

Annual Report 2011

Financial Statement Section

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Corporate Governance

The Swiss Life Group is committed to implementing the recognised principles of responsible corporate conduct and continually adapts its corporate governance practices to current developments.

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

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

In the year under review, Swiss Life revised its Code of Conduct in the light of best practice. The Code offers guidance on the interaction of employees with each other and with persons outside Swiss Life. It lays down the values and principles of the Swiss Life Group and establishes binding guidelines. Specific rules are set out with relation to insider information for example. Management must obtain prior approval (pre-clearance) before carrying out transactions in Swiss Life Holding shares.

This report describes the essential features of corporate governance within the Swiss Life Group. The structure below largely follows the Directive on Information Relating to Corporate Governance issued by the SIX Swiss Exchange, which came into force on 1 July 2002, and was revised on 1 January 2007 and 1 July 2009, and also takes into consideration the regulations on transparency stipulated in the Swiss Code of Obligations with regard to the compensation of members of the Board of Directors and the Corporate Executive Board and FINMA circular 2010/1 on minimum standards for remuneration schemes of financial institutions. Further information on the Code of Conduct and the values of the Swiss Life Group can be found in the section "Values" (page 38) in the Business Review.

Group Structure and Shareholders

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

The companies falling within the Group's scope of consolidation are presented in the Consolidated Financial Statements (Note 37). Information on the listing on the SIX Swiss Exchange and market capitalisation can be found on page 76 in the Business Review. The organisational structure of the Group shows the key business markets and areas. The resulting operational responsibilities are reflected in the allocation of responsibilities among the Corporate Executive Board. With regard to insurance operations, one person with responsibility for the market and results is assigned to each specific area.

The operational management structure as at 31 December 2011 is shown on page 17.

SHAREHOLDERS – Shareholdings in companies that are domiciled in Switzerland and have their shares listed in Switzerland must be reported to the company in question and the SIX Swiss Exchange if the shareholdings exceed, fall below or reach certain thresholds. The relevant thresholds are 3, 5, 10, 15, 20, 25, 33 $\frac{1}{3}$, 50 and 66 $\frac{2}{3}$ % of the voting rights. Details are set out in the Federal Act on Stock Exchanges and Securities Trading (SESTA) and Stock Exchange Ordinance-FINMA (SESTO-FINMA).

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

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

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

Talanx AG, Riethorst 2, 30659 Hanover, Germany, reported in the publication of 23 February 2011 regarding a change in the composition of the Group subject to reporting requirements that it held 2 974 688 shares of Swiss Life Holding, equivalent to 9.27% of the voting rights. The group consists of: Talanx Beteiligungs-GmbH & Co. KG, Riethorst 2, 30659 Hanover and AmpegaGerling Investment GmbH, Charles-de-Gaulle-Platz 1, 50679 Cologne. Talanx Beteiligungs-GmbH & Co. KG is managed by the beneficial owner (HDI Haftpflichtverband der Deutschen Industrie V.a.G, Riethorst 2, 30659 Hanover) as follows: The limited partner is Talanx AG, Riethorst 2, 30659 Hanover. The sole shareholder of Talanx AG is the beneficial owner (HDI V.a.G.). The general partner is Gerling Beteiligungsgesellschaft mbH, Charles-de-Gaulle-Platz 1, 50679 Cologne. Talanx AG is Gerling Beteiligungsgesellschaft mbH's sole partner. AmpegaGerling Investment GmbH is managed by the beneficial owner as follows: 94.9% is controlled by AmpegaGerling Asset Management GmbH, Charles-de-Gaulle-Platz 1, 50679 Cologne (Talanx AG is AmpegaGerling Asset Management GmbH's sole partner) and 5.1% by Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg. Alstertor's sole limited partner is Talanx AG.

Letko Brosseau and Associates Inc., 1800 McGill College Avenue, Montreal, QC H3A 3J6 Canada, reported in the publication of 10 March 2011 that it held through managed accounts 967 104 shares of Swiss Life Holding, corresponding to a 3.01% share of the voting rights. In the publication of 19 April 2011, Letko reported a new holding of 956 604 shares, equivalent to a 2.98% share of the voting rights.

BlackRock Inc., 40 East 52nd Street, New York 10022, USA reported in a publication of 26 October 2011 that a group consisting of BlackRock Asset Management Japan Limited, Marunouchi Trust Tower Main, 1-8-3 Marunouchi, Chiyodaku, Tokyo 100-8217, BlackRock Advisors UK Ltd, Murray House, 1 Royal Mint Court, London EC3N 4HH, BlackRock Investment Management (UK) Ltd., 33 King William Street, London EC4R 9AS, BlackRock International Ltd., 40 Torphichen Street, Edinburgh EH3 8JB, BlackRock Investment Management (Australia) Limited, Level 43, Grosvenor Place, 225 George Street, Sydney NSW 2000, BlackRock Fund Managers Ltd., 33 King William Street, London EC4R 9AS, BlackRock Investment Management LLC, 800 Scudders Mill Road, Plainsboro NJ 08536, BlackRock Financial Management Inc., 40 East 52nd Street, New York NY 10022, BlackRock Asset Management Australia Limited, Level 43, Grovesnor Place, 225 George Street, Sydney NSW 2000, BlackRock Fund Advisors, 400 Howard Street, San Francisco, CA 94105, BlackRock Institutional Trust Company, N.A., 400 Howard Street, San Francisco, CA 94105-2618, BlackRock Investment Management (Dublin) Ltd., First Floor, Fitzwilton House, Wilton Place, Dublin 2 and BlackRock Asset Management Canada Limited, 161 Bay Street, Suite 2500, Toronto, Ontario M5J 2S1, held a total of 962 364 shares and 2808 other purchase positions of Swiss Life Holding, corresponding to 3.01% of the voting rights. In addition BlackRock held 411 sales positions, corresponding to 0.001% of the voting rights.

Carsten Maschmeyer, Hanebuthwinkel 17, 30655 Hanover, Germany, reported in the publication of 13 December 2011 that the Group subject to disclosure requirements consisting of Carsten Maschmeyer, his two sons, Marcel Jo Maschmeyer and Maurice Jean Maschmeyer, as well as the asset management firms CM Vermögensverwaltung GmbH & Co. KG and CM Vermögensverwaltungs-Geschäftsführungs GmbH, had been expanded to include MM Familien KG, because of the transferral by Group members of some of their Swiss Life Holding shares to MM Familien KG. At the same time he reported that his shareholding had fallen below the disclosure threshold of 3%.

No cross participations exceeding the 3% threshold exist between Swiss Life Holding or its subsidiaries and other listed companies.

SHAREHOLDER STRUCTURE – On the balance sheet date a total of 183 277 shareholders and nominees were listed in the Swiss Life Holding share register, of which about 4200 were institutional shareholders. Taken together, the shareholders entered in the share register held around 50% of the shares issued. Over half of these shares were owned by shareholders domiciled in Switzerland. Around one third of the registered shares were in private hands.

A table showing the shareholder structure is provided in the section “Information on Share Performance and Historical Comparison” on page 77 in the Business Review.

Capital Structure

CAPITAL AND CHANGES IN CAPITAL — The capital structure of Swiss Life Holding was as follows on the balance sheet date:

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

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

Since the establishment of Swiss Life Holding on 17 September 2002, a number of capital market transactions have been conducted. A detailed description of the transactions carried out up to and including the end of 2008 can be found in the Corporate Governance section of the annual reports for the relevant years. The annual reports can be accessed at www.swisslife.com, “Investors” area, “Results & Reports” section, “Archive Reports” and “Annual Reports” subsections (www.swisslife.com/en/annualreports).

On 7 May 2009 the General Meeting of Shareholders of Swiss Life Holding decided on a capital reduction of CHF 51 059 500 by cancelling 3 003 500 registered shares with a par value of CHF 17 each, which were acquired under the share buyback programme approved on 8 May 2008. As a result the share capital decreased from CHF 596 437 418 to CHF 545 377 918. The General Meeting of Shareholders also decided to pay a dividend of CHF 5 per registered share, in the form of a reduction in par value. The share capital thus decreased from CHF 545 377 918 (32 081 054 registered shares, each with par value of CHF 17) to CHF 384 972 648 (32 081 054 registered shares, each with par value of CHF 12). At the same time the conditional share capital was reduced to CHF 28 312 632 (2 359 386 registered shares, each with par value of CHF 12). In 2009 no conversions were made on the 0.625% convertible bond (2004–2010).

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

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

SHARES — 32 081 054 fully paid Swiss Life Holding registered shares with a par value of CHF 5.10 each were outstanding on the balance sheet date. Subject to the 10% limit on voting rights set out in the Articles of Association (cf. the section on “Shareholders’ participation rights” on page 32), each share grants the right to one vote at the General Meeting of Shareholders.

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

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

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

Additional information on the Swiss Life share is available in the section "Information on Share Performance and Historical Comparison" on pages 76 and 77 in the Business Review.

LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS — Swiss Life Holding shares are not subject to any limitations on transferability. According to the Articles of Association, resolutions for the introduction, amendment or repeal of limitations on transferability must be put before the General Meeting of Shareholders and must be approved by two thirds of the voting shares represented and by an absolute majority of the share par value represented.

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

Swiss and foreign banks, securities brokers and companies acting on their behalf may be entered in the share register as nominees if they are holding shares of Swiss Life Holding in their custody for the account of the beneficial owners. Professional asset managers may also be registered as nominees if, in a fiduciary capacity, they have deposited Swiss Life Holding shares for the account of third parties with Swiss or foreign banks or securities brokers in their own name. Nominees are required to be subject to banking or financial market supervision. A request must be filed to register as a nominee. The voting right representation is restricted to 10% of the share capital overall, whereby nominees who are connected with regard to capital or voting rights under uniform management or contractual agreement will be counted as a single shareholder. The Board of Directors may approve exceptions to these restrictions on registration, observing the principle of responsible judgement. No such exceptions were granted during the period under review.

CONVERTIBLE BONDS AND OPTIONS — No convertible bond issues of Swiss Life Holding were outstanding on the balance sheet date.

As at 31 December 2011, Swiss Life Holding and its Group companies had not granted any options on rights to participate in Swiss Life Holding.

Board of Directors

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

ELECTIONS AND TERMS OF OFFICE – Pursuant to the Articles of Association, the Board of Directors shall consist of no fewer than five and no more than fourteen members. The members of the Board are elected by the General Meeting of Shareholders for a maximum term of three years, and on an individual basis. The Organisational Regulations stipulate that a member of the Board of Directors shall automatically resign from the Board at the General Meeting of Shareholders in the year in which the member reaches the age of 70.

STAGGERED TERMS OF OFFICE – Due to the staggered terms of office, it is ensured that, in so far as possible, an equal number of members will come up for re-election every year. If a member resigns during his term of office, the successor will serve only for the rest of that term. Thus, with respect to the annual re-elections, an important prerequisite has been established for ensuring continuity on the Board of Directors.

COMPOSITION – In the year under review, no member of Swiss Life Holding's Board of Directors exercised any duties relating to operational management within the Swiss Life Group. Furthermore, no such duties were exercised by any Board members during the three financial years preceding the reporting period, with two exceptions: Rolf Dörig, who held the position of Chairman of the Group's Corporate Executive Board until his election to the Board of Directors in May 2008, and Carsten Maschmeyer, who stepped down from the Board of Directors of Swiss Life Holding on 7 December 2011, who was Co-CEO of AWD until March 2009.

No member of the Board has any significant business relationship with Swiss Life Holding or any other Group companies. The members of the Board of Directors of Swiss Life Holding also make up the Board of Directors of Swiss Life Ltd.

Prior to accepting appointments to the Board of Directors of other companies, the members of Swiss Life Holding's Board of Directors must receive the approval of the Board of Directors at Swiss Life Holding. Information on additional board mandates held by individual members of the Board of Directors is presented in the following.

MEMBERS OF THE BOARD OF DIRECTORS – On the balance sheet date of 31 December 2011, the Board of Directors was composed of the following members:

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

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

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

Rolf Dörig laid the groundwork for his professional career by obtaining a doctorate in law (Dr. iur.) from the University of Zurich before being called to the bar in Zurich. Joining Credit Suisse in 1986, he assumed a number of executive responsibilities in various areas of banking and in different geographical markets. As a Member of the Executive Board, he was assigned responsibility for Swiss Corporate and Retail Banking from 2000 onwards. In 2002 he assumed the role of Chairman Switzerland of Credit Suisse. Following his move to Swiss Life, Rolf Dörig held the positions of Chairman of the Corporate Executive Board from November 2002 to May 2008 and Delegate of the Board of Directors from May 2008 to May 2009.

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

Other appointments:

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

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

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

Other appointments:

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

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

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

Executive Committee. From 2002 to 2007, Frank Schnewlin chaired the Baloise Group's Corporate Executive Committee as CEO and was, at the same time, Head of the International Division.

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

Frank Schnewlin will be put forward for re-election at the General Meeting of Shareholders of Swiss Life Holding on 19 April 2012.

Other appointments:

- Vontobel Holding Ltd, Member of the Board of Directors/Chairman of the Risk and Audit Committee
- Drosos Foundation, Member of the Board of Trustees/Chairman of the Finance Committee

VOLKER BREMKAMP – Born 1944, German national

Member of the Board of Directors

Volker Bremkamp joined Albingia Versicherungs AG in Hamburg (a subsidiary of Guardian Royal Exchange plc, London) in 1963, receiving his qualifications as an insurance expert in 1965. Between 1969 and 1971 he was employed by various insurance companies and brokers in London and Paris. He returned to Albingia Versicherungs AG, Hamburg, in 1971, serving as an Executive Director from 1978 to 1989 and, from 1989 to 2000, as Chief Executive Officer of Albingia Lebensversicherungs AG and of Albingia Versicherungs AG. Between 1995 and 1999 Volker Bremkamp was an Executive Director and, at the same time, Group Executive Director, Continental Europe, of Guardian Royal Exchange plc, London, which was taken over by the AXA Group in 1999. From 1999 to 2000 he held the position of Executive Director of AXA Colonia Konzern AG, Cologne (holding company of AXA Germany). He has been Managing Director of BMB Bremkamp Management- und Beteiligungs-GmbH since 2000.

Other appointments:

- fischerAppelt AG, Hamburg, Chairman of the Supervisory Board
- WAVE Management AG, Hamburg, Chairman of the Supervisory Board (until May 2011)
- HanseMerkur Krankenversicherungsgruppe, Hamburg, Vice Chairman of the Supervisory Board

DAMIR FILIPOVIC – Born 1970, Swiss national

Member of the Board of Directors

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

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

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

Henry Peter will be put forward for re-election at the General Meeting of Shareholders of Swiss Life Holding on 19 April 2012.

Other appointments:

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

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

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

Other appointments:

- Vontobel Holding Ltd, Member of the Board of Directors
- Bühler AG, Member of the Board of Directors
- Zurich Chamber of Commerce, Chairman
- Unitetra Ltd, Chairman of the Board of Directors
- economiesuisse, Member of the Executive Board

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 law at Georgetown University, Washington DC, earning an LL.M. in 1986, and passed the bar exam for the US states of New York and Connecticut in 1987. Franziska Tschudi completed postgraduate studies at the University of St. Gallen (1991 to 1993), receiving an Executive MBA. After initially working as an Assistant for Media Law at the Institute for Constitutional and Administrative Law at the University of Berne, and practising business and media law in

Zurich, Washington DC and Geneva, she served as Secretary General at SIG Holding AG from 1992 to 1995. She then became a Member of the Executive Board of WICOR HOLDING AG (“WEIDMANN Group”), Rapperswil in 1995, where she was Head of Corporate Development and, from 1998, Head of the Business Area Electrical Technology Asia/Pacific. She has held the positions of Chief Executive Officer and Delegate of the Board of Directors of WICOR HOLDING AG since 2001.

Other appointments:

- BIOMED AG, Member of the Board of Directors
- St. Gallen-Appenzell Chamber of Commerce and Industry, Vice Chairperson
- economiesuisse, Member of the Executive Board
- Swissmem, Member of the Executive Board

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

INTERNAL ORGANISATIONAL STRUCTURE – In accordance with the Articles of Association, the Board of Directors has issued Organisational Regulations setting forth the internal organisational structure and the duties and competencies of the Board of Directors, the Board of Directors’ committees, the Chairman of the Board of Directors and the Corporate Executive Board. The Organisational Regulations are reviewed regularly and adjusted where necessary. They are available on the internet at www.swisslife.com, “About us” area, “Organisation” section (www.swisslife.com/en/organisation).

The Chairman of the Board of Directors coordinates the work of the Board and the committees, and ensures reporting from the Corporate Executive Board to the Board of Directors. In urgent situations, the Chairman may also determine the necessary measures and take steps falling within the scope of the competencies of the Board until the Board of Directors takes a decision. If a timely decision cannot be reached by the Board of Directors, the Chairman is empowered to take a decision.

The Board of Directors meets as often as business requires, usually at least six times a year. Meetings are generally called by the Chairman of the Board of Directors. However, any member of the Board of Directors may request that a meeting be called, as may the Corporate Executive Board. In addition to the members of the Board of Directors, the Group CEO also generally attends the meetings or parts of meetings in an advisory capacity, as do other members of the Corporate Executive Board when required.

The Board of Directors met nine times during the year under review. The meetings lasted around three and a half hours on average. There was full attendance at all meetings, with the exception of one meeting, which one member was unable to attend. The Group CEO and the other members of the Corporate Executive Board attended all the meetings. The Board of Directors conducted parts of the meetings among themselves.

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

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

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

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

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

The Chairman's Committee held 13 meetings during the year under review. The average duration of a meeting was around two hours. There was full attendance at all meetings, and the Group CEO was also present on each occasion. The Group CFO attended ten meetings.

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

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

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

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

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

Generally, the Group CIO 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 and in-house specialists may also be invited to attend. The Investment and Risk Committee meets at least four times a year.

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

AUDIT COMMITTEE – The Audit Committee assists the Board of Directors in its supervision of the accounting function and financial reporting activities, as well as compliance with the legal framework. It reviews the appropriateness of the internal control structures and processes used to comply with the legal requirements. It monitors the activities of Corporate Internal Audit and the external audit services, and takes due note of their reports and recommendations. The Committee is empowered to make decisions with respect to defining the terms and conditions for mandates to external auditors and keeps the Board of Directors appropriately informed. Moreover, the Audit Committee issues the regulations for Corporate Internal Audit and sets its annual programme of activities.

Generally, the Group CFO and the Head of Corporate Internal Audit attend the Audit Committee meetings or parts of the meetings in an advisory capacity. The Group CEO may attend the meetings of the Audit Committee (without voting rights). Representatives from the external audit services are also regularly invited (cf. also “Supervisory and control instruments vis-à-vis the auditors”, page 33). In addition, further members of the Corporate Executive Board or in-house specialists may also be invited to attend. The Audit Committee meets at least four times a year. The frequency of meetings depends on the financial budgeting and reporting process.

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

DELINEATION OF COMPETENCIES BETWEEN THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE BOARD – The Organisational Regulations of Swiss Life Holding provide for the comprehensive delegation of the executive management responsibilities of the company to the Group CEO and the Corporate Executive Board, with the exception of those duties reserved for other bodies in accordance with the law, the Articles of Association or the Organisational Regulations themselves.

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

The Corporate Executive Board bears responsibility in particular for the implementation of the corporate strategy, for the conditions governing business operations and for financial guidance. It is further responsible for preparing the resolutions for the Board of Directors and its committees, and for monitoring the implementation of these decisions in the Group. It is vested with the authority to rule on business referred to it by the Board of Directors, the Board of Directors’ committees and the Chairman of the Board of Directors, insofar as approval or a decision is not reserved exclusively to the delegating body.

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

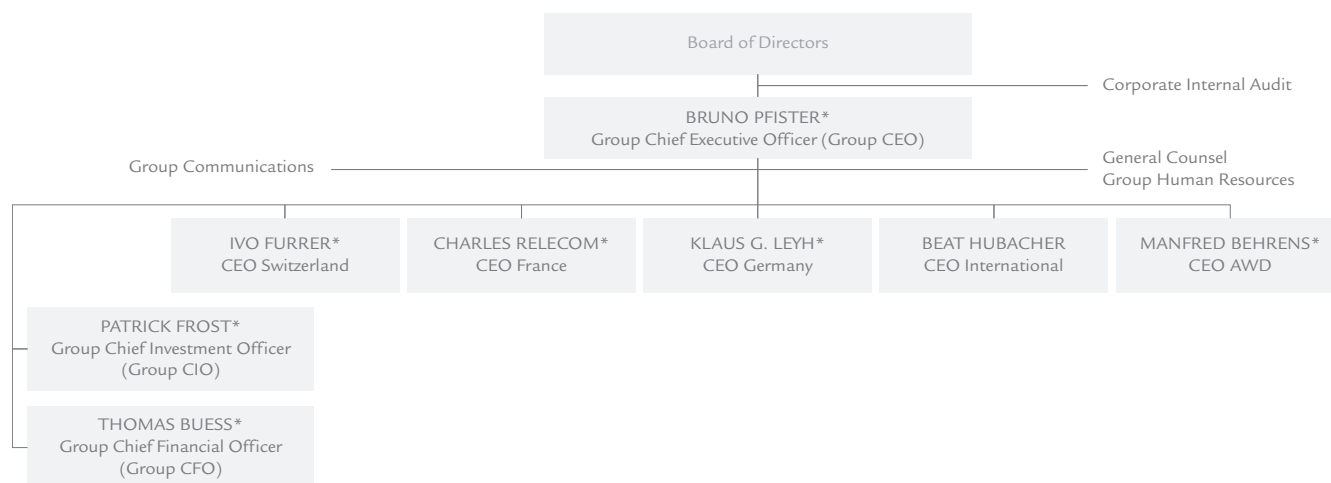
If required, the Board of Directors and its individual committees regularly invite all or some members of the Corporate Executive Board and in-house specialists to their meetings. Outside the meetings, each member of the Board of Directors may request information about the course of business from the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

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

Corporate Internal Audit, which reports directly to the Chairman of the Board, represents a suitable means of independent monitoring and information gathering for the Board of Directors. Regular meetings take place between the Chairman of the Board of Directors and the Head of Corporate Internal Audit, as well as between the Chairman of the Audit Committee and the Head of Corporate Internal Audit. Implementation of the measures recommended by Corporate Internal Audit is monitored by Group Compliance & Operational Risk Management. The Audit Committee regularly receives a report on operational risk management within the Swiss Life Group. Swiss Life's Internal Control System (ICS) also serves the Board of Directors for information and controlling purposes. Further details on this system are available in the "Risk Management" section on page 36.

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

Management structure as at 31 December 2011



*Member of the Corporate Executive Board

Corporate Executive Board

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

The organisation and division of tasks within the Corporate Executive Board reflects the key business areas and functions. The members of the Corporate Executive Board have a direct management role with functional management responsibility for cross-divisional competencies. The members of the Corporate Executive Board are responsible for setting objectives, financial planning, HR management and achievement of objectives within their 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.

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

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

MEMBERS OF THE CORPORATE EXECUTIVE BOARD – On 31 December 2011 the Corporate Executive Board of Swiss Life Holding was composed of the following members:

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

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

Bruno Pfister graduated from the University of Geneva with a master's degree in law before being called to the bar in Geneva. Following completion of his business management studies (MBA from the UCLA Graduate School of Management in Los Angeles), the initial stages of his career saw him working for Chase Manhattan Bank in London and Geneva. From 1988 onwards he was a management consultant for McKinsey & Co in Zurich. In 1996 Bruno Pfister became Chief of Staff of the Private Banking division at Liechtenstein Global Trust (LGT) where he managed a global strategic project before being appointed Chief Financial Officer of LGT Group and LGT Bank in Liechtenstein in 1998. In 1999, as a Member of the Credit Suisse Group Executive Board, he took over as Head of Customer Segment Management and Product Management at Credit Suisse.

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

Other appointments:

- Gottex Fund Management Holdings Limited, St. Peter Port, Guernsey, Member of the Board of Directors
- Swiss Insurance Association (SIA), Vice Chairman, Member of the Board Committee
- Avenir Suisse, Member of the Board of Trustees and Member of the Finance Committee
- Swiss-American Chamber of Commerce, Member of the Board of Directors (since June 2011)

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

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

On 1 September 2008 Ivo Furrer joined the Swiss Life Group as Member of the Corporate Executive Board and Chief Executive Officer Switzerland (CEO Switzerland).

Other appointments:

- Swiss Insurance Association (SIA), Chairman of the Life Insurance Committee
- German-Swiss Chamber of Commerce, Member of the Board
- Member of the Board of Directors of the Financial Market Authority (FMA) Liechtenstein

KLAUS G. LEYH – Born 1966, German national
Chief Executive Officer Germany (CEO Germany)

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

On 1 October 2008 Klaus G. Leyh was appointed Chief Executive Officer of Swiss Life in Germany (CEO Germany) and Member of the Swiss Life Group's Corporate Executive Board.

Other appointments:

- German Insurance Association (GDV), Berlin, Member of the Main Committee Life Insurance
- DEPPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Member of the Supervisory Board

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

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

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

Other appointments:

- Swiss Insurance Association (SIA), Member of the Finance and Regulation Committee

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

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

On 1 July 2008 Charles Relecom was appointed Chief Executive Officer France (CEO France) of the Swiss Life Group and Member of the Corporate Executive Board.

Other appointments:

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

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

Patrick Frost studied at the ETH in Zurich and the universities of Cologne, Basel and Zurich, obtaining degrees in natural science (dipl. Natw. ETH, 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 1999 and 2001 he was employed as a Senior Bond Portfolio Manager at Winterthur Investment Management Corp. in New York. He became the Head of Global Fixed Income at Winterthur Group in 2001, where he played a key role in the further strategic development of its asset management.

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

Other appointments:

– Technopark Zurich, Member of the Board of Trustees

MANFRED BEHRENS – Born 1955, German national
Chief Executive Officer AWD (CEO AWD)

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

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

Other appointments:

- Aareal Bank, Wiesbaden, Member of the Supervisory Board
- Commerzbank, Frankfurt am Main, Member of the Regional Advisory Committee North

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

Transfer of Management Tasks

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

Report on Compensation

The specifications below follow the directives on information relating to corporate governance issued by the SIX Swiss Exchange and take into consideration the transparency regulations set out in the Swiss Code of Obligations Art. 663b^{bis} and Art. 663c as well as Circular 2010/1 of the Swiss Financial Market Supervisory Authority FINMA on minimum standards for remuneration schemes of financial institutions. Further information on compensation and benefit expenditure for the management and employees of the Swiss Life Group can be found in the Consolidated Financial Statements (Notes 24 and 32) on pages 154 to 159 and 168 to 169. Additional details regarding the compensation and remuneration of the members of the Board of Directors and the Corporate Executive Board, and their participation interests, are shown in the Notes to the Swiss Life Holding Financial Statements on pages 191 to 202.

The information in this report is presented in the same way as the previous year. The information on compensation granted to Corporate Executive Board members also includes variable cash compensation (the cash bonus and the new deferred compensation in cash introduced on 1 January 2012), which was determined by the Board of Directors at the beginning of 2012 and is published on an accrual basis as compensation for the 2011 financial year. As a matter of new policy, the members of the Board of Directors are granted exclusively fixed compensation, payable 70% in cash and 30% in Swiss Life Holding shares, which are subject to a three-year blocking period. This replaces the previous arrangements, whereby Board of Director members received variable compensation in the form of blocked shares amounting to a maximum of 15% of the fixed compensation, depending on the business results.

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

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

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

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

The share in the company's success is measured using quantitative Group objectives (Key Performance Indicators, KPIs), which are defined in advance for a period of three years as part of medium-term planning. The main KPIs, besides the key figures relating to annual profit, costs, business volume, investment return, return on equity and solvency, are the profitability of in-force and new business, margin performance and the share of non-traditional products in new business. In order to avoid conduct aimed at the short-term achievement of key indicators with a higher weighting, the individual KPIs are not mechanically weighted in advance; their individual weighting is determined by the Board of Directors at the end of each financial year.

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

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

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

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

PRACTICE AND PROCEDURE — Pursuant to the Organisational Regulations, the Board of Directors as a whole is responsible for determining the level and make-up of compensation for its members, whereas the Nomination and Compensation Committee is responsible for putting forward appropriate proposals. The Board of Directors as a whole also establishes the guidelines for the company's compensation policy. In doing so, it takes into consideration the compensation policies of other companies in the financial services industry, drawing its findings from publicly available information and studies by independent external experts. Comparable companies in the insurance sector in Switzerland used for the purposes of providing relevant information for the current compensation policy included Allianz, AXA, Baloise Insurance, Swiss Re and Zurich Financial Services.

