing agreements may need to be treated as leases. The Interpretation was adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. One significant outsourcing agreement, comprising a large part of the back office and IT activities of Banca del Gottardo, was identified. This outsourcing agreement qualifies as an operating lease under the Interpretation. The future minimum lease payments to be paid as a lessee are disclosed in note 36.

In December 2004, an amendment to IAS 19 Employee Benefits, covering actuarial gains and losses, group plans and disclosures, was issued by the International Accounting Standards Board. The amendment introduces an additional recognition option for actuarial gains and losses arising in post-employment defined benefit plans. The amendment clarifies that a contractual agreement between a multi-employer plan and participating employers that determines how a surplus is to be distributed or a deficit funded will give rise to an asset or liability. The amendment also requires additional disclosures. The Swiss Life Group has adopted this amendment for annual periods beginning on 1 January 2006. No financial impact arose from the adoption of this amendment as the Swiss Life Group did not change its accounting policy for the recognition of actuarial gains and losses and does not participate in any multi-employer plans. The additional disclosures required by the amendment are included in note 25.

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

2 Summary of Significant Accounting Policies (continued)

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

In August 2005, the International Accounting Standards Board issued an amendment to IAS 39 Financial Instruments: Recognition and Measurement dealing with requirements associated with financial guarantee contracts. The amendment is intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. The amendment was adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. No financial impact arose from the adoption of this amendment as the Group has been compliant with the new requirements.

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

In July 2006, IFRIC 10 Interim Financial Reporting and Impairment was issued by the International Accounting Standards Board. The Interpretation addresses the conflict between the requirements of IAS 34 Interim Financial Reporting and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. IFRIC 10 states that any such impairment losses recognised in an interim financial statement must not be reversed in subsequent interim or annual financial statements. No financial impact arose from the early adoption of this Interpretation as the Group has already been compliant with IFRIC 10.

In November 2006, the International Accounting Standards Board issued IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. The Interpretation addresses how to apply IFRS 2 Share-based Payment to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The amendment was adopted by the Swiss Life Group for annual periods beginning on 1 January 2006. No financial impact arose from the adoption of this Interpretation.

The following new and/or amended International Financial Reporting Standards and Interpretations, which are mandatorily applicable in 2006, are not relevant to the Swiss Life Group:

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.3 Reclassifications in the consolidated statement of income and consolidated balance sheet

Reclassifications made in the consolidated statement of income and consolidated balance sheet are shown in note 39.

2.4 Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, revenues and expenses of Swiss Life Holding and its subsidiaries. A subsidiary is an entity in which Swiss Life Holding owns directly or indirectly more than 50% of the voting rights, or in which it otherwise has the power to exercise control over operations. Subsidiaries are consolidated from the date on which effective control is transferred. All intercompany balances, transactions and unrealised gains and losses on such transactions have been eliminated. A listing of the Group's principal subsidiaries is set out in note 41. The financial effect of acquisitions and disposals of subsidiaries is shown in note 30. Associates, partnerships and certain joint ventures for which the Group has between 20% and 50% of the voting rights and/or exercises significant influence are accounted for using the equity method. The Group's share of net income for the year is recognised as a share of results of associates and the ownership interest in the investment is recorded in the balance sheet at an amount that reflects its share of the net assets. The Group's share of net income is included from the date that significant influence begins until the date that significant influence ceases. Unrealised gains arising from transactions with associates, partnerships and joint ventures are eliminated to the extent of the Group's interest. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The carrying amount includes goodwill on the acquisition. A listing of the Group's principal associates, partnerships and joint ventures is shown in note 41.

2.5 Foreign currency translation and transactions

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

Foreign currency exchange rates

	31.12.2006	31.12.2005
1 EUR	**1.6078**	1.5550
1 GBP	**2.3949**	2.2640
1 USD	**1.2207**	1.3100

	Average 2006	Average 2005
1 EUR	**1.5731**	1.5484
1 GBP	**2.3076**	2.2647
1 USD	**1.2538**	1.2456

Foreign currency translation On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into Swiss francs at year-end exchange rates. Income and expense items are translated into Swiss francs at the annual average exchange rate. Goodwill reported before 1 January 2005 is translated at historical exchange rates. Goodwill for which the agreement date is on or after 1 January 2005 is carried in the foreign operation's functional currency and is translated into Swiss francs at year-end exchange rates. The resulting translation differences are recorded directly in equity as cumulative translation adjustments. On disposal of foreign entities, such translation differences are recognised in income as part of the profit or loss on the sale.

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 Summary of Significant Accounting Policies (continued)

2.6 Cash and cash equivalents

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

2.7 Derivatives

The Group enters into forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments for hedging risk exposures or for trading purposes. The notional amounts or contract volumes of derivatives, which are used to express the volume of instruments outstanding and to provide a basis for comparison with other financial instruments, do, except for certain foreign exchange contracts, not represent the amounts that are effectively exchanged by the parties and, therefore, do not measure the Group's exposure to credit risk. The amounts exchanged are calculated on the basis of the notional amounts or contract volumes and other terms of the derivatives that relate to interest or exchange rates, securities prices and the volatility of these rates and prices.

All derivative financial instruments are 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. 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 in terest rates, are reflected in the measurement of the insurance liabilities. Options, guarantees and other derivatives embedded in an insurance contract that do not carry any insurance risk are separately recognised as derivatives.

Derivatives and other financial instruments are also used to hedge or modify exposures to interest rate, foreign currency and other risks if certain criteria are met. Such financial instruments are designated to offset changes in the fair value of an asset or liability and unrecognised firm commitments (fair value hedge), or changes in future cash flows of an asset, liability or a highly probable forecast transaction (cash flow hedge).

In a qualifying fair value hedge, the change in fair value of a hedging derivative is recognised in income. The change in fair value of the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item and is also recognised in income.

In a qualifying cash flow hedge, the effective portion of the gain or loss on the hedging derivative is recognised directly in equity. For a hedged forecast transaction that results in the recognition of a financial asset or liability, the associated gain or loss recognised in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. Any ineffective portion of the gain or loss is recognised immediately in the income statement. When a 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.

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

2 Summary of Significant Accounting Policies (continued)

2.8 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).
- Certain equity instruments with a quoted price in an active market which are managed on a fair value basis.
- Certain financial assets with embedded derivatives which otherwise would have to be separated.
- Certain financial assets which share a risk with other financial instruments and give rise to opposite changes in fair value that tend to offset each other ("economic hedges").

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.9 Impairment of financial assets

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

Financial assets at amortised cost The Group assesses at each balance sheet date if there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.10 Investment property

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

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

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

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

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

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

2.11 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.

2 Summary of Significant Accounting Policies (continued)

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, Belgium, Luxembourg, Liechtenstein and partially in the Netherlands generally follow the definition of DPF as set out in IFRS 4 Insurance Contracts.

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

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, Germany and the Netherlands. 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”).

2 Summary of Significant Accounting Policies (continued)

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

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

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

All other business: No "legal quote".

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

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

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

Belgium/Luxembourg/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. 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 traditional life insurance contracts, benefits are recognised as an expense when due whereas for investment-type contracts only benefits exceeding the related policyholder deposits are recognised as an expense.

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.

2 Summary of Significant Accounting Policies (continued)

Insurance liabilities and liabilities from investment contracts with discretionary participation features

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

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

If the actual results show that the carrying amount of the insurance liabilities together with anticipated future revenues (less related deferred acquisition costs (DAC) and related intangible assets) are not adequate to meet the future obligations and to recover the unamortised DAC or intangible assets, the entire deficiency is recognised in profit or loss, initially by reducing the unamortised DAC or intangible assets and subsequently by increasing the insurance liabilities. The liability adequacy test is performed at each reporting date in accordance with 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, are reflected in the measurement of the insurance liabilities.

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.12 Separate account/unit-linked contracts

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. A derivative embedded in separate account contracts has been separated for the right of the policyholder to participate in the performance of the underlying assets.

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.

Assets associated with separate account/unit-linked contracts are included in financial assets designated as at fair value through profit or loss, investment property, derivatives and cash and cash equivalents. The related income and gains and losses are included in the income statement under the respective line items. 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 2.16 Intangible assets).

Administrative and surrender charges are included in policy fee income.

2.13 Property and equipment

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.14 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.

2.15 Investment management

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.16 Intangible assets

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

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

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

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

Negative goodwill is immediately recognised in profit and loss.

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

PVP is amortised in proportion to gross profits or gross margins over the effective life of the acquired contracts, which generally ranges from 20 to 30 years. Realised gains/losses are thereby taken into account as well as gains/losses recognised directly in equity (unrealised gains/losses). If these 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 in "expenses for amortisation and impairment write-downs of PVP" in the period in which such estimates of expected future profits or margins are revised.

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.17 Impairment of non-financial assets

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

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

2.18 Income taxes

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

Deferred income taxes are recognised for all temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the tax bases of these assets and liabilities, using the balance sheet liability method. Current income taxes and deferred income taxes are charged or credited directly to equity, if the income taxes relate to items that are credited or charged in the same or a different period, directly to equity.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be used. For unused tax losses a deferred tax asset is recognised to the extent that it is probable that these losses can be offset against future taxable profits. Deferred tax liabilities represent income taxes payable in the future in respect of taxable temporary differences.

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

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

2 Summary of Significant Accounting Policies (continued)

2.19 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.

2.20 Financial liabilities

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

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

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

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

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.

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 and insurance and investment contract deposits.

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

2 Summary of Significant Accounting Policies (continued)

2.21 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 or the present value of any future refunds from the plans or reductions in future contributions to the plans, if lower.

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

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

The Group recognises the contribution payable to a defined contribution plan in exchange for the services of the employees rendered during the period as an expense. The Group's contributions to the defined contribution plans are charged to income in the reporting period to which they relate.

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.

2.22 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.

2.23 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.

2.24 Earnings per share

Basic earnings per share are calculated by dividing net income available to shareholders by the weighted average number of shares in issue during the reporting period, excluding the average number of shares purchased by the Group and held as treasury shares. The effect of mandatorily convertible securities is included in the calculation of basic earnings per share.

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

2 Summary of Significant Accounting Policies (continued)

2.25 Offsetting

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

2.26 Forthcoming changes in accounting policies

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

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

IFRIC 9 Reassessment of Embedded Derivatives comments on the issue of whether IAS 39 requires an assessment to separate any embedded derivatives from the host contract only when the entity first becomes a party to the contract or if an assessment has to be reconsidered throughout the life of the contract. The Interpretation states that the assessment should be made when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This Interpretation will be adopted by the Swiss Life Group for annual periods as of 1 January 2007. No material financial impact is expected from the adoption of this Interpretation as the Group currently does not expect to have any significant embedded derivatives that would result in significant modifications of the cash flows under the contract.

In November 2006, IFRS 8 Operating Segments was issued by the International Accounting Standards Board. The new Standard replaces IAS 14 Segment Reporting. IFRS 8 Operating Segments requires disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates, and its major customers. In pursuit of the objective to achieve convergence with the US generally accepted accounting principles (US GAAP), the content and the wording of IFRS 8 Operating Segments is essentially the same as that of SFAS 131 Disclosures about Segments of an Enterprise and Related Information except for changes necessary to make the terminology consistent with that in other IFRS. IFRS 8 Operating Segments will be effective for periods beginning on or after 1 January 2009. No financial impact will arise on the consolidated balance sheet and consolidated statement of income of the Swiss Life Group. The Swiss Life Group is currently analysing the impact of IFRS 8 Operating Segments on its disclosure.

The following new International Financial Reporting Interpretations are not relevant to the Swiss Life Group:

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

IFRIC 12 Service Concession Arrangements. The Interpretation is not relevant to the Group's operations.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Fair value of financial instruments

The fair value of financial instruments is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is 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 principal methods and assumptions used by the Group in estimating the fair value of the following financial instruments are as follows:

- Fair values for debt and equity securities are generally based upon quoted market prices.
- Fair values for derivative financial instruments are obtained from quoted market prices and/or discounted cash flow models as appropriate.
- The majority of the private equity investments are classified as available for sale or as at fair value through profit or loss. Investments are normally valued at market if the market value represents the fair value. If no market value is available, fair value is estimated considering various factors such as purchase price, estimated liquidation value, restrictions on transferability, prices received in recent significant private placements of the same issuer, prices of investments relating to comparable companies engaged in similar business, and changes in the financial condition and prospects of the issuer.
- The fair values of loans, which are carried at amortised cost, are estimated using discounted cash flows based upon the Group's current lending rates for similar loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values equal the carrying values.
- The fair value of 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 other investments is generally based on quoted market prices.
- The fair value of financial reinsurance assets and liabilities, which are carried at amortised cost, is estimated using discounted cash flow calculations.
- The fair value of investment contracts and deposits, which are carried at amortised cost, is estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. The fair values of demand or savings deposits are equal to the amount payable on demand or the carrying amount. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date.
- The fair value of borrowings, which are carried at amortised cost, is estimated using discounted cash flow calculations based upon the Group's current borrowing rates for similar borrowings with remaining maturities consistent with the debt being valued.
- The fair value of liabilities arising from insurance and investment contracts for the account and risk of the Swiss Life Group's customers is calculated based on the valuation of the underlying assets.

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

– The fair value of investment contracts with discretionary participation features cannot reliably be determined. It is impracticable to determine the fair value of such instruments due to the lack of a reliable basis to measure such supplemental discretionary returns. IFRS 4 Insurance Contracts is silent on the measurement of the amounts identified as DPF.

Fair value of non-financial instruments

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

Impairment of available-for-sale equity instruments

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

Insurance liabilities

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

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

For long-term insurance contracts and investment contracts with discretionary participation features with fixed and guaranteed terms, the definition of estimates occurs in two stages. At inception of the contract, estimates of future deaths, surrender, 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 liabilities so established are adequate in the light of these latest estimates. If the liabilities are considered adequate the assumptions are not altered. If the liabilities are not adequate, the assumptions for the calculation of the liabilities are altered ("unlocked") to reflect the latest estimates; no margin is added to the assumptions in this event. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

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

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

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

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

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

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

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

Morbidity and disability

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

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

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

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

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

Surrender

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

Policyholder options

In certain contracts, the policyholder has the option to choose a guaranteed annuity at maturity of an endowment contract. The value of the options depends on how the guaranteed mortality tables and guaranteed interest rates differ from actual mortality and interest rates. The influence on the insurance liabilities may therefore depend on the behaviour of the policyholders.

Expense base and inflation

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

In certain markets, expense allocation is based on an activity-based cost methodology. Recurrent costs are subdivided into 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. For certain asset classes, a fixed return is used, centrally set by the Group. From this gross investment return, projected asset management fees are deducted to obtain a net investment return.

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

Impairment of goodwill

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

Defined benefit liabilities

The Swiss Life Group uses certain assumptions relating to the calculation of the defined benefit liabilities. These assumptions comprise the expected return on plan assets 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 25.

Income taxes

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

Provisions

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

4 Segment Information

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

Under the Group's strategy primary segmentation is split into four categories: Insurance, Banking, Investment Management and Other. The organisational and management structure within the "Insurance" segment is based on geography whereas the organisational and management structure of other segments is primarily based on products/services.

- The "Insurance" segment consists of life and non-life insurance operations. Life insurance operations offer a broad range of life, pension, annuity and investment-type policies to both groups and individuals, including accident, health and disability coverage. Non-life operations principally include property and casualty, liability and motor insurance. The Group's strategy focuses primarily on the life and pension business in a number of key European markets, such as Switzerland, France, Germany, the Netherlands, Belgium, Luxembourg and Liechtenstein. Non-life operations include operations in France, Belgium and Italy. The non-life operations in Switzerland («La Suisse») were sold in July 2005 (accident & health business) and in August 2005 (motor insurance business and property and liability lines). Non-life operations are no longer disclosed as a separate segment as these operations are no longer strategically relevant to the Group and do not fulfill the critical thresholds for separate disclosure. The "Insurance" segment also includes a number of companies which hold investments primarily pertaining to life insurance.
- "Banking" involves the management of assets for private banking clients, as well as the provision of corresponding asset management services. "Banking" covers the Group's banking operations.
- "Investment Management" refers to the management of assets for institutional clients and the Group's insurance business, as well as the provision of expert advice for such clients.
- "Other" refers principally to various finance and service companies.

Secondary segmentation is based on geographical areas, covering the following segments: Switzerland, France, Germany, the Netherlands, Belgium and other countries.

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

4 Segment Information (continued)

Statement of income for the year ended 31 December 2006

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Income						
Premiums earned on insurance contracts	13 960	–	–	–	0	13 960
Premiums earned on investment contracts with discretionary participation	78	–	–	–	–	78
Premiums ceded to reinsurers	–233	–	–	–	–	–233
Net earned premiums	13 805	–	–	–	0	13 805
Policy fees earned on insurance contracts	128	–	–	–	–	128
Policy fees earned on investment and unit-linked contracts	332	–	–	–	–	332
Policy fees earned	460	–	–	–	–	460
Asset management and other commission income	154	310	202	6	–179	493
Investment income	4 940	285	2	50	–89	5 188
Net gains/losses on financial assets	1 061	–20	0	4	–	1 045
Net gains/losses on financial instruments at fair value through profit or loss	291	59	–	1	0	351
Net gains/losses on investment property	97	–	–	–	–	97
Other income	–5	99	8	1	–11	92
Total income	20 803	733	212	62	–279	21 531
of which inter-segment	*78*	*28*	*124*	*49*	*–279*	
Expenses						
Benefits and claims under insurance contracts	–13 909	–	–	–	–	–13 909
Benefits and claims under investment contracts with discretionary participation	–91	–	–	–	–	–91
Benefits and claims recovered from reinsurers	160	–	–	–	–	160
Net insurance benefits and claims	–13 840	–	–	–	–	–13 840
Policyholder participation	–2 320	–	–	–	–	–2 320
Interest expense	–806	–146	0	0	44	–908
Commission expense	–1 128	–50	–38	0	44	–1 172
Employee benefits expense	–902	–192	–77	–1	1	–1 171
Depreciation and amortisation expense	–508	–12	–1	–	–	–521
Impairment of property and equipment and intangible assets	–32	–	–	–	–	–32
Acquisition and origination costs deferred	538	–	–	–	–	538
Other expenses	–700	–168	–53	–4	137	–788
Total expenses	–19 698	–568	–169	–5	226	–20 214
of which inter-segment	*–127*	*–52*	*–45*	*–2*	*226*	
Segment result	1 105	165	43	57	–53	1 317
of which inter-segment	*–49*	*–24*	*79*	*47*	*–53*	
Unallocated corporate costs						–59
Profit from operations						1 258
Borrowing costs	–129	–51	0	–50	53	–177
Share of results of associates	4	–11	–	8	–	1
Income tax expense						–128
Net profit						954
Additions of property and equipment and intangible assets	653	4	3	–	–	660