The Board of Directors as a whole sets the level and distribution of the variable compensation pool for all employees on the basis of its compensation policy guidelines upon a proposal by the Nomination and Compensation Committee.

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

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

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

Pursuant to the regulations of the 2009 and 2010 equity compensation plans, future subscription rights were allocated in the form of so-called Performance Share Units (PSUs), whereby share allocation after expiry of the three-year period was based on two performance criteria, each weighted at 50%. The allocation mechanism is set out in detail in the 2010 Annual Report and in this Annual Report in the Notes to the Swiss Life Holding Financial Statements on pages 194 to 195. 65 members of Swiss Life Group senior management, including members of the Corporate Executive Board, participated in the 2009 equity compensation plan. A total of 53 216 PSUs were allocated; 22 200 to the Corporate Executive Board, including 6 500 to Bruno Pfister as Group CEO. In 2010, 69 members of the Swiss Life Group senior management took part in the plan, in which a total of 68 510 PSUs were allocated; 24 700 to the Corporate Executive Board, of which 6 500 to Bruno Pfister in his capacity as Group CEO.

In the period under review, participants in the 2011 equity compensation plan were allocated Restricted Share Units (RSUs) instead of PSUs. As with PSUs, RSUs grant the holder future subscription rights, entitling them to receive Swiss Life Holding shares free of charge after a three-year period has elapsed, but without any additional leverage effect. The attribution of shares after the expiry of the three-year deferral period is effected on a 1:1 basis (1 RSU = 1 share). The plan is therefore very simple, transparent throughout the whole term and directly linked to the performance of the Swiss Life share. The value of RSUs during the three-year term develops linear with the Swiss Life Holding share price and thus symmetrically corresponds with shareholder interests. During the period under review, a total of 62 members of Swiss Life Group senior management participated in the 2011 equity compensation plan, which came into effect on 1 April 2011. A total of 68 730 RSUs were allocated; 23 630 in total to the members of the Corporate Executive Board, of which 6 350 RSUs to Bruno Pfister as Group CEO.

The attribution of mid- to long-term compensation components (RSU plan) is deferred for a period of three years from the date of allocation in the same way as the deferred compensation in cash. Likewise, the RSU plan provides for

adjustment and reclaiming mechanisms (clawback). If the employment relationship is terminated by a participant during the three-year term of the RSU plan, the future entitlements expire worthless.

COMPENSATION PAID TO ACTING MEMBERS OF GOVERNING BODIES – The following compensation in cash was received by acting members of the Board of Directors and the Corporate Executive Board during the period under review:

In CHF	2011	2010
Board of Directors	2 091 334	1 979 503
Corporate Executive Board	9 792 978 ¹	9 600 995 ²

¹ Incl. cash bonus of CHF 4 340 500 for the 2011 financial year, determined and paid out at the beginning of 2012.

² Incl. cash bonus of CHF 4 475 000 for the 2010 financial year, determined and paid out at the beginning of 2011.

One member of the Board of Directors resigned in the 2010 financial year. After serving for seven years on the Swiss Life Board of Directors, Rudolf Kellenberger announced his resignation with effect from the General Meeting of Shareholders of 6 May 2010.

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

There were no personnel changes on the Corporate Executive Board during 2010 and 2011.

As a matter of new policy, the members of the Board of Directors are granted exclusively fixed compensation. The previous arrangements, according to which members of the Board of Directors were allocated variable compensation in the form of blocked Swiss Life Holding shares of up to a maximum of 15% of the fixed compensation, depending on the business results, no longer apply. The total compensation is now paid 70% in cash and 30% in Swiss Life Holding shares with a three-year blocking period. The proportion of shares has thus been increased in comparison with the previous arrangements, under which 20% of the basic compensation was granted in the form of blocked Swiss Life Holding shares.

The compensation takes into account membership of the Board of Directors of Swiss Life Holding and its subsidiary Swiss Life Ltd, as well as membership of the individual Board Committees, and is commensurate with the individual's function and workload. The compensation is determined annually by the Board of Directors. The amount of compensation granted to members of the Board of Directors has been adjusted in the 2011 financial year in connection with the new compensation arrangements (transition to exclusively fixed compensation, payable 70% in cash and 30% in blocked shares), taking into consideration compensation paid to board members in comparable companies within the insurance sector.

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

	Compensation in cash in CHF	Shares with three-year blocking period
Rolf Dörig	1 008 000	4 478
Gerold Bühler	244 300	1 129
Frank Schnewlin	244 300	1 129
Volker Bremkamp	129 500	589
Damir Filipovic ¹	60 667	298
Henry Peter	91 000	413
Peter Quadri	91 000	413
Franziska Tschudi	106 400	480

¹ Joined 05.05.2011.

Until leaving the Board of Directors at the General Meeting of Shareholders of 5 May 2011, Paul Embrechts was paid compensation in cash to the amount of CHF 34 167 and 57 shares with a three-year blocking period. Carsten Maschmeyer was paid compensation in cash to the amount of CHF 82 000 and 172 shares with a three-year blocking period until he stepped down from the Board of Directors on 7 December 2011.

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

Compensation remitted to members of the Corporate Executive Board comprises the basic salary, variable compensation in cash and other compensation (child allowances, company cars, premium contributions to 3rd pillar pension plans). The variable compensation in cash is allocated as a bonus and, if applicable, as deferred compensation in cash. The deferred compensation in cash, which was introduced on 1 January 2012, is paid out after a period of three years has elapsed and provided that the regulatory requirements have been satisfied. In addition, a mid- to long-term compensation component is in place in the form of an equity compensation plan linked to the performance of the Swiss Life Holding share price. As mentioned above, it gives an entitlement to Swiss Life Holding shares after a period of three years has elapsed and provided that the relevant requirements are satisfied at the time of allocation.

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

The variable compensation components are determined by the Board of Directors in accordance with the described compensation policy principles and based on the company result and the achievement of personal goals assessed in the employee appraisal procedure implemented throughout the Group (Group Performance System, GPS). The variable compensation in cash (cash bonus and, if applicable, deferred compensation in cash) is set at a maximum of 117% of the fixed basic salary ("bonus cap") and requires that all objectives have been considerably exceeded. The allocation of subscription rights to Swiss Life Holding shares (equity compensation plan, RSU plan) is also limited in value to 117% of the fixed basic salary; if deferred compensation in cash, which on its part is subject to the bonus cap mentioned above, is simultaneously allocated, the maximum limit is 64% of the fixed basic salary.

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

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

COMPENSATION PAID TO FORMER MEMBERS OF GOVERNING BODIES – None.

SHARE ALLOCATION IN THE YEAR UNDER REVIEW – The shares allocated to the members of the Board of Directors in the period under review form part of the compensation, which was granted 70% in cash and 30% in blocked Swiss Life Holding shares.

No variable compensation in shares was granted to the members of the Corporate Executive Board for the 2011 financial year. As described, they are participating in the current equity compensation plan.

For the 2011 financial year, the members of the Board of Directors were allocated the following shares, subject to a three-year blocking period:

Board of Directors	9158 shares, allocated at values ¹ of CHF 111.0817 and CHF 73.3828. The shares are subject to a three-year blocking period.
Corporate Executive Board	none

¹ Economic value equal to the tax value, taking the blocking period into account. The share prices (closing prices) on the days of allocation of 23.06.2011 and 15.12.2011 were CHF 132.30 and CHF 87.40 respectively.

No shares were allocated to closely linked parties² within the meaning of the law.

SHARE OWNERSHIP – On the balance sheet date of 31 December 2011, acting members of the Board of Directors and the Corporate Executive Board (including closely linked parties) held the following number of Swiss Life Holding registered shares:

	SLH shares 31.12.2011
Rolf Dörig, Chairman of the Board of Directors	40 486
Gerold Bühler	4 095
Frank Schnewlin	1 748
Volker Bremkamp	2 150
Damir Filipovic	298
Henry Peter	3 651
Peter Quadri	2 351
Franziska Tschudi	1 666
TOTAL BOARD OF DIRECTORS	56 445

	SLH shares 31.12.2011
Bruno Pfister, Group CEO	3 068
Manfred Behrens	0
Thomas Buess	4 500
Patrick Frost	2 000
Ivo Furrer	0
Klaus Leyh	53
Charles Relecom	0
TOTAL CORPORATE EXECUTIVE BOARD	9 621

² “Closely linked parties” are natural persons and legal entities pursuant to Art. 678 of the Swiss Code of Obligations that have close personal, economic, legal or de facto ties with members of the governing body. This typically includes spouses, minor children, companies controlled by members of the governing body, and natural or legal persons serving the members of the governing body in a fiduciary capacity.

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

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

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

In the year under review, Swiss Life Ltd, AWD Holding AG and their subsidiaries paid a total of EUR 341 800 in fees for consultancy services to a company in which Carsten Maschmeyer, who was a member of the Board of Directors of Swiss Life Holding until his resignation on 7 December 2011, has an important shareholding.

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

	31.12.2011
Board of Directors	none
Corporate Executive Board	none

EXPENDITURE FOR OCCUPATIONAL PROVISIONS – Details on the company's benefit expenditure can be found in the Consolidated Financial Statements (Notes 24 and 32) and the Notes to the Swiss Life Holding Financial Statements. Ordinary contributions have been adjusted following the switch by the employee benefits institutions from defined benefit to defined contribution plan on 1 January 2011. For reasons of transparency, information on the following benefits is provided here:

As Chairman of the Board of Directors, Rolf Dörig is affiliated to the employee benefits institutions of Swiss Life for the purpose of occupational provisions. The regular annual employer contribution for Rolf Dörig in the period under review amounted to CHF 225 504.

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

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

Expenditure for occupational provisions on behalf of the remaining members of the Corporate Executive Board totalled CHF 1 052 844 during the period under review.

HIGHEST TOTAL COMPENSATION, BOARD OF DIRECTORS — Rolf Dörig, as Chairman of the Board of Directors, received the highest total compensation for a member of the Board of Directors of Swiss Life Holding in 2011.

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

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

In CHF

Compensation in cash	1 008 000	
Compensation in blocked shares	362 839	4478 SLH shares with three-year blocking period ¹
Share options	none	
Total compensation 2011		
in cash and shares	1 370 839	
including regular contribution to occupational provisions of CHF 225 504	1 596 343	
Total compensation 2010		
in cash and shares	1 262 399	
including regular contribution to occupational provisions of CHF 195 656	1 458 054	

¹ Allocation and valuation was effected on 23.06.2011 and 15.12.2011 at an economic value of CHF 111.0817 and CHF 73.3828, which is equal to the tax value, taking into account the blocking period of three years. The share prices on the days of allocation were CHF 132.30 and CHF 87.40 respectively.

HIGHEST TOTAL COMPENSATION, CORPORATE EXECUTIVE BOARD — Bruno Pfister, as Group CEO, received the highest total compensation for a member of the Corporate Executive Board in the period under review.

In the 2011 financial year, Bruno Pfister was allocated the following amounts in the form of salary, cash bonus, contributions to occupational provisions, deferred compensation in cash and deferred compensation in shares (RSU plan):

In CHF

Compensation in cash ¹	2 685 506
Shares	none
Share options	none
Total compensation 2011	
in cash	2 685 506
including regular contribution to occupational provisions of CHF 225 504	2 911 010
including deferred compensation in cash ²	3 271 010
including deferred compensation in shares ³	4 160 328
Total compensation 2010	
in cash	2 485 435
including regular contribution to occupational provisions of CHF 234 220	2 719 655
including deferred compensation ⁴	3 694 525

¹ Including cash bonus of CHF 1 200 000 for the 2011 financial year, determined and paid at the beginning of 2012, and other compensation (child allowances, premium contribution) totalling CHF 47 996.

² Deferred compensation in cash of CHF 360 000; this compensation component was introduced on 1 January 2012 and will be paid out on 1 April 2015, provided the regulatory requirements are satisfied at that point.

³ 6350 future subscription rights in the form of RSUs entitling the holder to receive Swiss Life Holding shares on 1 April 2014, provided the requirements are satisfied at that point. On the allocation date of 1 April 2011 the fair value of an RSU was CHF 140.05.

⁴ 6500 future subscription rights in the form of PSUs entitling the holder to receive Swiss Life Holding shares on 1 April 2013, provided the requirements are satisfied at that point. On the allocation date of 1 April 2010 the fair value of a PSU was CHF 149.98.

FURTHER INFORMATION – In the form of an overview, the following additional information is provided on the Swiss Life Group compensation systems for the 2011 financial year:

In CHF (unless otherwise indicated)

Total compensation ¹	790 186 302
of which total variable compensation (total pool) ²	121 093 022
Number of persons who received variable compensation	5 592
Total outstanding deferred compensation	7 611 521
of which cash payment	1 591 642
of which shares	0
of which options	0
of which others (Restricted Share Units, RSUs / Performance Share Units, PSUs)	6 019 879
Charges and credits in the financial year from compensation for previous financial years ³	-7 296 882
Board of Directors, Executive Board and persons whose activities have a significant influence on the risk profile:	
Total sign-on payments made in the financial year ⁴	0
Total severance payments made in the financial year ⁵	0

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

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

³ In particular release of provisions affecting net income due to the expiration of entitlements under equity compensation plans.

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

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

Shareholders' Participation Rights

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

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

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

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

CONVOCAATION OF THE GENERAL MEETING OF SHAREHOLDERS AND AGENDA – The rules set out in the Articles of Association for convening a General Meeting of Shareholders and drawing up the agenda comply with the stipulations of the law. Shareholders who represent at least 0.25% of the share capital can submit a written request within a time limit published in advance by Swiss Life Holding for the inclusion on the agenda of an item for discussion, together with the relevant motions. The written application must be accompanied by a blocking certificate issued by a bank to confirm that the shares are deposited with it until after the General Meeting of Shareholders is held.

ENTRY IN THE SHARE REGISTER – Entries can be made in the share register up to the day before the General Meeting of Shareholders. In all cases, however, the company reserves the right to adhere to the legal maximum period of 20 days for recognition of entries in the share register in accordance with Art. 685g of the Swiss Code of Obligations. For administrative reasons (postal delivery times), the deadline for registering to participate in the General Meeting of Shareholders is usually seven calendar days before the event takes place.

VOTING SYSTEM AND PROCEDURES – Based on a corresponding authorisation in the Articles of Association, the presiding officer at Swiss Life Holding's General Meeting of Shareholders generally requests that votes be taken electronically. Swiss Life Holding uses a certified electronic voting system which permits balloting with remote-controlled handsets and records the exact number of voting shares represented.

Changes of Control and Defence Measures

DUTY TO MAKE AN OFFER — Swiss Life Holding's Articles of Association provide for neither an "opting up" nor an "opting out" clause within the meaning of Art. 32 and 22 of the Federal Act on Stock Exchanges and Securities Trading (SESTA).

CLAUSES ON CHANGES OF CONTROL — No contractual provisions exist in favour of the Board of Directors or the Corporate Executive Board with regard to changes of control of the company.

Auditors

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

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

DURATION OF THE MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR — The Articles of Association stipulate that the external auditor is to be elected by the General Meeting of Shareholders for one financial year at a time. When Swiss Life Holding was established in 2002, PwC was named as statutory auditor and Group auditor. Since then PwC has been re-elected without fail. PwC has also acted as statutory auditor and Group auditor for Swiss Life Ltd since 1994. Swiss Life Holding last invited tenders for its statutory auditor and Group auditor mandate for the 2008 financial year. On completion of the evaluation process, the Board of Directors, in accordance with the proposal of the Audit Committee, again nominated PwC as its statutory auditor and Group auditor at the General Meeting of Shareholders.

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

AUDITING FEES — In 2011 the auditing fees credited to PwC came to CHF 8.0 million (2010: CHF 9.2 million). This includes the fees for reviewing the 2011 half-year accounts.

ADDITIONAL FEES — In 2011 PwC received additional fees totalling around CHF 1.5 million for advisory services (2010: CHF 3.7 million), approximately CHF 0.7 million of which was for actuarial advisory services and CHF 0.6 million for fiscal and financial advisory services. The remainder resulted from strategic, legal and other advisory services. The advisory services were performed in compliance with the relevant independency regulations set forth in the Swiss Code of Obligations and the Audit Supervision Act.

SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS — The Audit Committee maintains regular contact with the external auditors. It evaluates the independence of the external auditors and identifies possible conflicts of interest. It also examines the terms and conditions of the external audit mandates and assesses the audit plan and strategy for the year in question.

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

report on the financial year just completed for the attention of the Audit Committee, the Board of Directors and the Swiss Financial Market Supervisory Authority FINMA.

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

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

Information Policy

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

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

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

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

Contact details are available at the end of the Financial Statements.

Risk Management

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

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

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

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

CAPITAL MANAGEMENT

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

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

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

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

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

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

Market Consistent Embedded Value (MCEV)

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

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1 Introduction

1.1 BASIS OF PREPARATION

Market consistent embedded value (MCEV) is a measure of the consolidated value of shareholders' interests in the in-force covered business of the Swiss Life Group. Covered business includes life, health and pension business of the company. The Group MCEV is a measure of the consolidated value of shareholders' interest in the covered and non-covered business in force of the company. Business in force includes business written as at 31 December 2011; future new business is not included. The notion of market consistent embedded value (MCEV) will alternatively refer within the course of this report to the MCEV of Swiss Life's covered business, of one of its market units, or to Swiss Life's Group MCEV.

Swiss Life's market consistent embedded value reporting follows the European Insurance CFO Forum Market Consistent Embedded Value Principles¹. The cost of credit risk relating to bonds is calculated and disclosed in addition to the Principles' mandatory requirements. Further details on the MCEV methodology and assumptions are given in sections 4 and 5.

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

1.2 COVERED BUSINESS AND NON-COVERED BUSINESS

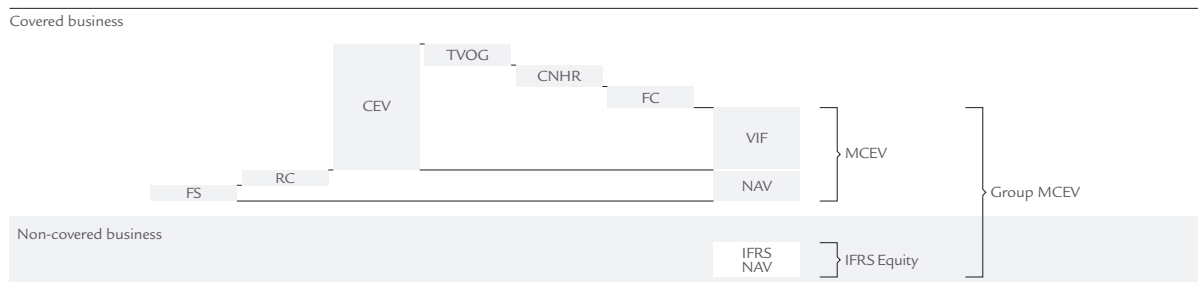
Covered business includes all of Swiss Life's life, health and pension business as well as assumed external reinsurance, with the exception of Swiss Life Insurance Solutions AG, which is not material for MCEV purposes. MCEV (and Group MCEV) are net of ceded external reinsurance. Included are namely operations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

1.3 DEFINITIONS

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

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

Components of Group MCEV



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

The net asset value is split between:

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

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

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

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

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

2 Summary of MCEV Results

2.1 KEY RESULTS

During 2011, the capital markets were characterised by a strong decline of the relevant interest rates, a widening of corporate and sovereign credit spreads and higher interest rate volatilities.

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

The following tables show key results as at 31 December 2011 compared to the results as at 31 December 2010:

In CHF million			
	2011	2010	
Value of new business	150	209	
Present value of new business premium (PVNBP)	12 914	14 607	
New business margin (%PVNBP)	1.2%	1.4%	

Both the adverse economic environment and the reduction in volume, particularly in the PPLI business, led to a decrease by 28% of the value of new business and to a decrease of the new business margin from 1.4% to 1.2%. Continued expense reductions and an overall improvement of the business mix partially counteracted the adverse capital market developments.

In CHF million				
	Net asset value	Value of in-force business	Total	Total
	2011			
	2010			
Covered business	2 525	2 836	5 361	4 959
Non-covered business	2 367	n/a ¹	2 367	2 636
GROUP MCEV	4 892	2 836	7 728	7 595
Total MCEV earnings			347	1 424
Operating MCEV earnings			772	2 353

¹ n/a: not applicable

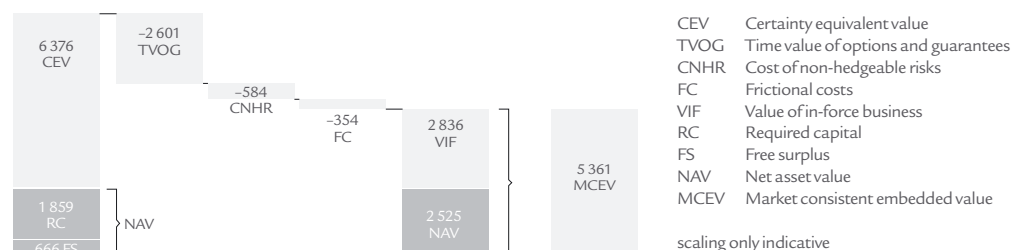
The value of covered business increased by 8%. Operating MCEV earnings contributed to this increase by profitable new business and a strong operating return on the in-force business. A capital transfer also increased the value of covered business. The adverse capital market environment had a negative effect on the MCEV of covered business. This was partially alleviated by the move to QIS 5-styled valuation curves which include liquidity premiums. Due to the mentioned capital transfer and the dividend paid to shareholders, the value of the non-covered business is slightly below the previous year's level. Overall the Group MCEV increased by 2%.

2.2 MCEV OF COVERED BUSINESS

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

MCEV of Covered Business 2011

CHF million



CEV	Certainty equivalent value
TVOG	Time value of options and guarantees
CNHR	Cost of non-hedgeable risks
FC	Frictional costs
VIF	Value of in-force business
RC	Required capital
FS	Free surplus
NAV	Net asset value
MCEV	Market consistent embedded value

In CHF million

	2011	2010
NET ASSET VALUE	2 525	1 928
Free surplus	666	35
Required capital	1 859	1 892
VALUE OF IN-FORCE BUSINESS	2 836	3 032
Certainty equivalent value	6 376	5 797
Time value of financial options and guarantees	-2 601	-1 912
Cost of residual non-hedgeable risks	-584	-507
Frictional costs of required capital	-354	-346
MCEV	5 361	4 959

Overall the net asset value increased very significantly by 31% due to the strong operating profit of the year and non-recurring effects. The required capital slightly decreased despite an increase of the balance sheet size. As a result free surplus – after financing new business – increased by CHF 631 million, whereof about one third is driven by non-recurring items including a net capital transfer into covered business. The biggest contribution to this increase results from Switzerland. Goodwill and other intangibles are not included in the net asset value, with the exception of France (see section 4.7).

The value of in-force business decreased by 6%. An increase in certainty equivalent value of CHF 579 million – driven by the new business contribution – was more than offset by the increase of time value of financial options and guarantees. The latter results from a massive increase in interest rate volatilities. The TVOG also includes the cost of credit risk related to investments in corporate bonds. The cost of credit risk on group level amounts to CHF -517 million for 2011 compared to CHF -469 million for 2010.

2.3 VALUE OF NEW BUSINESS

2.3.1 VALUE OF NEW BUSINESS, PREMIUMS AND MARGINS

Amounts in CHF million

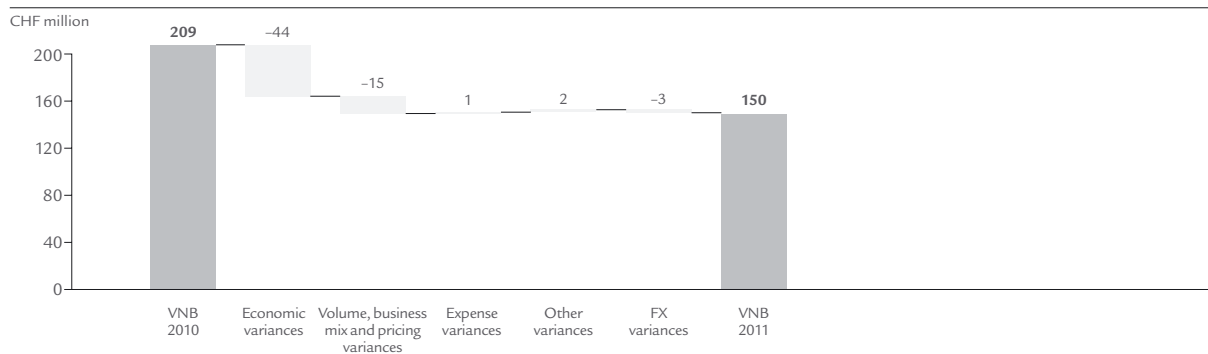
	2011	2010
VALUE OF NEW BUSINESS	150	209
<i>New business strain</i> ¹	-127	-124
<i>Value of new business before new business strain</i>	277	333
Annual premiums	659	706
Single premiums	6 101	7 798
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	12 914	14 607
Average annual premium multiplier	10.3	9.6
New business annual premium equivalent (APE)	1 269	1 486
NEW BUSINESS MARGIN (% PVNBP)	1.2%	1.4%
New business margin (% APE)	11.9%	14.0%

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

2.3.2 VALUE OF NEW BUSINESS – ANALYSIS OF CHANGE

The following graph and table detail the drivers for the change in new business value and margin of the business sold in 2011 compared to the business sold in 2010.

Value of New Business – Analysis of Change



Amounts in CHF million

	PVNBP	VNB	NBM (% PVNBP)	Change in NBM (% PVNBP)
VALUE OF NEW BUSINESS 2010	14 607	209	1.4%	
Economic variances	91	-44		-0.3%
Volume, business mix and pricing variances	-1 702	-15		0.0%
Expense variances	1	1		0.0%
Other variances	79	2		0.0%
FX variances	-163	-3		0.0%
VALUE OF NEW BUSINESS 2011	12 914	150	1.2%	

The new business volume measured in PVNBP decreased by 12%. Most of this reduction is driven by lower premiums of the PPLI business, which are single premiums only. Despite this reduction in volume, the new business margin remained stable apart from effects from the adverse capital market environment and due to an overall improvement of the new business mix and other operational indicators.

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

2.4 GROUP MCEV – ANALYSIS OF EARNINGS

The table below shows the development of Group MCEV split by components from 31 December 2010 to 31 December 2011.

In CHF million	Covered business MCEV	Non-covered business IFRS	Total Group MCEV 2011	Total Group MCEV 2010
OPENING GROUP MCEV	4 959	2 636	7 595	6 877
Opening adjustments	-98	-44	-142	-75
ADJUSTED OPENING GROUP MCEV	4 861	2 592	7 453	6 803
Operating MCEV earnings	710	62	772	2 353
Non-operating MCEV earnings	-405	-20	-424	-929
TOTAL MCEV EARNINGS	305	42	347	1 424
Other movements in IFRS net equity	n/a ¹	-6	-6	1
Closing adjustments	195	-262	-67	-633
CLOSING GROUP MCEV	5 361	2 367	7 728	7 595

¹ n/a: not applicable

The opening adjustment of the Group MCEV represents the dividend payment to shareholders of CHF 4.50 per share or a total of CHF 144 million as shown in the Consolidated Financial Statements (Note 27) and currency exchange rate effects of CHF -2 million.

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

The operating MCEV earnings for non-covered business increased by 19% compared to 2010 and correspond mainly to results from Swiss Life Holding, AWD, Investment Management and insurance business not within the scope of covered business. The change in operating MCEV earnings compared to 2010 originates almost entirely from the covered business.

The non-operating MCEV earnings relate to borrowing costs and tax effects for the non-covered business. The change in non-operating MCEV earnings compared to 2010 originates almost entirely from the covered business.

The other movements in IFRS net equity (non-covered business only) include the purchase of treasury shares, effects from equity-settled share-based payments and currency exchange rate effects on goodwill.

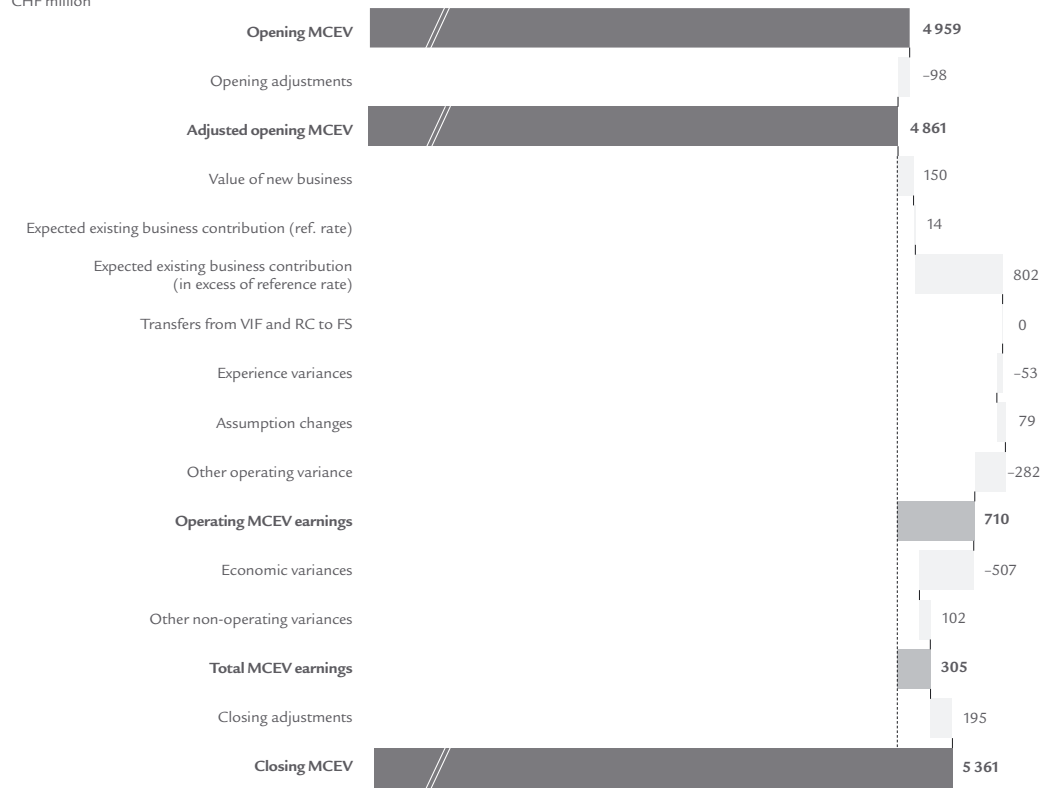
The closing adjustments result mainly from capital transfers between covered and non-covered business and currency exchange rate developments.

2.5 COVERED BUSINESS – ANALYSIS OF EARNINGS

The graph and table below show the analysis of earnings for the covered business in 2011:

Covered Business – Analysis of Earnings for 2011

CHF million



In CHF million	Free surplus	Required capital	VIF	MCEV 2011	MCEV 2010
OPENING MCEV	35	1 892	3 032	4 959	4 132
Opening adjustments	-98	-	-	-98	-139
ADJUSTED OPENING MCEV	-63	1 892	3 032	4 861	3 993
Value of new business	-343	216	277	150	209
Expected existing business contribution (reference rate)	6	-	8	14	27
Expected existing business contribution (in excess of reference rate)	-9	-	811	802	837
Transfers from VIF and required capital to free surplus	680	-158	-523	-	-
Experience variances	-131	13	65	-53	-271
Assumption changes	5	-1	75	79	1 077
Other operating variance	129	1	-411	-282	421
OPERATING MCEV EARNINGS	337	71	302	710	2 301
Economic variances	157	-85	-578	-507	-979
Other non-operating variances	5	-1	98	102	75
TOTAL MCEV EARNINGS	498	-15	-178	305	1 397
Closing adjustments	230	-18	-17	195	-431
CLOSING MCEV	666	1 859	2 836	5 361	4 959

OPENING ADJUSTMENTS represent dividend payments from covered to non-covered business.

VALUE OF NEW BUSINESS contributions from free surplus and required capital sum up to the new business strain of CHF -127 million (2010: CHF -124 million). This represents the shareholders' share in acquisition expenses for new business. The VIF-component of CHF 277 million (2010: CHF 333 million) is the value of future profits from new business.

EXPECTED EXISTING BUSINESS CONTRIBUTION (REFERENCE RATE) shows the unwinding of discount on all value of in-force components with reference rates as at start of year. Additionally the notional interest on the net asset value is included.

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

TRANSFERS FROM VALUE IN FORCE AND REQUIRED CAPITAL TO FREE SURPLUS include the transfer of the results of the preceding step from VIF to free surplus. Also, the required capital is normally reduced after this step, resulting in an equal increase of free surplus. The total effect in this line is zero. In the context of a life insurer's business model, this should be seen in combination of effects from new business which partly reverses this effect by an increase of required capital and a reduction of net asset value.

EXPERIENCE VARIANCES aggregate the impact of actual development versus expectations regarding non-economic assumptions such as mortality, expenses, lapses, as well as the deviations in handling of additional reserves. The large part of the experience variances comes from the Swiss business where a variety of effects including reserve strengthening contributed. Noteworthy is also the negative experience variance for International where the investments of the PPLI business contribute negatively.

ASSUMPTION CHANGES refer to the impact of the change on assumptions such as future expense, surrender, mortality, morbidity, longevity rates. The overall positive contribution results from very positive persistency experience, predominantly for Swiss group business, positive expense variances due to a further reduced cost base and slightly adverse demographic assumptions.

OTHER OPERATING VARIANCE includes effects from strategic management decisions such as risk premium reductions in Swiss group life business and modelling improvements as well as other reassessments especially with regard to hybrid debt.

ECONOMIC VARIANCES represent the change in embedded value by replacing the starting economic scenarios by the closing ones. Effects from deviations between actual and expected investment returns are included here. Higher swaption implied volatilities and lower reference rates led to a decrease of the MCEV. This was alleviated by the move to a QIS 5-styled parameterisation of the extrapolation of swap curves and a respective setting of positive liquidity premiums.

OTHER NON-OPERATING VARIANCES consist mainly of tax variances.

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

2.6 SENSITIVITIES

Operational and demographic sensitivities as well as economic sensitivities with regard to equity/property implied volatilities or market values remained overall stable with respect to the ones for 2010. Sensitivities for MCEV with regard to reference rate levels are further reduced. Sensitivities with regard to swaption implied volatilities increased significantly. This is caused by the elevated swaption implied volatilities as at 31 December 2011 and the fact that relative changes to volatilities are determined.

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

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

SENSITIVITIES AS AT 31 DECEMBER 2011

Amounts in CHF million

	Change in MCEV	+/-	Change in value of new business	+/-
BASE VALUE	5 361		150	
Economic				
100 bp increase of interest rates (reference rates)	283	5%	29	19%
100 bp decrease of interest rates (reference rates)	-729	-14%	-75	-50%
10% increase in equity / property market values	746	14%	1	1
10% decrease in equity / property market values	-814	-15%	1	1
25% increase in equity / property implied volatilities	-243	-5%	-9	-6%
25% decrease in equity / property implied volatilities	200	4%	8	5%
25% increase in swaption implied volatilities	-709	-13%	-29	-19%
25% decrease in swaption implied volatilities	544	10%	17	11%
Operational				
10% increase in maintenance expenses	-247	-5%	-24	-16%
10% decrease in maintenance expenses	245	5%	26	17%
10% proportionate increase in lapse rates	-134	-2%	-24	-16%
10% proportionate decrease in lapse rates	148	3%	26	17%
Demographic				
5% proportionate increase in mortality rates (death cover)	-17	-0%	-3	-2%
5% proportionate decrease in mortality rates (annuities)	-141	-3%	0	0%
5% increase of longevity driver (annuities)	-37	-1%	0	-0%
5% proportionate increase in morbidity rates	-87	-2%	-8	-5%
5% proportionate decrease in morbidity rates	85	2%	7	5%
Other				
Required capital 100% statutory solvency capital	143	3%	12	8%

¹ not available

2.7 RECONCILIATION OF IFRS NET ASSET VALUE TO GROUP MCEV

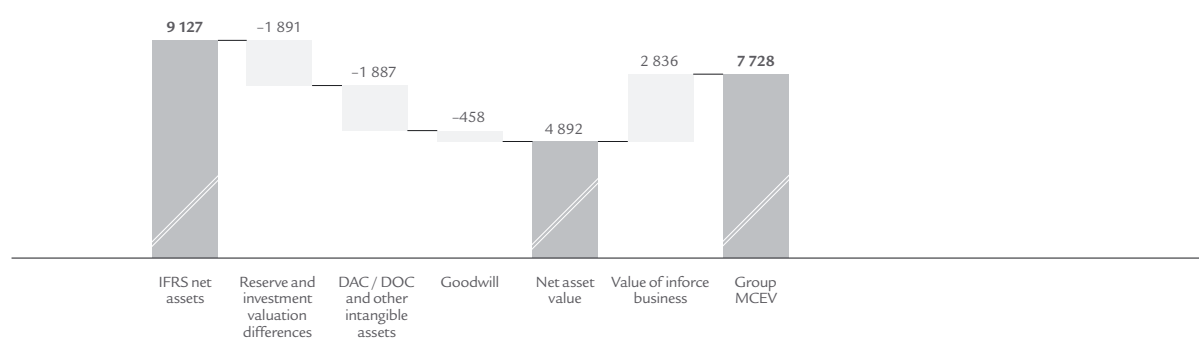
Swiss Life's MCEV for covered business reflects the value of the shareholders' interest in the life, health and pension business as well as assumed external reinsurance of the Swiss Life Group. This value includes the determination of best estimate liabilities for policyholder bonuses and tax payments, which are derived from results based on local statu-

tory accounting rather than on IFRS. Therefore local balance sheets and profit and loss accounts are the starting point for the projections. The net asset value (of assets not backing liabilities) is based on the local balance sheet, but adjusted at market value.

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

Reconciliation of IFRS Net Asset Value to Group MCEV

CHF million



RECONCILIATION OF IFRS NET ASSETS TO GROUP MCEV AS AT 31 DECEMBER 2011

In CHF million

	2011
IFRS NET ASSETS	9 127
Adjustments	-4 236
Reserve and investment valuation differences	-1 891
DAC / DOC and other intangible assets	-1 887
Goodwill ¹	-458
Net asset value	4 892
Value of in-force business	2 836
GROUP MCEV ²	7 728

¹ Goodwill adjustments correspond to goodwill of covered business with the exception of CHF 81 million from French operations (see section 3.2).

² Group MCEV includes CHF 1 377 million of goodwill and intangible assets as part of the unadjusted IFRS net assets for non-covered business.

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

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

3 Information by Market Unit

3.1 MARKET UNITS

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

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

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

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

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

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

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

3.2 RESULTS BY MARKET UNIT

MCEV BY MARKET UNIT FOR THE YEAR 2011

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

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

MCEV BY MARKET UNIT FOR THE YEAR 2010

In CHF million					
	Switzerland	France ¹	Germany	International	Total
NET ASSET VALUE	557	1 056	335	-20	1 928
Free surplus	103	43	-43	-68	35
Required capital	454	1 013	378	48	1 892
VALUE OF IN-FORCE BUSINESS	1 655	824	271	282	3 032
Certainty equivalent value	3 485	1 431	536	346	5 797
Time value of financial options and guarantees	-1 407	-315	-180	-10	-1 912
Cost of residual non-hedgeable risks	-234	-195	-38	-40	-507
Frictional costs of required capital	-188	-97	-47	-14	-346
MCEV	2 212	1 879	606	262	4 959

¹ The value for France includes CHF 72 million in goodwill and intangible assets originating from the non-life and non-health insurance operations.

SWITZERLAND – The increase in net asset value and free surplus is a consequence of the strong annual profit of 2011 and non-recurring items. The time value of financial options and guarantees increased due to increased interest rate volatilities.

Hybrid debt, all of which is allocated to Switzerland, includes the difference between the market value of assets covering the hybrid debt in the statutory balance sheet and the marked-to-model value of the hybrid debt as described in section 4.3. This difference was allocated to the net asset value in 2010 and is allocated to the value of in-force business in 2011.

FRANCE – The MCEV of France slightly increased despite the adverse capital market environment. Free surplus increased from the profit of the year despite a considerable new business strain and dividend payment.

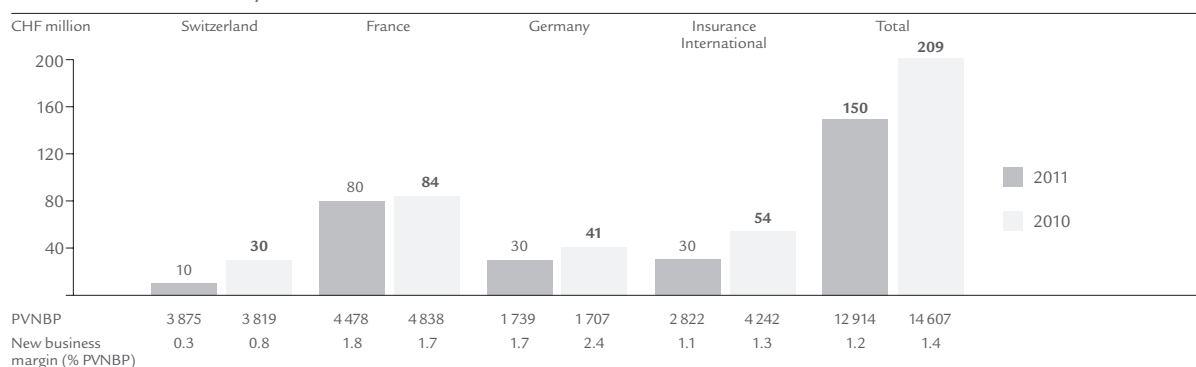
The slightly higher TVOG of France at 31 December 2011 compared to the one reported a year ago, is mainly a consequence of higher interest rate volatilities partly offset by a de-risking of the strategic asset allocation. The health business does not offer financial options and guarantees and therefore does not contribute to the time value of financial options and guarantees.

GERMANY – While the net asset value increased in Germany despite a capital outflow, the VIF decreased because of the adverse capital market environment, especially due to the increased interest rate volatilities. Furthermore, an increase in free surplus was achieved for various reasons including lower policyholder bonuses in 2011.

INTERNATIONAL – The business of private placement life insurance (PPLI) accounted for 80% of the opening MCEV. While assets under control increased during the reporting period, a revised outlook on future new business volumes for the PPLI business led to a decrease of the MCEV.

The negative free surplus of CHF -56 million is explained by not taking into account the goodwill relating to a past acquisition in Liechtenstein. The low TVOG reflects the absence of substantial financial options and guarantees across most business lines of International and a de-risking of the asset allocation in Corporate Solutions.

Value of New Business by Market Unit



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

Amounts in CHF million

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

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

VALUE OF NEW BUSINESS BY MARKET UNIT – PREMIUMS AND MARGINS FOR THE YEAR 2010

Amounts in CHF million

	Switzerland	France	Germany	International	Total
VALUE OF NEW BUSINESS	30	84	41	54	209
<i>New business strain</i> ¹	-41	-66	-9	-7	-124
<i>Value of new business before new business strain</i>	71	150	50	61	333
Annual premiums	189	382	129	6	706
Single premiums	1 164	2 099	333	4 202	7 798
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	3 819	4 838	1 707	4 242	14 607
Average annual premium multiplier	14.0	7.2	10.7	6.7	9.6
New business annual premium equivalent (APE)	306	592	163	426	1 486
NEW BUSINESS MARGIN (% PVNBP)	0.8%	1.7%	2.4%	1.3%	1.4%
New business margin (% APE)	9.8%	14.2%	25.0%	12.7%	14.0%

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

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

An increase in new business volume of modern products in individual life and single premiums in group life was partly offset by lower production for traditional products in individual life and assumed re-insurance business. The decline in value of new business and new business margin is caused by the low level of risk-free interest rates in combination with high interest rate volatilities and the level of interest rate guarantees. The strongly adverse impacts from the financial market environment could not fully be counteracted by positive operating impacts from re-pricing measures for individual life products, successfully launched new pension products and favourable persistency and expense assumption variances in group life.

FRANCE – The new business margin increased due to management actions such as pushing unit-linked and risk business, de-risking the strategic asset allocation and efficiency gains. These actions offset the negative capital market environment as well as the overall volume reduction and increased the new business margin.

The value of new business for the health business increased significantly compared to 2010 as a consequence of the increase of volumes and the higher share of death and disability business sold. In life business, a higher share and volume of unit linked business than in 2010 was achieved.

GERMANY – The new business margin of Germany has been negatively affected by economic conditions as well as market pressure on disability business. The share of risk and supplementary disability insurance contracts written remains at a high level, but slightly lower than in the previous year. As a result the value of new business is lower than in 2010.

INTERNATIONAL – The PPLI business is the main driver for the value of new business of International which accounts for CHF 30 million. The change in value compared to 2010 can be attributed to the performance of the PPLI business, where the reorientation in private banking led to a weakened demand and lower new business volumes. Pricing pressure and lower persistency assumptions reduced the margin by 20 bp. Because of the weight of PPLI within International, by far the biggest share of new business premiums consists of single premiums.

ANALYSIS OF EARNINGS BY MARKET UNIT FOR THE YEAR 2011

In CHF million

	Switzerland	France	Germany	International	Total
OPENING MCEV	2 212	1 879	606	262	4 959
Opening adjustments	-46	-30	-22	-	-98
ADJUSTED OPENING MCEV	2 166	1 849	584	262	4 861
New business value	10	80	30	30	150
Expected existing business contribution (reference rate)	3	8	1	3	14
Expected existing business contribution (in excess of reference rate)	517	209	62	14	802
Experience variances	-34	10	-17	-12	-53
Assumption changes	124	-20	-23	-3	79
Other operating variance	-240	7	-7	-41	-282
OPERATING MCEV EARNINGS	379	293	46	-9	710
Economic variances	-166	-217	-95	-29	-507
Other non-operating variances	101	1	-	1	102
TOTAL MCEV EARNINGS	314	77	-49	-37	305
Closing adjustments	209	-29	-10	24	195
CLOSING MCEV	2 689	1 897	526	249	5 361

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

SWITZERLAND – Strong operating earnings of CHF 379 million correspond to 18% of the adjusted opening MCEV.

The observed experience variances are a combination of effects from deviations in persistency and demographic experience relative to opening assumptions as well as reserve strengthening in the light of the low interest rate environment.

The assumption changes are due to a favourable experience-driven update of persistency assumptions in group life and the reduced cost base. This is partly offset by an update of assumptions in respect of policyholder behaviour such as earlier future retirements within group life contracts.

Other operating variances are mainly attributable to group life business, in particular due to a reduction in risk premiums from 2012 onwards. Further negative effects on other operating variances come from an increased real estate share in the strategic asset allocation. With regard to hybrid debt an adjustment and a positive revaluation had a negative impact overall, which is also included in other operating variance.

Negative economic variances are caused by the significant increase of interest rate volatilities. The setting of the liquidity premiums has a positive impact.

Other non-operating variances reflect changes to future taxation.

Closing adjustments are almost fully due to capital transfers to the Swiss market unit.

FRANCE – The operating MCEV earnings of CHF 293 million corresponds to 16% of the adjusted opening MCEV. France has a significant contribution from new business production. The expected existing business contribution, combined with a disciplined policyholder profit sharing allowed a strengthening of the bonus fund and an increase in free surplus despite dividend payments.

The expense reductions achieved contributed positively to the assumption variances while other effects, including anticipated increases of health claims ratios more than offset this.

Closing adjustments reflect the lower euro exchange rate in 2011.

GERMANY – The operating MCEV earnings of CHF 46 million correspond to 8% of the adjusted opening MCEV. Besides the strong new business contribution, operating expense reductions also contributed positively. This was offset by ongoing investments into new asset management and policy administration systems as well as other measures to strengthen the sustainability of the business.

Germany had a capital outflow of CHF 22 million.

Closing adjustments reflect the lower euro exchange rate in 2011.

INTERNATIONAL – The operating MCEV earnings of CHF -9 million represent -4% of the opening MCEV. This is driven by a reassessment of PPLI's volume outlook given the reorientation in private banking and the new business premiums in 2011. On the other hand the business with corporate clients had a stabilising effect on the value.

Despite a substantial volume reduction, the value of new business still contributed strongly to the result with CHF 30 million or 12% of the total embedded value of International.

Experience variances and other operating variances are positively influenced by mortality and disability, while strong negative effects arise from the situation of the PPLI business, which still shows some characteristics of a start-up.

Substantial cost reductions were achieved in the corporate clients business: however, the revised new business outlook for PPLI more than compensated the impact on the MCEV.

Main driver for negative economic variances is the investment performance of assets under control and currency exchange effects, whereas the closing adjustments reflect a capital transfer to PPLI.

4 Methodology

4.1 MCEV COMPONENTS FOR COVERED BUSINESS

NET ASSET VALUE (NAV) – The net asset value is the market value of assets allocated to the covered business, which are not backing liabilities from the covered business.

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

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

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

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

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

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

VALUE OF IN-FORCE BUSINESS (VIF) – The value of in-force business consists of the following components:

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

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

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

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

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

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

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

TIME VALUE OF FINANCIAL OPTIONS AND GUARANTEES (TVOG) – The certainty equivalent value does not allow for the risk that the financial outcome for shareholders could differ from the one implied by the certainty equivalent scenario. This is of particular relevance when products or funds include guarantees or options for the policyholder such as:

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

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

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

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

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

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

COST OF RESIDUAL NON-HEDGEABLE RISKS (CNHR) – The cost of residual non-hedgeable risks for risk factors such as mortality, morbidity, expenses and lapse rates is calculated under a cost of capital approach. It is defined as the present value of annual charges on the projected economic capital for residual non-hedgeable risks.

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

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

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

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

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

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

4.2 NEW BUSINESS

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

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

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

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

4.3 ASSET AND LIABILITY DATA

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

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

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

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

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

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

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

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

HYBRID DEBT – In accordance with the MCEV Principles (G3.4), hybrid debt allocated to covered business is valued by discounting the corresponding coupon and nominal payments (liability cash flows) with reference interest rates and spreads that would be used by capital markets for debt with similar characteristics. For the spread used for the closing MCEV see section 5.1.1. The approach is consistent with the fair value disclosed in the Notes to the Consolidated Financial Statements. For the opening MCEV and previous MCEV disclosures no spread was assumed.

4.4 ECONOMIC SCENARIO GENERATOR

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

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

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

Since the assets and liabilities within the Swiss Life Group are mostly denominated in Swiss francs, euro or US dollars, the economic scenarios reflect these three economies in a market consistent way. The exchange rates and dividend yields are modelled as additional risk factors, as well as the inflation rates in each economy.

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

4.5 DYNAMIC MANAGEMENT ACTIONS AND POLICYHOLDER BEHAVIOUR

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

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

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

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

4.6 LOOK-THROUGH PRINCIPLE

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

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

4.7 CONSOLIDATION

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

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

Covered business relates to the operations in:

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

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

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

4.8 EMPLOYEE PENSION SCHEMES AND SHARE-BASED PAYMENT PROGRAMMES

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

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

5 Assumptions

5.1 ECONOMIC ASSUMPTIONS

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

5.1.1 REFERENCE RATES – Following market practice, the reference rates used for the calculation of the MCEV 2011 are based on the swap rates as at 31 December 2011 and include, where appropriate, a liquidity premium. Extrapolation of the interest curves and determination of liquidity premiums closely follow the QIS 5 framework.

The underlying liquidity premium is determined by applying the formula Maximum (0; 50%*(corporate credit spread over swap – 40 bp)), where the corporate spreads over swap are measured with appropriate market indices. For the corporate credit spread over swap rates for the two currencies euro and US dollar, we use the quotation from Markit³ instead of using the two step approach as described in the QIS 5 guidance. For the spread over swap rates for Swiss franc we use a SIX Swiss Exchange Bond Index (SBI® Corporate, introduced in 2011) composed of investment grade, foreign and domestic corporate issues in Swiss franc.

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

As some of Swiss Life's liabilities are running longer than asset durations are available on financial markets in sufficient depth and liquidity, an extrapolation of yields is needed to assess swap maturities beyond this horizon. In 2011, Swiss Life used the approach for extrapolation prescribed by EIOPA for QIS 5.

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

The spread (on swap rates) applied for valuation of the hybrid debt as at 31 December 2011 is 363 bp. For the opening MCEV no spread was assumed.

5.1.1.1 SWAP RATES AS AT 31 DECEMBER 2011

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

³ Copyright © 2011 Markit Group Limited

5.1.1.2 SWAP RATES AS AT 31 DECEMBER 2010

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.18%	0.52%	1.40%	2.16%	2.41%	2.19%
Euro Zone	1.33%	1.56%	2.48%	3.31%	3.64%	3.50%
United States	0.44%	0.80%	2.15%	3.36%	3.83%	4.10%

The 100% liquidity premiums, relative to swaps rates as of 31 December 2011 amount to 62 bp for Swiss franc, 107 bp for euro and 108 bp for US dollar. For the calculation of the MCEV 2010 Swiss Life had decided to set the liquidity premiums to zero.

5.1.2 VOLATILITY ASSUMPTIONS – Volatility assumptions for the year-end 2011 and 2010 calculations are derived from market data as at 31 December 2011 and 2010.

The interest rate volatilities are based on implied volatilities of at-the-money receiver swaptions. The tenors are 20 years for the euro and the US dollar and 10 years for the Swiss franc.

5.1.2.1 SWAPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2011

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

5.1.2.2 SWAPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2010

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	30.0%	27.8%	26.2%	31.0%	n/a ¹	n/a ¹
Euro Zone	24.1%	22.0%	18.7%	18.2%	20.5%	20.5%
United States	25.1%	23.4%	20.2%	16.3%	15.2%	14.4%

¹ n/a: not available

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

5.1.2.3 EQUITY OPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2011 AND 31 DECEMBER 2010

Economy	Index	Volatility	
		2011	2010
Switzerland	SMI	22.2%	21.0%
Euro Zone	EuroStoxx 50	27.2%	27.3%
United States	S&P 500	30.7%	27.4%

For 31 December 2011 Swiss Life reassessed the property volatilities considering historical data.

5.1.2.4 PROPERTY VOLATILITIES USED FOR THE CALCULATION AS AT 31 DECEMBER 2011 AND 31 DECEMBER 2010

Economy	Volatility	
	2011	2010
Switzerland	8.0%	8.0%
Euro Zone	13.0%	13.0%

5.1.3 CORRELATION ASSUMPTIONS – The correlation assumptions between different asset classes are based on historical market data. The correlations between returns on equities and on 10-year zero coupon bonds are assumed to be 13% for 2011 and 16% for 2010.

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

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

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

5.1.4.2 FORWARD INFLATION RATES USED FOR THE CALCULATION AS AT 31 DECEMBER 2010

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.6%	0.6%	1.2%	1.8%	1.4%	1.2%
Euro Zone	2.1%	1.5%	1.7%	2.4%	2.6%	1.9%

5.1.5 REAL WORLD ASSUMPTIONS – These assumptions are used for the step “expected business contribution in excess of reference rates” introduced in 2011.

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

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

5.1.5.1 EQUITY AND PROPERTY ASSUMPTIONS FOR REAL WORLD PROJECTION

Risk premiums by asset class	2011	2010
Equity	400 bp	400 bp
Property (Switzerland and Europe)	200 bp	200 bp

5.2 TAXATION AND LEGISLATION

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

5.2.1 TAX ASSUMPTIONS

	2011	2010
Switzerland	21.1%	22.3%
France	34.4%	34.4%
Germany	32.6%	32.6%
Luxembourg	22.0%	22.0%
Liechtenstein	13.0%	13.0%
Singapore	18.0%	18.0%

5.3 OPERATING ASSUMPTIONS

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

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

6 External Auditors' Statement

To the Board of Directors of
Swiss Life Holding Limited
Zurich

Auditor's Report on Market Consistent Embedded Value

We have audited the accompanying Market Consistent Embedded Value Report ("MCEV Report") of Swiss Life Holding Ltd for the year ended 31 December 2011. The embedded value information included in the MCEV Report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles issued by the European Insurance CFO Forum, as described in sections 1 and 4 of the MCEV Report.

The Board of Directors is responsible for the preparation of the MCEV Report, including the applied methodology and the assumptions used. Our responsibility is to express an opinion on whether the MCEV Report has been properly prepared in accordance with the MCEV Principles.

We conducted our audit in accordance with Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the MCEV Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the MCEV Report. An audit also includes assessing the principles used and significant estimates made by the Board of Directors, as well as evaluating the adequacy of the overall presentation of the MCEV Report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the MCEV Report of Swiss Life Holding Ltd for the year ended 31 December 2011 has been properly prepared in accordance with the MCEV Principles.

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

PricewaterhouseCoopers AG

Ray Kunz
Audit expert

Morgan Schaeffer

Zurich, 28 February 2012

7 Glossary and List of Abbreviations

ANNUAL PREMIUM EQUIVALENT (APE) – Volume measure for new business. Sum of regular premiums from new business +10% of single premiums on business written during the period.

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

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

CERTAINTY EQUIVALENT SCENARIO – Economic scenario under which asset returns are equal to the reference rates.

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

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

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

COST OF RESIDUAL NON-HEDGEABLE RISKS (CNHR) – The cost of residual non-hedgeable risks accounts for risk factors such as mortality, morbidity, expenses and lapse rates.