4 Segment Information (continued)

Statement of income for the year ended 31 December 2005

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Income						
Premiums earned on insurance contracts	13 519	–	–	–	–	13 519
Premiums earned on investment contracts with discretionary participation	233	–	–	–	–	233
Premiums ceded to reinsurers	–240	–	–	–	–	–240
Net earned premiums	13 512	–	–	–	–	13 512
Policy fees earned on insurance contracts	114	–	–	–	–	114
Policy fees earned on investment and unit-linked contracts	280	–	–	–	–	280
Policy fees earned	394	–	–	–	–	394
Asset management and other commission income	139	312	173	9	–139	494
Investment income	4 892	282	1	31	–21	5 185
Net gains/losses on financial assets	2 435	146	0	0	1	2 582
Net gains/losses on financial instruments at fair value through profit or loss	–779	81	–	12	–1	–687
Net gains/losses on investment property	–24	–	–	–	–	–24
Other income	312	–132	6	–89	–11	86
Total income	20 881	689	180	–37	–171	21 542
of which inter-segment	*–86*	*130*	*91*	*36*	*–171*	
Expenses						
Benefits and claims under insurance contracts	–13 944	–	–	–	–	–13 944
Benefits and claims under investment contracts with discretionary participation	–240	–	–	–	–	–240
Benefits and claims recovered from reinsurers	144	–	–	–	–	144
Net insurance benefits and claims	–14 040	–	–	–	–	–14 040
Policyholder participation	–2 227	–	–	–	–	–2 227
Interest expense	–778	–94	0	0	10	–862
Commission expense	–1 062	–42	–28	0	40	–1 092
Employee benefits expense	–913	–203	–55	0	–	–1 171
Depreciation and amortisation expense	–729	–20	–1	–	–	–750
Impairment of property and equipment and intangible assets	–53	–66	–	–	–	–119
Acquisition and origination costs deferred	572	–	–	–	–	572
Other expenses	–663	–155	–35	–9	94	–768
Total expenses	–19 893	–580	–119	–9	144	–20 457
of which inter-segment	*–99*	*–9*	*–29*	*–7*	*144*	
Segment result	988	109	61	–46	–27	1 085
of which inter-segment	*–185*	*121*	*62*	*29*	*–27*	
Unallocated corporate costs						–62
Profit from operations						1 023
Borrowing costs	–108	–42	0	–50	27	–173
Share of results of associates	2	–2	0	3	–	3
Income tax expense						21
Net profit						874
Additions of property and equipment and intangible assets	844	7	0	–	–	851

4 Segment Information (continued)

Balance sheet as at 31 December 2006

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Assets						
Cash and cash equivalents	7 087	1 994	54	678	–2 192	7 621
Insurance receivables and other receivables	4 724	172	86	66	–149	4 899
Derivatives	618	261	–	–	–20	859
Financial assets at fair value through profit or loss	26 541	2 883	–	13	–	29 437
Financial assets available for sale	91 492	1 328	21	75	–	92 916
Loans	23 065	5 937	13	980	–1 112	28 883
Financial assets held to maturity	4 046	42	2	–	–	4 090
Financial assets pledged as collateral	–	124	–	–	–	124
Investment property	11 816	–	–	–	–	11 816
Reinsurance assets	969	–	–	–	–	969
Property and equipment	1 016	139	4	–	–	1 159
Intangible assets including intangible insurance assets	3 095	412	0	–	–	3 507
Assets held for sale	3	11	–	–	–	14
Other assets	471	303	52	5	–366	465
Segment assets	174 943	13 606	232	1 817	–3 839	186 759
Investments in associates						75
Income tax assets						116
Total assets						186 950
Liabilities and equity						
Liabilities						
Insurance payables and other payables	4 108	235	35	32	–142	4 268
Derivatives	1 962	308	–	12	–20	2 262
Financial liabilities at fair value through profit or loss	8 709	829	–	–	–	9 538
Investment contracts	28 853	–	–	–	–	28 853
Deposits	2 149	7 397	–	–	–2 190	7 356
Insurance liabilities	109 581	–	–	–	–346	109 235
Policyholder participation liabilities	7 093	–	–	–	–1	7 092
Employee benefit liabilities	2 183	306	72	–	–	2 561
Provisions	142	53	7	–	–	202
Liabilities associated with assets held for sale	–	–	–	–	–	–
Other liabilities	482	18	1	22	–27	496
Segment liabilities	165 262	9 146	115	66	–2 726	171 863
Borrowings						6 139
Income tax liabilities						1 097
Equity						7 851
Total liabilities and equity						186 950

4 Segment Information (continued)

Balance sheet as at 31 December 2005

In CHF million	Insurance	Banking	Investment Management	Other	Eliminations	Total
Assets						
Cash and cash equivalents	15 159	2 889	73	733	–4 684	14 170
Insurance receivables and other receivables	4 055	144	32	28	–84	4 175
Derivatives	518	242	–	28	–11	777
Financial assets at fair value through profit or loss	21 892	1 761	–	–	–	23 653
Financial assets available for sale	79 413	595	11	12	–	80 031
Loans	23 601	6 996	9	777	–1 103	30 280
Financial assets held to maturity	4 203	44	9	–	–	4 256
Financial assets pledged as collateral	–	1 232	–	–	–	1 232
Investment property	11 439	–	–	–	–	11 439
Reinsurance assets	923	–	–	–	–	923
Property and equipment	1 118	143	2	–	–	1 263
Intangible assets including intangible insurance assets	2 660	415	0	–	–	3 075
Assets held for sale	2	1 407	–	–	–	1 409
Other assets	702	289	24	8	–317	706
Segment assets	165 685	16 157	160	1 586	–6 199	177 389
Investments in associates						76
Income tax assets						132
Total assets						177 597
Liabilities and equity						
Liabilities						
Insurance payables and other payables	3 954	149	19	34	–63	4 093
Derivatives	1 571	321	–	–	–11	1 881
Financial liabilities at fair value through profit or loss	6 115	715	–	–	–	6 830
Investment contracts	24 629	–	–	–	–	24 629
Deposits	1 773	9 439	–	–	–4 793	6 419
Insurance liabilities	106 873	–	–	–	–332	106 541
Policyholder participation liabilities	8 084	–	–	–	–2	8 082
Employee benefit liabilities	2 243	299	34	–	–	2 576
Provisions	169	34	9	–	–	212
Liabilities associated with assets held for sale	–	1 734	–	–	–	1 734
Other liabilities	447	18	2	24	–3	488
Segment liabilities	155 858	12 709	64	58	–5 204	163 485
Borrowings						4 750
Income tax liabilities						1 409
Equity						7 953
Total liabilities and equity						177 597

4 Segment Information (continued)

Geographical segments

In CHF million	Segment income	Segment assets	Additions of property and equipment and intangible assets
2006			
Switzerland	**10 706**	**89 554**	**192**
France	**5 080**	**45 981**	**269**
Germany	**2 870**	**21 801**	**127**
Netherlands	**2 047**	**19 801**	**38**
Belgium	**528**	**5 320**	**31**
Other countries	**300**	**4 302**	**3**
Total	**21 531**	**186 759**	**660**
2005			
Switzerland	11 274	88 971	342
France	4 768	40 492	272
Germany	2 799	20 415	164
Netherlands	2 007	18 674	38
Belgium	524	4 937	31
Other countries	170	3 900	4
Total	21 542	177 389	851

Revenues, assets and purchases of owner-occupied property, equipment and intangible assets are allocated to the geographical segment in which the entity reporting such assets is located. Due to cross-border activities and the nature of operations the Group is unable to break down revenues and assets according to the locations of the customers.

5 Details of Insurance Segment

Statement of income "Insurance" segment for the year ended 31 December 2006

In CHF million	Switzer-land	France	Germany	Nether-lands	Belgium	Luxem-bourg	Other	Elimi-nations	Total
Income									
Premiums earned on insurance contracts	7 301	3 055	2 022	1 208	328	43	19	–16	13 960
Premiums earned on investment contracts with discretionary participation	65	13	–	–	–	–	–	–	78
Premiums ceded to reinsurers	–16	–128	–80	–8	–11	–4	–3	17	–233
Net earned premiums	7 350	2 940	1 942	1 200	317	39	16	1	13 805
Policy fees earned on insurance contracts	8	64	1	54	1	–	–	–	128
Policy fees earned on investment and unit-linked contracts	15	283	7	–	15	9	4	–1	332
Policy fees earned	23	347	8	54	16	9	4	–1	460
Asset management and other commission income	60	42	30	25	2	0	–	–5	154
Investment income	2 138	1 254	732	632	148	26	12	–2	4 940
Net gains/losses on financial assets	648	55	185	157	17	1	–2	–	1 061
Net gains/losses on financial instruments at fair value through profit or loss	–52	352	–48	16	22	1	0	–	291
Net gains/losses on investment property	39	53	3	5	–3	–	–	–	97
Other income	–25	13	16	1	9	–5	–13	–1	–5
Total income	10 181	5 056	2 868	2 090	528	71	17	–8	20 803
of which inter-subsegment	*30*	*–5*	*–2*	*–3*	*0*	*–11*	*–1*	*–8*	
Expenses									
Benefits and claims under insurance contracts	–7 651	–2 325	–2 062	–1 515	–319	–29	–16	8	–13 909
Benefits and claims under investment contracts with discretionary participation	–76	–15	–	–	–	–	–	–	–91
Benefits and claims recovered from reinsurers	8	72	74	3	5	3	2	–7	160
Net insurance benefits and claims	–7 719	–2 268	–1 988	–1 512	–314	–26	–14	1	–13 840
Policyholder participation	–864	–857	–420	–168	–8	–3	–	0	–2 320
Interest expense	–131	–543	–26	–15	–78	–13	–1	1	–806
Commission expense	–141	–666	–200	–66	–49	–6	–3	3	–1 128
Employee benefits expense	–388	–246	–113	–90	–51	–8	–6	–	–902
Depreciation and amortisation expense	–49	–287	–83	–81	–7	–1	0	–	–508
Impairment of property and equipment and intangible assets	–1	–	–29	–	–2	–	–	–	–32
Acquisition and origination costs deferred	90	261	122	35	28	2	0	–	538
Other expenses	–310	–233	–47	–58	–42	–6	–7	3	–700
Total expenses	–9 513	–4 839	–2 784	–1 955	–523	–61	–31	8	–19 698
of which inter-subsegment	*–4*	*–3*	*0*	*–1*	*–4*	*8*	*–4*	*8*	
Insurance segment result by country	668	217	84	135	5	10	–14	–	1 105
of which inter-subsegment	*26*	*–8*	*–2*	*–4*	*–4*	*–3*	*–5*	*–*	

5 Details of Insurance Segment (continued)

Statement of income "Insurance" segment for the year ended 31 December 2005

In CHF million	Switzer-land	France	Germany	Nether-lands	Belgium	Luxem-bourg	Other	Elimi-nations	Total
Income									
Premiums earned on insurance contracts	7 203	2 816	1 999	1 155	303	39	20	–16	13 519
Premiums earned on investment contracts with discretionary participation	221	12	–	–	–	–	–	–	233
Premiums ceded to reinsurers	–43	–117	–70	–8	–9	–4	–5	16	–240
Net earned premiums	7 381	2 711	1 929	1 147	294	35	15	0	13 512
Policy fees earned on insurance contracts	15	68	–	30	1	–	–	0	114
Policy fees earned on investment and unit-linked contracts	20	232	6	–	14	7	1	–	280
Policy fees earned	35	300	6	30	15	7	1	0	394
Asset management and other commission income	70	24	22	25	4	0	–	–6	139
Investment income	2 150	1 280	714	577	140	25	11	–5	4 892
Net gains/losses on financial assets	1 820	126	224	211	51	3	0	–	2 435
Net gains/losses on financial instruments at fair value through profit or loss	–985	263	–96	22	16	1	0	–	–779
Net gains/losses on investment property	–47	33	–8	1	–3	–	–	–	–24
Other income	271	11	4	12	10	–6	2	8	312
Total income	10 695	4 748	2 795	2 025	527	65	29	–3	20 881
of which inter-subsegment	*19*	*–3*	*–3*	*–3*	*1*	*–6*	*–2*	*–3*	
Expenses									
Benefits and claims under insurance contracts	–7 707	–2 246	–2 137	–1 458	–332	–41	–21	–2	–13 944
Benefits and claims under investment contracts with discretionary participation	–235	–5	–	–	–	–	–	–	–240
Benefits and claims recovered from reinsurers	6	53	71	2	14	1	3	–6	144
Net insurance benefits and claims	–7 936	–2 198	–2 066	–1 456	–318	–40	–18	–8	–14 040
Policyholder participation	–938	–816	–231	–229	–7	–8	–	2	–2 227
Interest expense	–106	–553	–34	–17	–56	–12	0	0	–778
Commission expense	–137	–609	–200	–66	–41	–7	–2	0	–1 062
Employee benefits expense	–425	–237	–105	–86	–47	–7	–6	0	–913
Depreciation and amortisation expense	–250	–290	–138	–39	–11	–1	0	–	–729
Impairment of property and equipment and intangible assets	–48	–	–4	–	–1	–	–	–	–53
Acquisition and origination costs deferred	110	262	134	37	25	4	–	–	572
Other expenses	–294	–202	–66	–54	–40	–4	–8	5	–663
Total expenses	–10 024	–4 643	–2 710	–1 910	–496	–75	–34	–1	–19 893
of which inter-subsegment	*–10*	*7*	*3*	*–3*	*4*	*0*	*0*	*–1*	
Insurance segment result by country	671	105	85	115	31	–10	–5	–4	988
of which inter-subsegment	*9*	*4*	*0*	*–6*	*5*	*–6*	*–2*	*–4*	

6 Risk Management Policies and Procedures

The Group's core business is life insurance and pensions. A life insurance and pensions contract represents a long-term promise to the policyholder. To fulfil its future payment obligations to the policyholders, the insurance entities of the Group must be financially sound over an extended period of time. The ability to remain financially healthy and strong depends on a number of risk factors. The Group risk map can be broadly divided into financial, insurance, 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. On a consolidated basis, half-yearly reports covering interest rate risk, equity price risk, currency risk, credit risk and insurance risk are prepared. Additionally, market risks and financial risk limits are reported on a monthly basis for the largest operations in the insurance business. Strategic and operational risks are assessed and reported on an annual basis.

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

Risk management functions are fulfilled at several levels by different bodies within the Swiss Life Group, such as the Investment and Risk Committee 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 appropriately.

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

In CHF million	31.12.2006	31.12.2005
Cash and cash equivalents	**176**	408
Derivatives	**1**	2
Financial assets at fair value through profit or loss		
Debt instruments	**2 800**	1 970
Equity securities	**2 912**	1 967
Investment fund units	**8 751**	6 036
Other	**498**	323
Investment property	**7**	4
Total assets for the account and risk of the Swiss Life Group's customers	**15 145**	10 710

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	2006	2005	2006	2005	2006	2005
	For the account and risk of the Swiss Life Group	For the account and risk of the Swiss Life Group	**For the account and risk of the Swiss Life Group's customers**	For the account and risk of the Swiss Life Group's customers	**Total**	Total
Investment income	**5 188**	5 185	**0**	0	**5 188**	5 185
Net gains/losses on financial assets	**1 045**	2 582	**–**	–	**1 045**	2 582
Net gains/losses on financial instruments at fair value through profit or loss	**271**	–780	**80**	93	**351**	–687
Net gains/losses on investment property	**93**	–24	**4**	0	**97**	–24
Share of results of associates	**1**	3	**–**	–	**1**	3
Financial result	**6 598**	6 966	**84**	93	**6 682**	7 059
The financial result for the account and risk of the Swiss Life Group's customers consists of						
net gains/losses on financial assets and investment property			**1 069**	1 249		
net gains/losses on financial liabilities			**–985**	–1 156		

6 Risk Management Policies and Procedures (continued)

6.2 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. The risk capital available is defined as the positive 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 is with the Board of Directors.

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

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

6.3 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: strategic asset allocation, distribution policy with regard to surplus generated on investments and product design.

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

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

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

Strategic asset allocation Strategic asset allocation is the first major task of the ALM process and aims at minimising risk exposure while optimising the returns on the asset portfolio for the 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 minimised, thus ensuring that the policyholders receive the benefits they were promised.

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

6.4 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, credit risk capital, interest rate risk capital and currency risk capital limits as well as exposure limits for currencies and net equity for each relevant Group entity have been defined and these limits are assessed and reported on a regular basis.

Insurance liabilities with embedded derivatives not separated and fair valued

In CHF million	31.12.2006	31.12.2005
Interest rate risk	99 409	98 869
Risk of equity price movement	73	207
Currency risk	–	–
Elimination of duplications	–	–
Total insurance liabilities with embedded derivatives not separated and fair valued	**99 482**	99 076
Other insurance liabilities	9 753	7 465
Total insurance liabilities	**109 235**	106 541

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

The hedging strategies used by Banca del Gottardo are set out in the respective section of this note.

6 Risk Management Policies and Procedures (continued)

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

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

Average effective interest rates

	CHF	EUR	USD	GBP
Financial assets not at fair value through profit or loss as at 31 December 2006				
Cash and cash equivalents	**0.1–1.5%**	**0.3–3.5%**	**3.3–4.8%**	**3.2–5.4%**
Loans	**2.9–4.0%**	**2.0–5.7%**	**6.0–6.3%**	**6.5%**
Financial assets available for sale	**2.3–3.2%**	**2.4–5.1%**	**3.6–4.6%**	**3.3–5.1%**
Financial assets held to maturity	**2.1%**	**4.7–5.9%**	**8.7%**	**–**
Financial liabilities not at fair value through profit or loss as at 31 December 2006				
Investment contracts	**2.3–4.7%**	**1.9–3.8%**	**3.6%**	**4.7%**
Deposits	**0.4–1.6%**	**2.0–3.7%**	**3.7–5.2%**	**4.5–5.1%**
Debentures and loans	**1.9–4.3%**	**3.4–5.5%**	**5.2–5.7%**	**4.6–5.1%**
Financial assets not at fair value through profit or loss as at 31 December 2005				
Cash and cash equivalents	0.1–0.9%	0.3–2.4%	1.1–4.0%	3.1–4.4%
Loans	2.4–4.6%	2.0–5.5%	2.7–4.8%	–
Financial assets available for sale	2.6–3.3%	2.4–5.4%	2.5–4.9%	3.3–5.4%
Financial assets held to maturity	2.5–3.9%	4.9–5.9%	4.7%	–
Financial liabilities not at fair value through profit or loss as at 31 December 2005				
Investment contracts	2.3–4.3%	2.1–3.8%	3.7%	4.8%
Deposits	0.3–1.2%	1.4–3.8%	1.9–4.0%	3.3–4.1%
Debentures and loans	2.2–4.5%	2.9–5.4%	5.7%	–

6 Risk Management Policies and Procedures (continued)

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

Interest sensitivity of insurance liabilities

In CHF million	31.12.2006	31.12.2005
Interest-sensitive insurance liabilities		
Minimum guaranteed interest rate 0 – < 2%	**3 395**	4 763
Minimum guaranteed interest rate 2 – < 3%	**33 550**	34 218
Minimum guaranteed interest rate 3 – < 4%	**39 756**	38 902
Minimum guaranteed interest rate 4 – < 5%	**22 453**	20 922
Minimum guaranteed interest rate 5 – < 6%	**228**	40
Minimum guaranteed interest rate 6 – 8%	**27**	24
Minimum guaranteed interest rate > 8%	**–**	–
Total interest-sensitive insurance liabilities	**99 409**	98 869
Non-interest-sensitive insurance liabilities	**8 059**	6 141
Insurance liabilities with interest rate risk borne by the policyholder	**1 767**	1 531
Total insurance liabilities	**109 235**	106 541

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

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

The Group manages interest rate risk by managing the interest rate sensitivity of key rate exposures of its investment portfolio against the interest sensitivity of key rate exposures of liabilities issued. The key rate exposure of the liabilities is determined by projecting the expected cash flows from the contracts using best estimates of mortality, disability, expenses, surrender and exercise of policyholder options. The ALM process defines the strategic asset allocation minimising 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 risk. In certain markets receiver swaptions are used to hedge the risk of interest rates decreasing below guaranteed interest rates. Payer swaptions are used to hedge the risk of fair value changes of interest-sensitive financial assets. Strategically a minimum interest rate risk will remain, since a perfect interest rate hedge can either not be achieved or would not be aimed at.