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

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

FRICTIONAL COSTS OF REQUIRED CAPITAL (FC) – The additional investment and taxation cost incurred by shareholders through investing required capital in the company compared to direct investment as individuals.

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

IFRS – International Financial Reporting Standards

“LEGAL QUOTE” – Statutory minimum policyholder participation ratio

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

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

MARKET CONSISTENT EMBEDDED VALUE (MCEV) – Market consistent embedded value is a measure of the consolidated value of shareholders' interests in the in-force covered business of the Swiss Life Group.

NET ASSET VALUE (NAV) – The net asset value is the market value of assets attributed to the covered business over and above that required to back liabilities for covered business.

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

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

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

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

PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP) – Volume measure for new business. It represents the present value of premiums from new business. It is the sum of single premiums and the present value of periodic premiums from new business.

QIS 5 – EIOPA's fifth quantitative impact study for Solvency II.

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

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

TIME VALUE OF FINANCIAL OPTIONS AND GUARANTEES (TVOG) – The TVOG represents the additional market price of those financial options and guarantees in excess of the intrinsic value of options and guarantees which is already allowed for in the certainty equivalent value.

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

VALUE OF IN-FORCE BUSINESS (VIF) – The value of in-force business represents the net present value of future profits emerging from operations and assets backing liabilities, after accounting for TVOG, CNHR and FC.

VALUE OF NEW BUSINESS (VNB) – The value of new business reflects the additional value to shareholders created by writing new business during the reporting period.

VARIABLE ANNUITIES – Unit-linked contracts with additional guarantees and policyholder options.

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Consolidated Statement of Income

CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	Notes	2011	2010
INCOME			
Premiums earned on insurance contracts		11 105	11 456
Premiums earned on investment contracts with discretionary participation		685	523
Premiums ceded to reinsurers		-191	-226
Net earned premiums	7	11 599	11 753
Policy fees earned on insurance contracts		39	41
Policy fees earned on investment and unit-linked contracts		256	257
Net earned policy fees	7	295	298
Commission income	8	893	922
Investment income	5, 8	4 216	4 242
Net gains/losses on financial assets	5, 8	550	-4 430
Net gains/losses on financial instruments at fair value through profit or loss	5, 8	-820	4 250
Net gains/losses on investment property	5, 15	513	306
Other income	8	45	503
TOTAL INCOME		17 291	17 844
EXPENSES			
Benefits and claims under insurance contracts		-12 008	-12 289
Benefits and claims under investment contracts with discretionary participation		-709	-543
Benefits and claims recovered from reinsurers		103	128
Net insurance benefits and claims	8	-12 614	-12 704
Policyholder participation		-791	-1 073
Interest expense	8	-274	-311
Commission expense	8	-983	-1 008
Employee benefits expense	8	-835	-846
Depreciation and amortisation expense	8	-554	-594
Impairment of property and equipment and intangible assets	17, 18	-11	-5
Other expenses	8	-530	-609
TOTAL EXPENSES		-16 592	-17 150
PROFIT FROM OPERATIONS		699	694
Borrowing costs		-120	-104
Share of results of associates	5, 16	6	6
PROFIT BEFORE INCOME TAX		585	596
Income tax expense	25	21	-36
NET PROFIT		606	560
Net profit attributable to			
equity holders of Swiss Life Holding		605	557
non-controlling interests		1	3
NET PROFIT		606	560
Earnings per share attributable to equity holders of Swiss Life Holding			
Basic earnings per share (in CHF)	6	18.97	17.46
Diluted earnings per share (in CHF)	6	18.87	17.37

Consolidated Statement of Comprehensive Income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2011	2010
NET PROFIT	606	560
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	-71	-553
Financial assets available for sale	3 161	594
Cash flow hedges	173	2
Revaluation surplus on investment property	14	-18
Financial assets reclassified to loans and receivables	110	237
Policyholder participation	-1 639	-482
Shadow accounting	-141	-26
Income tax relating to other comprehensive income	-343	-57
NET OTHER COMPREHENSIVE INCOME	1 264	-303
TOTAL NET COMPREHENSIVE INCOME	1 870	257
Total net comprehensive income attributable to		
equity holders of Swiss Life Holding	1 869	261
non-controlling interests	1	-4
TOTAL NET COMPREHENSIVE INCOME	1 870	257

Consolidated Balance Sheet

CONSOLIDATED BALANCE SHEET

In CHF million

	Notes	31.12.2011	31.12.2010
ASSETS			
Cash and cash equivalents		5 084	6 940
Derivatives	9	1 318	2 965
Assets held for sale	30	22	94
Financial assets at fair value through profit or loss	10	24 120	23 395
Financial assets available for sale	11	67 264	57 950
Loans and receivables	13, 33	27 202	29 713
Financial assets held to maturity	14, 33	5 046	5 229
Financial assets pledged as collateral	12, 35	969	1 060
Investment property	15	15 445	14 142
Investments in associates	16	74	63
Reinsurance assets	23	380	365
Property and equipment	17	539	569
Intangible assets including intangible insurance assets	18	3 722	3 982
Current income tax assets		2	10
Deferred income tax assets	25	153	150
Other assets	19	535	576
TOTAL ASSETS		151 875	147 203

CONSOLIDATED BALANCE SHEET

In CHF million

	Notes	31.12.2011	31.12.2010
LIABILITIES AND EQUITY			
LIABILITIES			
Derivatives	9	1 186	498
Liabilities associated with assets held for sale	30	15	-
Financial liabilities at fair value through profit or loss	10	18 782	17 571
Investment contracts	20	11 358	11 279
Borrowings	21, 33	2 624	2 142
Other financial liabilities	22, 33	7 225	10 920
Insurance liabilities	23	93 365	90 305
Policyholder participation liabilities		5 150	3 436
Employee benefit liabilities	24	1 261	2 049
Current income tax liabilities		120	295
Deferred income tax liabilities	25	1 144	821
Provisions	26	150	131
Other liabilities	19	333	319
TOTAL LIABILITIES		142 713	139 766
EQUITY			
Share capital		164	308
Share premium		1 651	1 646
Treasury shares		-25	-18
Foreign currency translation differences	27	-833	-762
Gains/losses recognised directly in equity	27	1 544	209
Retained earnings		6 626	6 021
TOTAL SHAREHOLDERS' EQUITY		9 127	7 404
Non-controlling interests		35	33
TOTAL EQUITY		9 162	7 437
TOTAL LIABILITIES AND EQUITY		151 875	147 203

Consolidated Statement of Cash Flows

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums, policy fees and deposits received, net of reinsurance	13 264	13 868
Benefits and claims paid, net of reinsurance	-12 695	-12 781
Interest received	3 544	3 558
Dividends received	108	133
Commissions received	896	1 202
Rentals received	747	722
Interest paid	-57	-51
Commissions, employee benefit and other payments	-2 390	-3 787
Net cash flows from		
derivatives	1 640	2 269
financial instruments at fair value through profit or loss	397	266
financial assets available for sale	-4 945	-11 984
loans	969	2 929
financial assets held to maturity	127	92
investment property	-833	-997
deposits	-2 652	3 829
other operating assets and liabilities	-26	2
Income taxes paid	-183	-56
TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	-2 089	-786

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	Notes	2011	2010
TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES		-2 089	-786
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments in associates	16	-10	-
Sales of investments in associates	16	0	2
Dividends received from associates	16	4	3
Purchases of property and equipment		-29	-24
Sales of property and equipment		2	41
Purchases of computer software and other intangible assets		-20	-21
Acquisition of insurance portfolio, net of cash and cash equivalents	31	100	-
Acquisitions of subsidiaries, net of cash and cash equivalents	29	-9	-
TOTAL NET CASH FLOWS FROM INVESTING ACTIVITIES		38	1
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of debt instruments		490	50
Redemption of debt instruments		-196	-280
Reduction in par value		-143	-77
Purchases of treasury shares		-9	-1
Sales of treasury shares		1	10
Capital contributions from non-controlling interests		1	0
Borrowing costs paid		-112	-109
Dividends paid to non-controlling interests		-1	0
TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES		31	-407
TOTAL CHANGE IN CASH AND CASH EQUIVALENTS		-2 020	-1 192
Cash and cash equivalents as at 1 January		6 940	8 683
Foreign currency differences		164	-551
Total change in cash and cash equivalents		-2 020	-1 192
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		5 084	6 940
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash on hand and demand deposits		2 615	3 120
Cash equivalents		23	1 487
Cash and cash equivalents for the account and risk of the Swiss Life Group's customers		2 446	2 333
TOTAL CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		5 084	6 940

Consolidated Statement of Changes in Equity

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

In CHF million										
	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation differences	Gains/losses recognised directly in equity	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at 1 January		385	1 697	-25	-216	-41	5 408	7 208	37	7 245
Total net comprehensive income	27	-	-	-	-546	250	557	261	-4	257
Convertible debt, reclassification of equity component		-	-56	-	-	-	56	-	-	-
Reduction in par value	27	-77	0	-	-	-	-	-77	-	-77
Equity-settled share-based payments		-	3	-	-	-	-	3	-	3
Purchases of treasury shares		-	-	-1	-	-	-	-1	-	-1
Sales of treasury shares		-	2	8	-	-	-	10	-	10
Capital contributions from non-controlling interests		-	-	-	-	-	-	-	0	0
Dividends		-	-	-	-	-	-	-	0	0
BALANCE AS AT END OF PERIOD		308	1 646	-18	-762	209	6 021	7 404	33	7 437

Notes to the Consolidated Financial Statements

1 General Information

The Swiss Life Group is one of Europe's leading providers of life insurance and pension solutions. In Switzerland, France and Germany, the Group offers individuals and corporations comprehensive advice and a broad range of products through its own sales force as well as brokers and banks. Swiss Life provides international corporations with employee benefits solutions from a single source, and is one of the global leaders in structured life and pension products for international high net worth individuals. The AWD Group has been part of the Swiss Life Group since 2008. Hanover-based AWD is one of the leading European financial services providers in the medium and high-income client segments and offers its clients comprehensive financial advisory services. Germany, the UK, Austria and Switzerland are the AWD Group's core markets.

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 Ltd (hereinafter referred to as "Swiss Life Holding") on 5 May 2011, a reduction in par value of CHF 4.50 per registered share was effected in 2011. The payout took place on 28 July 2011 and amounted to CHF 143 million.

APPROVAL OF FINANCIAL STATEMENTS

On 15 March 2012, the Board of Directors approved the annual financial statements and the financial report and authorised them for issue. The financial report, therefore, only reflects events up to that date.

2 Summary of Significant Accounting Policies

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

2.1 BASIS OF PREPARATION

The consolidated financial statements of Swiss Life have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are stated at their fair value: derivatives, financial assets and liabilities at fair value through profit or loss, financial assets classified as available for sale and investment property.

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

2.2 CHANGES IN ACCOUNTING POLICIES

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD – In May 2010, the International Accounting Standards Board issued annual improvements to IFRS. The improvements are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate. An amendment to IFRS 7 Financial Instruments: Disclosures clarifies certain disclosures with regard to credit risk and quantitative disclosures. The amended disclosures are reflected in these consolidated financial statements.

In November 2009, an amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement was issued. The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits an entity to recognise the benefit of such an early payment as an asset. The Interpretation has been effective for annual periods beginning on or after 1 January 2011. The Swiss Life Group is currently not affected by the amendment.

In November 2009, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments was issued. The Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Interpretation has been effective for annual periods beginning on or after 1 July 2010. The Swiss Life Group does not currently have such extinguishments.

In November 2009, amendments to IAS 24 Related Party Disclosures were issued by the International Accounting Standards Board. The amendments apply to annual periods beginning on or after 1 January 2011 and clarify and simplify the definition of a related party. The requirements for government-related entities to disclose details of all transactions with the government and other government-related entities are removed. The Swiss Life Group is currently not affected by these changes.

In October 2009, an amendment to IAS 32 Financial Instruments: Presentation was issued. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. Provided certain conditions are met, such rights issues are classified as equity under the amendment regardless of the currency in which the exercise price is denominated. The amendment has been effective for annual periods beginning on or after 1 February 2010. The Swiss Life Group does not currently have such rights issues.

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited exemption from comparative IFRS 7 disclosures for first-time adopters
- Annual improvements as issued in May 2010, except for the amendments to IFRS 7 Financial Instruments: Disclosures as discussed above.

2.3 CONSOLIDATION PRINCIPLES

The Group's consolidated financial statements include the assets, liabilities, income and expenses of Swiss Life Holding and its subsidiaries. A subsidiary is an entity in which Swiss Life Holding owns directly or indirectly more than 50% of the voting rights, or in which it otherwise has the power to exercise control over operations. Subsidiaries are consolidated from the date on which effective control is obtained. All intercompany balances, transactions and unrealised gains and losses on such transactions have been eliminated. A listing of the Group's subsidiaries is set out in note 37. The financial effect of acquisitions and disposals of subsidiaries is shown in note 29. Associates for which the Group has between 20% and 50% of the voting rights and/or exercises significant influence are accounted for using the equity method. The Group's share of net income for the year is recognised as a share of 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 on which significant influence begins until the date on which significant influence ceases. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The carrying amount includes goodwill on the acquisition. A listing of the Group's principal associates is shown in note 16.

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

2.4 FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

FUNCTIONAL AND PRESENTATION CURRENCY – Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group’s entities operate (the “functional currency”). The consolidated financial statements are presented in millions of Swiss francs (CHF), which is the Group’s presentation currency.

FOREIGN CURRENCY EXCHANGE RATES

	31.12.2011	31.12.2010	Average 2011	Average 2010
1 British pound (GBP)	1.4559	1.4560	1.4221	1.6111
1 Croatian kuna (HRK)	0.1615	0.1691	0.1658	0.1893
1 Czech koruna (CZK)	0.0478	0.0498	0.0501	0.0546
1 Euro (EUR)	1.2166	1.2483	1.2345	1.3827
100 Hungarian forint (HUF)	0.3867	0.4490	0.4409	0.5008
100 Polish zloty (PLN)	27.2647	31.5608	29.8986	34.5489
1 Romanian new leu (RON)	0.2813	0.2916	0.2908	0.3276
1 Singapore dollar (SGD)	0.7242	0.7276	0.7053	0.7649
1 US dollar (USD)	0.9388	0.9339	0.8866	1.0423

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

FOREIGN CURRENCY TRANSACTIONS – For individual Group entities, foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances in foreign currencies at year-end arising from foreign currency transactions are translated at year-end exchange rates for monetary items while historical rates are used for non-monetary items. Those non-monetary items in foreign currencies recorded at fair values are translated at the exchange rate on the revaluation date.

2.5 CASH AND CASH EQUIVALENTS

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

2.6 DERIVATIVES

The Group enters into forward contracts, futures, forward rate agreements, currency and interest rate swaps, options and other derivative financial instruments for hedging risk exposures or for trading purposes. The notional amounts

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

All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value as assets when favourable to the Group and as liabilities when unfavourable. Gains and losses arising on remeasurement to fair value are recognised immediately in the income statement, except for derivatives that are used for cash flow hedging.

Derivatives embedded in other financial instruments or in insurance contracts which are not closely related to the host contract are separated and measured at fair value, unless they represent surrender options with a fixed strike price embedded in host insurance contracts and host investment contracts with discretionary participation features. Changes in the fair value are included in income. Derivatives embedded in insurance contracts which are closely related or which are insurance contracts themselves, such as guaranteed annuity options or guaranteed interest rates, are reflected in the measurement of the insurance liabilities. Options, guarantees and other derivatives embedded in an insurance contract that do not carry any insurance risk are recognised as derivatives.

Derivatives and other financial instruments are also used to hedge or modify exposures to interest rate, foreign currency and other risks if certain criteria are met. Such financial instruments are designated to offset changes in the fair value of an asset or liability and unrecognised firm commitments (fair value hedge), or changes in future cash flows of an asset, liability or a highly probable forecast transaction (cash flow hedge) or hedges of net investments in foreign operations. In a qualifying fair value hedge, the change in fair value of a hedging derivative is recognised in income. The change in fair value of the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item and is also recognised in income.

In a qualifying cash flow hedge, the effective portion of the gain or loss on the hedging derivative is recognised directly in equity. Any ineffective portion of the gain or loss is recognised immediately in the income statement. For a hedged forecast transaction that results in the recognition of a financial asset or liability, the associated gain or loss recognised in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. When a hedging instrument expires or is sold, or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in income. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to income.

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

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

2.7 FINANCIAL ASSETS

“Regular way” purchases and sales of financial assets are recorded on the trade date. The amortisation of premiums and discounts on investments is computed using the effective interest method and is recognised in income as an

adjustment of yield. Dividends are recorded as revenue on the ex-dividend date. Interest income is recognised on an accrual basis.

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

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

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

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

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

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

Financial assets reclassified from financial assets available for sale to loans due to the disappearance of an active market are not reclassified back to financial assets available for sale if the market becomes active again.

FINANCIAL ASSETS HELD TO MATURITY (HTM) – Financial assets which the Group has the ability and positive intent to hold to maturity are carried at amortised cost using the effective interest method.

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

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

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

2.8 IMPAIRMENT OF FINANCIAL ASSETS

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

FINANCIAL ASSETS AT AMORTISED COST – The Group assesses at each balance sheet date if there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Held-to-maturity securities and loans and receivables are assessed for impairment when a significant decrease in market value related to credit risk arises, namely after a downgrade of a debtor’s rating below single B- after initial recognition (i.e. CCC or lower according to Standard and Poor’s or equivalent) or when payments of principal and/or interest are overdue by more than 90 days. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

FINANCIAL ASSETS CARRIED AT FAIR VALUE (AVAILABLE FOR SALE) – At each balance sheet date, an assessment is made whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of an equity instrument classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment. In this respect, a decline of 30% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. In such a situation, the impairment loss – measured as the difference between the acquisition cost and the current fair value – is removed from equity and recognised in the income statement. After recognition of an impairment loss, any further declines in fair value are recognised in the income statement, and subsequent increases in fair value are recognised directly in equity.

Available-for-sale debt securities are assessed for impairment when a significant decrease in market value related to credit risk arises, namely after a downgrade of a debtor's rating below single B- after initial recognition (i.e. CCC or lower according to Standard and Poor's or equivalent) or when payments of principal and/or interest are overdue by more than 90 days. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event after the impairment loss was recognised, the impairment loss is reversed through the income statement.

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

2.9 INVESTMENT PROPERTY

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

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

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

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

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

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

If an item of property and equipment becomes an investment property because its use has changed, the positive difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation surplus. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Any resulting decrease in the carrying amount of the property is recognised in net profit or loss for the period. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through income.

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

2.10 INSURANCE OPERATIONS

DEFINITION OF INSURANCE CONTRACTS — Insurance contracts are contracts under which one party accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Significant insurance risk exists if an insured event could

cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the Group issues and reinsurance contracts that the Group holds. As a Group policy, Swiss Life considers those contracts to be insurance contracts that require the payment of additional benefits in excess of 10% of the benefits that would be payable if the insured event had not occurred, excluding scenarios that lack commercial substance.

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

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

INVESTMENT CONTRACTS WITH AND WITHOUT DISCRETIONARY PARTICIPATION FEATURES – For investment contracts that contain discretionary participation features (see below) the same recognition and measurement principles as for insurance contracts apply. For investment contracts without discretionary participation features the recognition and measurement rules for financial instruments apply.

RECOGNITION AND MEASUREMENT PRINCIPLES – Subject to certain limitations, the Group uses its existing accounting policies for the recognition and measurement of insurance contracts and investment contracts with discretionary participation features that it issues (including related deferred acquisition costs and related intangible assets) and reinsurance contracts that it holds. The existing accounting policies for recognition and measurement have primarily been based on the requirements of the Generally Accepted Accounting Principles in the United States (US GAAP).

The accounting policies for insurance contracts and investment contracts with discretionary participation features have been modified as appropriate to be consistent with the IFRS requirements. Guidance dealing with similar and related issues, definitions, recognition and measurement criteria for assets, liabilities, income and expenses as set out in the IASB Framework for the Preparation and Presentation of Financial Statements has been considered.

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

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

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

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

In jurisdictions where no statutory minimum distribution ratio (“legal quote”) exists, the contractual right to receive, as a supplement to guaranteed benefits, additional benefits which are likely to be a significant portion of the total contractual benefits arises when management ratifies the allocation of policyholder bonuses. When ratified by management, a corresponding liability is set up. To the extent discretion with regard to amount and/or timing is involved, these amounts are included within policyholder participation liabilities. In that respect the policyholder bonus reserve set up in the statutory accounts for these contracts is regarded as discretionary. For these contracts the entire DPF is classified as a liability.

In other jurisdictions, a statutory minimum distribution ratio (“legal quote”) exists for certain types of business. Geographical areas in which the Swiss Life Group is present and in which such a statutory minimum distribution ratio (“legal quote”) exists are as follows: Switzerland (only group business subject to “legal quote”), France and Germany. For these contracts the Swiss Life Group defines DPF as the policyholder bonus reserve set up in the statutory accounts and the amount of temporary valuation differences between the IFRS basis and statutory basis on the assets and liabilities relating to the respective insurance portfolio measured using the statutory minimum distribution ratio (“legal quote”). The policy of the Swiss Life Group is to classify as a liability the entire DPF as defined.

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

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

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

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

SWITZERLAND – Group business subject to “legal quote”: At least 90% of the calculated income on the savings, risk and cost components minus the expenses thereof must be allocated to the policyholders. All other business: No “legal quote”.

FRANCE – 85% of the investment result and 90% of any other results are allocated to the policyholders as a minimum.

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

LUXEMBOURG/LIECHTENSTEIN – No statutory minimum distribution ratios are in place.

NON-DISCRETIONARY PARTICIPATION FEATURES – Certain policyholder participation systems do not satisfy the criteria for discretionary participation features. These policyholder bonuses might be guaranteed elements. Some policyholder bonuses are based on benchmark interest rates which are credited to the policyholders. For certain products,

policyholder bonuses are based on the development of biometric parameters such as mortality and morbidity. These policyholder bonuses are allocated based on the risk result of the contracts involved. The amount and timing of these bonuses are not subject to management discretion and are accrued to the policyholders' liabilities based on the relevant contractual terms and conditions.

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

INCOME AND RELATED EXPENSES FROM INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES – Premiums from traditional life insurance contracts are recognised when due from the policyholder. Insurance liabilities are established in order to recognise future benefits and expenses. Benefits are recognised as an expense when due.

Amounts collected as premiums from investment-type contracts such as universal life and unit-linked contracts are reported as deposits. Only those parts of the premiums used to cover the insured risks and associated costs are treated as premium income. These include fees for the cost of insurance, administrative charges and surrender charges. Benefits recognised under expenses include claims for benefits incurred in the period under review that exceed the related deposits under policyholder contracts and interest that is credited to the appropriate insurance policy accounts.

For contracts with a short duration (e.g. most non-life contracts), premiums are recorded as written upon inception of the contract and are earned primarily on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

INSURANCE LIABILITIES AND LIABILITIES FROM INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES

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

If the actual results show that the carrying amount of the insurance liabilities together with anticipated future revenues (less related deferred acquisition costs (DAC) and related intangible assets) are not adequate to meet the future obligations and to recover the unamortised DAC or intangible assets, the entire deficiency is recognised in profit or loss, 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, is reflected in the measurement of the insurance liabilities.

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

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

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

SEPARATE ACCOUNT/UNIT-LINKED CONTRACTS/PRIVATE PLACEMENT LIFE INSURANCE – Separate account contracts represent life insurance contracts with a separated part that is invested in assets managed for the account and risk of the Swiss Life Group's customers according to their specific investment objectives. Separate account liabilities are included in insurance liabilities. Separate account liabilities include the right of the policyholder to participate in the performance of the underlying assets.

Unit-linked contracts are insurance or investment contracts where the insurance benefits are linked to the unit values of investment funds. Certain unit-linked contracts contain guaranteed minimum insurance benefits. The deposit components of unit-linked liabilities are included in financial liabilities designated as at fair value through profit or loss ("unbundling of deposit components"). The components of the unit-linked liabilities that cover insurance risk, if any, are carried under insurance liabilities.

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

Assets associated with separate account/unit-linked contracts and private placement life insurance are included in financial assets designated as at fair value through profit or loss, investment property, derivatives and cash and cash equivalents. The related income and gains and losses are included in the income statement under the respective line items. The Group has allocated on a rational basis the proportion of acquisition costs related to the insurance and deposit components, respectively. The accounting policy for deferred acquisition costs applies to the portion of acquisition costs associated with the insurance component and the policy for deferred origination costs applies to the other portion (see 2.15 Intangible Assets).

Administrative and surrender charges are included in policy fee income.

2.11 PROPERTY AND EQUIPMENT

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

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

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

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

2.12 LEASES

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

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

FINANCE LEASE – If the lease agreement transfers the risks and rewards of the assets, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recognised at the lower of the present value of the minimum lease payments or fair value and is depreciated over its estimated useful life. The corresponding finance lease obligations are recorded as liabilities.

2.13 INVESTMENT MANAGEMENT

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

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

2.14 COMMISSION INCOME AND EXPENSE

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

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

2.15 INTANGIBLE ASSETS

PRESENT VALUE OF FUTURE PROFITS (PVP) ARISING FROM ACQUIRED INSURANCE CONTRACTS AND INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES – On acquisition of a portfolio of insurance contracts or a portfolio of investment contracts with discretionary participation features (DPF), either directly from another insurer or through the acquisition of a subsidiary undertaking, the Group recognises an intangible asset representing the present value of future profits (PVP) embedded in the contracts acquired. The PVP represents the difference between the fair value of the contractual rights acquired and insurance obligations assumed and a liability measured in accordance with the accounting policies for insurance contracts and investment contracts with DPF. The PVP is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. For acquired insurance and investment contracts with DPF, future positive cash flows generally include net valuation premiums while future negative cash flows include policyholders' benefits and certain maintenance expenses.

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

PVP is subject to recoverability tests. The effect of changes in estimated gross profits or margins on unamortised PVP is reflected as an expense in the period in which such estimates of expected future profits or margins are revised.

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

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

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

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

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

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

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

DEFERRED ORIGATION 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.

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

Goodwill represents the excess of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, if applicable, over the fair value of the assets and liabilities recognised at the date of acquisition. The Group has the option for each business combination, in which control is achieved without buying all of the equity of the acquiree, to recognise 100% of the goodwill in business combinations, not just the acquirer's portion of the goodwill ("full goodwill method"). Goodwill on acquisitions of subsidiaries is included in intangible assets. Acquisition-related costs are expensed. Goodwill on associates is included in the carrying amount of the investment.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in subsequent periods.

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

Negative goodwill is immediately recognised in profit and loss.

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

BRANDS AND OTHER – Other intangible assets consist of trademarks, computer software and other.

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis for the expected useful life up to three years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly associated with identifiable software products controlled by the Group and that will probably generate future economic benefits are capitalised. Direct costs include the software development team's employee costs. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of three years.

2.16 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

2.17 INCOME TAXES

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

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

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

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

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

2.18 ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES

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

2.19 DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale and represents a major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. A discontinued operation is classified as such upon disposal or when it meets the criteria for the classification as held for sale. The consolidated statement of income is represented for prior periods as if the operation had been discontinued from the start of the earliest period presented.

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

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

Debt instruments with embedded conversion options to a fixed number of shares of the Group are separated into a debt and an equity component. The difference between the proceeds and fair value of the debt at issuance is recorded in equity. The fair value of the debt at issuance is determined using a market interest rate for similar instruments with no conversion rights. The Group does not recognise any change in the value of these options in subsequent reporting periods.

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

OTHER FINANCIAL LIABILITIES – For deposits with fixed and guaranteed terms the amortised cost basis is used. Initial recognition is at the proceeds received, net of transaction costs incurred. Subsequently, they are stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the deposits. For repurchase agreements, initial recognition is at the amount of cash received, net of transaction costs incurred. Subsequently, the difference between the amount of cash initially received and the amount of cash exchanged upon maturity is amortised over the life of the agreement using the effective interest method.

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

Unrecognised actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are recognised in 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. However, certain assets relating to these plans qualify as plan assets and are therefore not eliminated.

The Group recognises the contribution payable to a defined contribution plan in exchange for the services of the employees rendered during the period as an expense.

HEALTHCARE BENEFITS – Some Group companies provide healthcare benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to the retirement age and the completion of a minimum service period. The expected costs of these benefits are accounted for in the same manner as for defined benefit plans.

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

2.22 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.

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

2.25 OFFSETTING

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

2.26 FORTHCOMING CHANGES IN ACCOUNTING POLICIES

In December 2011, the International Accounting Standards Board issued amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures. The amendments clarify the requirements for offsetting financial instruments. The new disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The amendments are effective for annual periods beginning on or after 1 January 2014 and 2013, respectively. The Swiss Life Group is currently analysing the impact of these new requirements.

In June 2011, the International Accounting Standards Board issued an amended version of IAS 19 Employee Benefits. Important improvements were made by eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', and by streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income. Furthermore, the disclosure requirements for defined benefit plans were enhanced, providing better information about the characteristics and risks of defined benefit plans. The amended version of IAS 19 Employee Benefits comes into effect for annual periods beginning on or after 1 January 2013. The Swiss Life Group expects an impact of these new requirements on the reported amounts relating to defined benefit plans. The estimated net impact of these changes on shareholders' equity as at 1 January 2012 is a decrease of approx. CHF 200 million.

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

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

In May 2011, the International Accounting Standards Board issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form as is currently the case. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 12 Disclosure of Interests in Other Entities comprises all the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The

new standards will be effective for annual periods beginning on or after 1 January 2013. The Swiss Life Group is currently analysing the impact of these new requirements.

In December 2010, an amendment to IAS 12 Income Taxes was issued by the International Accounting Standards Board. The amendment is set out in Deferred Tax: Recovery of Underlying Assets. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. The amendment applies to annual periods beginning on or after 1 January 2012. The Swiss Life Group does not expect a significant impact of these amendments on its consolidated financial statements.

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

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

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

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

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe hyperinflation and removal of fixed dates
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Amendment relating to the cost of an investment on first-time adoption and amendment to the retrospective application of IFRS for first-time adopters
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited exemption from comparative IFRS 7 disclosures for first-time adopters

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is based either on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

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

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

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

- techniques commonly used by market participants. Because of the inherent valuation uncertainty, those estimated fair values may differ significantly from the values that would be used if a ready market for the financial assets existed, and those differences could be material. The responsibility for determining the fair values lies exclusively with the general partner in the partnership. In determining the fair value of fund investments, the partnership considers the funds as transparent holding vehicles. The fair values of the underlying investments are determined using the general partner valuation. These fair value measurements are generally categorised as level 3 within the fair value hierarchy.
- The fair values of loans, which are carried at amortised cost, are estimated using discounted cash flows based upon the Group's current lending rates for similar loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values equal the carrying values.
 - The fair value of hedge funds is based on their quoted market prices, if available. If no quoted market price is available, valuation techniques are used that take into account the market value of the underlying assets, transaction prices and other information.
 - The fair value of financial reinsurance assets and liabilities, which are carried at amortised cost, is estimated using discounted cash flow calculations.
 - The fair value of borrowings, which are carried at amortised cost, is estimated using discounted cash flow calculations based upon the Group's current borrowing rates for similar borrowings with remaining maturities consistent with the debt being valued. The fair value of hybrid debt is estimated based on a discounted cash flow approach, assuming guaranteed coupon payments until maturity or until the next call date for perpetual instruments. Swap rates plus a Swiss Life-specific spread are used for discounting.
 - The fair value of liabilities arising from insurance and investment contracts for the account and risk of the Swiss Life Group's customers is calculated based on the valuation of the underlying assets.
 - The fair value of investment contracts without discretionary participation, which are carried at amortised cost, is estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. The fair values of deposits are equal to the amount payable on demand or the carrying amount. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date.
 - The fair value of investment contracts, which are carried at fair value, is measured using market-consistent, risk-neutral economic option price models, i.e. Monte Carlo simulations based on scenarios of capital market variables (share price and interest rate indices, interest rates and foreign currency rates). These inputs to fair value measurements are generally categorised as level 2 within the fair value hierarchy.
 - It is impracticable to determine the fair value of investment contracts with discretionary participation features due to the lack of a reliable basis to measure such supplemental discretionary returns. IFRS 4 Insurance Contracts is silent on the measurement of the amounts identified as DPF.

FAIR VALUE OF NON-FINANCIAL INSTRUMENTS

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

IMPAIRMENT OF HELD-TO-MATURITY AND AVAILABLE-FOR-SALE DEBT INSTRUMENTS AND LOANS AND RECEIVABLES

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

IMPAIRMENT OF AVAILABLE-FOR-SALE EQUITY INSTRUMENTS

At each balance sheet date, an assessment is made whether there is objective evidence that an available-for-sale equity instrument is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment. In this respect, a decline of 30% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged.

INSURANCE LIABILITIES

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

Insurance liabilities are established by using appropriate estimates and assumptions on mortality, morbidity, exercise of policyholder options and investment returns. With regard to mortality for example these estimates are typically based on standard industry tables. Management makes allowance for expected improvements due to continued advances in medical science and social conditions.

For insurance contracts and investment contracts with discretionary participation features with fixed and guaranteed terms, the definition of estimates occurs in two stages. At inception of the contract, estimates of future deaths, surrender, exercise of policyholder options, investment returns and administrative expenses are made and form the assumptions used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty (adverse deviation) is added to these assumptions. These assumptions are "locked-in" for the duration of the contract. Subsequently, new estimates are made each year in order to determine whether the values of the liabilities so established are adequate in the light of these latest estimates. If the valuation of the liabilities is deemed adequate the assumptions are not altered. However, if the valuation of the liabilities is deemed inadequate, the assumptions underlying the valuation of the liabilities are altered ("unlocked") to reflect the latest estimates; no margin is added to the assumptions in this event.

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

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

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

MORBIDITY AND DISABILITY – For the individual and group life business in Switzerland internal tables are in place. In the individual life business, the internal disability rates are based on the Swiss Insurance Association statistics and reflect the average situation of the past in the Swiss market. In the individual life business, only reactivation is

considered, whereas increased mortality is also taken into account in group life business. In the individual life business, disability tables are usually reviewed every five years when new statistics from the Swiss Insurance Association become available.

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

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

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

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

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

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

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

IMPAIRMENT OF GOODWILL

Goodwill is tested for impairment annually (in autumn), or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The recoverable amounts of the business relating to the goodwill have been determined based on value-in-use calculations. These calculations require the use of estimates which are set out in note 18.

DEFINED BENEFIT LIABILITIES

The Swiss Life Group uses certain assumptions relating to the calculation of the defined benefit liabilities. These assumptions comprise the expected return on plan assets as well as future salary increases and future pension increases which have been derived from estimates based on past experience. The expected return on the plan assets takes into consideration the investment policy relating to the assets and their projected returns.

The assumptions are set out in note 24.

INCOME TAXES

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

PROVISIONS

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

4 Segment Information

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

Due to an internal reorganisation with effect from 1 January 2011 the composition of the reportable segments changed. “Insurance Other” has been renamed as “Insurance International” and now comprises all the cross-border insurance operations. Payment protection insurance now operates on a run-off basis and is included in the segment “Other”. The corresponding information for the statement of income for the year ended 31 December 2010 and the balance sheet as at 31 December 2010 was restated.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies section. Inter-segmental services and transfers of assets and liabilities are treated as if the transactions were with third parties, i.e. at market prices applicable at the time of the transaction.

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

The reportable segments have been identified based on information about the components of the entity that management uses to make decisions about operating matters.

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

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

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

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

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

"Investment Management" refers to the management of assets for institutional clients and the Group's insurance business, as well as the provision of expert advice for such clients.

"AWD" comprises the Hanover-based AWD Group, which was acquired by the Swiss Life Group on 19 March 2008. The AWD Group specialises in comprehensive financial advisory services for medium and high-income client segments.

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

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

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

In CHF million	Insurance Switzer- land	Insurance France	Insurance Germany	Insurance Inter- national	Invest- ment Manage- ment	AWD	Other	Total before elim- inations	Elimi- nations	Total
INCOME										
Premiums earned on insurance contracts	6 831	2 740	1 814	48	-	-	47	11480	-24	11 456
Premiums earned on investment contracts with discretionary participation	513	10	-	-	-	-	-	523	-	523
Premiums ceded to reinsurers	-26	-171	-20	-8	-	-	-25	-250	24	-226
Net earned premiums	7 318	2 579	1 794	40	-	-	22	11753	0	11 753
Policy fees earned on insurance contracts	16	25	-	0	-	-	-	41	-	41
Policy fees earned on investment and unit-linked contracts	31	120	20	86	-	-	-	257	-	257
Net earned policy fees	47	145	20	86	-	-	-	298	-	298
Commission income	7	89	34	12	268	756	10	1176	-254	922
Investment income	2 763	704	741	31	1	2	29	4271	-29	4 242
Net gains/losses on financial assets	-4 636	41	200	37	-1	-5	-66	-4430	-	-4 430
Net gains/losses on financial instruments at fair value through profit or loss	4 185	25	51	-36	-	0	25	4250	-	4 250
Net gains/losses on investment property	200	108	-2	-	-	-	0	306	-	306
Other income	487	6	5	-3	1	7	4	507	-4	503
TOTAL INCOME	10 371	3 697	2 843	167	269	760	24	18131	-287	17 844
of which inter-segment	43	-1	-4	-6	182	41	32	287	-287	
EXPENSES										
Benefits and claims under insurance contracts	-8 095	-2 188	-1 974	-23	-	-	-15	-12 295	6	-12 289
Benefits and claims under investment contracts with discretionary participation	-528	-15	-	-	-	-	-	-543	-	-543
Benefits and claims recovered from reinsurers	14	103	5	2	-	-	10	134	-6	128
Net insurance benefits and claims	-8 609	-2 100	-1 969	-21	-	-	-5	-12 704	0	-12 704
Policyholder participation	-429	-251	-378	-18	-	-	-1	-1 077	4	-1 073
Interest expense	-91	-183	-20	-16	0	-2	-1	-313	2	-311
Commission expense	-264	-365	-91	-36	-29	-457	-10	-1 252	244	-1 008
Employee benefits expense	-251	-188	-94	-60	-90	-118	-13	-814	-2	-816
Depreciation and amortisation expense	-139	-254	-152	-7	-1	-40	-1	-594	-	-594
Impairment of property and equipment and intangible assets	-3	-	-2	-	-	0	-	-5	-	-5
Other expenses	-94	-274	-35	-36	-46	-100	-17	-602	11	-591
TOTAL EXPENSES	-9 880	-3 615	-2 741	-194	-166	-717	-48	-17 361	259	-17 102
of which inter-segment	-137	-5	-50	-42	-17	-1	-7	-259	259	
SEGMENT RESULT	491	82	102	-27	103	43	-24	770	-28	742
of which inter-segment	-94	-6	-54	-48	165	40	25	28	-28	
Unallocated corporate costs										-48
RESULT FROM OPERATIONS										694
Borrowing costs	-107	0	-5	-6	-	-	-14	-132	28	-104
Share of results of associates	1	3	0	-	0	-	2	6	-	6
Income tax expense										-36
NET RESULT										560
Additions to non-current assets	857	65	224	11	1	7	1	1 166	-	1 166

BALANCE SHEET AS AT 31 DECEMBER 2010

In CHF million	Insurance Switzer- land	Insurance France	Insurance Germany	Insurance Inter- national	Invest- ment Manage- ment	AWD	Other	Total before elim- inations	Elimi- nations	Total
ASSETS										
Cash and cash equivalents	2 790	950	175	2 445	65	118	397	6 940	0	6 940
Derivatives	2 803	32	102	4	-	-	43	2 984	-19	2 965
Assets held for sale	94	-	0	-	-	-	-	94	-	94
Financial assets at fair value through profit or loss	2 494	6 499	933	13 402	-	9	58	23 395	-	23 395
Financial assets available for sale	40 184	12 091	4 319	759	30	-	567	57 950	-	57 950
Loans and receivables	17 197	1 629	10 993	59	109	170	593	30 750	-1 037	29 713
Financial assets held to maturity	3 726	1 462	38	3	-	-	-	5 229	-	5 229
Financial assets pledged as collateral	279	781	-	-	-	-	-	1 060	-	1 060
Investment property	11 893	1 399	847	-	-	-	3	14 142	-	14 142
Reinsurance assets	31	278	29	2	-	-	32	372	-7	365
Property and equipment	285	142	68	1	2	54	17	569	-	569
Intangible assets including intangible insurance assets	929	491	1 287	188	0	1 083	4	3 982	-	3 982
Other assets	620	23	2	1	21	2	3	672	-96	576
SEGMENT ASSETS	83 325	25 777	18 793	16 864	227	1 436	1 717	148 139	-1 159	146 980
Investments in associates										63
Income tax assets										160
TOTAL ASSETS										147 203
LIABILITIES AND EQUITY										
LIABILITIES										
Derivatives	447	35	16	0	-	-	19	517	-19	498
Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	1 228	312	417	15 614	-	-	-	17 571	-	17 571
Investment contracts	1 104	9 537	127	511	-	-	-	11 279	-	11 279
Other financial liabilities	7 201	2 892	530	190	26	257	225	11 321	-401	10 920
Insurance liabilities	62 907	10 991	16 173	200	-	-	60	90 331	-26	90 305
Policyholder participation liabilities	2 359	438	617	22	-	-	2	3 438	-2	3 436
Employee benefit liabilities	1 905	64	37	7	36	-	0	2 049	-	2 049
Provisions	25	21	20	4	6	53	2	131	-	131
Other liabilities	256	38	0	2	2	49	1	348	-29	319
SEGMENT LIABILITIES	77 432	24 328	17 937	16 550	70	359	309	136 985	-477	136 508
Borrowings										2 142
Income tax liabilities										1 116
EQUITY										7 437
TOTAL LIABILITIES AND EQUITY										147 203

PREMIUMS AND POLICY FEES FROM EXTERNAL CUSTOMERS

In CHF million	Net earned premiums		Net earned policy fees	
	2011	2010	2011	2010
LIFE				
Individual life	3 620	4 031	287	288
Group life	7 584	7 309	8	10
TOTAL LIFE	11 204	11 340	295	298
NON-LIFE				
Accident and health	13	15	–	–
Property, casualty and other	382	398	–	–
TOTAL NON-LIFE	395	413	–	–
TOTAL	11 599	11 753	295	298

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

In CHF million	Total income		Non-current assets	
	2011	2010	31.12.2011	31.12.2010
Switzerland	10 792	10 466	13 305	12 282
France	3 342	3 695	2 077	1 869
Germany	2 784	3 292	2 336	2 327
Liechtenstein	47	48	169	172
Luxembourg	176	157	57	38
Other countries	150	186	4	3
TOTAL	17 291	17 844	17 948	16 691

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

5 Risk Management Policies and Procedures

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

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

The risk appetite for the largest operations in the insurance business is defined with the help of local risk budgets which are used as a basis for the determination of the individual risk limits. These limits are used as a framework for the asset and liability management process, the objective of which is to define a strategic asset allocation. From this strategic asset allocation a scenario-based expected return is calculated which forms the basis for the mid-term planning of the Group.

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

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

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

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

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

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

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

In CHF million			
	Notes	31.12.2011	31.12.2010
Cash and cash equivalents		2 446	2 333
Financial assets at fair value through profit or loss			
Debt securities	10	6 083	5 848
Equity securities	10	3 311	3 054
Investment fund units	10	9 150	8 656
Other	10	1 356	1 384
TOTAL ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS		22 346	21 275

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

In CHF million			
	Notes	31.12.2011	31.12.2010
Unit-linked contracts	10	18 216	17 259
Investment contracts	20	2 828	2 788
Insurance liabilities	23	1 108	961
TOTAL LIABILITIES LINKED TO ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS		22 152	21 008

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							
	Notes	For the account and risk of the Swiss Life Group		For the account and risk of the Swiss Life Group's customers		Total	
		2011	2010	2011	2010	2011	2010
Investment income	8	4 216	4 242	0	0	4 216	4 242
Net gains/losses on financial assets	8	515	-4 465	35	35	550	-4 430
Net gains/losses on financial instruments at fair value through profit or loss (FVPL)	8	-803	4 249	-17	1	-820	4 250
Net gains/losses on investment property		513	306	-	-	513	306
Share of results of associates		6	6	-	-	6	6
FINANCIAL RESULT		4 447	4 338	18	36	4 465	4 374

5.2 RISK BUDGETING AND LIMIT SETTING

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

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

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

5.3 ASSET AND LIABILITY MANAGEMENT (ALM)

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

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

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

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

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

The liabilities are largely predefined in terms of amount and timing of the payments and the associated assumptions are regularly reviewed. The corresponding asset portfolios mainly comprise fixed-income instruments. This way, the impact of interest rate fluctuations and the risk capital consumption are strategically optimised under a risk/return point of view, thus ensuring that the policyholders receive the benefits consistent with their products. Policyholders benefit from the ensuing investment returns in the form of discretionary participation, while shareholders benefit from an increase in the value of their investment in the Swiss Life Group.

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

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

DISTRIBUTION POLICY – The distribution policy seeks to align the interests of the different groups of stakeholders. Holders of traditional life insurance policies favour a guaranteed minimum interest rate coupled with regular and appropriate discretionary participation whereas shareholders place greater emphasis on returns commensurate with the level of risk they are exposed to. The focus of the Swiss Life Group lies on the sustainability of the business model and should balance the policyholders' and shareholders' expectations.

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

PRODUCT DESIGN – The targets of risk management are supported by product design principles. Product design defines which guarantees and benefits are built into a specific product to respond to the demand from and expectations of customers. The actuarial bases used for this purpose should ensure that each individual product generates a sufficient contribution margin. To ensure that the Group’s principles are observed, guidelines on product management and underwriting have been introduced to harmonise the local guidelines and to ensure that they are in line with the guidelines of the Group. As the Group’s insurance entities operate in a number of different countries, the local regulatory constraints may have an impact on the business units’ product range. These constraints must always be obeyed.

5.4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The risk budgeting and limit setting described above ensure that interest rate risk, equity price risk, currency risk and credit risk remain under control. The corresponding market risk capital, interest rate risk capital, currency risk capital and credit risk capital limits as well as exposure limits for currencies and net equity for each relevant insurance operation are defined based on the risk appetite. These limits are assessed and reported on a monthly basis.

HEDGING – The Swiss Life Group uses derivatives within the strict limits set by the applicable insurance legislation and by internal guidelines. Derivatives are primarily used to manage the exposure to equity securities, interest rates, counterparties and foreign exchange rates. The main instruments include index futures and option structures in stock markets, bond futures and swaps in order to manage duration, currency forwards in order to manage currency risk and credit default swaps in order to manage counterparty risk. Within certain limits, derivatives are used to enhance returns on the existing portfolio. The types of derivatives generally permitted for usage within the Swiss Life Group as well as the list of allowed over-the-counter trading partners have been approved by the Group Risk Committee.

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

INTEREST RATE RISK RELATING TO FINANCIAL INSTRUMENTS AND INSURANCE CONTRACTS – The Group’s primary interest rate exposure is to contracts with guaranteed benefits and the risk that the interest rates of the financial assets purchased with the consideration received from the contract holders is insufficient to fund the guaranteed benefits and expected discretionary participation payable to them.

INTEREST-SENSITIVE INSURANCE LIABILITIES

In CHF million

	CHF	EUR	Other	Total
CARRYING AMOUNTS AS AT 31 DECEMBER 2011				
Minimum guaranteed interest rate 0 - < 2%	13 158	4 614	1	17 773
Minimum guaranteed interest rate 2 - < 3%	29 103	4 560	4	33 667
Minimum guaranteed interest rate 3 - < 4%	17 828	7 754	57	25 639
Minimum guaranteed interest rate 4 - < 5%	0	7 354	32	7 386
Minimum guaranteed interest rate 5 - < 6%	-	3	4	7
TOTAL INTEREST-SENSITIVE INSURANCE LIABILITIES	60 089	24 285	98	84 472
Non-interest-sensitive insurance liabilities				7 785
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers				1 108
TOTAL INSURANCE LIABILITIES				93 365
CARRYING AMOUNTS AS AT 31 DECEMBER 2010				
Minimum guaranteed interest rate 0 - < 2%	11 937	2 834	1	14 772
Minimum guaranteed interest rate 2 - < 3%	27 243	5 398	4	32 645
Minimum guaranteed interest rate 3 - < 4%	18 616	8 854	66	27 536
Minimum guaranteed interest rate 4 - < 5%	339	8 071	29	8 439
Minimum guaranteed interest rate 5 - < 6%	-	6	5	11
Minimum guaranteed interest rate 6 - 8%	-	-	3	3
TOTAL INTEREST-SENSITIVE INSURANCE LIABILITIES	58 135	25 163	108	83 406
Non-interest-sensitive insurance liabilities				5 938
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers				961
TOTAL INSURANCE LIABILITIES				90 305

Most life insurance products with a savings component and investment contracts are subject to minimum guaranteed interest rates. The guaranteed rate differs according to the type of contract. In Switzerland for instance the minimum guaranteed interest rate for the occupational pensions segment (mandatory BVG savings account) stood at 2% in 2011 and will be reduced to 1.5% for 2012.

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

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

In addition to the strategic optimisation 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.

Regarding interest rate risk exposure existing on contracts with guaranteed benefits where the risk is that the interest rates earned on the assets are insufficient to fund the guaranteed payments, puttable bonds are used to counter the impact of increasing interest rates.

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

EQUITY PRICE RISK – A decline in the equity market may lead to a reduction of the Swiss Life Group's realised and unrealised gains/losses, which also negatively affects the Swiss Life Group's results of operations and financial condition.

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

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

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

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

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

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

Counterparty risk is managed through the holding of credit default swaps or credit default swap indices. A credit default swap provides insurance to the debt holder against a default of the debt issuer. It is traded over-the-counter

and itself underlies the collateral management process described above. The credit default swap index is a hedge on credit risk of a basket of counterparties and is an exchange-traded derivative.

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

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

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

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

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

MAXIMUM EXPOSURE TO CREDIT RISK

In CHF million	For the account and risk of the Swiss Life Group		For the account and risk of the Swiss Life Group's customers		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
DEBT SECURITIES						
Debt securities at fair value through profit or loss	1 906	964	6 083	5 848	7 989	6 812
Debt securities available for sale	64 883	53 908	–	–	64 883	53 908
Debt securities held to maturity	5 046	5 229	–	–	5 046	5 229
Debt securities pledged as collateral	969	1 060	–	–	969	1 060
Debt securities classified as loans	8 608	9 498	–	–	8 608	9 498
TOTAL DEBT SECURITIES	81 412	70 659	6 083	5 848	87 495	76 507
LOANS AND RECEIVABLES						
Mortgages	5 123	5 167	–	–	5 123	5 167
Policy and other originated loans	1 708	953	–	–	1 708	953
Note loans	8 176	8 990	–	–	8 176	8 990
Receivables	3 587	5 105	–	–	3 587	5 105
TOTAL LOANS AND RECEIVABLES	18 594	20 215	–	–	18 594	20 215
OTHER ASSETS						
Cash and cash equivalents	2 638	4 607	2 446	2 333	5 084	6 940
Derivatives	1 318	2 965	–	–	1 318	2 965
Reinsurance assets	380	365	–	–	380	365
TOTAL OTHER ASSETS	4 336	7 937	2 446	2 333	6 782	10 270
UNRECOGNISED ITEMS						
Financial guarantees	130	354	–	–	130	354
Loan commitments	119	107	–	–	119	107
TOTAL UNRECOGNISED ITEMS	249	461	–	–	249	461
TOTAL EXPOSURE TO CREDIT RISK	104 591	99 272	8 529	8 181	113 120	107 453

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

CREDIT RISK MITIGATION – COLLATERAL HELD AS SECURITY AND OTHER CREDIT ENHANCEMENTS

In CHF million							
	Debt securities	Loans and receivables	Cash and cash equivalents	Derivatives (assets)	Reinsurance assets	Financial guarantees and loan commitments	Total
31 DECEMBER 2011							
Secured by							
cash collateral	–	–	–	1 269	70	–	1 339
securities collateral	–	994	–	8	207	161	1 370
mortgage collateral	7 707	8 255	–	–	–	85	16 047
other collateral	–	341	–	–	–	3	344
guarantees/letters of credit	2 845	1 319	149	–	–	–	4 313
netting agreements	–	90	–	–	–	–	90
Without credit enhancements							
Governments and supranationals	37 599	3 783	594	–	–	–	41 976
Other	33 261	3 812	1 895	41	103	–	39 112
TOTAL	81 412	18 594	2 638	1 318	380	249	104 591
31 DECEMBER 2010							
Secured by							
cash collateral	–	–	–	2 831	60	–	2 891
securities collateral	–	369	1 400	76	205	133	2 183
mortgage collateral	5 819	8 352	–	–	–	58	14 229
other collateral	–	363	–	–	–	–	363
guarantees/letters of credit	24	1 583	474	–	–	–	2 081
netting agreements	–	77	252	–	–	–	329
Without credit enhancements							
Governments and supranationals	35 892	4 697	526	–	–	–	41 115
Other	28 924	4 774	1 955	58	100	270	36 081
TOTAL	70 659	20 215	4 607	2 965	365	461	99 272

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

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

EXPOSURE TO CREDIT RISK OF DEBT INSTRUMENTS – CREDIT RATING BY CLASS AS AT 31 DECEMBER 2010

In CHF million								
	AAA	AA	A	BBB	Below BBB	Not rated	Past due or impaired	Total
DEBT SECURITIES								
Supranational	1 492	12	277	77	–	–	–	1 858
Governments	25 738	2 799	2 564	421	137	14	–	31 673
Sovereign	341	682	536	590	213	–	–	2 362
Covered/guaranteed	4 454	529	612	170	44	34	–	5 843
Corporates	1 327	5 187	12 596	7 308	2 271	85	7	28 781
Other	135	2	2	2	–	0	1	142
TOTAL DEBT SECURITIES	33 487	9 211	16 587	8 568	2 665	133	8	70 659
MORTGAGES								
Commercial	–	–	–	–	–	2 666	24	2 690
Residential	–	–	–	–	–	2 445	32	2 477
TOTAL MORTGAGES	–	–	–	–	–	5 111	56	5 167
OTHER LOANS AND RECEIVABLES								
Policy and other originated loans	153	126	377	20	–	276	1	953
Note loans	5 945	1 692	1 256	97	–	–	–	8 990
Receivables	145	233	268	33	3	4 390	33	5 105
TOTAL OTHER LOANS AND RECEIVABLES	6 243	2 051	1 901	150	3	4 666	34	15 048

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

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

FINANCIAL ASSETS PAST DUE (NOT IMPAIRED) – AGE ANALYSIS AS AT 31 DECEMBER 2010

In CHF million					
	Up to 3 months	3-6 months	6-12 months	More than 1 year	Total
MORTGAGES					
Commercial	-	2	-	-	2
Residential	11	13	1	4	29
TOTAL	11	15	1	4	31

FINANCIAL ASSETS INDIVIDUALLY DETERMINED AS IMPAIRED

In CHF million	Gross amount		Impairment losses		Carrying amount	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
DEBT SECURITIES						
Governments	52	-	-41	-	11	-
Corporates	78	83	-75	-76	3	7
Other	493	508	-493	-507	0	1
TOTAL	623	591	-609	-583	14	8
MORTGAGES						
Commercial	20	38	-14	-16	6	22
Residential	4	4	-1	-1	3	3
TOTAL	24	42	-15	-17	9	25
OTHER LOANS AND RECEIVABLES						
Policy and other originated loans	7	8	-7	-7	0	1
Receivables	39	41	-7	-8	32	33
TOTAL	46	49	-14	-15	32	34

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

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

FINANCIAL ASSETS INDIVIDUALLY DETERMINED AS IMPAIRED – IMPAIRMENT LOSS ALLOWANCE FOR THE YEAR 2010

In CHF million					
	Balance as at 1 January	Impairment losses recognised	Write-offs and disposals	Foreign currency translation differences	Balance as at end of period
DEBT SECURITIES					
Governments	11	-5	-6	0	-
Covered/guaranteed	16	-1	-15	0	-
Corporates	107	-1	-30	0	76
Other	546	0	-38	-1	507
TOTAL	680	-7	-89	-1	583
MORTGAGES					
Commercial	21	-2	-3	-	16
Residential	8	-1	-6	0	1
TOTAL	29	-3	-9	0	17
OTHER LOANS AND RECEIVABLES					
Policy and other originated loans	0	7	-	-	7
Receivables	5	5	-2	0	8
TOTAL	5	12	-2	0	15

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

EXPOSURE TO CREDIT RISK OF OTHER ASSETS

In CHF million

	AAA	AA	A	BBB	Below BBB	Not rated	Total
CREDIT RATING AS AT 31 DECEMBER 2011							
Cash and cash equivalents	883	334	1 207	96	0	118	2 638
Derivatives	185	30	900	1	–	202	1 318
Reinsurance assets	–	114	186	12	–	68	380
TOTAL	1 068	478	2 293	109	0	388	4 336

CREDIT RATING AS AT 31 DECEMBER 2010

Cash and cash equivalents	977	1 872	1 162	1	–	595	4 607
Derivatives	50	2 415	310	–	–	190	2 965
Reinsurance assets	–	300	5	–	–	60	365
TOTAL	1 027	4 587	1 477	1	–	845	7 937

EXPOSURE TO CREDIT RISK OF UNRECOGNISED ITEMS

In CHF million

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

CREDIT RATING AS AT 31 DECEMBER 2010

Financial guarantees	–	0	–	220	–	134	354
Loan commitments	–	–	–	–	–	107	107
TOTAL	–	0	–	220	–	241	461

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

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

Due to the limitations of the Swiss capital market with regard to liquidity, investments in Switzerland are also made in currencies other than the Swiss franc.