6 Risk Management Policies and Procedures (continued)

Exposure to interest rate risk

In CHF million	Earlier of contractual repricing or maturity dates					
	Up to 1 year	1–5 years	5–10 years	More than 10 years	For the account and risk of the Swiss Life Group's customers	Total
Carrying amounts as at 31 December 2006						
Financial assets						
Fixed-rate	**18 349**	**25 471**	**29 363**	**42 510**	**–**	**115 693**
Variable-rate	**7 107**	**1 824**	**–**	**–**	**–**	**8 931**
Non-interest-bearing	**16 408**	**9 861**	**127**	**2 671**	**–**	**29 067**
Assets for the account and risk of the Swiss Life Group's customers	**–**	**–**	**–**	**–**	**15 138**	**15 138**
Total financial assets	**41 864**	**37 156**	**29 490**	**45 181**	**15 138**	**168 829**
Financial liabilities						
Fixed-rate	**–7 123**	**–21 093**	**–6 498**	**–795**	**–**	**–35 509**
Variable-rate	**–2 416**	**–589**	**–**	**–**	**–**	**–3 005**
Non-interest-bearing	**–5 648**	**–423**	**–7**	**–4**	**–**	**–6 082**
Liabilities for the account and risk of the Swiss Life Group's customers	**–**	**–**	**–**	**–**	**–13 820**	**–13 820**
Total financial liabilities	**–15 187**	**–22 105**	**–6 505**	**–799**	**–13 820**	**–58 416**
Balance sheet interest rate sensitivity gap	**26 677**	**15 051**	**22 985**	**44 382**	**1 318**	**110 413**
Carrying amounts as at 31 December 2005						
Total financial assets	48 497	30 417	27 483	41 471	10 706	158 574
Total financial liabilities	–13 371	–19 390	–6 144	–740	–8 957	–48 602
Balance sheet interest rate sensitivity gap	35 126	11 027	21 339	40 731	1 749	109 972

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

In Switzerland, the Swiss occupational pensions (BVG) segment of the group life insurance business is subject to guaranteed minimum interest and annuity conversion rates. Following the decision of the Swiss Federal Council on 10 September 2003, a reduction in the guaranteed interest rate for the mandatory BVG business from 3.25% to 2.25% took effect on 1 January 2004. The rate was subsequently raised to 2.50% with effect from 1 January 2005 and confirmed at this level for 2006 and 2007. The guaranteed annuity conversion rate for the Swiss Life Group's mandatory BVG business is set at the rate of 7.2%. Under an amendment to the BVG legislation, which took effect on 1 January 2005, this rate will be reduced in stages to 6.8% until 2015.

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 falling interest rates. To increase the convexity of interest-rate-sensitive assets, which is generally lower than the convexity of the insurance liabilities, receiver bonds are part of the asset portfolios in certain countries.

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

The Group monitors the investment portfolio risks by establishing mandatory risk limits. The investment portfolio is adequately diversified and there was only one investment exceeding 10% of shareholders' equity as at 31 December 2006: HSBC totalling CHF 0.8 billion (2005: CHF 0.8 billion).

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

related reinsurance agreements in the form of deposited funds and securities.

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

For fixed-income assets (including money market and cash positions) the total exposure per counterparty is aggregated and reported to 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. 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.

Exposure to credit risk of the financial assets as at 31 December 2006

In CHF million	**AAA**	**AA**	**A**	**BBB and below**	**Non-rated**	**For the account and risk of the Swiss Life Group's customers**	**Total**
Cash and cash equivalents	**4 389**	**1 658**	**748**	**32**	**618**	**176**	**7 621**
Insurance receivables and other receivables	**530**	**304**	**95**	**10**	**3 960**	**–**	**4 899**
Derivatives	**383**	**228**	**85**	**7**	**155**	**1**	**859**
Debt instruments at fair value through profit or loss	**1 703**	**2 130**	**772**	**88**	**220**	**2 800**	**7 713**
Debt instruments available for sale	**58 252**	**14 568**	**7 725**	**925**	**268**	**–**	**81 738**
Loans	**8 079**	**4 963**	**3 829**	**165**	**11 847**	**–**	**28 883**
Debt instruments held to maturity	**3 401**	**562**	**85**	**–**	**42**	**–**	**4 090**
Debt instruments pledged as collateral	**44**	**–**	**41**	**–**	**–**	**–**	**85**
Reinsurance assets	**–**	**694**	**247**	**0**	**28**	**–**	**969**
Total assets bearing credit risk	**76 781**	**25 107**	**13 627**	**1 227**	**17 138**	**2 977**	**136 857**
of which collateralised	***10 733***	***2 155***	***530***	***–***	***10 736***	***–***	***24 154***

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

In CHF million	AAA	AA	A	BBB and below	Non-rated	For the account and risk of the Swiss Life Group's customers	Total
Cash and cash equivalents	7 617	1 665	1 117	3	3 360	408	14 170
Insurance receivables and other receivables	559	91	69	38	3 418	–	4 175
Derivatives	277	194	45	28	231	2	777
Debt instruments at fair value through profit or loss	1 189	2 654	431	55	351	1 970	6 650
Debt instruments available for sale	50 685	12 817	5 552	647	1 170	–	70 871
Loans	7 658	3 868	3 930	415	14 409	–	30 280
Debt instruments held to maturity	3 557	482	155	–	62	–	4 256
Debt instruments pledged as collateral	209	217	146	–	4	–	576
Reinsurance assets	0	465	405	50	3	–	923
Total assets bearing credit risk	71 751	22 453	11 850	1 236	23 008	2 380	132 678
of which collateralised	*8 098*	*916*	*204*	*464*	*10 848*	*–*	*20 530*

6 Risk Management Policies and Procedures (continued)

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

Currency risk The Swiss Life Group operates internationally and its exposures to 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 value of which is subject to exchange rate fluctuations. The Group operates with various functional currencies (predominantly Swiss francs and euros). Its financial position and earnings could be significantly affected by a weakening of 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 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 Swiss Life actively engages in currency management to reduce the effect of exchange rate fluctuations on its assets and liabilities, particularly by hedging against the risk of such movements in relation to part of its investments denominated in euros and in US dollars, significant movements in exchange rates could adversely affect Swiss Life's earnings and financial position, including the value of its investment portfolio. Foreign exchange exposure is hedged to a large extent in line with the strategic asset allocation. The Group's hedging arrangements are directed at covering its exposure from an economic perspective. The instruments which the Swiss Life Group uses to hedge exposure may not be perfectly correlated to the related assets, so the Group will still be exposed to losses if the value of the hedge and the value of the underlying asset or liability do not correspond appropriately. The Swiss Life Group is further required to bear expenses and costs in establishing such hedging arrangements.

6 Risk Management Policies and Procedures (continued)

Exposure to currency risk

In CHF million	CHF	EUR	USD	GBP	Other	For the account and risk of the Swiss Life Group's customers	Total
Carrying amounts as at 31 December 2006							
Assets							
Cash and cash equivalents	**4 426**	**1 897**	**709**	**199**	**214**	**176**	**7 621**
Insurance receivables and other receivables	**1 367**	**3 463**	**41**	**21**	**7**	**–**	**4 899**
Derivatives	**131**	**397**	**263**	**31**	**36**	**1**	**859**
Financial assets at fair value through profit or loss	**3 104**	**9 693**	**1 349**	**11**	**319**	**14 961**	**29 437**
Financial assets available for sale	**16 391**	**68 053**	**6 607**	**1 467**	**398**	**–**	**92 916**
Loans	**14 603**	**13 319**	**633**	**58**	**270**	**–**	**28 883**
Financial assets held to maturity	**34**	**4 046**	**10**	**–**	**–**	**–**	**4 090**
Financial assets pledged as collateral	**95**	**29**	**–**	**–**	**–**	**–**	**124**
Investment property	**9 688**	**2 121**	**–**	**–**	**–**	**7**	**11 816**
Investments in associates	**29**	**46**	**–**	**–**	**–**	**–**	**75**
Reinsurance assets	**33**	**936**	**–**	**–**	**–**	**–**	**969**
Other	**2 531**	**2 694**	**34**	**2**	**0**	**–**	**5 261**
Total assets	**52 432**	**106 694**	**9 646**	**1 789**	**1 244**	**15 145**	**186 950**
Liabilities							
Insurance payables and other payables	**–2 254**	**–1 980**	**–17**	**–4**	**–13**	**–**	**–4 268**
Derivatives	**–189**	**–355**	**–240**	**–3**	**–30**	**–1 445**	**–2 262**
Financial liabilities at fair value through profit or loss	**–231**	**–2 007**	**–123**	**–2**	**–**	**–7 175**	**–9 538**
Investment contracts	**–1 095**	**–22 514**	**–42**	**–2**	**–**	**–5 200**	**–28 853**
Deposits	**–2 705**	**–3 141**	**–860**	**–247**	**–403**	**–**	**–7 356**
Borrowings	**–2 273**	**–3 645**	**–183**	**–11**	**–27**	**–**	**–6 139**
Insurance liabilities	**–61 549**	**–45 790**	**–115**	**–105**	**0**	**–1 676**	**–109 235**
Other	**–4 637**	**–6 806**	**–4**	**0**	**–1**	**–**	**–11 448**
Total liabilities	**–74 933**	**–86 238**	**–1 584**	**–374**	**–474**	**–15 496**	**–179 099**
Balance sheet currency gap	**–22 501**	**20 456**	**8 062**	**1 415**	**770**	**–351**	**7 851**
Carrying amounts as at 31 December 2005							
Total assets	62 178	92 198	9 975	1 592	944	10 710	177 597
Total liabilities	–75 258	–79 736	–2 737	–157	–1 013	–10 743	–169 644
Balance sheet currency gap	–13 080	12 462	7 238	1 435	–69	–33	7 953

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 gap is to a large extent hedged on an economic basis using foreign currency derivatives.

In certain other countries, the assets are normally denominated in euro, which is the same currency as the insurance liabilities. The remaining foreign currency exposure is primarily in the US dollar, the British pound and the Swiss franc associated with investments in equity securities, unit trusts and cash in these currencies. US dollar exposure is partially hedged on an economic basis using derivatives.

6 Risk Management Policies and Procedures (continued)

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

Exposure to liquidity risk

In CHF million	Contractual maturity dates						
	Up to 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	For the account and risk of the Swiss Life Group's customers	Total
Carrying amounts as at 31 December 2006							
Assets							
Cash and cash equivalents	**7 030**	**415**	**–**	**–**	**–**	**176**	**7 621**
Insurance receivables and other receivables	**1 578**	**1 109**	**1 808**	**404**	**–**	**–**	**4 899**
Derivatives	**286**	**93**	**191**	**132**	**156**	**1**	**859**
Financial assets at fair value through profit or loss	**7 848**	**1 181**	**747**	**3 542**	**1 158**	**14 961**	**29 437**
Financial assets available for sale	**6 305**	**9 259**	**2 916**	**20 041**	**54 395**	**–**	**92 916**
Loans	**3 311**	**2 021**	**4 936**	**7 296**	**11 319**	**–**	**28 883**
Financial assets held to maturity	**25**	**4**	**370**	**1 830**	**1 861**	**–**	**4 090**
Financial assets pledged as collateral	**95**	**–**	**–**	**29**	**–**	**–**	**124**
Reinsurance assets	**307**	**13**	**39**	**512**	**98**	**–**	**969**
Other	**1 637**	**177**	**487**	**814**	**14 030**	**7**	**17 152**
Total assets	**28 422**	**14 272**	**11 494**	**34 600**	**83 017**	**15 145**	**186 950**
Liabilities							
Insurance payables and other payables	**–554**	**–520**	**–2 295**	**–899**	**–**	**–**	**–4 268**
Derivatives	**–341**	**–155**	**–193**	**–5**	**–123**	**–1 445**	**–2 262**
Financial liabilities at fair value through profit or loss	**–768**	**–1 382**	**–176**	**–37**	**–**	**–7 175**	**–9 538**
Investment contracts	**–17**	**–**	**–3 126**	**–14 653**	**–5 857**	**–5 200**	**–28 853**
Deposits	**–4 611**	**–439**	**–388**	**–957**	**–961**	**–**	**–7 356**
Borrowings	**–2 513**	**–536**	**–78**	**–1 272**	**–1 740**	**–**	**–6 139**
Insurance liabilities	**–342**	**–340**	**–5 225**	**–11 335**	**–90 317**	**–1 676**	**–109 235**
Other	**–490**	**–152**	**–936**	**–5 500**	**–4 370**	**–**	**–11 448**
Total liabilities	**–9 636**	**–3 524**	**–12 417**	**–34 658**	**–103 368**	**–15 496**	**–179 099**
Balance sheet liquidity gap	**18 786**	**10 748**	**–923**	**–58**	**–20 351**	**–351**	**7 851**
Carrying amounts as at 31 December 2005							
Total assets	24 735	13 817	15 979	30 609	81 747	10 710	177 597
Total liabilities	–6 896	–6 110	–11 259	–32 037	–102 599	–10 743	–169 644
Balance sheet liquidity gap	17 839	7 707	4 720	–1 428	–20 852	–33	7 953

6 Risk Management Policies and Procedures (continued)

6.5 Insurance risk management objectives and policies

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

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

Insurance risks are regularly reported to the Group Risk Committee.

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

The nature of insurance risk can be summarised as follows:

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

The BVG business (Swiss occupational plans) is a significant part of the Group's life insurance business in Switzerland. The guaranteed annuity conversion rate for the Swiss Life Group's mandatory BVG business is set at the rate of 7.2%. Under an amendment to the BVG legislation, which took effect on 1 January 2005, this rate will be reduced in stages to 6.8% until 2015. The prevalent guaranteed annuity conversion rates for retirements beginning in 2006 are set at 7.2% (women) and 7.1% (men). The Swiss Life Group has taken the reduction into account in the pricing and structure of its life insurance products in Switzerland (including a phased reduction of the conversion rate on its supplementary BVG business to 5.835% over 4 years).

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

Annuities payable per annum by type of annuity – individual life

In CHF million	31.12.2006	31.12.2005
Life annuities – in payment	**696**	765
Life annuities – deferred	**902**	917
Annuities certain – in payment	**29**	25
Annuities certain – deferred	**139**	58
Total individual life	**1 766**	1 765

Annuities payable per annum by type of annuity – group life

In CHF million	31.12.2006	31.12.2005
Retirement annuities – in payment	**790**	686
Retirement annuities – deferred	**1 577**	1 502
Survivors' annuities – in payment	**118**	100
Survivors' annuities – deferred	**3 204**	2 875
Total group life	**5 689**	5 163

Life benefits insured by type of insurance – individual life

In CHF million	31.12.2006	31.12.2005
Pure endowment	**6 460**	4 645
Mixed endowment	**60 420**	64 648
Whole life	**741**	898
Term life	**22 798**	21 637
Universal life	**3 160**	1 970
Unit-linked contracts	**11 417**	10 493
Other	**25 623**	19 446
Total individual life	**130 619**	123 737

Life benefits insured by type of insurance – group life

In CHF million	31.12.2006	31.12.2005
Endowment and related	**26 216**	19 879
Term life	**95 127**	92 565
Swiss BVG	**124 260**	106 212
Total group life	**245 603**	218 656

6 Risk Management Policies and Procedures (continued)

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

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

Development of claims under non-life insurance contracts

In CHF million	Estimate of ultimate claim costs by accident year						
	2001	2002	2003	2004	2005	2006	Total
At end of accident year	592	504	513	522	498	638	n. a.
1 year later	645	559	530	504	547	–	n. a.
2 years later	623	545	506	524	–	–	n. a.
3 years later	607	538	535	–	–	–	n. a.
4 years later	609	548	–	–	–	–	n. a.
5 years later	641	–	–	–	–	–	n. a.
Current estimate of cumulative claims	641	548	535	524	547	638	3 433
Cumulative payments to date	–499	–436	–396	–373	–338	–231	–2 273
Liabilities before discounting	142	112	139	151	209	407	1 160
Effect of discounting	–	–	–	–	–	–	–
Liabilities for the current and previous 5 years	142	112	139	151	209	407	1 160
Liabilities for prior years							280
Total gross claims under non-life insurance contracts							1 440

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

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

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

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

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

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

Underwriting strategy Underwriting is the process of selecting and classifying insurable risks. The underwriting strategy attempts to ensure that the risks underwritten are well diversified in terms of type of risk and level of insured benefits. Life insurance underwriting is performed to ensure that the premiums and the general conditions of the insurance policies are consistent with the risks to be insured. The first step in the underwriting process is to determine which individual risks can be accepted. The second step is to place the accepted risks into groups of roughly equivalent levels of risk. Both processes must be conducted objectively and consistently. The Group sets limits for the acceptance of insurance risk arising from new and renewal business. Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical

6 Risk Management Policies and Procedures (continued)

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

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

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

Reinsurance Reinsurance is used to limit the Group's exposure to insurance risk. This does not, however, discharge the Group's liability as a primary insurer, and, if a reinsurer fails to pay a claim, the Group remains liable for the payments to the policyholder. A loss allowance would be recognised for any estimated unrecoverable reinsurance. In addition, the Group holds substantial collateral under related reinsurance agreements in the form of deposited funds and securities. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented in the balance sheet as a component of the reinsurance assets.

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

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

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

Approximately 1.7% of insurance in force in terms of earned insurance premiums was ceded as at 31 December 2006 (2005: 1.8%).

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

In the event of a deterioration of a specific risk factor, the effect of lower allocations to policyholder participation as a consequence is considered in the analysis. In addition, offsetting effects of changes in a risk factor are considered if such a beneficial effect would effectively be reflected in the measurement of the insurance liabilities.

At 31 December 2006, if mortality had been higher by 10%, the insurance liabilities would have been CHF 51 million higher in Switzerland and CHF 135 million lower in the other countries.

At 31 December 2006, if the longevity improvement parameter had increased by 10%, the insurance liabilities would have been CHF 81 million higher in Switzerland and CHF 154 million higher in the other countries.

At 31 December 2006, if disability had been higher by 10%, the insurance liabilities would have been CHF 215 million higher in Switzerland and CHF 64 million higher in the other countries.

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

6.6 Banca del Gottardo

Asset and liability management (ALM)

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

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

Financial risks

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

The local banking law requires compliance with a limit of 25% of available shareholders' equity for a single group of counterparties that are connected with each other. Internal guidelines require the evaluation of exposures to each group of counterparties that exceed 10% of available shareholder's equity. The risk exposure in respect of a single counterparty is evaluated by determining the credit equivalent associated with each credit risk position including off-balance-sheet transactions and collateral holdings. The credit equivalent is a measure calculated for each counterparty in total (including any non-utilised lines of credit).

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

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

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

7 Earnings per Share

Basic earnings per share (EPS) are calculated on the weighted average number of shares outstanding during the reporting period, excluding the average number of shares purchased by the Group and held as treasury shares. The effect of the issuance of the mandatory convertible securities (MCS) has been included in the calculation of basic earnings per share.