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

CURRENCY EXPOSURE AS AT 31 DECEMBER 2011

In CHF million

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

CURRENCY EXPOSURE AS AT 31 DECEMBER 2010

In CHF million

	CHF	EUR	USD	GBP	JPY	Other
BALANCE SHEET CURRENCY EXPOSURE						
Entities with functional currency CHF	–	14 342	11 699	2 685	111	2 769
Entities with functional currency EUR	8	–	446	55	0	154
HEDGING EFFECT						
Entities with functional currency CHF	–	-14 629	-10 894	-2 602	-131	-1 644
Entities with functional currency EUR	–	–	-564	–	–	-180

LIQUIDITY RISK – Liquidity risk is the risk that not enough cash resources may be available to pay obligations when due (primarily obligations arising from the insurance business and debt) at a reasonable cost. The Swiss Life Group is exposed to liquidity risk which primarily arises on calls on its cash resources from claims, amounts payable at maturity and surrenders arising from insurance and investment contracts. The Swiss Life Group faces the risk of not being able to refinance its debt obligations due to unexpected long-term market disruptions.

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

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

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

EXPOSURE TO LIQUIDITY RISK AS AT 31 DECEMBER 2011

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

EXPOSURE TO LIQUIDITY RISK AS AT 31 DECEMBER 2010

In CHF million	Cash flows						
	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	5-10 years	More than 10 years
FINANCIAL LIABILITIES							
Investment contracts with discretionary participation	8 314	25	45	241	1 925	1 952	4 127
Investment contracts without discretionary participation	177	0	26	102	22	11	17
Borrowings	2 142	-	-	220	1 628	823	-
Other financial liabilities	10 920	788	1 302	7 627	394	235	575
TOTAL	21 553	813	1 373	8 190	3 969	3 021	4 719
INSURANCE AND POLICYHOLDER PARTICIPATION LIABILITIES							
Insurance liabilities	89 344	235	270	3 082	7 333	13 275	65 149
Policyholder participation liabilities	3 436	23	9	860	1 715	127	702
TOTAL	92 780	258	279	3 942	9 048	13 402	65 851
GUARANTEES AND COMMITMENTS							
Financial guarantees	-	-	-	116	-	63	175
Capital commitments	-	534	-	-	272	0	-
Loan commitments	-	66	13	22	6	0	-
TOTAL	-	600	13	138	278	63	175

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

In CHF million	Current		Non-current		For the account and risk of the Swiss Life Group's customers		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
ASSETS								
Cash and cash equivalents	2 638	4 607	–	–	2 446	2 333	5 084	6 940
Derivatives	614	2 434	704	531	–	–	1 318	2 965
Assets held for sale	22	94	–	–	–	–	22	94
Financial assets at fair value through profit or loss	2 235	2 381	1 985	2 072	19 900	18 942	24 120	23 395
Financial assets available for sale	2 483	2 945	64 781	55 005	–	–	67 264	57 950
Loans and receivables	6 441	7 149	20 761	22 564	–	–	27 202	29 713
Financial assets held to maturity	174	178	4 872	5 051	–	–	5 046	5 229
Financial assets pledged as collateral	–	33	969	1 027	–	–	969	1 060
Investment property	–	–	15 445	14 142	–	–	15 445	14 142
Investments in associates	–	–	74	63	–	–	74	63
Reinsurance assets	323	304	57	61	–	–	380	365
Property and equipment	–	–	539	569	–	–	539	569
Intangible assets including intangible insurance assets	–	–	3 722	3 982	–	–	3 722	3 982
Current income tax assets	2	10	–	–	–	–	2	10
Deferred income tax assets	–	–	153	150	–	–	153	150
Other assets	401	407	134	169	–	–	535	576
TOTAL ASSETS	15 333	20 542	114 196	105 386	22 346	21 275	151 875	147 203
LIABILITIES								
Derivatives	563	282	623	216	–	–	1 186	498
Liabilities associated with assets held for sale	15	–	–	–	–	–	15	–
Financial liabilities at fair value through profit or loss	566	312	–	–	18 216	17 259	18 782	17 571
Investment contracts	325	439	8 205	8 052	2 828	2 788	11 358	11 279
Borrowings	1	125	2 623	2 017	–	–	2 624	2 142
Other financial liabilities	6 116	9 716	1 109	1 204	–	–	7 225	10 920
Insurance liabilities	3 504	3 586	88 753	85 758	1 108	961	93 365	90 305
Policyholder participation liabilities	1 562	893	3 588	2 543	–	–	5 150	3 436
Employee benefit liabilities	88	84	1 173	1 965	–	–	1 261	2 049
Current income tax liabilities	120	295	–	–	–	–	120	295
Deferred income tax liabilities	–	–	1 144	821	–	–	1 144	821
Provisions	70	67	80	64	–	–	150	131
Other liabilities	305	297	28	22	–	–	333	319
TOTAL LIABILITIES	13 235	16 096	107 326	102 662	22 152	21 008	142 713	139 766

5.5 INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

Insurance contracts are contracts under which one party (the insurer) agrees to compensate the other party (the policyholder) if a specified uncertain future event affects the policyholder. The Group's insurance entities neither generally accept nor generally deny insurance coverage to applicants, but ensure that all the insurance risks are identified and thoroughly assessed, and that the insurance premiums accurately reflect the risk taken. The amount of risk taken must be in line with the Group's strategy and risk policy, and must also meet the profitability targets.

NATURE OF INSURANCE RISK – When designing a new product or reviewing an existing one, care has to be taken that the product neither includes systemic risk nor provides incentives for adverse selection. The product should meet the market's needs. The Swiss Life Group generally favours transparent and simple product design with a reliable pricing basis with sufficient statistical data available. Insurance risk arises when biometric parameters deviate adversely from expectations. The uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts is due to the unpredictability of long-term changes in overall levels of mortality and disability, for instance. Furthermore, deviations from the expected outcome of a portfolio can also arise because of random fluctuations. The impact of random fluctuations depends on the extent of diversification within a portfolio of contracts, that is, on the size of the portfolio.

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

The nature of insurance risk can be summarised as follows:

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

In Switzerland, the Swiss occupational pensions (BVG) segment of the group life insurance business is a significant part of the Group's overall life insurance business. The BVG business provides an example of a minimum return guarantee. The guarantee takes the form of the right to convert an assured sum into a life annuity at a guaranteed conversion rate: The prevalent annuity conversion rate for the mandatory part of the BVG business is set at 6.9% for men (retirement age 65) and 6.85% for women (retirement age 64) for retirements in 2012 (6.95% for men and 6.9% for women for retirements in 2011). Under an amendment to the BVG legislation, which took effect on 1 January 2005, the rate will be reduced in stages to 6.8% by 2014.

With regard to mortality, morbidity and longevity risk the most important annuities payable and sums insured are as follows:

ANNUITIES PAYABLE PER ANNUM BY TYPE OF ANNUITY – INDIVIDUAL LIFE

In CHF million

	31.12.2011	31.12.2010
Life annuities – in payment	570	568
Life annuities – deferred	1 192	1 084
Annuities certain – in payment	16	17
Annuities certain – deferred	47	49
Disability income and other annuities – in payment	232	233
Disability income and other annuities – deferred	7 661	7 556
TOTAL INDIVIDUAL LIFE	9 718	9 507

ANNUITIES PAYABLE PER ANNUM BY TYPE OF ANNUITY – GROUP LIFE

In CHF million		
	31.12.2011	31.12.2010
Retirement annuities – in payment	605	562
Retirement annuities – deferred	432	422
Survivors' annuities – in payment	115	107
Survivors' annuities – deferred	2 144	2 110
Disability income and other annuities – in payment	403	404
Disability income and other annuities – deferred	14 311	14 176
TOTAL GROUP LIFE	18 010	17 781

LIFE BENEFITS INSURED BY TYPE OF INSURANCE – INDIVIDUAL LIFE

In CHF million		
	31.12.2011	31.12.2010
Whole life and term life	11 531	12 157
Disability lump-sum payment	20	22
Other	5 828	5 709
TOTAL INDIVIDUAL LIFE	17 379	17 888

LIFE BENEFITS INSURED BY TYPE OF INSURANCE – GROUP LIFE

In CHF million		
	31.12.2011	31.12.2010
Term life	73 247	71 413
Disability lump-sum payment	596	501
Other	988	1 085
TOTAL GROUP LIFE	74 831	72 999

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

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

UNDERWRITING STRATEGY – Underwriting is the process of selecting and classifying insurable risks. The underwriting strategy attempts to ensure that the risks underwritten are well diversified in terms of type of risk and level of insured benefits. Life insurance underwriting is performed to ensure that the premiums and the general conditions of the insurance policies are consistent with the risks to be insured. The first step in the underwriting process is to determine which individual risks can be accepted. The second step is to place the accepted risks into groups of roughly

equivalent levels of risk. Both processes must be conducted objectively and consistently. The Group sets limits for the acceptance of insurance coverage arising from new and renewal business. Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. The limits relate to sums at risk, maximum insured losses or present value of premiums at the contract or insured person level. Depending on the type of business and the limit exceeded, the new or renewed contract must be approved by a specific investment and risk committee or senior management. Contracts exceeding the set limits must be tested for profitability according to predefined procedures before approval. Certain contracts which include specific risks relating to derivatives or demographic risk factors for which no reliable data is available must be submitted for approval irrespective of the amount of coverage offered. Insurance coverage exceeding set limits is subject to regular internal reporting requirements. Additionally, it must be ensured that the underwriting practices are in line with local laws.

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

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

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

Claims arising from the accident and health business primarily cover refunds for medical treatment, daily allowances in the case of sick leave, annuities and long-term medical care. The most significant factors that could increase the overall liabilities in health insurance are the increase in the claim frequency due to an increase in the average age of the insured persons and negative economic and social factors. The insurance liabilities arising from accident and health insurance contracts must consider outstanding claims and claims incurred but not reported (IBNR). A large part of the insurance liabilities arising from these contracts relates to IBNR, and experience shows that health insurance contracts are sensitive to late reporting of claims (both number of claims and amounts).

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

DEVELOPMENT OF CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS

In CHF million	Estimate of ultimate claim costs by year of loss occurrence										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
At end of year of loss occurrence	437	445	435	396	496	448	362	408	337	329	n/a
1 year later	487	449	414	450	423	402	403	387	382	-	n/a
2 years later	454	423	437	409	393	371	323	333	-	-	n/a
3 years later	442	452	419	378	379	313	288	-	-	-	n/a
4 years later	470	555	371	359	315	288	-	-	-	-	n/a
5 years later	470	465	366	301	290	-	-	-	-	-	n/a
6 years later	450	435	308	283	-	-	-	-	-	-	n/a
7 years later	445	382	284	-	-	-	-	-	-	-	n/a
8 years later	378	353	-	-	-	-	-	-	-	-	n/a
9 years later	357	-	-	-	-	-	-	-	-	-	n/a
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	357	353	284	283	290	288	288	333	382	329	3 187
Cumulative payments to date	-324	-314	-247	-236	-245	-226	-218	-234	-225	-123	-2 392
LIABILITIES BEFORE DISCOUNTING	33	39	37	47	45	62	70	99	157	206	795
Effect of discounting	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES FOR THE CURRENT AND 9 PREVIOUS YEARS	33	39	37	47	45	62	70	99	157	206	795
Liabilities for prior years											165
TOTAL GROSS CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS											960

The development of claims under non-life insurance contracts comprises the non-life business in France. Garantie Assistance S.A., Paris, is no longer included in the figures above due to the reclassification to assets held for sale and associated liabilities in 2011.

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

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

REINSURANCE – Reinsurance is used to limit the Group's exposure to insurance risk. This does not, however, discharge the Group's liability as a primary insurer, and, if a reinsurer fails to pay a claim, the Group remains liable for the payments to the policyholder. A loss allowance would be recognised for any estimated unrecoverable reinsurance.

In addition, the Group holds substantial collateral under related reinsurance agreements in the form of deposited funds and securities. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented in the balance sheet as a component of the reinsurance assets.

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

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

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

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

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

Approximately 1.6% in terms of earned insurance premiums was ceded as at 31 December 2011 (2010: 1.9%).

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

Insurance risks are regularly reported to the Group Risk Committee.

SENSITIVITY ANALYSIS – The Swiss Life Group uses the market consistent embedded value (MCEV) following the guidelines of the European Insurance CFO Forum Market Consistent Embedded Value Principles¹, as one of the main management tools, for its sensitivity analysis with regard to insurance risk and market risk. From the shareholders' point of view, the embedded value serves as an indicator of the value of the existing insurance portfolios. It is composed of two components: the net asset value (NAV) attributable to shareholders and the value of in-force business (VIF). Future new business is not included.

The market consistent embedded value of the Swiss Life Group amounted to CHF 7.7 billion as at 31 December 2011 (2010: CHF 7.6 billion). Due to different valuation principles, changes in the embedded value are typically not reflected to the same extent in the consolidated balance sheet and consolidated statement of income of the Swiss Life Group and vice versa.

The market consistent embedded value calculations are based on economic scenarios which are calibrated to market conditions at valuation date. Best estimate assumptions were made regarding a number of factors, in particular asset allocation, policyholder participation, development of costs and claims, policyholder behaviour, mortality and morbidity. Business is assumed to be continuing at the same level (going concern) and the current cost ratios – adjusted for inflation – are thus assumed to hold good for the future as well. Future costs for maintaining classic solvency capital funded by the shareholders and which underpins the insurance business are charged to the MCEV. The Swiss Life Group calculates the embedded value for all its life and health insurance companies. All other companies are taken into account at their IFRS net asset value. As a consequence, embedded value sensitivities do not affect the value of these companies.

An analysis of sensitivity indicates to what extent the embedded value is affected by variations in risk factors. The analysis is based on changes in the assumptions used in the embedded value calculation whereby a specific risk factor is changed while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. In the event of a change in a specific risk factor, the effect of different allocations to policyholder participation as a consequence is considered in the analysis. The changes in a specific risk factor are applied to the entire projection period.

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

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

At 31 December 2011, if the longevity improvement parameter had increased by 5%, the embedded value would have been CHF 37 million lower (2010: CHF 28 million lower).

At 31 December 2011, if morbidity had been 5% higher, the embedded value would have been CHF 87 million lower (2010: CHF 78 million lower).

At 31 December 2011, if morbidity had been 5% lower, the embedded value would have been CHF 85 million higher (2010: CHF 81 million higher).

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

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

At 31 December 2011, if the interest rates had been 100 basis points higher, the embedded value would have been CHF 283 million higher (2010: CHF 473 million higher).

At 31 December 2011, if the interest rates had been 100 basis points lower, the embedded value would have been CHF 729 million lower (2010: CHF 824 million lower).

At 31 December 2011, if the swaption implied volatilities (interest rates) had been 25% higher, the embedded value would have been CHF 709 million lower (2010: CHF 247 million lower).

At 31 December 2011, if the swaption implied volatilities (interest rates) had been 25% lower, the embedded value would have been CHF 544 million higher (2010: CHF 397 million higher).

At 31 December 2011, if the market value of equity securities and property had been 10% higher, the embedded value would have been CHF 746 million higher (2010: CHF 723 million higher).

At 31 December 2011, if the market value of equity securities and property had been 10% lower, the embedded value would have been CHF 814 million lower (2010: CHF 808 million lower).

At 31 December 2011, if the equity securities and property implied volatilities had been 25% higher, the embedded value would have been CHF 243 million lower (2010: CHF 276 million lower).

At 31 December 2011, if the equity securities and property implied volatilities had been 25% lower, the embedded value would have been CHF 200 million higher (2010: CHF 227 million higher).

At 31 December 2011, if the euro had strengthened by 10% against the Swiss franc, the embedded value of the foreign life and health insurance companies would have been CHF 251 million higher (2010: CHF 254 million higher).

At 31 December 2011, if the euro had weakened by 10% against the Swiss franc, the embedded value of the foreign life and health insurance companies would have been CHF 251 million lower (2010: CHF 254 million lower).

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

6 Earnings per Share

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

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

In CHF million (if not noted otherwise)

	2011	2010
BASIC EARNINGS PER SHARE		
Net result attributable to equity holders of Swiss Life Holding	605	557
Weighted average number of shares outstanding	31 893 573	31 904 887
BASIC EARNINGS PER SHARE FOR THE NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF SWISS LIFE HOLDING (IN CHF)	18.97	17.46
DILUTED EARNINGS PER SHARE		
Net result attributable to equity holders of Swiss Life Holding	605	557
RESULT USED TO DETERMINE DILUTED EARNINGS PER SHARE	605	557
Weighted average number of shares outstanding	31 893 573	31 904 887
Adjustments (number of shares)		
Equity compensation plans	166 740	170 522
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	32 060 313	32 075 409
DILUTED EARNINGS PER SHARE FOR THE NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF SWISS LIFE HOLDING (IN CHF)	18.87	17.37

7 Premiums, Policy Fees and Deposits Received

WRITTEN PREMIUMS

In CHF million

	2011	2010
Direct	11 527	11 728
Assumed	262	252
GROSS WRITTEN PREMIUMS	11 789	11 980
Ceded	-191	-225
NET WRITTEN PREMIUMS	11 598	11 755

EARNED PREMIUMS

In CHF million

	2011	2010
Direct	11 528	11 727
Assumed	262	252
GROSS EARNED PREMIUMS	11 790	11 979
Ceded	-191	-226
NET EARNED PREMIUMS	11 599	11 753

WRITTEN POLICY FEES

In CHF million

	2011	2010
Direct	291	293
Assumed	0	4
GROSS WRITTEN POLICY FEES	291	297
Ceded	0	0
NET WRITTEN POLICY FEES	291	297

EARNED POLICY FEES

In CHF million

	2011	2010
Direct	295	294
Assumed	0	4
GROSS EARNED POLICY FEES	295	298
Ceded	0	0
NET EARNED POLICY FEES	295	298

Under the accounting principles adopted, deposits received under insurance and investment contracts for which deposit accounting is used are not recognised as income:

In CHF million		
	2011	2010
Gross written premiums and policy fees	12 080	12 277
Deposits received under insurance and investment contracts	5 063	7 914
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	17 143	20 191

8 Details of Certain Items in the Consolidated Statement of Income

COMMISSION INCOME

In CHF million		
	2011	2010
Brokerage commissions	634	716
Asset management commissions	123	96
Other commissions and fees	136	110
TOTAL COMMISSION INCOME	893	922

INVESTMENT INCOME

In CHF million			
	Notes	2011	2010
Interest income on financial assets held to maturity and available for sale		2 430	2 201
Interest income on loans and receivables		1 110	1 352
Other interest income		15	13
Dividend income on financial assets available for sale		75	111
Net income on investment property		586	565
TOTAL INVESTMENT INCOME	5	4 216	4 242

NET GAINS/LOSSES ON FINANCIAL ASSETS

In CHF million			
	Notes	2011	2010
Sale of			
financial assets available for sale	27	344	385
loans		140	17
Net gains/losses from sales		484	402
Impairment losses on			
debt securities available for sale	27	-57	4
equity securities available for sale	27	-87	-68
loans and receivables	13	-4	-9
Impairment losses on financial assets		-148	-73
Foreign currency gains/losses		214	-4 759
TOTAL NET GAINS/LOSSES ON FINANCIAL ASSETS	5	550	-4 430

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

In CHF million

	Notes	2011	2010
Interest rate derivatives		-45	42
Equity derivatives		-101	-32
Currency derivatives		-532	4 185
Other derivatives		0	-14
Financial assets designated as at fair value through profit or loss		-155	57
Financial liabilities designated as at fair value through profit or loss		30	11
Financial instruments for the account and risk of the Swiss Life Group's customers		-17	1
TOTAL NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	5	-820	4 250

OTHER INCOME

In CHF million

	2011	2010
Realised gains/losses on sales of subsidiaries and other assets	-1	15
Other foreign currency gains/losses	40	469
Other	6	19
TOTAL OTHER INCOME	45	503

NET INSURANCE BENEFITS AND CLAIMS

In CHF million

	2011	2010
Benefits and claims under insurance contracts		
Life benefits and claims paid, gross	9 728	9 451
Change in liability for future life policyholder benefits, gross	2 028	2 543
Non-life claims paid, gross	259	306
Change in reserve for non-life claims, gross	-7	-11
Benefits and claims recovered from reinsurers	-103	-128
Net benefits and claims under insurance contracts	11 905	12 161
Benefits and claims under investment contracts with discretionary participation		
Life benefits and claims paid, gross	437	164
Change in liability for future life policyholder benefits, gross	272	379
Benefits and claims recovered from reinsurers	-	-
Net benefits and claims under investment contracts with discretionary participation	709	543
TOTAL NET INSURANCE BENEFITS AND CLAIMS	12 614	12 704

INTEREST EXPENSE

In CHF million

	Notes	2011	2010
Interest expense on deposits		43	40
Interest expense on investment contracts	20	97	120
Interest expense on deposits under insurance contracts	23	100	118
Other interest expense		34	33
TOTAL INTEREST EXPENSE		274	311

COMMISSION EXPENSE

In CHF million

	2011	2010
Insurance agent and broker commissions	911	917
Asset management and banking commissions	52	49
Other commissions and fees	20	42
TOTAL COMMISSION EXPENSE	983	1 008

EMPLOYEE BENEFITS EXPENSE

In CHF million

	Notes	2011	2010
Wages and salaries		585	587
Social security		120	138
Defined benefit plans	24	84	72
Defined contribution plans		1	1
Other employee benefits		45	48
TOTAL EMPLOYEE BENEFITS EXPENSE		835	846

DEPRECIATION AND AMORTISATION EXPENSE

In CHF million

	Notes	2011	2010
Depreciation of property and equipment	17	30	35
Amortisation of present value of future profits (PVP)	18	1	1
Amortisation of deferred acquisition costs (DAC)	18	461	503
Amortisation of deferred origination costs (DOC)	18	27	14
Amortisation of other intangible assets	18	35	41
TOTAL DEPRECIATION AND AMORTISATION EXPENSE		554	594

OTHER EXPENSES

In CHF million

	2011	2010
Marketing and advertising	64	69
Information technology and systems	65	62
Rental, maintenance and repair	72	75
Professional services	174	183
Premium taxes and other non-income taxes	58	132
Other	97	88
TOTAL OTHER EXPENSES	530	609

Net gains/losses on financial instruments at fair value through profit or loss include interest and dividend income of CHF 79 million for the period ended 31 December 2011 (2010: CHF 48 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 2011 (2010: nil).

9 Derivatives

In CHF million	Fair value assets		Fair value liabilities		Contract/notional amount	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
CURRENCY DERIVATIVES						
Forward contracts	400	2 354	689	47	36 506	34 573
Swaps	-	-	3	-	939	-
Futures	-	2	-	-	-	25
Options (over-the-counter)	42	-	25	-	6 826	-
Options (exchange-traded)	-	51	-	83	-	5 478
TOTAL CURRENCY DERIVATIVES	442	2 407	717	130	44 271	40 076
INTEREST RATE DERIVATIVES						
Swaps	517	195	386	209	17 766	15 647
Futures	26	1	1	1	256	249
Options (over-the-counter)	105	47	15	-	1 947	1 061
Other	-	0	9	-	454	6
TOTAL INTEREST RATE DERIVATIVES	648	243	411	210	20 423	16 963
EQUITY/INDEX DERIVATIVES						
Forward contracts	-	32	-	34	-	544
Futures	0	3	7	3	147	287
Options (over-the-counter)	-	51	-	15	-	884
Options (exchange-traded)	228	222	51	105	2 962	7 257
Other	-	7	-	1	-	120
TOTAL EQUITY/INDEX DERIVATIVES	228	315	58	158	3 109	9 092
OTHER DERIVATIVES						
Derivatives embedded in insurance contracts	-	-	0	0	6	6
TOTAL OTHER DERIVATIVES	-	-	0	0	6	6
TOTAL DERIVATIVES	1 318	2 965	1 186	498	67 809	66 137
of which derivatives designated and accounted for as hedging instruments						
Derivatives designated as fair value hedges	0	11	2	3	117	822
Derivatives designated as cash flow hedges	239	2	63	-	6 497	25
Derivatives designated as net investment hedges	6	29	-	-	365	374

DERIVATIVES HELD FOR RISK MANAGEMENT

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

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

DERIVATIVES DESIGNATED AND ACCOUNTED FOR AS HEDGING INSTRUMENTS

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

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

In CHF million										
	Fair value assets		Fair value liabilities		Gains/losses on hedging instruments		Gains/losses on hedged items		Contract/notional amount	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Interest rate risk										
Interest rate swaps to hedge available-for-sale bond portfolios	-	-	-	-	-154	-17	154	16	-	-
Interest rate swaps to hedge note loans	-	-	-	3	-42	-3	40	4	-	518
Foreign currency risk										
Currency forwards to hedge investments in hedge funds	0	11	2	-	-4	33	4	-35	117	304
TOTAL DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES	0	11	2	3	-200	13	198	-15	117	822

In 2011 and 2010, the Group entered into interest rate swaps to hedge euro-denominated fixed-rate note loans carried at amortised cost against changes in the fair value attributable to interest rate risk. The fair value of the hedged assets was EUR 442 million as at 31 December 2010. In 2011 hedge accounting was discontinued with regard to the interest rate risk of fixed-rate loans.

Forward contracts are used as hedging instruments to protect investments in hedge funds against adverse movements in euro and US dollar exchange rates.

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

In CHF million										
		Fair value assets	Fair value liabilities	Amounts recognised in equity	Ineffectiveness recognised in profit or loss	Amounts transferred to the income statement	Contract/notional amount	Cash flows expected to occur (year)	Cash flows expected to affect profit or loss (year)	
									2011	2010
31 DECEMBER 2011										
Interest rate risk										
Forward starting swaps/bonds		239	63	175	-	-	6 497	2014-2016	2015-2045	
Foreign currency risk										
Currency futures		-	-	0	0	-2	-	2011	2011	
TOTAL DERIVATIVES DESIGNATED AS CASH FLOW HEDGES		239	63	175	0	-2	6 497	n/a	n/a	
31 DECEMBER 2010										
Foreign currency risk										
Currency futures		2	-	2	-	-	25	2011	2011	
TOTAL DERIVATIVES DESIGNATED AS CASH FLOW HEDGES		2	-	2	-	-	25	n/a	n/a	

In 2011, the Group entered into forward starting swaps and forward starting bonds to hedge the exposure to variability in interest cash flows arising on the highly probable purchase of bonds in order to achieve an adequate yield level for reinvestments.

In 2011 and 2010, the Group entered into futures to hedge the cash flows in euro arising from policy fees earned on investment and unit-linked contracts against foreign currency movements. In 2011, CHF 2 million was transferred to the income statement and was included in policy fees earned on investment and unit-linked contracts.

DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES

In CHF million	Fair value assets		Fair value liabilities		Amounts recognised in equity		Ineffectiveness recognised in profit or loss		Notional amount	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Currency forwards	6	29	-	-	9	44	0	-	365	374
Currency options	-	-	-	-	-	-	-	-	-	-
TOTAL DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES	6	29	-	-	9	44	0	-	365	374

In 2011 and 2010, the Group entered into a forward contract to hedge EUR 300 million of the investment in AWD Holding.

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

In CHF million	Notes	Designated as at fair value through profit or loss	
		31.12.2011	31.12.2010
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Debt securities		1 905	963
Money market instruments		1	1
Equity securities		785	554
Investment fund units – debt		780	1 294
Investment fund units – equity		605	1 301
Investment fund units – mixed		20	68
Private equity		11	13
Hedge funds		113	215
Commodity funds		-	44
Assets for the account and risk of the Swiss Life Group's customers	5	19 900	18 942
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		24 120	23 395
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS			
Unit-linked contracts	5	18 216	17 259
Share of net assets of investment funds attributable to minority unitholders		566	312
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		18 782	17 571

11 Financial Assets Available for Sale

In CHF million	Cost/amortised cost		Net unrealised gains/losses		Fair value (carrying amount)	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Debt securities	60 733	52 942	4 110	938	64 843	53 880
Money market instruments	40	28	–	–	40	28
Equity securities	493	1 537	44	38	537	1 575
Investment fund units – debt	148	266	2	–4	150	262
Investment fund units – equity	887	1 094	–45	67	842	1 161
Investment fund units – mixed	220	236	7	0	227	236
Private equity	368	355	30	0	398	355
Hedge funds	149	350	78	103	227	453
TOTAL FINANCIAL ASSETS AVAILABLE FOR SALE	63 038	56 808	4 226	1 142	67 264	57 950

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.

12 Financial Assets Pledged as Collateral

In CHF million	Notes	Carrying amount	
		31.12.2011	31.12.2010
Debt securities reclassified from			
financial assets available for sale		969	972
financial assets held to maturity	33	–	88
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL		969	1 060

Financial assets that have been sold under a repurchase agreement or lent under an agreement to return them, are not derecognised when substantially all the risks and rewards of ownership are retained by Swiss Life. If the transferee has the right to sell or repledge the financial assets given as collateral, they are reclassified in the balance sheet as financial assets pledged at their respective carrying amounts.

13 Loans and Receivables

In CHF million		Gross amount		Allowance for impairment losses		Cost/amortised cost (carrying amount)	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
LOANS	Notes						
Mortgages		5 147	5 192	-24	-25	5 123	5 167
Policy loans		330	360	-	-	330	360
Other originated loans		1 292	600	-7	-7	1 285	593
Note loans		8 176	8 990	-	-	8 176	8 990
Debt securities previously classified as available for sale		7 976	8 831	-31	-47	7 945	8 784
Debt securities designated as loans		663	714	-	-	663	714
Repurchase agreements		93	-	-	-	93	-
TOTAL LOANS	33	23 677	24 687	-62	-79	23 615	24 608
RECEIVABLES							
Insurance receivables		972	1 038	-23	-23	949	1 015
Receivables from reinsurers		136	132	-	-	136	132
Accrued income		1 758	1 682	-	-	1 758	1 682
Settlement accounts		172	1 658	-	-	172	1 658
Other		573	619	-1	-1	572	618
TOTAL RECEIVABLES	33	3 611	5 129	-24	-24	3 587	5 105
TOTAL LOANS AND RECEIVABLES		27 288	29 816	-86	-103	27 202	29 713

ALLOWANCE FOR IMPAIRMENT LOSSES

In CHF million		Individual evaluation of impairment		Collective evaluation of impairment		Total	
		2011	2010	2011	2010	2011	2010
LOANS							
Balance as at 1 January		70	108	9	-	79	108
Impairment losses		0	1	0	-	0	1
Write-offs and reclassifications		-17	-40	0	9	-17	-31
Foreign currency translation differences		0	1	-	-	0	1
BALANCE AS AT END OF PERIOD		53	70	9	9	62	79
RECEIVABLES							
Balance as at 1 January		8	5	16	15	24	20
Impairment losses		2	5	2	3	4	8
Write-offs		-3	-2	-1	0	-4	-2
Foreign currency translation differences		0	0	0	-2	0	-2
BALANCE AS AT END OF PERIOD		7	8	17	16	24	24
TOTAL ALLOWANCE FOR IMPAIRMENT LOSSES		60	78	26	25	86	103

Interest income accrued on impaired loans was CHF 1 million as at 31 December 2011 (2010: CHF 1 million). The Group's loan portfolio is monitored closely through the review of information such as debt service, annual reports and assessments. This information is evaluated in light of current economic conditions and other factors such as diversification of the property portfolio. This evaluation is part of the regular review to determine whether the allowance

for potential loan losses is warranted. Management believes that the allowance for loan losses is sufficient. However, management cannot predict with assurance the impact of future economic circumstances or how the mortgage and real estate portfolios would be affected by various economic circumstances.

As at 1 July 2008, certain financial assets were reclassified from financial assets available for sale to loans due to the disappearance of an active market. The financial assets reclassified primarily consist of corporate debt instruments and debt instruments relating to emerging markets. The fair value as at 1 July 2008 of the financial assets reclassified amounted to CHF 14 966 million. At the date of reclassification the effective interest rate ranged from 0.8% to 9.7%, and the amount of cash flows expected to be recovered was estimated at CHF 32 658 million. In 2008, unrealised losses of CHF 740 million were recognised in equity in respect of these assets.

Further details with regard to the financial assets reclassified are as follows:

DEBT SECURITIES PREVIOUSLY CLASSIFIED AS AVAILABLE FOR SALE

In CHF million

	2011	2010
Carrying amount as at 31 December	7 945	8 784
Fair value as at 31 December	8 680	9 687
Gains/losses that would have been recognised in equity if the assets had not been reclassified (excluding adjustments for income tax and policyholder participation)	-58	564
Gains/losses recognised in profit or loss (including impairment)	-19	-92
Interest income	490	633

14 Financial Assets Held to Maturity

In CHF million

	Notes	Gross amount		Allowance for impairment losses		Cost/amortised cost (carrying amount)	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Debt securities		5 046	5 229	-	-	5 046	5 229
Other		-	-	-	-	-	-
TOTAL FINANCIAL ASSETS HELD TO MATURITY	33	5 046	5 229	-	-	5 046	5 229

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

15 Investment Property

In CHF million			
	Notes	2011	2010
Balance as at 1 January		14 142	13 292
Additions		1 221	880
Capitalised subsequent expenditure		187	212
Classification as assets held for sale and other disposals		-594	-187
Gains/losses from fair value adjustments		513	306
Transfers from/to property and equipment	17	36	38
Foreign currency translation differences		-60	-399
BALANCE AS AT END OF PERIOD		15 445	14 142
Investment property consists of			
completed investment property		15 243	13 817
investment property under construction		202	325
TOTAL INVESTMENT PROPERTY		15 445	14 142

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

Rental income from investment property was CHF 751 million for the period ended 31 December 2011 (2010: CHF 718 million). Operating expenses arising from investment property that generated rental income stood at CHF 165 million for the period ended 31 December 2011 (2010: CHF 153 million). Operating expenses arising from investment property that did not generate rental income during the period stood at nil for the period ended 31 December 2011 (2010: CHF 0.1 million).

16 Investments in Associates

In CHF million			
		2011	2010
Balance as at 1 January		63	71
Additions		10	-
Classification as assets held for sale and other disposals		0	-2
Share of results		6	6
Dividends paid		-4	-3
Foreign currency translation differences		-1	-9
BALANCE AS AT END OF PERIOD		74	63

Goodwill relating to investments in associates is included in the carrying amount of investments in associates.

In 2011, the Swiss Life Group acquired a 25% share of Prigest, Paris.

INVESTMENTS IN ASSOCIATES: SUMMARISED FINANCIAL INFORMATION

Amounts in CHF million

	Assets	Liabilities	Net assets	Share of net assets	Revenues	Results	Share of results	Direct share
2011								
Crédit et services financiers (CRESERFI), Paris	241	107	134	45	50	7	3	33.4%
Technopark Immobilien, Zürich	103	58	45	15	14	4	1	33.3%
Other	42	20	22	14	43	6	2	n/a
TOTAL	386	185	201	74	107	17	6	n/a
2010								
Crédit et services financiers (CRESERFI), Paris	239	110	129	43	56	9	3	33.4%
Technopark Immobilien, Zürich	102	57	45	15	14	3	1	33.3%
Other	30	19	11	5	40	4	2	n/a
TOTAL	371	186	185	63	110	16	6	n/a

17 Property and Equipment

PROPERTY AND EQUIPMENT FOR THE YEAR 2011

In CHF million

	Notes	Land and buildings	Furniture and fixtures	Hardware	Other equipment	Total
COST						
Balance as at 1 January		720	61	48	8	837
Additions		18	1	10	4	33
Additions from business combinations	29	–	0	0	0	0
Classification as assets held for sale and other disposals		–2	–9	–7	–2	–20
Reclassifications and transfers to investment property	15	–44	–	–	6	–38
Revaluation in respect of transfers to investment property		16	–	–	–	16
Foreign currency translation differences		–8	–1	–1	0	–10
BALANCE AS AT END OF PERIOD		700	52	50	16	818
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January		–194	–35	–34	–5	–268
Depreciation		–16	–5	–7	–2	–30
Impairment losses		–	–5	–	–	–5
Classification as assets held for sale and other disposals		2	9	7	1	19
Reclassifications and transfers to investment property	15	5	–	–	–3	2
Foreign currency translation differences		2	1	0	0	3
BALANCE AS AT END OF PERIOD		–201	–35	–34	–9	–279
TOTAL PROPERTY AND EQUIPMENT AS AT END OF PERIOD		499	17	16	7	539
of which assets held under a finance lease		–	–	3	–	3
of which buildings in the course of construction		14	–	–	–	14

PROPERTY AND EQUIPMENT FOR THE YEAR 2010

In CHF million						
	Notes	Land and buildings	Furniture and fixtures	Hardware	Other equipment	Total
COST						
Balance as at 1 January		835	84	62	10	991
Additions		14	3	6	1	24
Classification as assets held for sale and other disposals		-28	-19	-14	-2	-63
Transfers from/to investment property	15	-45	-	-	-	-45
Revaluation in respect of transfers to investment property		3	-	-	-	3
Foreign currency translation differences		-59	-7	-6	-1	-73
BALANCE AS AT END OF PERIOD		720	61	48	8	837
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January		-197	-49	-43	-6	-295
Depreciation		-19	-6	-8	-2	-35
Impairment losses		0	-3	-	-	-3
Classification as assets held for sale and other disposals		5	18	14	2	39
Transfers to investment property	15	7	-	-	-	7
Foreign currency translation differences		10	5	3	1	19
BALANCE AS AT END OF PERIOD		-194	-35	-34	-5	-268
TOTAL PROPERTY AND EQUIPMENT AS AT END OF PERIOD		526	26	14	3	569
of which assets held under a finance lease		-	-	2	-	2

No borrowing costs were capitalised in property and equipment in 2011 and 2010.

18 Intangible Assets including Intangible Insurance Assets

In CHF million		
	31.12.2011	31.12.2010
Intangible insurance assets	1 817	2 033
Other intangible assets	1 905	1 949
TOTAL INTANGIBLE ASSETS	3 722	3 982

INTANGIBLE INSURANCE ASSETS

In CHF million	Present value of future profits from acquired insurance portfolios (PVP)		Deferred acquisition costs (DAC)		Deferred origination costs (DOC)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	Balance as at 1 January	16	20	1 986	2 299	31	19	2 033
Additions	2	-	389	441	55	29	446	470
Amortisation	-1	-1	-461	-503	-27	-14	-489	-518
Impairment	-2	-	-1	-2	-	-	-3	-2
Effect of shadow accounting	0	0	-139	-32	-	-	-139	-32
Foreign currency translation differences	0	-3	-31	-217	0	-3	-31	-223
BALANCE AS AT END OF PERIOD	15	16	1 743	1 986	59	31	1 817	2 033

PRESENT VALUE OF FUTURE PROFITS (PVP) – The present value of future profits relates to portfolios of insurance contracts and investment contracts with discretionary participation acquired in a business combination or transfer of portfolios. It relates to contracts acquired in Switzerland, Germany and France and is amortised in proportion to gross profits over the effective life of the acquired insurance and investment contracts.

DEFERRED ACQUISITION COSTS (DAC) – Certain acquisition costs relating to new and renewed insurance contracts and investment contracts with discretionary participation are deferred.

DEFERRED ORIGINATION COSTS (DOC) – These costs are recoverable and are directly attributable to securing the right for investment management services within investment contract policies. They relate to contracts in Luxembourg and Switzerland.

OTHER INTANGIBLE ASSETS

In CHF million	Notes	Goodwill		Customer relationships		Brands and other		Total	
		2011	2010	2011	2010	2011	2010	2011	2010
		COST							
Balance as at 1 January		1 745	1 947	316	370	230	261	2 291	2 578
Additions		-	-	-	-	20	21	20	21
Additions from business combinations	29	9	-	2	-	-	-	11	-
Classification as assets held for sale and other disposals		-	-	-	0	-8	-10	-8	-10
Foreign currency translation differences		-27	-202	-7	-54	-6	-42	-40	-298
BALANCE AS AT END OF PERIOD		1 727	1 745	311	316	236	230	2 274	2 291
ACCUMULATED AMORTISATION AND IMPAIRMENT									
Balance as at 1 January		-157	-157	-83	-63	-102	-120	-342	-340
Amortisation		-	-	-29	-32	-6	-9	-35	-41
Impairment losses		-	-	-2	-	-1	-	-3	-
Classification as assets held for sale and other disposals		-	-	-	0	8	7	8	7
Foreign currency translation differences		-	-	2	12	1	20	3	32
BALANCE AS AT END OF PERIOD		-157	-157	-112	-83	-100	-102	-369	-342
TOTAL OTHER INTANGIBLE ASSETS AS AT END OF PERIOD		1 570	1 588	199	233	136	128	1 905	1 949

GOODWILL— Goodwill represents the excess of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, if applicable, over the fair value of the assets and liabilities recognised at the date of acquisition. Goodwill includes amounts relating to both the Swiss Life Group’s interest and the non-controlling interest in the business acquired in the case where non-controlling interest is measured at fair value. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on associates is included in the carrying amount of the investment.

In 2011, the Swiss Life Group acquired a majority share of Viveris REIM, Marseilles. The goodwill relating to this transaction amounted to CHF 9 million.

Goodwill relating to Lloyd Continental has been allocated to the “Insurance France” segment. Goodwill relating to CapitalLeben has been allocated to the “Insurance International” segment. Of the goodwill relating to other acquisitions, CHF 12 million (2010: CHF 12 million) has been allocated to the “Insurance France” segment and CHF 9 million (2010: nil) to the “Investment Management” segment as at 31 December 2011.

The calculations relating to the recoverable amounts, which have been determined on a value-in-use basis, use cash flow projections based on financial budgets approved by management. The projection covers a four-year period for Lloyd Continental. Due to the duration of the insurance and investment contracts a five-year period was used for CapitalLeben. The calculations for Lloyd Continental and CapitalLeben are based on present values that traditionally use a single set of estimated cash flows and a single discount rate.

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

In CHF million	Lloyd Continental		CapitalLeben		Other	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Net carrying amount of goodwill	287	287	149	149	21	12
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS						
Growth rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Discount rate	10.5%	10.7%	9.3%	9.6%	10.5%	10.7%

Goodwill relating to the acquisitions of AWD Holding AG and Deutsche Proventus AG has been allocated to the “Insurance Switzerland”, “Insurance Germany” and “AWD” segments.

The calculations relating to the recoverable amounts which have been determined on a value-in-use basis use cash flow projections based on financial budgets approved by management. The projection covers a three-year period for Insurance Switzerland and Insurance Germany and a five-year period for AWD. The calculations are based on present values that traditionally use a single set of estimated cash flows and a single discount rate. The key assumptions used for the impairment testing on the carrying amount of goodwill relating to AWD were as follows:

In CHF million	Insurance Switzerland		Insurance Germany		AWD	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Net carrying amount of goodwill	81	81	258	265	774	794
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS						
Growth rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Discount rate	9.3%	9.6%	10.5%	10.7%	9.4%	10.7%

No impairment losses were recognised in 2011 and 2010.

In 2011, the model used for the calculation of the recoverable amount of AWD has been refined and the discount rate has been adjusted to reflect lower interest rates, the current financing structure and the specific business model of AWD (i.e. 9.4%). No impairment loss of the goodwill allocated to the “AWD” segment would have been caused were the same discount rate to have been applied as for the Swiss Life insurance businesses in Germany (i.e. 10.5%). The headroom by which the recoverable amount exceeded the carrying amount of AWD amounted to approx. CHF 270 million as at 31 December 2011. If AWD were to achieve an annual growth rate on operating earnings before interest and taxes of approx. 6% over the next five years, the recoverable amount would equal the carrying amount as at 31 December 2011.

CUSTOMER RELATIONSHIPS – As at 31 December 2011 customer relationships comprise customer relationships relating to the “AWD” segment CHF 156 million (2010: CHF 186 million), “Insurance France” segment CHF 21 million (2010: CHF 25 million), “Insurance International” segment CHF 20 million (2010: CHF 22 million) and “Investment Management” segment CHF 2 million (2010: nil).

BRANDS AND OTHER – Consists of brands, trademarks, computer software and other intangible assets relating to AWD CHF 98 million (2010: CHF 103 million) and other CHF 38 million (2010: CHF 25 million) as at 31 December 2011.

19 Other Assets and Liabilities

OTHER ASSETS

In CHF million	31.12.2011	31.12.2010
Deferred charges and prepaid expenses	317	318
Employee benefit assets	134	168
Sundry assets	84	90
TOTAL OTHER ASSETS	535	576

OTHER LIABILITIES

In CHF million

	31.12.2011	31.12.2010
Deferred income	259	266
Sundry liabilities	74	53
TOTAL OTHER LIABILITIES	333	319

20 Investment Contracts

In CHF million

	Notes	31.12.2011	31.12.2010
Investment contracts with discretionary participation with deposit accounting		9 605	9 694
Investment contracts with discretionary participation with actuarial valuation		1 463	1 179
Investment contracts without discretionary participation at amortised cost	33	53	170
Investment contracts without discretionary participation at fair value through profit or loss		237	236
TOTAL INVESTMENT CONTRACTS		11 358	11 279
of which for the account and risk of the Swiss Life Group's customers			
investment contracts with discretionary participation		2 623	2 559
investment contracts without discretionary participation		205	229

INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION WITH DEPOSIT ACCOUNTING

In CHF million

	2011	2010
Balance as at 1 January	9 694	10 566
Deposits received	1 797	2 451
Interest credited	95	111
Participating bonuses	187	221
Policy fees	-108	-118
Deposits released	-1 188	-1 280
Reclassifications and other movements	-626	-501
Foreign currency translation differences	-246	-1 756
BALANCE AS AT END OF PERIOD	9 605	9 694

INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION WITH ACTUARIAL VALUATION

In CHF million

	Notes	2011	2010
Balance as at 1 January		1 179	820
Additions from acquisition of insurance portfolio	31	15	-
Savings premiums		684	521
Accretion of interest		25	21
Liabilities released for payments on death, surrender and other terminations during the year		-437	-164
Effect of changes in actuarial assumptions and other movements		0	2
Foreign currency translation differences		-3	-21
BALANCE AS AT END OF PERIOD		1 463	1 179

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

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

In the case of traditional contracts in the life insurance business, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of actuarial assumptions as to mortality, persistency, expenses and investment return, including a margin for adverse deviation. For participating contracts where the contribution principle applies to the allocation of the policyholder bonus, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest rate assumptions. These amounts relate to contracts issued in Switzerland and France.

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

INVESTMENT CONTRACTS WITHOUT DISCRETIONARY PARTICIPATION AT AMORTISED COST

In CHF million

	2011	2010
Balance as at 1 January	170	433
Deposits received	20	173
Interest credited	2	9
Policy fees	0	0
Deposits released	-136	-411
Other movements	-1	-1
Foreign currency translation differences	-2	-33
BALANCE AS AT END OF PERIOD	53	170

INVESTMENT CONTRACTS WITHOUT DISCRETIONARY PARTICIPATION AT FAIR VALUE THROUGH PROFIT OR LOSS

In CHF million

	2011	2010
Balance as at 1 January	236	270
Deposits received	16	12
Fair value changes	6	23
Policy fees	-2	-3
Deposits released	-20	-20
Other movements	6	-4
Foreign currency translation differences	-5	-42
BALANCE AS AT END OF PERIOD	237	236

21 Borrowings

In CHF million

	Notes	31.12.2011	31.12.2010
Hybrid debt		2 464	2 141
Bank loans		156	–
Other		4	1
TOTAL BORROWINGS	33	2 624	2 142

HYBRID DEBT

On 12 December 2011, Swiss Life AG repaid on the first call date a EUR 100 million subordinated step-up loan issued in 2001 and due in 2021.

On 4 April 2011, Swiss Life AG raised CHF 325 million with a placement of subordinated perpetual callable bonds guaranteed by Swiss Life Holding. CHF 75 million was additionally issued in June 2011 and CHF 100 million in October 2011. The bonds have no fixed maturity date but are first callable on 4 October 2016 or at each interest payment date thereafter at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed for the first five and a half years at 5.25% p.a. If the bonds are not redeemed on 4 October 2016, the interest resets at a rate fixed for the subsequent five years, consisting of the aggregate of the then prevailing five-year CHF swap rate and the initial margin of 3.551%.

On 12 April 2007, ELM B.V., a Dutch repackaging vehicle, issued EUR 700 million in fixed/floating rate subordinated perpetual notes at a price of par to finance loan notes granted to Swiss Life AG, which are guaranteed by Swiss Life Holding. Swiss Life AG may repay the loan notes in full on 12 April 2017 or on any interest payment date thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The notes bear interest from 12 April 2007 to 12 April 2017 at a rate of 5.849% p.a. If the notes are not redeemed on 12 April 2017, the interest will be the aggregate of Euribor 3-month deposits and a margin of 2.5%.

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

In March 1999, Swiss Life AG privately placed a subordinated perpetual step-up loan comprising three simultaneous advances of EUR 443 million (at a rate of interest of Euribor plus a margin of 1.05%, increasing by 100 basis points as from April 2009), CHF 290 million (at a rate of interest of Libor plus a margin of 1.05%, increasing by 100 basis points as from April 2009) and EUR 215 million (at a rate of interest of 5.3655%, as from October 2009 the rate of interest is the aggregate of Euribor plus a margin of 2.05%). In 2009, Swiss Life AG renounced the right to call the loan on its first call date. Swiss Life AG can next call the EUR 443 million floating rate loan and the CHF 290 million floating rate loan on 6 April 2014 and the EUR 215 million loan on 6 October 2014 or at five-year intervals thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority.

Amounts in CHF million (if not noted otherwise)							Carrying amount	Carrying amount
Issuer	Nominal value in year of issue	Nominal value at 31.12.2011	Interest rate	Year of issue	Optional redemption	31.12.2011	31.12.2010	
Swiss Life AG	CHF 500	CHF 500	5.250%	2011	2016	490	-	
Swiss Life AG ¹	EUR 700	EUR 590	5.849%	2007	2017	715	733	
Swiss Life AG ²	EUR 350	EUR 343	5.000%	2005	2015	412	421	
			Euribor					
Swiss Life AG	EUR 100	-	+1.750%	2001	2011	-	125	
			Euribor					
Swiss Life AG	EUR 443	EUR 443	+2.050%	1999	2014	538	553	
			Libor					
Swiss Life AG	CHF 290	CHF 290	+2.050%	1999	2014	290	290	
			Euribor					
Swiss Life AG	EUR 215	EUR 15	+2.050%	1999	2014	19	19	
TOTAL						2 464	2 141	

¹ Hybrid loan notes granted by ELM B.V.

² Hybrid bank loan originally granted by J.P. Morgan Bank Luxembourg S.A.

BANK LOANS

Bank loans relate to mortgage loans for newly acquired real estate.

Amounts in CHF million						Carrying amount	Carrying amount
Type	Currency	Interest rate	Maturity			31.12.2011	31.12.2010
Mortgage loan	CHF	3.165%	2016			156	-
TOTAL						156	-

22 Other Financial Liabilities

In CHF million				Notes	31.12.2011	31.12.2010
Insurance payables					2 452	2 451
Policyholder deposits					1 474	1 674
Amounts due to reinsurers					166	170
Demand deposits					864	984
Repurchase agreements					1 050	1 111
Amounts due to banks					464	2 783
Accrued expenses					211	196
Settlement accounts					81	1 065
Other					463	486
TOTAL OTHER FINANCIAL LIABILITIES				33	7 225	10 920

23 Insurance Liabilities and Reinsurance Assets

In CHF million	Gross		Reinsurance assets		Net	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Claims under non-life insurance contracts	960	998	196	203	764	795
Unearned premiums non-life	66	68	0	0	66	68
Claims under life insurance contracts	6 332	6 274	92	66	6 240	6 208
Future life policyholder benefits	80 172	77 173	92	95	80 080	77 078
Unearned premiums life	43	50	–	1	43	49
Deposits under insurance contracts	5 792	5 742	–	–	5 792	5 742
TOTAL INSURANCE LIABILITIES AND REINSURANCE ASSETS	93 365	90 305	380	365	92 985	89 940
of which for the account and risk of the Swiss Life Group's customers	1 108	961	–	–	1 108	961

UNEARNED PREMIUMS

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

CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS

In CHF million	2011	2010
BALANCE AS AT 1 JANUARY		
Gross claims under non-life insurance contracts	998	1 197
Less: reinsurance recoverable	–203	–228
NET CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS	795	969
CLAIMS AND CLAIM SETTLEMENT COSTS INCURRED		
Reporting period	344	381
Prior reporting periods	–76	–90
TOTAL CLAIMS AND CLAIM SETTLEMENT COSTS INCURRED	268	291
CLAIMS AND CLAIM SETTLEMENT COSTS PAID		
Reporting period	–144	–157
Prior reporting periods	–129	–158
TOTAL CLAIMS AND CLAIM SETTLEMENT COSTS PAID	–273	–315
Reclassifications and other disposals	–6	–
Foreign currency translation differences	–20	–150
BALANCE AS AT END OF PERIOD		
NET CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS	764	795
Plus: reinsurance recoverable	196	203
TOTAL GROSS CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS	960	998

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

CLAIMS UNDER LIFE INSURANCE CONTRACTS

In CHF million		Gross		Reinsurance assets		Net	
	Notes	2011	2010	2011	2010	2011	2010
Balance as at 1 January		6 274	6 505	66	81	6 208	6 424
Additions from acquisition of insurance portfolio	31	146	–	12	–	134	–
Accretion of interest		102	110	1	1	101	109
Claims incurred, benefits paid and surrenders		–72	–72	17	–2	–89	–70
Effect of changes in actuarial assumptions and other movements		–69	89	–2	–2	–67	91
Foreign currency translation differences		–49	–358	–2	–12	–47	–346
BALANCE AS AT END OF PERIOD		6 332	6 274	92	66	6 240	6 208

Claims under life insurance contracts represent the liability for unpaid portions of claims incurred. It includes an estimate of the liability for claims incurred but not reported (IBNR). The measurement at reporting date is a best estimate of ultimate future claim payments.

FUTURE LIFE POLICYHOLDER BENEFITS

In CHF million		Gross		Reinsurance assets		Net	
	Notes	2011	2010	2011	2010	2011	2010
Balance as at 1 January		77 173	78 528	95	101	77 078	78 427
Additions from acquisition of insurance portfolio	31	1 459	–	–	–	1 459	–
Savings premiums		7 329	7 250	36	143	7 293	7 107
Accretion of interest		1 923	1 966	1	1	1 922	1 965
Claims incurred, benefits paid and surrenders		–8 182	–7 738	–50	–246	–8 132	–7 492
Effect of changes in actuarial assumptions and other movements		998	938	11	108	987	830
Foreign currency translation differences		–528	–3 771	–1	–12	–527	–3 759
BALANCE AS AT END OF PERIOD		80 172	77 173	92	95	80 080	77 078

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

The valuation of other long-duration contracts is also based on the net-level-premium method with actuarial assumptions as to mortality, persistency, expenses and investment returns including provisions for adverse deviation.

DEPOSITS UNDER INSURANCE CONTRACTS

In CHF million

	2011	2010
Balance as at 1 January	5 742	5 947
Deposits received	282	390
Interest credited	100	118
Participating bonuses	27	38
Policy fees and insurance charges	-35	-39
Deposits released for payments on death, surrender and other terminations during the year	-582	-666
Reclassifications and other disposals	370	724
Foreign currency translation differences	-112	-770
BALANCE AS AT END OF PERIOD	5 792	5 742

For investment-type contracts with significant insurance risk, savings premiums collected are reported as deposits (deposit accounting).

INSURANCE LIABILITIES WITH AND WITHOUT DISCRETIONARY PARTICIPATION

In CHF million

	31.12.2011	31.12.2010
Insurance liabilities with discretionary participation	81 943	79 306
Insurance liabilities without discretionary participation	10 314	10 038
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers	1 108	961
TOTAL INSURANCE LIABILITIES	93 365	90 305

24 Employee Benefits

EMPLOYEE BENEFIT LIABILITIES

In CHF million

	31.12.2011	31.12.2010
Employee benefit liabilities consist of		
gross defined benefit liabilities	1 173	1 965
other long-term employee benefit liabilities	0	0
other employee benefit liabilities	88	84
TOTAL EMPLOYEE BENEFIT LIABILITIES	1 261	2 049

DEFINED BENEFIT PLANS

Employees are covered under various funded and unfunded pension plans. When a third party will reimburse some or all of the expenditure for employee benefits and the rights to reimbursement do not qualify as plan assets, they are treated as a separate asset rather than as a deduction from the obligation. In all other respects the treatment is the same as for plan assets. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. Benefits are based on the employee's credited years of service and average compensation in the years preceding retirement. Annual funding requirements are determined based on actuarial methods or local requirements.