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

Earnings per share

In CHF million (if not noted otherwise)	**2006**	2005
Basic earnings per share		
Net profit attributable to equity holders of Swiss Life Holding	**933**	860
Weighted average number of shares outstanding	**33 483 512**	33 488 058
Basic earnings per share for the net profit attributable to equity holders of Swiss Life Holding (in CHF)	**27.87**	25.67
Diluted earnings per share		
Net profit attributable to equity holders of Swiss Life Holding	**933**	860
Elimination of interest expense on convertible bonds	**12**	11
Profit used to determine diluted earnings per share	**945**	871
Weighted average number of shares outstanding	**33 483 512**	33 488 058
Adjustments (number of shares)		
Assumed conversion of convertible bonds	**1 511 806**	1 512 188
Equity compensation plans	**107 389**	94 574
Share options	**1 662**	279
Weighted average number of shares outstanding for diluted earnings per share	**35 104 369**	35 095 099
Diluted earnings per share for the net profit attributable to equity holders of Swiss Life Holding (in CHF)	**26.92**	24.82

8 Premiums, Policy Fees and Deposits Received

Written premiums

In CHF million	2006	2005
Direct	**13 782**	13 660
Assumed	**247**	181
Gross written premiums	**14 029**	13 841
Ceded	**–234**	–247
Net written premiums	**13 795**	13 594

Earned premiums

In CHF million	2006	2005
Direct	**13 790**	13 572
Assumed	**248**	180
Gross earned premiums	**14 038**	13 752
Ceded	**–233**	–240
Net earned premiums	**13 805**	13 512

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

In CHF million	2006	2005
Net earned premiums	**13 805**	13 512
Policy fees earned	**460**	394
Deposits received under insurance and investment contracts	**7 570**	5 976
Net earned premiums, policy fees and deposits received	**21 835**	19 882
Gross written premiums, policy fees and deposits received	**22 064**	20 211

9 Details of Certain Items in the Consolidated Statement of Income

Asset management and other commission income

In CHF million	2006	2005
Fiduciary and portfolio management fees	**276**	259
Brokerage commissions	**71**	87
Other commissions and fees	**146**	148
Total asset management and other commission income	**493**	494

Investment income

In CHF million	2006	2005
Interest income on financial assets held to maturity and available for sale	**3 048**	3 177
Interest income on loans	**1 096**	1 149
Other interest income	**311**	155
Dividend income on financial assets available for sale	**241**	197
Net income on investment property	**492**	507
Total investment income	**5 188**	5 185

Net gains/losses on financial assets

In CHF million	Notes	2006	2005
Sale of			
financial assets held to maturity		**1**	1
financial assets available for sale	28	**721**	1 803
loans		**–4**	77
Net gains/losses from sales		**718**	1 881
Impairment losses on			
financial assets held to maturity		**–**	–
financial assets available for sale	28	**–14**	–64
loans	14	**–42**	–20
Impairment losses on financial assets		**–56**	–84
Foreign currency gains/losses		**383**	785
Total net gains/losses on financial assets		**1 045**	2 582

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

In CHF million	2006	2005
Fair value gains/losses on		
interest rate instruments	**631**	162
equity instruments	**1 593**	1 592
liabilities designated as at fair value through profit or loss	**–529**	–631
foreign currency instruments and other	**–1 344**	–1 810
Total net gains/losses on financial instruments at fair value through profit or loss	**351**	–687

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

Other income

In CHF million	2006	2005
Realised gains/losses on sales of subsidiaries and other assets	**56**	–13
Other foreign currency gains/losses	**8**	–79
Other	**28**	178
Total other income	**92**	86

Net insurance benefits and claims

In CHF million	2006	2005
Net benefits and claims under insurance contracts		
Life benefits and claims	**11 652**	11 892
Change in future life policyholder benefits	**1 727**	1 393
Non-life claims	**370**	515
Benefits and claims under investment contracts with discretionary participation		
Life benefits and claims	**66**	246
Change in future life policyholder benefits	**25**	–6
Total net insurance benefits and claims	**13 840**	14 040

Interest expense

In CHF million	2006	2005
Interest expense on deposits	**143**	130
Interest expense on investment contracts	**521**	514
Interest expense on deposits under insurance contracts	**192**	192
Other interest expense	**52**	26
Total interest expense	**908**	862

Commission expense

In CHF million	2006	2005
Insurance agent and broker commissions	**974**	913
Asset management and banking commissions	**87**	65
Other commissions and fees	**111**	114
Total commission expense	**1 172**	1 092

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

Employee benefits expense

In CHF million	Notes	2006	2005
Wages and salaries		**791**	831
Social security		**173**	171
Defined benefit plans	25	**149**	131
Defined contribution plans		**3**	5
Other employee benefits		**99**	70
Total employee benefits expense		**1 215**	1 208

Other expenses

In CHF million	2006	2005
Marketing and advertising	**75**	73
Information technology and systems	**136**	161
Rental, maintenance and repair expenses	**91**	114
Professional services	**278**	249
Other	**223**	196
Total other expenses	**803**	793

Net gains/losses on financial instruments at fair value through profit or loss include interest and dividend income of CHF 416 million for the period ended 31 December 2006 (2005: CHF 283 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 2006 (2005: nil).

10 Insurance and Other Receivables and Payables

Insurance receivables and other receivables

In CHF million	31.12.2006	31.12.2005
Receivables from agents, brokers and insurers	**412**	428
Receivables from policyholders	**1 010**	1 030
Receivables from reinsurers	**165**	134
Accrued income	**2 410**	2 081
Other	**902**	502
Total insurance receivables and other receivables	**4 899**	4 175

Insurance payables and other payables

In CHF million	31.12.2006	31.12.2005
Amounts due to agents, brokers and insurers	**458**	447
Amounts due to policyholders	**2 776**	2 470
Accrued expenses	**439**	425
Other	**595**	751
Total insurance payables and other payables	**4 268**	4 093

11 Derivatives

In CHF million	31.12.06 Fair value assets	31.12.05 Fair value assets	31.12.06 Fair value liabilities	31.12.05 Fair value liabilities	31.12.06 Contract/ notional amount	31.12.05 Contract/ notional amount
Derivatives held for trading						
Currency derivatives						
Forward contracts	**245**	234	**406**	381	**32 208**	27 539
Swaps	**36**	29	**20**	66	**1 310**	881
Futures	**–**	–	**–**	–	**–**	–
Options (over-the-counter)	**30**	37	**29**	37	**3 216**	6 512
Options (exchange-traded)	**14**	7	**–**	1	**1 515**	917
Other	**–**	–	**–**	–	**–**	–
Total currency derivatives	**325**	307	**455**	485	**38 249**	35 849
Interest rate derivatives						
Forward rate agreements	**–**	–	**–**	–	**–**	–
Swaps	**45**	132	**160**	208	**8 381**	14 090
Futures	**–**	0	**–**	–	**1 662**	1 775
Options (over-the-counter)	**34**	33	**3**	2	**4 530**	4 373
Options (exchange-traded)	**0**	1	**0**	–	**710**	778
Other	**3**	28	**–**	–	**989**	30
Total interest rate derivatives	**82**	194	**163**	210	**16 272**	21 046
Equity/index derivatives						
Forward contracts	**12**	26	**4**	38	**607**	822
Futures	**1**	3	**8**	12	**2 278**	2 015
Options (over-the-counter)	**20**	38	**21**	15	**811**	265
Options (exchange-traded)	**107**	52	**69**	51	**6 086**	1 964
Other	**33**	34	**–**	–	**3 163**	3 059
Total equity/index derivatives	**173**	153	**102**	116	**12 945**	8 125
Precious metal derivatives						
Forward contracts	**8**	3	**10**	8	**341**	160
Futures	**–**	–	**–**	–	**–**	–
Options (over-the-counter)	**15**	1	**16**	2	**1 032**	100
Options (exchange-traded)	**–**	–	**–**	–	**–**	–
Other	**–**	–	**–**	–	**–**	–
Total precious metal derivatives	**23**	4	**26**	10	**1 373**	260
Other derivatives						
Derivatives embedded in insurance contracts	**–**	–	**1**	0	**18**	18
Derivatives embedded in investment contracts	**–**	–	**–**	–	**–**	–
Derivatives for the account and risk of the Swiss Life Group's customers	**1**	2	**1 445**	887	**238**	248
Other	**144**	114	**6**	0	**1 231**	617
Total other derivatives	**145**	116	**1 452**	887	**1 487**	883
Total derivatives held for trading	**748**	774	**2 198**	1 708	**70 326**	66 163

11 Derivatives (continued)

In CHF million	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
	Fair value assets	Fair value assets	Fair value liabilities	Fair value liabilities	Contract/ notional amount	Contract/ notional amount
Derivatives designated and accounted for as hedging instruments						
Derivatives designated as fair value hedges	107	–	56	149	5 719	8 057
Derivatives designated as cash flow hedges	4	3	8	24	762	1 051
Total derivatives designated and accounted for as hedging instruments	111	3	64	173	6 481	9 108
Total derivatives	859	777	2 262	1 881	76 807	75 271

Derivatives held for trading Derivatives held for trading primarily comprise:

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

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

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

To manage the risks associated with derivative trading, the Group establishes risk levels and monitors these exposures. Exposure to price risk on both derivatives and their underlyings is managed in accordance with risk limits set by management for buying or selling instruments or closing out positions. The risks arise from open positions in interest rates, currencies and equity instruments, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

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

Derivatives designated as fair value hedges

In CHF million	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
	Fair value assets	Fair value assets	Fair value liabilities	Fair value liabilities	Gains/ losses on hedging instruments	Gains/ losses on hedging instruments	Contract/ notional amount	Contract/ notional amount
Interest rate swaps	71	–	43	129	–155	129	2 840	5 044
Currency forward contracts	36	–	13	20	–205	412	2 879	3 013
Total derivatives designated as fair value hedges	107	–	56	149	–360	541	5 719	8 057

In 2005 and 2006 the Group entered into interest rate swaps to hedge the available-for-sale fixed-rate bond portfolios in USD and EUR as well as loans in EUR against changes in the fair value attributable to interest rate risk. The fair value of the bond portfolios and the loans as at 31 December 2006 was CHF 2.9 billion in total (2005: CHF 5.6 billion).

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

11 Derivatives (continued)

Derivatives designated as cash flow hedges

In CHF million	Notes	Fair value assets	Fair value liabilities	Amounts recognised in equity	Amounts included in profit or loss	Contract/ notional amount	Cash flows expected to occur	Cash flows expected to affect profit or loss
31 December 2006								
Interest rate swaps	28	**4**	**8**	**4**	**5**	**762**	**2007–2016**	**2007–2016**
Other		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total derivatives designated as cash flow hedges		**4**	**8**	**4**	**5**	**762**	**n. a.**	**n. a.**
31 December 2005								
Interest rate swaps	28	3	24	6	4	1 051	2006–2014	2006–2014
Other		–	–	–	–	–	–	–
Total derivatives designated as cash flow hedges		3	24	6	4	1 051	n. a.	n. a.

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

The effective portion of the fair value changes on the interest rate swaps designated as hedging instruments is recognised directly in equity and reclassified to the income statement when the hedged cash flows affect profit or loss. The ineffective portion of the fair value changes is recognised immediately in the income statement. As at 31 December 2006, a total negative amount of CHF 4 million was deferred in equity (2005: a negative amount of CHF 13 million).

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

In CHF million	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
	Held for trading	Held for trading	**Designated as at fair value through profit or loss**	Designated as at fair value through profit or loss	**Total**	Total
Financial assets at fair value through profit or loss						
Debt securities	**1 491**	956	**3 422**	3 724	**4 913**	4 680
Money market instruments	**–**	–	**–**	–	**–**	–
Equity securities	**1 359**	518	**4 582**	3 114	**5 941**	3 632
Investment fund units – debt	**–**	–	**1 134**	1 451	**1 134**	1 451
Investment fund units – equity	**–**	–	**1 035**	2 826	**1 035**	2 826
Investment fund units – mixed	**23**	–	**1 158**	100	**1 181**	100
Private equity	**–**	0	**–**	75	**–**	75
Hedge funds	**–**	–	**263**	247	**263**	247
Assets for the account and risk of the Swiss Life Group's customers	**–**	–	**14 961**	10 296	**14 961**	10 296
Other	**4**	264	**5**	82	**9**	346
Total financial assets at fair value through profit or loss	**2 877**	1 738	**26 560**	21 915	**29 437**	23 653
Assets pledged that can be sold or repledged by transferee	***86***	*813*	**–**	–	***86***	*813*
Financial liabilities at fair value through profit or loss						
Debt instruments	**574**	374	**–**	–	**574**	374
Equity instruments	**194**	242	**–**	–	**194**	242
Liabilities for the account and risk of the Swiss Life Group's customers	**–**	–	**7 175**	4 957	**7 175**	4 957
Other	**–**	6	**1 595**	1 251	**1 595**	1 257
Total financial liabilities at fair value through profit or loss	**768**	622	**8 770**	6 208	**9 538**	6 830

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

The financial liabilities at fair value through profit or loss in the line item "other" mainly comprise liabilities relating to structured products and certain investment funds.

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

In CHF million	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	Carrying amount	Carrying amount	**Redemption amount**	Redemption amount
Debentures	**–**	–	**–**	–
Other	**1 595**	1 251	**1 598**	1 246
Total financial liabilities designated as at fair value through profit or loss	**1 595**	1 251	**1 598**	1 246

13 Financial Assets Available for Sale

In CHF million	**31.12.06**	31.12.05	**31.12.06**	31.12.05	**31.12.06**	31.12.05
	Cost/ amortised cost	Cost/ amortised cost	**Net unrealised gains/losses**	Net unrealised gains/losses	**Fair value (carrying amount)**	Fair value (carrying amount)
Debt securities	**80 649**	66 112	**984**	4 721	**81 633**	70 833
Money market instruments and loans	**105**	38	**0**	–	**105**	38
Equity securities	**4 612**	3 199	**876**	788	**5 488**	3 987
Investment fund units – debt	**67**	25	**3**	1	**70**	26
Investment fund units – equity	**384**	33	**25**	2	**409**	35
Investment fund units – mixed	**301**	304	**7**	5	**308**	309
Private equity	**93**	108	**36**	31	**129**	139
Hedge funds	**4 401**	3 923	**312**	293	**4 713**	4 216
Other	**61**	423	**0**	25	**61**	448
Total financial assets available for sale, net of impairment	**90 673**	74 165	**2 243**	5 866	**92 916**	80 031
Assets pledged that can be sold or repledged by transferee	***38***	*407*	***0***	*12*	***38***	*419*

Based on detailed assessments with regard to indications of impairment, impairment losses totalling CHF 14 million were recognised in the period under review (2005: CHF 64 million). The impairment losses in 2006 primarily related to equity securities (2005: Primarily debt securities, hedge funds and equity securities).

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

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

14 Loans

In CHF million		**31.12.06**	31.12.05	**31.12.06**	31.12.05	**31.12.06**	31.12.05	**31.12.06**	31.12.05
		Gross amount	Gross amount	**Allowance for loan losses**	Allowance for loan losses	**Carrying amount**	Carrying amount	**Fair value**	Fair value
	Notes								
Mortgages		**8 409**	8 663	**–67**	–52	**8 342**	8 611	**8 315**	8 682
Policy loans		**784**	860	**–**	–	**784**	860	**798**	880
Other originated loans		**9 133**	9 539	**–150**	–134	**8 983**	9 405	**9 080**	9 587
Purchased loans		**9 852**	9 116	**–**	–	**9 852**	9 116	**10 264**	10 118
Repurchase agreements		**922**	2 288	**–**	–	**922**	2 288	**922**	2 288
Total loans	35	**29 100**	30 466	**–217**	–186	**28 883**	30 280	**29 379**	31 555

Allowance for loan losses

In CHF million		**2006**	2005
	Notes		
Balance as at 1 January		**–186**	–185
Amounts recognised as expense	9	**–42**	–20
Write-offs		**12**	20
Recoveries		**–**	–
Effect of disposals		**–**	–
Foreign currency translation differences		**–1**	–1
Balance as at 31 December		**–217**	–186

An allowance is recognised for the difference between the carrying value and the estimated recoverable amount, if lower.

Interest income accrued on impaired loans was CHF 12 million as of 31 December 2006 (2005: CHF 8 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.

Finance lease receivables

In CHF million	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	Minimum lease payments	Minimum lease payments	**Present value of minimum lease payments**	Present value of minimum lease payments
Not later than 1 year	**–**	–	**–**	–
Later than 1 year and not later than 5 years	**–**	34	**–**	31
Later than 5 years	**–**	125	**–**	102
Total	**–**	159	**–**	133
Future finance income	**–**	*26*		
Unguaranteed residual values	**–**	–		

In 2005, the Group leased equipment to third parties under finance leases. The average contractual period of leasing arrangements was approximately 7 years. The average interest rate was 3.2%. Finance lease receivables were included in other loans. In 2006, Dreieck Industrie Leasing, the subsidiary of the Group acting as a lessor under finance leases, was sold.

15 Financial Assets Held to Maturity

In CHF million		31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
		Cost/ amortised cost (carrying amount)	Cost/ amortised cost (carrying amount)	**Net unrecognised gains/losses**	Net unrecognised gains/losses	**Fair value**	Fair value
	Notes						
Debt securities		**4 072**	4 230	**103**	276	**4 175**	4 506
Money market instruments		**18**	19	**–**	–	**18**	19
Other		**–**	7	**–**	–	**–**	7
Total financial assets held to maturity, net of impairment	35	**4 090**	4 256	**103**	276	**4 193**	4 532

16 Investment Property

In CHF million		2006	2005
	Notes		
Balance as at 1 January		**11 439**	11 518
Additions		**94**	104
Acquisitions through business combinations		**–**	–
Capitalised subsequent expenditure		**102**	132
Disposals		**–153**	–378
Gains/losses from disposals		**–3**	7
Gains/losses from fair value adjustments		**100**	–31
Transfers from/to property and equipment	18	**168**	72
Foreign currency translation differences		**69**	15
Balance as at 31 December		**11 816**	11 439

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

Rental income from investment property was CHF 649 million for the period ended 31 December 2006 (2005: CHF 675 million). Operating expenses arising from investment property that generated rental income stood at CHF 143 million for the period ended 31 December 2006 (2005: CHF 157 million). Operating expenses arising from investment property that did not generate rental income during the period stood at CHF 14 million for the period ended 31 December 2006 (2005: CHF 11 million).

17 Investments in Associates

In CHF million	2006	2005
Balance as at 1 January	**76**	58
Additions	**3**	20
Additions due to partial sale of subsidiaries	**–**	–
Reduction due to majority ownership	**–**	–1
Disposals and transfers to assets held for sale	**–1**	0
Share of results	**1**	3
Share of amounts recognised directly in equity	**0**	0
Dividends paid	**–5**	–4
Foreign currency translation differences	**1**	0
Balance as at 31 December	**75**	76

In July 2005, Banca del Gottardo outsourced the IT and back office processes to B-Source, Lugano, and acquired an equity stake of 37% of this company. In 2006, an impairment charge totalling CHF 8 million was recognised on this investment.

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

Investments in associates: summarised financial information

Amounts in CHF million	Assets	Liabilities	Net assets	Proportionate net assets	Revenues	Results	Proportionate results	Direct share
2006								
Crédit et services financiers (CRESERFI), Paris	**233**	**108**	**125**	**42**	**62**	**9**	**3**	**33.4%**
B-Source, Lugano	**58**	**45**	**13**	**5**	**161**	**–30**	**–11**	**37.0%**
Technopark Immobilien, Zürich	**101**	**55**	**46**	**15**	**15**	**1**	**0**	**33.3%**
LGT Swiss Life Non Traditional Advisers, Vaduz	**21**	**3**	**18**	**8**	**19**	**17**	**7**	**43.4%**
AIA Pool, Sint-Jans-Molenbeek	**5**	**4**	**1**	**0**	**0**	**0**	**0**	**13.0%**
Parking de Bellefontaine, Lausanne	**6**	**5**	**1**	**0**	**1**	**0**	**0**	**38.3%**
Carte Blanche TP, Paris	**19**	**19**	**0**	**0**	**1**	**0**	**0**	**44.0%**
Other	**63**	**45**	**18**	**5**	**29**	**4**	**2**	**n. a.**
Total	**506**	**284**	**222**	**75**	**288**	**1**	**1**	**n. a.**
2005								
Crédit et services financiers (CRESERFI), Paris	212	100	112	37	51	10	3	33.4%
B-Source, Lugano	75	29	46	17	17	–2	–3	37.0%
Technopark Immobilien, Zürich	102	55	47	16	15	–1	0	33.3%
LGT Swiss Life Non Traditional Advisers, Vaduz	26	17	9	4	10	8	3	43.4%
AIA Pool, Sint-Jans-Molenbeek	8	8	0	0	1	1	0	13.0%
Carte Blanche TP, Paris	3	3	0	0	0	0	0	44.0%
Other	17	11	6	2	17	2	0	n. a.
Total	443	223	220	76	111	18	3	n. a.

The Swiss Life Group has significant influence on AIA Pool, which is a pool of several insurance companies. AIA Pool specialises in the insurance of architects and engineers. The significant influence of the Swiss Life Group is based on agreements with the other insurers participating in AIA Pool. No investments in associates had published price quotations as at 31 December 2006 and 2005. As at 31 December 2006 and 2005, no contingent liabilities arose from the Group's investments in associates.

18 Property and Equipment

Property and equipment for the year ended 31 December 2006

In CHF million	Notes	Land and buildings	Buildings under construc-tion	Furniture and fixtures	Hardware	Other equipment	Total
Cost							
Balance as at 1 January		1 183	194	158	155	27	1 717
Additions		9	79	10	9	8	115
Additions from business combinations		–	–	0	0	0	0
Disposals and write-offs		–9	–	–40	–24	–11	–84
Transfers from/to investment property	16	–13	–157	–	–	–	–170
Revaluation in respect of transfers to investment property	28	4	–	–	–	–	4
Foreign currency translation differences		13	–	2	3	0	18
Balance as at 31 December		**1 187**	**116**	**130**	**143**	**24**	**1 600**
Accumulated depreciation and impairment							
Balance as at 1 January		–202	–2	–120	–111	–19	–454
Depreciation		–20	–	–11	–19	–3	–53
Impairment losses		0	–	–	–	–	0
Reversal of impairment losses		–	–	–	–	–	–
Disposals and write-offs		2	–	40	21	7	70
Transfers to investment property	16	2	–	–	–	–	2
Foreign currency translation differences		–2	–	–1	–2	–1	–6
Balance as at 31 December		**–220**	**–2**	**–92**	**–111**	**–16**	**–441**
Total property and equipment as at 31 December		**967**	**114**	**38**	**32**	**8**	**1 159**
of which assets held under a finance lease		*41*	–	–	*1*	–	*42*

18 Property and Equipment (continued)

Property and equipment for the year ended 31 December 2005

In CHF million	Notes	Land and buildings	Buildings under construction	Furniture and fixtures	Hardware	Other equipment	Total
Cost							
Balance as at 1 January		1 133	174	195	252	49	1 803
Additions		76	79	12	28	8	203
Additions from business combinations		–	–	0	0	–	0
Disposals and write-offs		–8	–	–43	–119	–13	–183
Transfers from/to investment property	16	–22	–59	–	–	–	–81
Revaluation in respect of transfers to investment property	28	4	–	–	–	–	4
Transfers to assets held for sale		–	–	0	–6	–17	–23
Foreign currency translation differences		0	–	–6	0	0	–6
Balance as at 31 December		1 183	194	158	155	27	1 717
Accumulated depreciation and impairment							
Balance as at 1 January		–181	–4	–144	–207	–30	–566
Depreciation		–28	–	–18	–23	–7	–76
Impairment losses		–	–2	–	0	–	–2
Disposals and write-offs		–	–	35	115	5	155
Transfers to investment property	16	5	4	–	–	–	9
Transfers to assets held for sale		–	–	0	5	12	17
Foreign currency translation differences		2	–	7	–1	1	9
Balance as at 31 December		–202	–2	–120	–111	–19	–454
Total property and equipment as at 31 December		981	192	38	44	8	1 263
of which assets held under a finance lease		*41*	–	–	*3*	–	*44*

No borrowing costs were capitalised in property and equipment in 2006 and 2005.

19 Intangible Assets

Intangible assets including intangible insurance assets for the year ended 31 December 2006

In CHF million	Goodwill	Present value of future profits (PVP)	Deferred acquisition costs (DAC)	Deferred origination costs (DOC)	Customer relation-ships	Other intangible assets	Total
Cost							
Balance as at 1 January	1 431	125	5 178	251	15	184	7 184
Additions	–	–	505	33	–	5	543
Additions from business combinations	–	–	–	–	2	0	2
Additions from internal development	–	–	–	–	–	0	0
Disposals and write-offs	–1	–20	–1 307	0	–	–18	–1 346
Transfers to assets held for sale	–	–	–	–	–	–	–
Foreign currency translation effects	–	2	115	9	1	4	131
Balance as at 31 December	1 430	107	4 491	293	18	175	6 514
Accumulated amortisation and impairment							
Balance as at 1 January	–739	–108	–3 101	–28	–5	–128	–4 109
Amortisation recognised in income	–	–1	–435	–18	–3	–11	–468
Effect of gains/losses recognised directly in equity	–	0	318	–	–	–	318
Impairment losses	–	0	–	–	–2	–30	–32
Reversal of impairment losses	–	–	–	–	–	–	–
Disposals and write-offs	1	20	1 307	0	–	17	1 345
Transfers to assets held for sale	–	–	–	–	–	–	–
Foreign currency translation effects	–	–1	–54	–1	–1	–4	–61
Balance as at 31 December	–738	–90	–1 965	–47	–11	–156	–3 007
Total intangible assets as at 31 December	692	17	2 526	246	7	19	3 507

19 Intangible Assets (continued)

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

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

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

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

Amounts in CHF million	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	Banca del Gottardo	Banca del Gottardo	**Lloyd Continental**	Lloyd Continental
Net carrying amount of goodwill	**405**	405	**287**	287
Impairment losses	**–**	66	**–**	–
Key assumptions used for impairment tests				
Growth rate	**1.0%**	1.0%	**1.0%** *	1.0% *
Discount rate	**9.9%**	9.5%	**8.0%**	8.0%

* 1% in 2010 and 2009 respectively, reduced by 0.25% in each subsequent year

19 Intangible Assets (continued)

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

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

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

In 2005, the impairment test on the goodwill relating to Banca del Gottardo Monaco resulted in an impairment loss totalling CHF 66 million. The remaining goodwill relating to Banca del Gottardo Monaco and Dreieck Industrie Leasing amounting to CHF 47 million was reclassified as at 31 December 2005 to assets held for sale. These companies were sold in 2006.

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

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

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

Annual amortisation charges on the present value of future profits relating to acquired insurance portfolios totalling CHF 17 million as at 31 December 2006 are estimated as ranging from CHF 1 million to CHF 3 million for the years 2007 to 2009.

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

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

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

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

20 Other Assets and Liabilities

Other assets

In CHF million	Notes	**31.12.2006**	31.12.2005
Deferred charges and prepaid expenses		**200**	492
Defined benefit assets	25	**153**	123
Sundry assets		**112**	91
Total other assets		**465**	706

Other liabilities

In CHF million	**31.12.2006**	31.12.2005
Deferred income	**398**	344
Sundry liabilities	**98**	144
Total other liabilities	**496**	488

21 Investment Contracts

Investment contracts

In CHF million	Notes	**31.12.2006**	31.12.2005
Investment contracts with discretionary participation with deposit accounting		**27 402**	22 971
Investment contracts with discretionary participation with actuarial valuation		**710**	681
Investment contracts without discretionary participation at amortised cost	35	**586**	888
Investment contracts without discretionary participation at fair value through profit or loss		**155**	89
Total investment contracts		**28 853**	24 629
of which for the account and risk of the Swiss Life Group's customers		***5 200***	*3 113*

Investment contracts with discretionary participation with deposit accounting

In CHF million	**2006**	2005
Balance as at 1 January	**22 971**	19 302
Deposits received	**5 019**	4 600
Interest credited	**480**	472
Participating bonuses	**321**	228
Policy fees and insurance charges	**–153**	–242
Deposits released for payments on death, surrender and other terminations during the year	**–2 181**	–1 803
Other movements	**86**	249
Foreign currency translation differences	**859**	165
Balance as at 31 December	**27 402**	22 971

21 Investment Contracts (continued)

Investment contracts with discretionary participation with actuarial valuation

In CHF million	2006	2005
Balance as at 1 January	**681**	686
Acquisition of insurance portfolio	**–**	–
Savings premiums	**76**	231
Accretion of interest	**18**	17
Liabilities released for payments on death, surrender and other terminations during the year	**–61**	–246
Effect of changes in actuarial assumptions and other movements	**–8**	–9
Foreign currency translation differences	**4**	2
Balance as at 31 December	**710**	681

For 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 primarily relate to contracts issued in France, Belgium and Luxembourg.

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

22 Deposits

In CHF million	Notes	31.12.2006	31.12.2005
Policyholder deposits		**1 491**	1 106
Reinsurance deposits		**658**	614
Demand deposits		**2 811**	2 904
Savings deposits		**426**	433
Time deposits		**1 970**	1 362
Total deposits	35	**7 356**	6 419

23 Borrowings

In CHF million	Notes	31.12.2006	31.12.2005
Money market instruments		**66**	103
Repurchase agreements		**1 845**	976
Debentures and loans			
Hybrid debt	29	**1 739**	1 689
Convertible debt		**279**	269
Subordinated debt		**131**	130
Other debentures		**490**	470
Due to banks		**1 579**	1 097
Finance lease obligations		**10**	16
Total borrowings	35	**6 139**	4 750
of which unsecured		***2 105***	*1 511*

Repurchase agreements Securities sold under agreements to repurchase the same or substantially the same securities at a specific future date at a fixed price are generally treated as collateralised borrowing. Securities pledged as collateral under repurchase agreements are not derecognised from the balance sheet, unless control of these securities is transferred. Details about securities pledged as collateral are shown in note 37.

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

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

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

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

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

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

23 Borrowings (continued)

Swiss Life Holding has the option to redeem all outstanding bonds at their principal amount (together with unpaid accrued interest) at any time on or after 25 June 2007, provided that the closing price of the Swiss Life Holding share was at least 130% of the conversion price for 20 consecutive trading days. The early redemption at the option of Swiss Life Holding is subject to a period of 30 days' notice to the bondholders.

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

In 2006, convertible bonds were converted into 191 SLH shares (2005: 260 SLH shares) with a corresponding increase in share capital totalling CHF 8726 (2005: CHF 11 960) and an increase in share premium totalling CHF 24 605 (2005: CHF 33 885).

Exchangeable debt (GEMMS) The GEMMS (Guaranteed Exchangeable Monetisations of Multiple Shares) were issued by the Group on 15 May 1998 and were exchangeable at the option of the holder into shares of the designated company until the maturity date of the issue. The Group could redeem some of the issues principally on or after a specific redemption date at an early redemption price.

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

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

Subordinated debt

Amounts in CHF million					**31.12.06**	31.12.05
Issuer	Currency	Interest rate	Year of issue	Maturity	**Carrying amount**	Carrying amount
Banca del Gottardo	CHF	4.000%	2001	2008	**52**	52
Banca del Gottardo	EUR	5.500%	2001	2008	**24**	22
Banca del Gottardo	USD	5.750%	2001	2008	**5**	7
ERISA	EUR	Euribor +0.800%	1998	2008	**18**	18
ERISA	EUR	Euribor +1.000%	2001	2011	**32**	31
Total					**131**	130

23 Borrowings (continued)

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

Amounts in CHF million					**31.12.06**	31.12.05
Issuer/instrument	Currency	Interest rate	Year of issue	Maturity	**Carrying amount**	Carrying amount
Banca del Gottardo – medium-term notes[1)]	CHF	2.000%	n. a.	n. a.	**10**	6
Swiss Life Insurance Finance Ltd. – guaranteed bonds	EUR	4.375%	2004	2008	**480**	464
Total					**490**	470

1) Medium-term notes are fixed-rate debentures issued continuously by Banca del Gottardo on demand with a maturity of 2 to 8 years.
As at 31 December 2006, the average interest rate was 2.0% (2005: 1.9%) and the average remaining time to maturity 25 months (2005: 33 months).

Due to banks Due to banks outstanding as at 31 December are repayable as follows:

In CHF million	**31.12.2006**	31.12.2005
On demand and within 1 year	**1 491**	1 001
After 1 year up to 5 years	**88**	96
After 5 years	**–**	–
Total	**1 579**	1 097

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

Amounts in CHF million			**31.12.2006**	31.12.2005
Currency	Interest rate	Maturity	**Carrying amount**	Carrying amount
CHF	4.050%	2006	**–**	16
CHF	3.160%	2009	**47**	48
CHF	3.050%	2010	**41**	42
Total			**88**	106

Finance lease obligations

In CHF million	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	Minimum lease payments	Minimum lease payments	**Present value of minimum lease payments**	Present value of minimum lease payments
Not later than 1 year	**6**	6	**6**	5
Later than 1 year and not later than 5 years	**5**	12	**4**	11
Later than 5 years	**–**	–	**–**	–
Total	**11**	18	**10**	16
Future finance charges	***1***	*2*		

24 Insurance Liabilities and Reinsurance Assets

In CHF million	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
	Gross	Gross	**Reinsurance assets**	Reinsurance assets	**Net**	Net
Claims under non-life insurance contracts	**1 440**	1 386	**243**	239	**1 197**	1 147
Claims under life insurance contracts	**7 773**	7 887	**122**	133	**7 651**	7 754
Unearned premiums	**193**	197	**4**	4	**189**	193
Future life policyholder benefits	**93 121**	90 731	**600**	547	**92 521**	90 184
Deposits under insurance contracts	**6 708**	6 340	**–**	–	**6 708**	6 340
Total insurance liabilities and reinsurance assets	**109 235**	106 541	**969**	923	**108 266**	105 618
of which for the account and risk of the Swiss Life Group's customers						
Future life policyholder benefits	***1 322***	*1 506*				
Deposits under insurance contracts	***354***	*280*				

Future life policyholder benefits

In CHF million	2006	2005
Balance as at 1 January	**90 731**	86 114
Acquisition of insurance portfolio	**–**	2 841
Savings premiums	**9 036**	8 475
Accretion of interest	**2 701**	2 645
Claims incurred, benefits paid and surrenders	**–9 680**	–10 111
Effect of changes in actuarial assumptions and other movements	**–824**	418
Foreign currency translation differences	**1 157**	349
Balance as at 31 December	**93 121**	90 731

Deposits under insurance contracts

In CHF million	2006	2005
Balance as at 1 January	**6 340**	6 353
Deposits received	**870**	781
Interest credited	**192**	192
Participating bonuses	**64**	90
Policy fees and insurance charges	**–76**	–80
Deposits released for payments on death, surrender and other terminations during the year	**–765**	–951
Other movements	**–76**	–86
Foreign currency translation differences	**159**	41
Balance as at 31 December	**6 708**	6 340

Insurance liabilities with and without discretionary participation

In CHF million	31.12.2006	31.12.2005
Insurance liabilities with discretionary participation	**98 044**	96 982
Insurance liabilities without discretionary participation	**11 191**	9 559
Total insurance liabilities	**109 235**	106 541

24 Insurance Liabilities and Reinsurance Assets (continued)

Claims under non-life insurance contracts

In CHF million	2006	2005
As at 1 January		
Gross claims under non-life insurance contracts	**1 386**	2 083
Less: reinsurance recoverable	**–239**	–355
Net claims under non-life insurance contracts	**1 147**	1 728
Claims and claim settlement costs incurred		
Reporting period	**470**	704
Prior reporting periods	**–57**	–142
Total claims and claim settlement costs incurred	**413**	562
Claims and claim settlement costs paid		
Reporting period	**–203**	–160
Prior reporting periods	**–199**	–386
Total claims and claim settlement costs paid	**–402**	–546
Acquisitions and disposals of companies and insurance business	**0**	–605
Foreign currency translation differences	**39**	8
As at 31 December		
Net claims under non-life insurance contracts	**1 197**	1 147
Plus: reinsurance recoverable	**243**	239
Total gross claims under non-life insurance contracts	**1 440**	1 386

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

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

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

Future life policyholder benefits For participating contracts where the contribution principle applies to the allocation of the policyholder bonus, 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.

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

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

25 Employee Benefits

Defined benefit 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. These plans are typically partially funded as certain plan assets relating to these plans are not required to be eliminated.

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. The amount of the pension is defined in relation to final salary and depends on completion of years of service (including years of service purchased by the employee with transferred funds from plans of former employers). There are options for early retirement (with reduction of the pension amount determined with actuarial methods) and for choosing to receive a lump-sum payment instead of a pension. Other benefits comprise widows'/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 with 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.

The increase in plan assets primarily relates to the restructuring of the pension fund in Germany. These plan assets consist of a qualifying insurance policy included in other plan assets.

The contributions expected to be paid for the year ending 31 December 2007 are CHF 72 million.

Amounts recognised in the consolidated balance sheet

In CHF million	Notes	**31.12.2006**	31.12.2005
Present value of wholly and partly funded obligations		**–2 625**	–2 554
Fair value of plan assets		**496**	302
Present value of unfunded obligations		**–440**	–383
Unrecognised actuarial gains (–)/losses (+)		**194**	209
Unrecognised past service cost		**–7**	–9
Unrecognised asset		**–**	–
Net defined benefit asset (+)/liability (–)		**–2 382**	–2 435
The net asset/liability consists of			
gross defined benefit liabilities		**–2 535**	–2 558
gross defined benefit assets	20	**153**	123
Employee benefit liabilities consist of			
gross defined benefit liabilities		**–2 535**	–2 558
other employee benefit liabilities		**–26**	–18
Total employee benefit liabilities		**–2 561**	–2 576

25 Employee Benefits (continued)

Amounts recognised in the consolidated statement of income

In CHF million	Notes	2006	2005
Current service cost		**103**	100
Interest cost		**98**	96
Expected return on plan assets		**–15**	–9
Expected return on reimbursement rights		**–**	–
Net actuarial gains (–)/losses (+)		**2**	3
Past service cost		**–1**	2
Change in unrecognised asset		**–**	–
Employee contributions		**–32**	–8
Effect of curtailments or settlements		**–6**	–53
Total defined benefit expense	9	**149**	131
Actual return on plan assets		***–58***	*–58*
Actual return on reimbursement rights		**–**	–

25 Employee Benefits (continued)

Defined benefit plans

In CHF million	2006	2005
Changes in the present value of the defined benefit obligation		
Balance as at 1 January	**–2 937**	–2 871
Current service cost	**–103**	–100
Interest cost	**–98**	–96
Contributions by plan participants	**–117**	–97
Actuarial gains (+)/losses (–)	**–53**	–67
Benefits paid	**244**	187
Past service cost	**0**	–6
Curtailments and settlements	**15**	116
Acquisition and disposal of subsidiaries	**1**	2
Foreign currency translation differences	**–17**	–5
Balance as at 31 December	**–3 065**	–2 937
Changes in the fair value of plan assets		
Balance as at 1 January	**302**	219
Expected return on plan assets	**15**	9
Actuarial gains (+)/losses (–)	**43**	49
Contributions by the employer	**131**	41
Contributions by plan participants	**13**	4
Benefits paid	**–1**	–6
Curtailments and settlements	**–8**	–14
Acquisition and disposal of subsidiaries	**–**	0
Foreign currency translation differences	**1**	0
Balance as at 31 December	**496**	302
Categories of plan assets		
Equity instruments	**203**	250
Debt instruments	**166**	15
Property	**–**	–
Other assets	**127**	37
Total plan assets	**496**	302
Plan assets include		
own equity instruments	**129**	100
own debt instruments	**–**	–
property occupied by the Group	**–**	–
other assets used by the Group	**–**	–
Historical information		
Present value of defined benefit obligation	**–3 065**	–2 937
Fair value of plan assets	**496**	302
Difference	**–2 569**	–2 635
Experience adjustments on plan liabilities	**–57**	–67
Experience adjustments on plan assets	**43**	49

25 Employee Benefits (continued)

Principal actuarial assumptions (weighted averages)

	31.12.2006	31.12.2005
Discount rate	**3.4%**	3.5%
Expected rate of return on plan assets	**4.1%**	3.9%
Expected rate of return on reimbursement rights	**n. a.**	n. a.
Future salary increases	**1.8%**	2.0%
Future pension increases	**1.0%**	0.9%

Number of employees The Group had 8693 full-time equivalents as at 31 December 2006 (2005: 8979).

Defined contribution pension plans Certain subsidiaries sponsor various defined contribution plans. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. The plans stipulate contributions by both employers and employees. The Group's expenses under these plans amounted to CHF 3 million in 2006 (2005: CHF 5 million).

Other long-term employee benefits The liability for long-term employee benefits amounted to CHF 12 million as at 31 December 2006 (2005: CHF 12 million). It relates to part-time employment contracts prior to retirement and to profit-sharing arrangements for certain employees.

Termination benefits The termination benefit liability totalling CHF 14 million for the year ending 31 December 2006 (2005: CHF 6 million) arose as a result of early retirements and voluntary redundancies.

Equity compensation plans In 2005, a share-based payment programme was established which gives the members of the Corporate Executive Board and senior employees 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. The number of PSUs can increase no more than by a factor of 1.5 or drop by 0.5, within three years, depending on how the criteria develop.

In 2005, the number of PSUs granted under this programme amounted to 67 412 (balance after reduction in par value). Due to the reduction in par value of the Swiss Life Holding shares in 2005, the number of PSUs granted was adjusted using the Eurex R factor of 0.978284. The fair value at the measurement date amounted to CHF 159.66. The date of grant was 1 April 2005.

In 2006, the number of PSUs granted under this programme amounted to 46 651 (balance after reduction in par value). Due to the reduction in par value of the Swiss Life Holding shares in 2006, the number of PSUs granted was adjusted using the Eurex R factor of 0.9965. The fair value at the measurement date amounted to CHF 252.56. The date of grant was 1 April 2006.

The Group determines the fair value of the PSUs granted for each programme at the grant date. The fair value was determined using the Black-Scholes formula and Monte Carlo simulations. The associated expense during the vesting period is recognised under employee benefits expense with a corresponding increase in share premium. The expense recognised for 2006 totalled CHF 5 million (2005: CHF 4 million).

25 Employee Benefits (continued)

Share-based payment programmes (performance share units)

Number of performance share units	Balance as at 1 January	Issued	Reduction in par value	Balance after reduction in par value	Employee departures	Vested	Balance as at 31 December
2006							
Granted in 2005	**66 131**	**–**	**220**	**66 351**	**–9 965**	**–**	**56 386**
Granted in 2006	**–**	**46 470**	**181**	**46 651**	**–1 193**	**–**	**45 458**
2005							
Granted in 2005	–	65 938	1 474	67 412	–1 281	–	66 131

Share options The Group offered share options to directors and managers in Switzerland and abroad. No new share options have been allocated since 2003.

Due to the reduction in par value of the Swiss Life Holding shares in 2006, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.9965. Due to the reduction in par value of the Swiss Life Holding shares in 2005, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.978284. The intrinsic value of the outstanding share options (issued in 2002) was CHF 81.15 as at 31 December 2006 (2005: CHF 12.80). The outstanding share options issued in 2001 did not have an intrinsic value as at 31 December 2005. The exercise price of the outstanding share options at the end of the period was CHF 224.10 (2005: range from CHF 224.10, adjusted using the Eurex R factor of 0.9965, to CHF 686.50). The weighted average remaining contractual life of the outstanding share options at the end of the period was 180 days (2005: 336 days). The number of options exercisable at the end of 2006 amounted to 88 055 (2005: 277 079).

Number of shares under option

Amounts in CHF	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	Number of shares [1]	Number of shares [1]	**Exercise date**	Exercise date	**Expiry date**	Expiry date	**Weighted average exercise price [2]**	Weighted average exercise price [2]
As at 1 January	**277 079**	277 079					**468**	468
Granted/issued	**–**	–	**–**	–	**–**	–	**–**	–
Exercised	**–42 791**	–	**–**	–	**–**	–	**224**	–
Lapsed	**–146 233**	–	**–**	–	**31.05.06**	–	**687**	–
As at 31 December	**88 055**	277 079					**224**	468

1) Number of shares adjusted due to reduction in par value of Swiss Life Holding shares in accordance with Eurex rules
2) Exercise price adjusted due to reduction in par value of Swiss Life Holding shares in accordance with Eurex rules

Other benefits The Swiss Life Group maintains incentive programmes for certain management and other employees. Related expenses in 2006 were CHF 12 million (2005: CHF 15 million).

26 Income Taxes

Income tax expense

In CHF million	2006	2005
Current tax expense		
Current tax of the current period	**216**	151
Adjustments for current tax of prior periods	**–133**	–25
Total current tax expense	**83**	126
Deferred tax expense		
Origination and reversal of temporary differences	**44**	–193
Changes in tax rates	**1**	46
Total deferred tax expense	**45**	–147
Total income tax expense	**128**	–21

Based on a ruling by the Dutch tax administration, Swiss Life was able to reduce its tax liability by CHF 159 million (2005: CHF 82 million). Due to a change in the French tax legislation with regard to taxation of shareholdings, tax expenses were reduced by CHF 31 million (2005: CHF 116 million).

In connection with the restructuring of the real estate management business, the Swiss Life Group realised in 2005 a tax benefit of CHF 18 million. Additionally, due to the reduction of the tax base in the real estate business, a tax benefit totalling CHF 23 million was realised in 2005.

The expected weighted-average tax rate for the Group was 30.9% in 2006 (2005: 29.2%). 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 increase of the weighted-average tax rate is due to the geographical allocation of the profits and the different tax rates in these jurisdictions. The actual income tax expenses differ from the expected amounts as follows:

Actual and expected income tax

In CHF million	2006	2005
Expected income tax expense	**335**	249
Increase/reduction in taxes resulting from		
tax-exempt interest	**–9**	–14
tax-exempt dividends	**–12**	–3
other non-taxable income	**–236**	–297
non-deductible expenses	**61**	78
other income taxes (incl. withholding taxes)	**0**	5
unrecognised tax losses/credits	**8**	31
use of previously unrecognised tax losses/credits	**–7**	–83
other	**–12**	13
Actual income tax expense	**128**	–21

26 Income Taxes (continued)

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	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	Deferred tax assets	Deferred tax assets	**Deferred tax liabilities**	Deferred tax liabilities
Financial assets	**92**	108	**365**	800
Investment property	**4**	3	**412**	419
Intangible assets	**40**	117	**263**	236
Property and equipment	**33**	33	**0**	1
Financial liabilities	**44**	51	**9**	13
Insurance liabilities	**74**	113	**110**	94
Employee benefits	**29**	22	**48**	28
Deferred income	**79**	78	**1**	2
Other	**15**	13	**26**	43
Tax losses and tax credits	**69**	77		
Deferred income tax assets/liabilities	**479**	615	**1 234**	1 636
Valuation allowance	**–16**	–36		
Offset	**–369**	–500	**–369**	–500
Total deferred income tax assets/liabilities	**94**	79	**865**	1 136

The movements in net deferred income tax assets/liabilities during the period were as follows:

Net deferred income tax assets and liabilities

In CHF million	**Balance as at 1 January**	**Recognised in income**	**Recognised in equity**	**Disposals and foreign currency translation differences**	**Balance as at 31 December**
Movements by type of temporary difference during the year 2006					
Financial assets	**–692**	**24**	**398**	**–3**	**–273**
Investment property	**–416**	**9**	**0**	**–1**	**–408**
Intangible assets	**–119**	**–43**	**–60**	**–1**	**–223**
Property and equipment	**32**	**1**	**–**	**0**	**33**
Financial liabilities	**38**	**–1**	**–2**	**0**	**35**
Insurance liabilities	**19**	**–54**	**–1**	**0**	**–36**
Employee benefits	**–6**	**–13**	**–**	**0**	**–19**
Deferred income	**76**	**1**	**1**	**0**	**78**
Other	**–30**	**19**	**–**	**0**	**–11**
Tax losses and tax credits	**77**	**–8**	**–**	**0**	**69**
Valuation allowance	**–36**	**20**	**–**	**0**	**–16**
Net deferred income tax assets/liabilities	**–1 057**	**–45**	**336**	**–5**	**–771**
Movements in total temporary differences during the year 2005					
Net deferred income tax assets/liabilities	–1 125	147	–105	26	–1 057

26 Income Taxes (continued)

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

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

Unrecognised tax losses and tax credits

In CHF million	**2006**	2005
2007	**1**	0
2008	**0**	1
2009	**1**	1
Thereafter	**78**	120
Total	**80**	122

27 Provisions

In CHF million			**2006**	2005
	Restructuring	**Other**	**Total**	Total
Balance as at 1 January	**93**	**119**	**212**	193
Additional provisions during the reporting period	**19**	**50**	**69**	189
Amounts used during the reporting period	**–27**	**–43**	**–70**	–123
Unused amounts reversed during the reporting period	**0**	**–8**	**–8**	–29
Transfer to liabilities associated with assets held for sale	**–**	**–**	**–**	–18
Effect of acquisitions and disposals	**–**	**–3**	**–3**	–
Foreign currency translation differences	**1**	**1**	**2**	0
Balance as at 31 December	**86**	**116**	**202**	212

Restructuring costs In 2006, CHF 19 million provisions for restructuring programmes were primarily set up at Banca del Gottardo and in Germany.

In 2005, a provision totalling CHF 72 million relating to the restructuring programme of «La Suisse» in Switzerland was set up. As at 31 December 2006 the remaining provision amounted to CHF 23 million and CHF 12 million was used during the period (2005: CHF 37 million). The provision primarily relates to redundancy programmes and onerous contracts. The outflow of the remaining amounts is expected within the next one to two years.

In 2005, additional provisions relating to restructuring programmes and termination benefits totalling CHF 50 million for employees were set up in Switzerland and in Germany with an expected outflow of benefits within the next two years.

28 Equity

Share capital As approved by the shareholders at the General Meeting of Swiss Life Holding (SLH) on 9 May 2006, a reduction in par value of CHF 5 per registered SLH share was effected in 2006 (2005: CHF 4 per registered share). The payout took place at the beginning of August 2006 and led to a reduction in the share capital of SLH of CHF 169 million (2005: CHF 135 million).

In 2006, convertible bonds were converted into 191 SLH shares (2005: 260 SLH shares) with a corresponding increase in share capital totalling CHF 8726 (2005: CHF 11 960) and an increase in share premium totalling CHF 24 605 (2005: CHF 33 885).

As at 31 December 2006, the share capital of SLH consisted of 33 776 269 fully-paid shares with a par value of CHF 41 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of own shares or shares they represent. As at 31 December 2005, SLH had 33 776 078 registered shares with a par value of CHF 46 per share. Conditional share capital was CHF 150 374 511 as at 31 December 2006 (2005: CHF 168 721 652).

Share premium Share premium comprises additional paid-in capital in excess of the par value (net of transaction costs), gains/losses on own equity instruments, equity compensation benefits and equity elements of convertible debt.

Due to the reduction in par value of CHF 5 per registered SLH share in 2006 (2005: CHF 4 per registered SLH share), an amount of CHF 2 million was credited to share premium in respect of treasury shares (2005: CHF 9 million).

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	2006	2005
Shares issued		
Balance as at 1 January	**33 776 078**	33 775 818
Issuance of shares	–	–
Reduction in shares	–	–
Conversion of convertible debt	**191**	260
Balance as at 31 December	**33 776 269**	33 776 078
Treasury shares		
Balance as at 1 January	**261 713**	2 237 059
Conversion of MCS	–	–1 978 005
Purchases of treasury shares	**644 170**	718 685
Sales of treasury shares	**–570 366**	–716 026
Balance as at 31 December	**335 517**	261 713

Gains and losses recognised directly in equity Gains/losses recognised directly in equity comprise fair value changes of available-for-sale investments, revaluation surpluses on the transfer of owner-occupied property to investment property and the effective portion of the gain or loss on hedging derivatives in qualifying cash flow hedges. These amounts are net of certain policyholder bonuses and other policyholder liabilities and deferred acquisition costs, deferred income taxes and minority interests.

28 Equity (continued)

Gains and losses recognised directly in equity for the year ended 31 December 2006

In CHF million	Notes	Financial assets available for sale	Cash flow hedges	Other	Total
Gross gains and losses					
Balance as at 1 January		**5 878**	**–13**	**138**	**6 003**
Change during the period					
Gains/losses on financial instruments	11	**–3 020**	**4**	**–**	**–3 016**
Revaluation surplus on owner-occupied property transferred to investment property	18	**–**	**–**	**4**	**4**
Share of gains/losses of associates		**–**	**–**	**0**	**0**
Gains/losses on assets held for sale		**–**	**–**	**–**	**–**
Revaluation surplus on step acquisitions		**–**	**–**	**–**	**–**
Gains/losses transferred to the income statement	9, 11	**–721**	**5**	**–**	**–716**
Impairment losses transferred to the income statement	9	**14**	**–**	**–**	**14**
Effect of disposal of subsidiaries		**–**	**–**	**1**	**1**
Foreign currency translation differences		**92**	**–**	**3**	**95**
Balance as at 31 December		**2 243**	**–4**	**146**	**2 385**
Adjustments for income tax and other items					
Balance as at 1 January					**–4 818**
Changes in amounts attributable to					
income tax					**336**
deferred acquisition costs and present value of future profits					**318**
policyholder bonuses and other policyholder liabilities					**2 163**
effect of disposal of subsidiaries					**0**
foreign currency translation differences					**–87**
minority interest					**8**
Balance as at 31 December					**–2 080**
Total gains and losses, net of income tax and other items					**305**

28 Equity (continued)

Gains and losses recognised directly in equity for the year ended 31 December 2005

In CHF million	Notes	Financial assets available for sale	Cash flow hedges	Other	Total
Gross gains and losses					
Balance as at 1 January		4 508	–23	134	4 619
Change during the period					
Gains/losses on financial instruments	11	3 081	6	–	3 087
Revaluation surplus on owner-occupied property transferred to investment property	18	–	–	4	4
Share of gains/losses of associates		–	–	0	0
Gains/losses on assets held for sale		–	–	–1	–1
Gains/losses transferred to the income statement	9, 11	–1 803	4	–	–1 799
Impairment losses transferred to the income statement	9	64	–	–	64
Foreign currency translation differences		28	–	1	29
Balance as at 31 December		5 878	–13	138	6 003

Adjustments for income tax and other items	
Balance as at 1 January	–3 729
Changes in amounts attributable to	
income tax	–105
deferred acquisition costs and present value of future profits	–123
policyholder bonuses and other policyholder liabilities	–833
foreign currency translation differences	–25
minority interest	–3
Balance as at 31 December	–4 818
Total gains and losses, net of income tax and other items	1 185

Foreign currency translation differences Foreign currency translation differences comprise the resulting differences arising on the translation of assets, liabilities, income and expenses of Group entities denominated in foreign currencies into Swiss francs.

Retained earnings Retained earnings comprise accumulated retained earnings of the Group entities which have not been distributed to the shareholders. The distribution of profit is subject to 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.

Maturity of mandatory convertible securities (MCS I) On 19 December 2005, the mandatory convertible securities (MCS I, 2002–2005) matured and the liability component totalling CHF 250 million was reclassified to share premium. As a result, the number of treasury shares decreased by 1 978 005.

Reserving and regulatory requirements The Group's insurance entities must set aside sufficient reserves to meet their long-term obligations. The Group Chief Actuary is responsible for the assessment of the financial impact of the Group's insurance business practices. The Group is subject to the regulatory and solvency supervision of the Swiss Federal Office of Private Insurance (FOPI), as well as to the local regulatory supervision in all jurisdictions in which it is active.

29 Core Capital

In CHF million	Notes	**31.12.2006**	31.12.2005
Equity		**7 851**	7 953
Hybrid capital instruments	23	**1 739**	1 689
Deferred Group-related funds		**5 171**	6 979
Total core capital		**14 761**	16 621

The Group's capital performs several important functions, such as funding future growth and providing a protective cushion for shareholders and policyholders, as well as hedging future risks. The defined Group core capital includes equity, certain liabilities with equity characteristics (hybrid capital instruments) and deferred Group-related funds (theoretical policyholder participation in surplus under consideration of additional DAC amortisation and deferred taxes).

30 Acquisitions and Disposals of Subsidiaries

Assets and liabilities from acquisitions and disposals

In CHF million	2006	2005	2006	2005
	Acquisitions	Acquisitions	Disposals	Disposals
Cash and cash equivalents	1	2	143	0
Insurance receivables and other receivables	0	1	41	7
Derivatives (assets)	–	–	19	–
Financial assets at fair value through profit or loss	–	–	0	–
Financial assets available for sale	–	–	478	–
Loans	1	–	1 774	4
Financial assets held to maturity	–	–	0	–
Investment property	–	–	79	3
Investments in associates	–	–	0	–
Reinsurance assets	–	–	21	–
Property and equipment	0	0	7	0
Customer relationships and other intangible assets	2	0	47	–
Other assets	1	–	3	0
Insurance payables and other payables	–1	–1	–35	–2
Derivatives (liabilities)	–	–	–8	–
Financial liabilities at fair value through profit or loss	–	–	0	–
Investment contracts	–	–	0	–
Deposits	–	–	–1 495	–
Borrowings	–1	–	–548	–
Insurance liabilities	–	–	–236	–
Employee benefit liabilities	–	0	–1	0
Provisions	–	–	–21	–
Other liabilities	0	–	–40	0
Minority interest	–	–1	1	0
Net assets acquired/net assets disposed of	3	1	229	12
Transfer from/to associates	–	1	–	–
Gains/losses recognised directly in equity	–	–	0	–
Foreign currency translation differences	–	–	14	0
Gain (+)/loss (–) on disposals			44	6
Cash used for acquisitions (–)/received from disposals (+)	–3	0	262	18
Consideration not yet received in cash			25	–
Payment in kind			–	–
Total purchase consideration/disposal consideration	–3	0	287	18
Cash used for acquisitions (–)/received from disposals (+)	–3	0	262	18
Cash and cash equivalents acquired (+)/disposed of (–)	1	2	–143	0
Net cash outflow (–)/inflow (+) from acquisitions/disposals	–2	2	119	18

The Swiss Life Group acquired in December 2006 an insurance broker in Belgium. The acquisition cost amounted to CHF 3 million.

The Italian insurance operations were sold in December 2006. The sales price amounted to CHF 25 million and the loss realised on the sale totalled CHF 11 million.

In February 2006, the Swiss Life Group sold Banca del Gottardo (Monaco). The sales price amounted to CHF 146 million and the gain realised on the sale was CHF 23 million.

In January 2006, Dreieck Industrie Leasing was sold. The sales price amounted to CHF 97 million and the gain realised on the sale was CHF 27 million.

30 Acquisitions and Disposals of Subsidiaries (continued)

Additionally, a real estate company in Belgium and a service company in Switzerland were sold in January 2006. The sales prices of these transactions amounted to CHF 19 million in total. The gain realised on the sales amounted to CHF 5 million.

In 2005, the Swiss Life Group sold a real estate company in Belgium and Gottardo A.E.P.E.Y., Athens, a subsidiary of Banca del Gottardo. The sales prices of these transactions amounted to CHF 18 million in total. The gain realised on the sales amounted to CHF 6 million.

In 2005, the Swiss Life Group acquired an additional 24.1% of the shares of Swiss Life Partner AG, Munich.

31 Acquisition of Insurance Portfolio

In CHF million	2005
Cash and cash equivalents	11
Insurance receivables and other receivables	195
Financial assets at fair value through profit or loss	10
Financial assets available for sale	2 105
Loans	871
Present value of future profits on acquired insurance portfolio	45
Total assets acquired	3 237
Insurance payables and other payables	113
Insurance liabilities	3 104
Other liabilities	20
Total liabilities acquired	3 237

In 2005, the Swiss Life Group took on the group life portfolio of Vaudoise.

32 Assets Held for Sale and Associated Liabilities

In CHF million	**31.12.06**	31.12.05	**31.12.06**	31.12.05	**31.12.06**	31.12.05
	Disposal groups	Disposal groups	**Non-current assets**	Non-current assets	**Total**	Total
Assets held for sale	**–**	1 395	**14**	14	**14**	1 409
Liabilities associated with assets held for sale	**–**	1 734	**–**	–	**–**	1 734

Non-current assets held for sale as at 31 December 2006 consist of foreclosed property.

In November 2005, the Swiss Life Group announced the sale of Banca del Gottardo (Monaco). The sale was approved by the regulator and was effective in the first half of 2006. In January 2006, the Swiss Life Group announced the sale of Dreieck Industrie Leasing which was also effective in the first six months of 2006. The group of assets to be disposed of and the liabilities directly associated with those assets (disposal group) were presented separately in the balance sheet as at 31 December 2005 under assets held for sale and liabilities associated with assets held for sale.

33 Related Party Transactions

Consolidated statement of income

In CHF million	2006				2005
	Associates	Key management personnel	Other	Total	Total
Investment income	1	–	5	6	8
Net gains/losses on financial instruments at fair value through profit or loss	–	–	19	19	53
Asset management and other commission income	–	–	–	–	1
Interest expense	0	–	0	0	0
Employee benefits expense	–	14	–	14	11
Other expenses	47	–	1	48	2

Consolidated balance sheet

Amounts in CHF million	31.12.06				31.12.05
	Associates	Key management personnel	Other	Total	Total
Financial assets	–	–	289	289	452
Loans	24	–	6	30	32
Deposits	0	–	8	8	11
Other liabilities	–	–	–	–	0
SLH shares issued to key management under equity compensation plans (number)	–	8 432	–	8 432	8 442

Key management compensation

In CHF million	31.12.2006	31.12.2005
Short-term employee benefits	10	9
Post-employment benefits	1	1
Other long-term benefits	–	–
Termination benefits	–	–
Equity-settled share-based payments	3	1
Total	14	11

Sales to and purchases from related parties are made at normal market prices. 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 year ended 31 December 2006, no provisions have been made for doubtful debts in respect of the amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

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.

Financial assets associated with other related parties primarily comprise interest in a participation in Germany in which the Group has a certain influence. It consists of strategic investments in a German bank conglomerate.

34 Assets under Management

In CHF million	31.12.2006	31.12.2005
On-balance-sheet assets		
Cash and cash equivalents	**7 621**	14 170
Derivatives	**859**	777
Financial assets at fair value through profit or loss	**29 437**	23 653
Debt securities available for sale	**81 633**	70 833
Money market instruments and loans available for sale	**105**	38
Equity securities available for sale	**5 488**	3 987
Investment funds available for sale	**787**	370
Private equity available for sale	**129**	139
Hedge funds available for sale	**4 713**	4 216
Other financial assets available for sale	**61**	448
Loans	**28 883**	30 280
Financial assets held to maturity	**4 090**	4 256
Financial assets pledged as collateral	**124**	1 232
Investment property	**11 816**	11 439
Investments in associates	**75**	76
Total on-balance-sheet assets	**175 821**	165 914
Plus fair value adjustments of assets reported at amortised cost		
Financial assets held to maturity	**103**	276
Loans	**496**	1 275
Minus externally managed on-balance-sheet assets		
Assets under unit-linked business	**–2 625**	–1 548
Externally managed alternative investments	**–5 190**	–5 246
Externally managed other assets	**–736**	–670
Total on-balance-sheet assets managed by the enterprise	**167 869**	160 001
Third-party off-balance-sheet assets	**37 621**	47 629
Total assets under management	**205 490**	207 630

Assets under management are taken to comprise:

- assets stated as investments in the balance sheet and cash and cash equivalents
- assets included in the balance sheet for the account and risk of the Swiss Life Group's customers (separate account/unit-linked investments)
- assets managed for third parties by the Group
- minus assets managed by third parties and alternative investments managed by third parties

35 Fair Value of Financial Instruments Not at Fair Value in the Balance Sheet

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

In CHF million		**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
		Carrying amount	Carrying amount	**Fair value**	Fair value
	Notes				
Assets					
Loans	14	**28 883**	30 280	**29 379**	31 555
Financial assets held to maturity	15	**4 090**	4 256	**4 193**	4 532
Liabilities					
Deposits	22	**7 356**	6 419	**7 356**	6 419
Investment contracts without discretionary participation	21	**586**	888	**586**	888
Borrowings	23	**6 139**	4 750	**6 180**	4 868
Financial guarantees		**1**	8	**1**	8

36 Commitments and Contingencies

In CHF million	**31.12.2006**	31.12.2005
Guarantees and letters of credit	**424**	415
Documentary credits	**31**	40
Commitments to extend credit	**230**	316
Capital commitments	**658**	138
Private equity commitments	**59**	92
Operating lease commitments	**123**	91
Other contingencies and commitments	**61**	17
Total	**1 586**	1 109

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

In CHF million	**31.12.2006**	31.12.2005
Not later than 1 year	**53**	18
Later than 1 year and not later than 5 years	**57**	54
Later than 5 years	**13**	19
Total	**123**	91
Expected future minimum sublease payments	***9***	*10*

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

With the sale of the life business in the UK, representations and warranties have been agreed with the buyer which limit the exposure for the Swiss Life Group in respect of time and amount with regard to arising claims and taxes. In relation to mis-selling, it has been agreed that in case of specified events with a material financial impact on the OB Fund of the former Swiss Life UK life business, the financial consequences will be shared between the Swiss Life Group and the buyer according to a clear set of rules which limit the impact on the Swiss Life Group with regard to time (five years) and amount (GBP 31.5 million).

36 Commitments and Contingencies (continued)

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

The total amount of credit commitments includes commitments to lend at fixed rates which expose the Group to interest rate risk. These commitments are entered into for restricted periods of time. As at 31 December 2006, committed principal amounts stood at EUR 33 million and CHF 114 million (2005: EUR 72 million and CHF 110 million). The periods for which these commitments were made extend from one month to six years, and the range of committed interest rates is 2.3% to 6.8%.

Capital commitments The Group had commitments to purchase investments of CHF 340 million (excluding private equity) as at 31 December 2006 (2005: CHF 86 million). Contractual obligations to purchase or construct investment property amounted to CHF 318 million as at 31 December 2006 (2005: CHF 52 million). Commitments for the acquisition of property and equipment amounted to CHF 0.1 million as at 31 December 2006 (2005: CHF 0.1 million).

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

Operating lease commitments The Group has entered into various operating leases as a lessee. Rental expenses recognised in income for these items totalled CHF 46 million for the year ending 31 December 2006 (2005: CHF 72 million). Minimum lease payments totalled CHF 46 million in 2006 (2005: CHF 73 million), while contingent rents totalled CHF 0.03 million in 2006 (2005: CHF 0.03 million). Sublease payments received in 2006 amounted to CHF 0.4 million (2005: CHF 1 million).

Other contingencies and commitments Contractual obligations for repairs and maintenance of investment property amounted to CHF 57 million as at 31 December 2006, which are included in this line item (2005: CHF 17 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.

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

37 Collateral

Carrying amount of assets pledged as collateral

In CHF million	31.12.2006	31.12.2005
Securities under repurchase and securities lending transactions [1]	**4 167**	1 389
Securities under other transactions	**472**	241
Other financial assets	**–**	–
Investment property	**102**	122
Property and equipment	**–**	–
Other	**–**	–
Financial assets pledged as collateral for contingent liabilities	**–**	–
Total	**4 741**	1 752
1) of which can be sold or repledged by transferee	***124***	*1 232*

Fair value of collateral held which can be sold or repledged

In CHF million	31.12.2006	31.12.2005
Securities under repurchase agreements, securities borrowing and lending arrangements	**4 495**	3 403
Securities under derivative and other transactions	**25**	–
Total	**4 520**	3 403
of which sold or repledged		
With obligation to return	***1 606***	*835*
No obligation to return	***–***	*–*

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

In CHF million	31.12.2006	31.12.2005
Not later than 1 year	**141**	125
Later than 1 year and not later than 5 years	**416**	350
Later than 5 years	**634**	484
Total	**1 191**	959
Contingent rents recognised in income	***4***	*0*

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

39 Reclassifications in the Consolidated Statement of Income and Consolidated Balance Sheet

Reclassifications in the statement of income for the year ended 31 December 2005

In CHF million	As disclosed	Reclas-sification	Reclassified
Fees from investment and unit-linked contracts	–	280	
Policy fees earned on investment and unit-linked contracts			280
Fee income	774	–280	
Asset management and other commission income			494
Insurance benefits, claims and claim settlement costs	–14 184	240	
Benefits and claims under insurance contracts			–13 944
Benefits and claims under investment contracts with discretionary participation	–	–240	
Benefits and claims under investment contracts with discretionary participation			–240
Commission expense	–1 055	–37	
Commission expense			–1 092
Other expenses	–830	37	
Other expenses			–793

39 Reclassifications in the Consolidated Statement of Income and Consolidated Balance Sheet (continued)

Reclassifications in the balance sheet as at 31 December 2005

In CHF million	As disclosed	Reclas-sification	Reclassified
Insurance payables and other payables	4 455	–362	
Insurance payables and other payables			4 093
Financial liabilities at fair value through profit or loss	6 919	–89	
Financial liabilities at fair value through profit or loss			6 830
Investment contracts with discretionary participation	23 652	977	
Investment contracts			24 629
Investment contracts and deposits at amortised cost	7 307	–888	
Deposits			6 419
Borrowings	4 388	362	
Borrowings			4 750
Insurance liabilities	106 909	–368	
Insurance liabilities			106 541
Discretionary participation liabilities	7 714	368	
Policyholder participation liabilities			8 082
Defined benefit liabilities	2 558	18	
Employee benefit liabilities			2 576
Other liabilities	506	–18	
Other liabilities			488

In order to present policy fees earned on investment and unit-linked contracts separately, policy fees earned on investment and unit-linked contracts totalling CHF 280 million, which were previously included in fee income, are now presented in a separate line item.

Benefits and claims under investment contracts with discretionary participation totalling CHF 240 million which were previously carried under insurance benefits, claims and claim settlement costs are now presented separately.

Certain expenses totalling CHF 37 million relating to asset management were reclassified from other expenses to commission expense.

Bank overdrafts totalling CHF 362 million were reclassified from insurance payables and other payables to borrowings.

In order to present liabilities arising from investment contracts separately, financial liabilities at fair value through profit or loss amounting to CHF 89 million and liabilities measured at amortised cost amounting to CHF 888 million were reclassified to investment contracts.

Non-discretionary policyholder bonuses and other liabilities totalling CHF 368 million were reclassified from insurance liabilities to policyholder participation liabilities in order to present policyholder participation liabilities separately.

In order to present employee benefit liabilities separately, liabilities relating to other employee benefits amounting to CHF 18 million were reclassified from other liabilities to employee benefit liabilities.

These reclassifications were also reflected in the consolidated statement of cash flow for the year ended 31 December2005.

40 Events after the Balance Sheet Date

The Swiss Life Group announced the acquisition of CapitalLeben, a company headquartered in Liechtenstein, which specialises in structured life insurance solutions. The acquisition is subject to regulatory approval, which is expected in the first quarter of 2007.

The Swiss Life Group has agreed to sell its majority stakes in ERISA, Paris, and ERISA IARD, Paris, to HSBC, the current minority shareholder. The closing is subject to regulatory approval and is expected in the second half of 2007.

41 Significant Subsidiaries and Associates

	Segment 1)	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Switzerland							
Adamant, Basel	–	until 29.03.2006	–	–	equity	CHF	250
Adroit Investment, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Adroit Private Equity, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Banca del Gottardo, Lugano	Banking		100.0%	100.0%	full	CHF	70 000
B-Source, Lugano	–	from 01.07.2005	37.0%	37.0%	equity	CHF	2 400
Dreieck Equipment Leasing, Zürich	–	until 27.01.2006	–	–	full	CHF	100
Dreieck Fiduciaria, Lugano	Banking		100.0%	100.0%	full	CHF	500
Dreieck Industrie Leasing, Lausanne	–	until 27.01.2006	–	–	full	CHF	15 000
Eaux-Vives 2000, Zürich	Insurance		100.0%	100.0%	full	CHF	1 000
Eaux-Vives Office, Zürich	Insurance		100.0%	100.0%	full	CHF	100
Gottardo Investments SA, Lugano	–	from 12.08.2005 until 11.12.2006	–	–	full	CHF	30 000
Kuhn & Seal, Nyon	–	until 23.01.2006	–	–	full	CHF	100
«La Suisse» Accidents, Lausanne	–	until 05.12.2005	–	–	full	CHF	50 000
«La Suisse» Vie, Lausanne	–	until 23.11.2005	–	–	full	CHF	24 000
Livit, Zürich	IM		100.0%	100.0%	full	CHF	3 000
Livolsi e Associati Private, Lugano	–	from 10.05.2005	40.0%	40.0%	equity	CHF	1 000
Long Term Strategy in liquidation, Zug	Other		100.0%	100.0%	full	CHF	2 000
Neue Warenhaus AG, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Oscar Weber AG, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Parking de Bellefontaine, Lausanne	–		38.3%	38.3%	equity	CHF	800
Pendia Associates, Zürich	–	until 23.01.2006	–	–	full	CHF	500
Rentenanstalt Holding, Zürich	Other		100.0%	100.0%	full	CHF	25 000
Swiss Life Asset Management, Zürich	IM		100.0%	100.0%	full	CHF	250
Swiss Life Capital Holding, Zürich	Other		100.0%	100.0%	full	CHF	5 514
Swiss Life Funds AG, Lugano	IM		100.0%	100.0%	full	CHF	20 000
Swiss Life Funds Business, Zürich	IM		100.0%	100.0%	full	CHF	250
Swiss Life General Partners in liquidation, Zürich	Other		100.0%	100.0%	full	CHF	100
Swiss Life Holding, Zürich	Other		–	–	full	CHF	1 384 827
Swiss Life Institutional Funds – SLIF 14, Lugano	–	until 24.05.2006	–	–	full	–	–
Swiss Life Intellectual Property Management AG, Zürich	Other	from 20.12.2005	100.0%	100.0%	full	CHF	250
Swiss Life International Holding AG, Zürich	Other	from 12.06.2006	100.0%	100.0%	full	CHF	1 000
Swiss Life Investment Management Holding, Zürich	IM	from 06.04.2005	100.0%	100.0%	full	CHF	50 000
Swiss Life (Liechtenstein) Services, Vaduz, Branch Zürich	Insurance	from 11.05.2005	–	–	full	–	–
Swiss Life Pension Services, Zürich	Insurance		100.0%	100.0%	full	CHF	250
Swiss Life Private Equity Partners, Zürich	IM		100.0%	100.0%	full	CHF	250
Swiss Life Property Management, Zürich	IM	from 24.03.2005	100.0%	100.0%	full	CHF	250
Swiss Life Real Estate Management Holding, Zürich	–	from 17.06.2005 until 25.08.2005	–	–	full	CHF	13 473
Swiss Life/Rentenanstalt, Zürich	Insurance		100.0%	100.0%	full	CHF	587 350
Swiss Life Selection, Zürich	Banking		100.0%	100.0%	full	CHF	250
Swissville Centers, Zürich	Insurance		100.0%	100.0%	full	CHF	2 500
Swissville Centers Holding, Zürich	Insurance		100.0%	100.0%	full	CHF	7 100

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment 1)	Consolidation period		Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Switzerland (continued)								
Adamant, Basel	–	until	29.03.2006	–	–	equity	CHF	250
Swissville Commerce, Zürich	Insurance			100.0%	100.0%	full	CHF	150 900
Swissville Commerce Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	147 100
Swissville Europe Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	11 500
Swissville Private, Zürich	–	until	30.06.2006	–	–	full	CHF	50 000
Swissville Private Holding, Zürich	–	until	30.06.2006	–	–	full	CHF	50 000
Technopark Immobilien, Zürich	–			33.3%	33.3%	equity	CHF	40 000
Ultrafin, Lugano	–	until	22.11.2005	–	–	full	CHF	5 000
Liechtenstein								
LGT Swiss Life Non Traditional Advisers, Vaduz	–			43.4%	43.4%	equity	CHF	1 000
Swiss Life (Liechtenstein), Vaduz	Insurance			100.0%	100.0%	full	CHF	5 000
Swiss Life (Liechtenstein) Services, Vaduz	Insurance	from	15.04.2005	100.0%	100.0%	full	CHF	100
France								
AGAMI, Lille	Insurance			100.0%	100.0%	full	EUR	500
Carte Blanche Partenaires, Paris	Insurance			94.6%	95.1%	full	EUR	2 300
Carte Blanche TP, Paris	–			43.6%	44.0%	equity	EUR	40
CEAT, Paris	Insurance			100.0%	100.0%	full	EUR	2 400
CEGEMA, Villeneuve-Loubet	Insurance			50.6%	50.6%	full	EUR	300
Crédit et services financiers (CRESERFI), Paris	–			33.4%	33.4%	equity	EUR	56 407
ERISA, Paris	Insurance			50.0%	50.0%	full	EUR	115 000
ERISA IARD, Paris	Insurance			50.0%	50.0%	full	EUR	7 500
Garantie Assistance, Paris	Insurance			99.5%	100.0%	full	EUR	1 850
GSD Gestion, Paris	–			25.0%	25.0%	equity	EUR	400
Oudart, Paris	Banking			100.0%	100.0%	full	EUR	5 500
Oudart Gestion, Paris	Banking			100.0%	100.0%	full	EUR	1 000
Oudart Patrimoine, Paris	Banking			100.0%	100.0%	full	EUR	38
Premium Consulting SAS, Paris	–			20.0%	20.0%	equity	EUR	40
SCI DYNAPIERRE, Paris	Insurance			99.5%	100.0%	full	EUR	7 317
SCI ERISA IMMO 1, Paris	Insurance			50.0%	100.0%	full	EUR	51 200
SCI Paris Dammartin, Roubaix	–	until	25.12.2005	–	–	full	EUR	15
Société suisse de gestion immobilière, Paris	–	until	19.12.2005	–	–	full	EUR	22 860
Société suisse de participations d’assurance, Paris	Insurance			100.0%	100.0%	full	EUR	678 353
Société suisse vie, Paris (branch Swiss Life/Rentenanstalt)	Insurance			–	–	full	–	–
Swiss Life Asset Management (France), Paris	Insurance			100.0%	100.0%	full	EUR	3 000
Swiss Life Assurance et Patrimoine, Paris	Insurance			99.5%	99.9%	full	EUR	75 000
Swiss Life Assurances de Biens, Paris	Insurance			100.0%	100.0%	full	EUR	110 850
Swiss Life Banque, Paris	Banking			100.0%	100.0%	full	EUR	20 000
Swiss Life Prévoyance et Santé, Paris	Insurance			99.2%	99.2%	full	EUR	150 000

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment 1)	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Germany							
Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf	–		20.4%	20.4%	equity	EUR	25
DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf	–		20.4%	20.4%	equity	EUR	539
Financial Solutions, München	Insurance		100.0%	100.0%	full	EUR	200
Münchner Tor, München	Insurance		100.0%	100.0%	full	EUR	59 435
Renum, München	–	until 19.01.2005	–	–	full	EUR	250
Schweizerische Rentenanstalt, München (branch Swiss Life/Rentenanstalt)	Insurance		–	–	full	–	–
Schweizer Leben Pensions Management, München	Insurance		100.0%	100.0%	full	EUR	150
Seko, München	Insurance		90.0%	90.0%	full	EUR	30
Sepis, München	Insurance		100.0%	100.0%	full	EUR	30
Swiss Life Asset Management, Unterföhring	Insurance		100.0%	100.0%	full	EUR	5 250
Swiss Life Asset Management GmbH, München	Insurance	from 14.12.2006	100.0%	100.0%	full	EUR	1 000
Swiss Life Beteiligungs GmbH, München	Insurance		100.0%	100.0%	full	EUR	25
Swiss Life Beteiligungs-GmbH & Co. Grundstücksverwaltung KG, München	Insurance	from 10.06.2005	100.0%	100.0%	full	EUR	50
Swiss Life Cooperations, München	Insurance	from 27.01.2005	100.0%	100.0%	full	EUR	100
Swiss Life Grundstücksmanagement, München	Insurance		100.0%	100.0%	full	EUR	26
Swiss Life Insurance Solutions AG, München	Insurance	from 04.10.2006	100.0%	100.0%	full	EUR	7 500
Swiss Life Partner AG, München	Insurance		83.8%	83.8%	full	EUR	7 000
Swiss Life Partner Service und Finanzvermittlung, München	Insurance		100.0%	100.0%	full	EUR	1 800
Swiss Life Partner Vertriebs GmbH, Hamburg	–		50.0%	50.0%	equity	EUR	77
Swiss Life Pensionsfonds, München	Insurance		100.0%	100.0%	full	EUR	3 000
Swiss Life Pensionskasse, München	Insurance		100.0%	100.0%	full	EUR	3 000
Verwaltung Swiss Life Partner Vertriebs GmbH, Hamburg	–		50.0%	50.0%	equity	EUR	26
Netherlands							
Swiss Life Asset Management (Nederland), Amstelveen	Insurance		100.0%	100.0%	full	EUR	250
Zwitserleven, Amstelveen (branch Swiss Life/Rentenanstalt)	Insurance		–	–	full	–	–
Zwitserleven Vermogensbeheer, Amstelveen	Insurance		100.0%	100.0%	full	EUR	2 269

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment [1]	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Belgium							
AIA Pool, Sint-Jans-Molenbeek	–		13.0%	13.0%	equity	EUR	19
Bureau Maron, Verviers	Insurance	from 21.12.2006	100.0%	100.0%	full	EUR	20
Demoisy & Cie, Montigny le Tilleul	–		25.0%	25.0%	equity	EUR	31
European District Properties Three, Sint Stevens Woluwe	–		50.0%	50.0%	equity	EUR	62
Swiss Life Asset Management (Belgium), Bruxelles	IM		100.0%	100.0%	full	EUR	500
Swiss Life Belgium SA, Bruxelles	Insurance		100.0%	100.0%	full	EUR	88 074
Swiss Life Immo-Commerce (Belgium), Bruxelles	–	until 25.02.2005	–	–	full	EUR	9 965
Swiss Life Immo-Cross Roads, Bruxelles	Insurance		100.0%	100.0%	full	EUR	64
Swiss Life Immo-Midi (Belgium), Bruxelles	Insurance		100.0%	100.0%	full	EUR	2 200
Swiss Life Immo-Techno Center I, Bruxelles	Insurance		100.0%	100.0%	full	EUR	868
Swiss Life Information Systems, Sint-Gillis	Insurance		100.0%	100.0%	full	EUR	62
Swiss Life Invest (Belgium), Bruxelles	Insurance		100.0%	100.0%	full	EUR	646
Swissville Europe (Belgium), Bruxelles	–	until 25.01.2006	–	–	full	EUR	8 087
ZELIA, Bruxelles	–	until 01.01.2006	–	–	full	EUR	32 227
Luxembourg							
Banque du Gothard (Luxembourg), Luxembourg	Banking		100.0%	100.0%	full	CHF	14 000
Esofac, Luxembourg	–		30.0%	30.0%	equity	EUR	125
Gotam Fund Management Company, Luxembourg	Banking		100.0%	100.0%	full	EUR	125
Gotam Umbrella Fund (Lux) Advisory Company, Luxembourg	Banking		100.0%	100.0%	full	CHF	200
Gottardo Equity Fund (Lux) Management, Luxembourg	Banking		100.0%	100.0%	full	CHF	200
Gottardo Strategy Fund Management, Luxembourg	Banking		100.0%	100.0%	full	CHF	200
Heralux, Luxembourg	Insurance		99.2%	100.0%	full	EUR	1 250
SB-Gotthard I Fund Management, Luxembourg	Banking		100.0%	100.0%	full	CHF	650
SLGB Management, Luxembourg	Insurance		100.0%	100.0%	full	EUR	125
Swiss Life (Luxembourg), Strassen	Insurance		100.0%	100.0%	full	EUR	15 000
Swiss Life Asset Management Holding, Strassen	IM		100.0%	100.0%	full	CHF	8 380
Swiss Life Funds (Lux) Management (formerly Swiss Life Multi Funds (Luxembourg) Management), Luxembourg	IM		100.0%	100.0%	full	CHF	200
Swiss Life Immo-Arlon, Strassen	Insurance		100.0%	100.0%	full	EUR	1 000
Swiss Life Invest Luxembourg, Strassen	Insurance	from 04.12.2006	100.0%	100.0%	full	EUR	35 000
Swiss Life Participations Luxembourg, Strassen	Insurance	from 21.12.2006	100.0%	100.0%	full	EUR	70 000
United Kingdom							
Alpine Holdings, St. Peter Port, Guernsey	–	until 15.08.2006	–	–	full	USD	600
Integer Investment PCC Limited Cell 7, St. Peter Port, Guernsey	–	until 28.02.2006	–	–	full	CHF	0
Spain							
Gottardo Gestión, SGIIC, Madrid	Banking	from 07.02.2005	100.0%	100.0%	full	EUR	868
Gottardo Inversiones Financieras, Madrid	Banking		100.0%	100.0%	full	EUR	1 667
Gottardo Patrimonios, Madrid	Banking	from 25.05.2005	100.0%	100.0%	full	EUR	650

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment [1]	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Italy							
Banca del Gottardo Italia, Bergamo	Banking		71.0%	71.0%	full	EUR	50 000
Fafid, Milano	Banking		95.0%	95.0%	full	EUR	150
Gottardo Asset Management SGR, Milano	Banking		96.4%	96.4%	full	EUR	2 050
Swiss Life (Italia), Milano	–	until 31.12.2006	–	–	full	EUR	5 170
Swiss Life (Italia) Infortuni e Malattie, Milano	–	until 31.12.2006	–	–	full	EUR	2 500
Bahamas							
Alpine Services Ltd., Nassau	Banking	from 01.01.2006	100.0%	100.0%	full	USD	10
Gottardo Trust Company, Nassau	Banking		100.0%	100.0%	full	USD	3 000
British Virgin Islands							
Swiss Life Finance, Tortola	–	until 22.11.2005	–	–	full	USD	50
Cayman Islands							
Adroit Investment (Offshore), Grand Cayman	Insurance		100.0%	100.0%	full	CHF	0
						EUR	0
Adroit Private Equity (Offshore), Grand Cayman	Insurance		100.0%	100.0%	full	CHF	0
						USD	0
Swiss Life Cayman Finance, Grand Cayman	–	until 06.09.2006	–	–	full	CHF	0
						USD	50
Swiss Life Financial Services, Grand Cayman	Other		100.0%	100.0%	full	CHF	50
Swiss Life Insurance Finance, Grand Cayman	Other		100.0%	100.0%	full	EUR	5
Swiss Life Private Equity Partners (Cayman), Grand Cayman	–	until 31.03.2006	–	–	full	CHF	60
Greece							
Gottardo A.E.P.E.Y., Athens	–	until 22.04.2005	–	–	full	EUR	1 600
Second Pillar, Athens	–		25.0%	25.0%	equity	EUR	60
Monaco							
Banque du Gothard (Monaco), Monaco	–	until 28.02.2006	–	–	full	EUR	40 000
Financial Strategy (Sam), Monaco	–	until 27.09.2005	–	–	equity	EUR	750
Gothard Gestion Monaco, Monaco	–	until 28.02.2006	–	–	full	EUR	160
Gottim Sam, Monaco	–	until 28.02.2006	–	–	full	EUR	150
Podium Sam, Monaco	–		30.0%	30.0%	equity	EUR	150
Netherlands Antilles							
N.V. Pensioen ESC, Willemstad	Insurance		100.0%	100.0%	full	ANG	1 000

1) Segment (IM = Investment Management)

Report of the Group Auditors

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

As auditors of the Group, we have audited the consolidated financial statements (consolidated statement of income, consolidated balance sheet, consolidated statement of cash flow, consolidated statement of changes in equity and notes to the consolidated financial statements; pages 79 to 191) of Swiss Life Group for the year ended 31 December 2006.

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

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

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

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

PricewaterhouseCoopers AG

Peter Lüssi Daniel Häfeli
Auditor in charge

Zurich, 26 March 2007

Review of Operations

Swiss Life Holding generated a profit of CHF 249 million in the 2006 financial year compared with CHF 172 million in the previous year.

Total income rose from CHF 184 million to CHF 261 million. This positive development reflected the increase from CHF 151 million to CHF 231 million in dividends received on participating interests. A third of the dividend income was generated abroad, e.g. by foreign branches. In addition, dividend income was more broadly diversified between the segments.

The interest received on loans made to Group companies declined because loans outstanding contracted by CHF 137 million.

The total expenses of Swiss Life Holding remained stable vis-à-vis the previous year.

Swiss Life Holding's liquid assets (liquid funds plus time deposits and comparable instruments) climbed from CHF 481 million to CHF 649 million, further enhancing the Group's financial flexibility. The company also invested CHF 75 million in top-quality bonds, which can be used in repo transactions to generate liquidity.

Swiss Life Holding continued to streamline the Group structure during the reporting period. It founded the subsidiary Swiss Life International Holding AG, which groups together some foreign insurance companies, thereby bringing the legal structure more strongly in line with the management structure.

The newly founded subsidiary Swiss Life Intellectual Property Management AG manages trademark rights within the Swiss Life Group and is responsible for developing the Swiss Life brand and sub-brands further.

By liquidating its subsidiary Swiss Life Cayman Finance, Swiss Life Holding simplified its participation structure. This liquidation was made possible by the conversion, at the end of 2005, of the mandatory convertible securities issued in 2002.

A reduction was experienced in the carrying amount of Banca del Gottardo due to a capital repayment of CHF 100 million.

In 2006, Swiss Life Holding distributed a dividend of CHF 5 per share in the form of a repayment of par value. The par value of the Swiss Life Holding share was thereby reduced from CHF 46 to CHF 41 and the company's total share capital from CHF 1554 million to CHF 1385 million. Convertible bonds outstanding were converted into 191 shares in 2006, for an increase of CHF 7831 in share capital.

Statement of Income

Statement of income

In CHF million	2006	2005
Investment income	**257**	181
Foreign currency gains/losses	**–**	–1
Net investment income	**257**	180
Operating expense	**–5**	–5
Other income	**4**	4
Financial expense	**–4**	–5
Income tax expense	**–3**	–2
Net profit	**249**	172

Balance Sheet

Assets as at 31 December

In CHF million	2006	2005
Liquid funds	**6**	22
Liquid funds Group companies	**2**	–
Time deposits and similar investments	**218**	459
Time deposits and similar investments Group companies	**423**	–
Short-term investments at fair value	**–**	28
Receivables from Group companies	**95**	7
Receivables from third parties	**3**	2
Prepayments and accrued income	**2**	1
Current assets	**749**	519
Equity securities	**32**	16
Debt securities	**75**	–
Participations	**2 494**	2 588
Loans to Group companies	**116**	252
Non-current assets	**2 717**	2 856
Total assets	**3 466**	3 375

Liabilites and equity as at 31 December

In CHF million	2006	2005
Payables to Group companies	**–**	1
Liabilities towards third parties	**23**	13
Total short-term liabilities	**23**	14
Convertible securities	**313**	312
Total long-term liabilities	**313**	312
Total liabilities	**336**	326
Share capital	**1 385**	1 554
General reserves	***918***	*918*
Reserve for own shares	***66***	*42*
Legal reserves	**984**	960
Free reserves	**508**	361
Balance carried forward from previous year	***4***	*2*
Net profit	***249***	*172*
Profit shown in the balance sheet	**253**	174
Equity	**3 130**	3 049
Total liabilities and equity	**3 466**	3 375

Notes to the Financial Statements

Accounting Rules

Assets and liabilities are stated in the balance sheet in accordance with the provisions of the Swiss Code of Obligations (OR).

Explanations on the Balance Sheet and Statement of Income

Participations

	2006			2005		
	Currency	Authorised share capital in 1000	Direct share	Currency	Authorised share capital in 1000	Direct share
Banca del Gottardo, Lugano	**CHF**	**70 000**	**100.0%**	CHF	170 000	100.0%
Swiss Life Cayman Finance, Grand Cayman	–	–	–	CHF	0	100.0%
	–	–	–	USD	50	
Swiss Life Intellectual Property Management, Zürich	**CHF**	**250**	**100.0%**	–	–	–
Swiss Life International Holding, Zürich	**CHF**	**1 000**	**100.0%**	–	–	–
Swiss Life Investment Management Holding, Zürich	**CHF**	**50 000**	**100.0%**	CHF	50 000	100.0%
Swiss Life (Liechtenstein), Vaduz	**CHF**	**5 000**	**100.0%**	CHF	5 000	100.0%
Swiss Life/Rentenanstalt, Zürich	**CHF**	**587 350**	**100.0%**	CHF	587 350	100.0%

Loans to Group companies CHF 80 million of the loans to Group companies is classified as subordinated.

Major shareholders At the time of writing there are no individual shareholders or groups of shareholders who own more than 5% of Swiss Life Holding's share capital and who are known to us.

Share capital As at 31 December 2006, the share capital of Swiss Life Holding (SLH) consisted of 33 776 269 fully-paid shares with a par value of CHF 41 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of their own shares and those they represent. As at 31 December 2005, SLH had 33 776 078 registered shares with a par value of CHF 46 per share. Conditional share capital was CHF 150 374 511 as at 31 December 2006 (2005: CHF 168 721 652).

Legal reserves Legal reserves comprise the general reserves (additional paid-in capital in excess of the par value, net of transaction costs) and reserve for own shares (equivalent in value to SLH shares held by the Swiss Life Group).

Free reserves and retained earnings Free reserves and retained earnings contain accumulated retained earnings which have not been distributed to the shareholders.

Issuance of convertible debt in 2004 On 10 June 2004, SLH issued CHF 317 million in 0.625% convertible bonds 2004–2010 convertible into SLH registered shares. The conversion price was set at CHF 209.625.

In 2006, convertible bonds of CHF 42 000 were converted into 191 SLH shares with a corresponding increase of share capital and share premium.

Own shares In the year under review the companies in the Swiss Life Group purchased a total of 644 170 Swiss Life shares at an average price of CHF 272.08. In the same period, they sold 570 366 shares at an average price of CHF 281.08. As at 31 December 2006, the Swiss Life Group held 335 517 own shares.

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

Contingencies Swiss Life Holding acts as warrantor for all Swiss Life/Rentenanstalt liabilities with regard to the various tranches of the subordinated perpetual step-up loan (hybrid debt), which amounted to an equivalent value of CHF 1348 million at the balance sheet date.

In 2006, SLH further gave a capital guarantee (2017+2) to a maximum net asset value of CHF 300 million to Swiss Life Funds.

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

Statement of changes in equity

In CHF million	31.12.2006	31.12.2005
Share capital		
Balance as at 1 January	**1 554**	1 689
Reduction in par value	**–169**	–135
Converted Swiss Life Holding shares	**0**	0
Total share capital	**1 385**	1 554
Legal reserves		
General reserves		
Balance as at 1 January	**918**	918
Converted Swiss Life Holding shares	**0**	0
Total general reserves	**918**	918
Reserve for own shares		
Balance as at 1 January	**42**	38
Reserve for own shares	**24**	4
Total reserve for own shares	**66**	42
Total legal reserves	**984**	960
Free reserves		
Balance as at 1 January	**361**	185
Allocation to free reserves	**170**	180
Reserve for own shares (incl. reduction in par value)	**–23**	–4
Total free reserves	**508**	361
Profit shown in the balance sheet		
Balance as at 1 January	**174**	182
Allocation to free reserves	**–170**	–180
Net profit	**249**	172
Total profit shown in the balance sheet	**253**	174
Total equity	**3 130**	3 049

Appropriation of Profit

Profit and Appropriation of Profit

The net profit for the year amounts to CHF 249 150 544. The Board of Directors proposes to the General Meeting of Shareholders to appropriate the profit in accordance with the table below. If the Board of Directors' proposal is adopted, a distribution in the form of a reduction of CHF 7 in the par value per share will be paid.

Profit shown in the balance sheet

In CHF	2006	2005
Balance brought forward	**4 252 874**	1 979 262
Net profit	**249 150 544**	172 273 612
Total profit shown in the balance sheet	**253 403 418**	174 252 874

Appropriation of profit

In CHF	2006	2005
Dividend	**–**	–
Allocation to legal reserves	**–**	–
Allocation to free reserves	**250 000 000**	170 000 000
Balance carried forward to new account	**3 403 418**	4 252 874
Total profit shown in the balance sheet	**253 403 418**	174 252 874

Zurich, 26 March 2007

For the Swiss Life Holding Board of Directors

Bruno Gehrig Gerold Bührer

Report of the Statutory Auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (statement of income, balance sheet and notes to the financial statements; pages 195 to 198) of Swiss Life Holding for the year ended 31 December 2006.

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

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

In our opinion, the accounting records and financial statements and the proposed appropriation of profit comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Peter Lüssi   Daniel Häfeli
Auditor in charge

Zurich, 26 March 2007

Caution regarding forward-looking statements

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

This Annual Report is also available in German and an abridged version has been translated into French.
The English text is definitive for the Financial Statements.

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Important dates

Annual General Meeting
8 May 2007
Hallenstadion, Zurich

Presentation of half-year figures
4 September 2007

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You can find the Annual Report for
the Swiss Life Group on the internet at
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