Due to the requirements of IFRS 4 Insurance Contracts in combination with IAS 19 Employee Benefits, insurance contracts issued to defined benefit plans covering own employees are eliminated. Insurance contracts issued to defined benefit plans covering own employees have been issued in Switzerland and France. Certain assets relating to these plans qualify as plan assets and are therefore not eliminated. To the extent these plans are not funded by amounts included in the plan assets, the defined benefit liabilities are backed by the investments relating to the eliminated insurance contracts. These investments are part of the investments presented in the consolidated balance sheet of the Swiss Life Group.

The net asset/liability position does not incorporate any reimbursement rights.

The major part of the defined benefit liability arises from plans covering employees in Switzerland. The primary benefit of those plans is an old-age pension paid out after reaching retirement age. There are options for early retirement (with reduction of the pension amount determined with actuarial methods) and for choosing to receive a lump-sum payment instead of a pension. Other benefits comprise survivors'/orphans' pensions in case of death as well as disability pensions (if disabled before retirement age). The plans are funded by the employer through ordinary contributions determined 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.

In September 2010, the Swiss Life Group announced an amendment of the terms of two major defined benefit plans in Switzerland. The amendments mainly relate to old-age pension benefits that changed from benefit-oriented to contribution-oriented, changes in the level of certain long-term death and disability benefits, and to a reduction in benefits for early retirements. The curtailment gain in 2010 amounted to CHF 39 million. In January 2011, CHF 684 million in cash was transferred from the Swiss Life Group to these defined benefit plans. This amount is included in the contribution by the employer. The investment risks are now borne by the plan participants themselves whereas mortality and disability risks are still reinsured with the Swiss Life Group.

The contributions expected to be paid for the year ending 31 December 2012 are CHF 56 million. These contributions include amounts payable under insurance contracts issued to defined benefit plans covering own employees.

AMOUNTS RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

In CHF million

	31.12.2011	31.12.2010
Present value of defined benefit obligation	-2 646	-2 370
Fair value of plan assets	1 059	289
Unrecognised actuarial gains (-)/losses (+)	547	284
NET DEFINED BENEFIT ASSET (+)/LIABILITY (-)	-1 040	-1 797
The net defined benefit asset/liability consists of		
gross defined benefit liabilities	-1 173	-1 965
gross defined benefit assets	133	168
Amount of insurance contracts not included in plan assets	1 393	2 137

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF INCOME

In CHF million

	2011	2010
Current service cost	71	69
Interest cost	63	73
Expected return on plan assets	-35	-11
Net actuarial gains (-)/losses (+)	9	4
Employee contributions	-24	-24
Effect of curtailments or settlements	-	-39
TOTAL DEFINED BENEFIT EXPENSE	84	72
Actual return on plan assets (gains (-)/losses (+))	-31	-3

DEFINED BENEFIT PLANS

In CHF million

	2011	2010
CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		
Balance as at 1 January	-2 370	-2 385
Current service cost	-71	-69
Interest cost	-63	-73
Contributions by plan participants	-45	-95
Actuarial gains (+)/losses (-)	-268	-57
Benefits paid	167	230
Curtailments and settlements	-	45
Effect of reclassifications and other disposals	0	-
Foreign currency translation differences	4	34
BALANCE AS AT END OF PERIOD	-2 646	-2 370
CHANGES IN THE FAIR VALUE OF PLAN ASSETS		
Balance as at 1 January	289	296
Expected return on plan assets	35	11
Actuarial gains (+)/losses (-)	-4	-8
Contributions by the employer	749	37
Contributions by plan participants	44	-20
Benefits paid	-51	-10
Foreign currency translation differences	-3	-17
BALANCE AS AT END OF PERIOD	1 059	289
CATEGORIES OF PLAN ASSETS		
Equity instruments	237	103
Debt instruments	474	97
Property	188	-
Other assets	160	89
TOTAL PLAN ASSETS	1 059	289
Plan assets include		
own equity instruments	6	56

DEFINED BENEFIT PLANS

In CHF million

	2011	2010	2009	2008	2007
HISTORICAL INFORMATION					
Present value of defined benefit obligation	-2 646	-2 370	-2 385	-2 292	-2 320
Fair value of plan assets	1 059	289	296	268	371
DIFFERENCE	-1 587	-2 081	-2 089	-2 024	-1 949
Experience adjustments on plan liabilities	-30	33	-23	5	18
Experience adjustments on plan assets	-1	-8	26	-108	-47

PRINCIPAL ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGES)

	2011	2010
Discount rate	2.7%	3.2%
Expected rate of return on plan assets	3.6%	3.9%
Future salary increases	1.6%	1.6%
Future pension increases	0.8%	0.8%

DEFINED CONTRIBUTION PLANS

Certain subsidiaries sponsor various defined contribution plans. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. The plans stipulate contributions by both employers and employees. The expenses under these plans amounted to CHF 1 million in 2011 (2010: CHF 1 million).

OTHER LONG-TERM EMPLOYEE BENEFITS

The liability for long-term employee benefits amounted to CHF 0.3 million as at 31 December 2011 (2010: CHF 0.1 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 0.05 million for the year ended 31 December 2011 (2010: CHF 0.05 million) arose as a result of early retirements.

EQUITY COMPENSATION PLANS

For 2008, 2009 and 2010, a share-based payment programme was established which gives the members of the Corporate Executive Board and other senior management members of the Swiss Life Group the right to receive a certain number of Swiss Life Holding shares (performance share units, PSUs) after three years of service if certain conditions are fulfilled. The number of the shares allocated depends on two criteria. One criterion is the performance of the share price of the Swiss Life Holding share during the vesting period of three years. The other criterion is the performance of the share price of the Swiss Life Holding share during the vesting period of three years compared to the performance of the Dow Jones STOXX 600 Insurance Index. For the PSUs issued in 2010, a maximum possible factor of 2.0 applies. For the PSUs issued in 2008 and 2009, the maximum possible factor is 1.5. No minimum possible factor is applied in 2008, 2009 and 2010 so that the number of PSUs could drop to zero after three years.

From 2011, participants in the share-based payment programme are allocated restricted share units (RSUs) instead of PSUs. As with PSUs, RSUs grant the holder future subscription rights, entitling him to receive Swiss Life Holding shares free of charge after a three-year period has elapsed and if certain conditions are fulfilled, but without additional performance leverage. The attribution of shares after the expiry of the three-year deferral period will be effected on a 1:1 basis (1 RSU = 1 share). The value of the RSUs during the three-year term develops linearly with the Swiss Life Holding share price and systematically corresponds with shareholder interests. The plan also provides for adjustment and reclaiming mechanisms (clawback).

In 2008, the number of PSUs granted under this programme amounted to 52 618. The fair value at the measurement date amounted to CHF 179.30. The date of grant was 1 April 2008.

In 2009, the number of PSUs granted under this programme amounted to 53 216. The fair value at the measurement date amounted to CHF 51.22. The date of grant was 1 April 2009.

In 2010, the number of PSUs granted under this programme amounted to 68 510. The fair value at the measurement date amounted to CHF 149.98. The date of grant was 1 April 2010.

In 2011, the number of RSUs granted under this programme amounted to 68 730. The fair value at the measurement date amounted to CHF 140.05. The date of grant was 1 April 2011.

The fair value of the PSUs and RSUs granted for each programme is determined at the grant date. The fair value was determined by an independent consulting company using the Black-Scholes formula and Monte Carlo simulations. The associated expense during the vesting period is recognised under employee benefits expense with a corresponding increase in share premium.

The expense recognised for share-based payment amounted to CHF 7 million in 2011 (2010: CHF 5 million).

SHARE-BASED PAYMENT PROGRAMMES (RESTRICTED SHARE UNITS)

Number of restricted share units	Balance as at 1 January	Issued	Employee departures	Vested	Balance as at end of period
2011					
Granted in 2011	–	68 730	–660	–	68 070

SHARE-BASED PAYMENT PROGRAMMES (PERFORMANCE SHARE UNITS)

Number of performance share units	Balance as at 1 January	Issued	Employee departures	Vested	Balance as at end of period
2011					
Granted in 2008	34 918	-	-2 229	-32 689	-
Granted in 2009	48 339	-	-4 811	-	43 528
Granted in 2010	68 510	-	-7 480	-	61 030
2010					
Granted in 2008	41 365	-	-6 447	-	34 918
Granted in 2009	51 301	-	-2 962	-	48 339
Granted in 2010	-	68 510	-	-	68 510
2009					
Granted in 2008	51 237	-	-9 872	-	41 365
Granted in 2009	-	53 216	-1 915	-	51 301
2008					
Granted in 2008	-	52 618	-1 381	-	51 237

OTHER BENEFITS

Related expenses in 2011 were CHF 9 million (2010: CHF 10 million).

25 Income Taxes**INCOME TAX EXPENSE**

In CHF million

	2011	2010
Current income tax expense	18	101
Deferred income tax expense	-39	-65
TOTAL INCOME TAX EXPENSE	-21	36

The expected weighted-average tax rate for the Group was 26.5% in 2011 (2010: 26.7%). This rate was derived by obtaining a weighted average of the expected income tax rates in the various jurisdictions in which the Group operates. The change of the weighted-average tax rate is due to the geographical allocation of the profits and the different tax rates in these jurisdictions. The actual income tax expense differs from the expected amount as follows:

RECONCILIATION OF INCOME TAX EXPENSE

In CHF million

	2011	2010
PROFIT BEFORE INCOME TAX	585	596
Income tax calculated using the expected weighted-average tax rate	155	159
Increase/reduction in taxes resulting from		
lower taxed income	-169	-277
non-deductible expenses	112	104
other income taxes (incl. withholding taxes)	20	15
change in unrecognised tax losses	28	40
adjustments for current tax of prior periods	-96	17
changes in tax rates	-41	0
intercompany effects	-26	-21
other	-4	-1
INCOME TAX EXPENSE	-21	36

In 2011, the Swiss Life Group realised a tax benefit of CHF 90 million due to the final assessment of the disposal of business activities in prior periods.

In 2011, a change in the tax rate in Switzerland led to a positive income tax effect of CHF 41 million.

In 2010, a positive one-off income tax effect amounting to CHF 87 million was realised due to a change in the French tax legislation. The intercompany effects in 2010 were based on tax grouping and intragroup income and expense.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

DEFERRED INCOME TAX ASSETS AND LIABILITIES

In CHF million	Deferred tax assets		Deferred tax liabilities	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Financial assets	155	149	552	192
Investment property	1	-	496	455
Intangible assets	56	34	279	308
Property and equipment	25	28	3	3
Financial liabilities	15	13	11	19
Insurance liabilities	56	55	62	60
Employee benefits	22	23	53	55
Deferred income	2	2	3	3
Other	149	137	22	31
Tax losses	9	14		
DEFERRED INCOME TAX ASSETS/LIABILITIES	490	455	1 481	1 126
Offset	-337	-305	-337	-305
TOTAL DEFERRED INCOME TAX ASSETS/LIABILITIES	153	150	1 144	821

The movements in net deferred income tax assets/liabilities during the period were as follows:

In CHF million	Balance as at 1 January	Recognised in income	Recognised in equity	Acquisitions and disposals	Foreign currency translation differences	Balance as at end of period
MOVEMENTS BY TYPE OF TEMPORARY DIFFERENCE DURING THE YEAR 2011						
Financial assets	-43	21	-372	-2	-1	-397
Investment property	-455	-26	-2	-13	1	-495
Intangible assets	-274	21	28	-1	3	-223
Property and equipment	25	-3	-	0	0	22
Financial liabilities	-6	7	3	0	0	4
Insurance liabilities	-5	0	0	-	-1	-6
Employee benefits	-32	1	-	0	0	-31
Deferred income	-1	0	-	-	0	-1
Other	106	23	0	1	-3	127
Tax losses	14	-5	-	-	0	9
NET DEFERRED INCOME TAX ASSETS/LIABILITIES	-671	39	-343	-15	-1	-991

MOVEMENTS BY TYPE OF TEMPORARY DIFFERENCE DURING THE YEAR 2010

Financial assets	83	-49	-70	0	-7	-43
Investment property	-429	-33	0	-	7	-455
Intangible assets	-315	13	8	0	20	-274
Property and equipment	28	0	-	-	-3	25
Financial liabilities	-15	7	-	0	2	-6
Insurance liabilities	-19	19	-1	-	-4	-5
Employee benefits	-24	-5	-	-	-3	-32
Deferred income	-5	3	-	0	1	-1
Other	-21	133	0	-	-6	106
Tax losses	41	-23	-	-	-4	14
NET DEFERRED INCOME TAX ASSETS/LIABILITIES	-676	65	-63	0	3	-671

Deferred tax liabilities have not been recognised on the aggregate amount of temporary differences with consolidated investments in subsidiaries to the extent the Group considers such undistributed earnings as being indefinitely reinvested. The foreign entities are controlled by the Group and these earnings are not expected to be repatriated in the foreseeable future. The amount of such temporary differences was approximately CHF 4.4 billion as at 31 December 2011. If such earnings are ever repatriated, no material tax liabilities would be incurred due to participation exemption rules, unrecognised tax loss carryforwards and applicable double taxation treaties.

Deferred tax assets are recognised for tax-loss carryforwards only to the extent that realisation of the related tax benefit is probable. Swiss tax assets are calculated in accordance with cantonal and municipal tax legislation. The uncertainty of the utilisation of tax losses is taken into account in establishing the valuation allowance. For the following tax-loss carryforwards, which will expire as follows, no deferred tax asset has been recognised:

UNRECOGNISED TAX LOSSES

Amounts in CHF million	Tax losses		Tax rate	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
2012	6	2	15.9%	13.0%
2013	1	7	16.7%	8.7%
2014	8	2	16.0%	16.0%
Thereafter	1 127	1 134	13.1%	13.6%
TOTAL	1 142	1 145	n/a	n/a

26 Provisions

In CHF million	Restructuring		Other		Total	
	2011	2010	2011	2010	2011	2010
Balance as at 1 January	45	86	131	201	131	201
Additional provisions made during the reporting period	4	65	69	28	69	28
Amounts used during the reporting period	-20	-14	-34	-62	-34	-62
Unused amounts reversed during the reporting period	-1	-10	-11	-17	-11	-17
Reclassifications and other disposals	-	-1	-1	-	-1	-
Foreign currency translation differences	0	-4	-4	-19	-4	-19
BALANCE AS AT END OF PERIOD	28	122	150	131	150	131

RESTRUCTURING PROVISIONS

Under the MILESTONE initiative, provisions for restructuring were set up in Switzerland, Germany and AWD in 2009. The outflow of the amounts is expected within the following one to two years.

OTHER PROVISIONS

Other provisions were primarily set up for warranties and litigation. Also included in other provisions are customer claims mainly relating to AWD.

27 Equity

SHARE CAPITAL

As approved by the shareholders at the General Meeting of Swiss Life Holding (SLH) on 5 May 2011, a reduction in the par value of CHF 4.50 per registered SLH share was effected in 2011 (2010: CHF 2.40 per registered share). The pay-out took place on 28 July 2011 and led to a reduction in the share capital of SLH of CHF 144 million (2010: CHF 77 million).

As at 31 December 2011, the share capital of SLH consisted of 32 081 054 fully-paid shares with a par value of CHF 5.10 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of own shares or shares they represent. As at 31 December 2010 SLH had 32 081 054 registered shares with a par value of CHF 9.60 per share. Conditional share capital was CHF 12 032 868.60 as at 31 December 2011 (2010: CHF 22 650 105.60).

SHARE PREMIUM

Share premium comprises additional paid-in capital in excess of the par value (net of transaction costs), gains/losses on own equity instruments and equity compensation benefits.

Due to the reduction in the par value of CHF 4.50 per registered SLH share in 2011 (2010: CHF 2.40 per registered SLH share), an amount of CHF 1 million was credited to share premium in respect of treasury shares (2010: CHF 0.4 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	2011	2010
SHARES ISSUED AS AT END OF PERIOD	32 081 054	32 081 054
TREASURY SHARES		
Balance as at 1 January	168 556	232 158
Purchases of treasury shares	66 900	11 217
Sales of treasury shares	-11 126	-74 819
BALANCE AS AT END OF PERIOD	224 330	168 556

FOREIGN CURRENCY TRANSLATION DIFFERENCES

Foreign currency translation differences comprise the resulting differences arising on the translation of assets, liabilities, income and expenses of Group entities denominated in foreign currencies into Swiss francs.

GAINS/LOSSES RECOGNISED DIRECTLY IN EQUITY

Gains/losses recognised directly in equity comprise fair value changes of available-for-sale investments, unrealised losses on financial assets reclassified from available for sale to loans due to the disappearance of an active market, revaluation surpluses on the transfer of owner-occupied property to investment property and the effective portion of the gain or loss on hedging derivatives in qualifying cash flow hedges. These amounts are net of certain policyholder bonuses and other policyholder liabilities, deferred acquisition costs, deferred income taxes and non-controlling interests.

AMOUNTS RECOGNISED DIRECTLY IN EQUITY FOR THE YEAR 2011

		Gains/losses recognised directly in equity					
		Notes	Foreign currency translation differences	Financial assets available for sale	Cash flow hedges	Other	Total
In CHF million							
Net balance as at 1 January			-762	369	2	-162	209
Gains/losses arising during the period			-80	3 360	-	-	3 360
Hedging gains/losses arising during the period		9	9	-	175	-	175
Revaluation surplus on investment property		17	-	-	-	16	16
Transfer in respect of assets classified as held for sale			-	0	-	0	-
Gains/losses transferred to the income statement		8, 9	-	-200	-2	109	-93
Effects of							
policyholder participation			-	-1 655	42	-25	-1 638
shadow accounting			-	-70	-27	-44	-141
income tax			0	-281	-45	-17	-343
foreign currency translation differences			-	0	0	-1	-1
non-controlling interests			0	0	0	0	0
NET BALANCE AS AT END OF PERIOD			-833	1 523	145	-124	1 544

AMOUNTS RECOGNISED DIRECTLY IN EQUITY FOR THE YEAR 2010

		Gains/losses recognised directly in equity					
		Notes	Foreign currency translation differences	Financial assets available for sale	Cash flow hedges	Other	Total
In CHF million							
Net balance as at 1 January			-216	232	-	-273	-41
Gains/losses arising during the period			-596	917	-	-	917
Hedging gains/losses arising during the period		9	44	-	2	-	2
Revaluation surplus on investment property		17	-	-	-	3	3
Gains/losses transferred to the income statement		8, 9	-	-321	-	232	-89
Effects of							
policyholder participation			-	-355	-	-133	-488
shadow accounting			-	-62	-	36	-26
income tax			-1	-35	0	-25	-60
disposals of subsidiaries			0	-	-	-	-
foreign currency translation differences			-	-7	-	-2	-9
non-controlling interests			7	0	-	0	0
NET BALANCE AS AT END OF PERIOD			-762	369	2	-162	209

The gains/losses transferred to the income statement of CHF 109 million in 2011 (2010: CHF 232 million) shown in "Other" relate to financial assets reclassified to loans in 2008.

RETAINED EARNINGS

Retained earnings comprise accumulated retained earnings of the Group entities which have not been distributed to the shareholders. The distribution of profit is subject to restrictions in the various jurisdictions where the Group entities are located.

The Group's insurance subsidiaries are subject to regulatory restrictions on the amount of dividends, cash loans and advances which can be remitted to the Group. Certain foreign jurisdictions have restrictions that allow the payment of dividends but may cause a delay in their remittance. Dividends payable are not accrued until they have been ratified at the General Meeting.

28 Capital Management

The Group's objectives when managing capital are as follows: to comply with the regulatory capital requirements, to define and manage economic capital and to fulfill the company's target on rating capital. The company also actively manages the composition and quality of the capital to continuously optimise its capital structure and interest cover ratio.

REGULATORY REQUIREMENTS

In accordance with the federal act on the supervision of insurance companies and corresponding decree, the Swiss Life Group reports as an insurance group to the Swiss Financial Market Supervisory Authority (FINMA). The reporting covers risk management as outlined in note 5, Group Solvency I, legal structure, management organisation and intragroup transactions. The reporting is submitted on an ad-hoc, monthly, half-yearly or yearly basis depending on the topic and is reviewed on a yearly basis by the statutory auditor according to the legal requirements. As at 31 December 2011 and 2010, the Group was compliant with the legal requirements.

In addition to the Group's solvency requirements, the Solvency I and other statutory constraints at local level are considered to address the specific situation of each country and business unit.

29 Acquisitions and Disposals of Subsidiaries

ASSETS AND LIABILITIES FROM ACQUISITIONS

In CHF million

	Notes	2011
CONSIDERATION		
Cash consideration		10
Non-cash consideration		–
TOTAL CONSIDERATION TRANSFERRED		10
ACQUISITION-RELATED COSTS		
Commission expense		0
Other expenses		–
TOTAL		0
IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED		
Cash and cash equivalents		1
Financial assets available for sale		2
Loans and receivables		2
Property and equipment	17	0
Intangible assets including intangible insurance assets	18	2
Other assets		0
Financial liabilities		0
Employee benefit liabilities		–1
Deferred income tax liabilities		–1
Other liabilities		–1
TOTAL IDENTIFIABLE NET ASSETS		4
Non-controlling interests		–3
Goodwill	18	9
TOTAL		10
ACQUIRED LOANS AND RECEIVABLES		
Fair value		2
Gross contractual amounts receivable		2
Estimated uncollectible cash flows		0

In March 2011, the Swiss Life Group acquired a majority share of Viveris REIM, Marseilles, a real estate management company. The voting interest of the Group was 68.3% as at 31 December 2011. The revenue of Viveris REIM, Marseilles, amounted to CHF 7 million from the acquisition date to the end of 2011 and the Group's share of the net loss to CHF 0.1 million.

In 2010, no acquisitions of subsidiaries took place.

In 2011 and 2010, no significant disposals of subsidiaries took place.

30 Assets Held for Sale and Associated Liabilities

The assets and associated liabilities of the French non-life operation Garantie Assistance S.A., Paris, have been reclassified as held for sale. The sale is expected to be completed in 2012. Garantie Assistance S.A., Paris, is presented in the “Insurance France” segment.

In CHF million	Disposal groups		Non-current assets		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash and cash equivalents	0	-	-	-	0	-
Financial assets at fair value through profit or loss	1	-	-	-	1	-
Financial assets available for sale	14	-	-	-	14	-
Loans and receivables	6	-	-	-	6	-
Investment property	-	-	-	93	-	93
Reinsurance assets	0	-	-	-	0	-
Property and equipment	0	-	-	-	0	-
Foreclosed property	-	-	-	1	-	1
Intangible assets including intangible insurance assets	0	-	-	-	0	-
Other assets	1	-	-	-	1	-
TOTAL ASSETS HELD FOR SALE	22	-	-	94	22	94
Other financial liabilities	6	-	-	-	6	-
Insurance liabilities	6	-	-	-	6	-
Employee benefit liabilities	1	-	-	-	1	-
Provisions	1	-	-	-	1	-
Other liabilities	1	-	-	-	1	-
TOTAL LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	15	-	-	-	15	-
Amounts recognised directly in equity relating to assets held for sale	0	-	-	-	0	-

31 Acquisition of Insurance Portfolio

In April 2011, the Swiss Life Group acquired the group life insurance portfolio of Nationale Suisse. The assets acquired and liabilities assumed were as follows:

In CHF million		01.04.2011
ASSETS ACQUIRED AND LIABILITIES ASSUMED		
Cash and cash equivalents		111
Financial assets available for sale		1 298
Loans and receivables		91
Investment property		256
Reinsurance assets		12
Present value of future profits		2
Other assets		2
Derivatives		0
Investment contracts		-15
Other financial liabilities		-58
Insurance liabilities		-1 605
Policyholder participation liabilities		-79
Deferred income tax liabilities		-1
Other liabilities		-3
TOTAL NET ASSETS ACQUIRED		11

32 Related Party Transactions

CONSOLIDATED STATEMENT OF INCOME

In CHF million					
	Associates	Key management personnel	Other	Total 2011	Total 2010
Asset management and other income	-	-	0	0	0
Investment income	1	-	-	1	3
Net gains/losses on financial assets	-	-	-	-	-1
Interest expense	-	-	0	0	0
Employee benefits expense	-	-18	-	-18	-17
Other expenses	-	-	0	0	0

CONSOLIDATED BALANCE SHEET

In CHF million					
	Associates	Key management personnel	Other	Total	Total
				31.12.2011	31.12.2010
Loans and receivables	21	-	-	21	21
Borrowings	-	-	-1	-1	-
Other liabilities	-	-	-	-	0

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 2011, no impairment allowance has been made for doubtful debts in respect of the amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

In 2011, Swiss Life AG, AWD Holding and its subsidiaries paid a total of EUR 0.3 million (2010: EUR 0.045 million) in consulting fees for services provided by a company in which Carsten Maschmeyer, member of the Board of Directors of Swiss Life Holding until 7 December 2011, has an important shareholding. Additionally, revenue of EUR 0.09 million (2010: EUR 0.2 million) and expenses of EUR 0.2 million (2010: EUR 0.2 million) were incurred by AWD Holding and its subsidiaries in relation to Carsten Maschmeyer and companies in which he has an important shareholding. All transactions were at arm's length.

KEY MANAGEMENT COMPENSATION

In CHF million		
	2011	2010
Short-term employee benefits	13	12
Post-employment benefits	2	1
Equity-settled share-based payments	3	4
TOTAL	18	17

Key management comprises the members of the Board of Directors of Swiss Life Holding and the members of the Corporate Executive Board of Swiss Life Holding. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Swiss Life Group, directly or indirectly.

The details regarding key management compensation in accordance with the Swiss Code of Obligations, article 663b^{bis} and article 663c, are set out in the Swiss Life Holding financial statements.

33 Fair Value of Financial Instruments

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In CHF million	Quoted prices (level 1)	Valuation technique – observable inputs (level 2)	Valuation technique – unobservable inputs (level 3)	Total
FAIR VALUE HIERARCHY AS AT 31 DECEMBER 2011				
FINANCIAL ASSETS				
Derivatives	228	1 090	–	1 318
Debt securities at fair value through profit or loss	1 450	269	187	1 906
Debt securities available for sale	61 517	3 364	2	64 883
Equity securities at fair value through profit or loss	2 147	139	28	2 314
Equity securities available for sale	1 139	484	758	2 381
Financial assets pledged as collateral	969	–	–	969
Financial assets for the account and risk of the Swiss Life Group's customers	18 735	919	246	19 900
TOTAL FINANCIAL ASSETS	86 185	6 265	1 221	93 671
FINANCIAL LIABILITIES				
Derivatives	60	1 126	–	1 186
Investment contracts	–	237	–	237
Unit-linked contracts	–	17 970	246	18 216
Other financial liabilities	–	566	–	566
TOTAL FINANCIAL LIABILITIES	60	19 899	246	20 205
FAIR VALUE HIERARCHY AS AT 31 DECEMBER 2010				
FINANCIAL ASSETS				
Derivatives	260	2 705	–	2 965
Debt securities at fair value through profit or loss	245	525	194	964
Debt securities available for sale	52 301	1 595	12	53 908
Equity securities at fair value through profit or loss	2 943	533	13	3 489
Equity securities available for sale	2 861	369	812	4 042
Financial assets pledged as collateral	972	–	–	972
Financial assets for the account and risk of the Swiss Life Group's customers	17 668	990	284	18 942
TOTAL FINANCIAL ASSETS	77 250	6 717	1 315	85 282
FINANCIAL LIABILITIES				
Derivatives	109	389	–	498
Investment contracts	–	236	–	236
Unit-linked contracts	–	17 259	–	17 259
Other financial liabilities	–	312	–	312
TOTAL FINANCIAL LIABILITIES	109	18 196	–	18 305

The fair value of financial instruments included in level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. If all significant inputs to these valuation techniques are observable (directly and indirectly) in the market, the financial instruments are included in level 2.

If one or more significant inputs to these valuation techniques are not observable in the market, the financial instruments are included in level 3. Such inputs may include information that is derived through extrapolation which is not substantiated by observable market data or that reflects own assumptions about what market participants would use in pricing the asset or liability.

For more detailed descriptions of the determination of the fair values of financial instruments refer to note 3.

No significant transfers were made between level 1 and level 2 of the fair value hierarchy.

As at 31 December 2011, financial assets of CHF 975 million were included in level 3 of the fair value hierarchy (excluding financial assets for the account and risk of the Swiss Life Group's customers). The exposure primarily consists of alternative investments such as hedge funds, private equity, infrastructure and real estate funds. These investments are valued based on regular reports from the issuing funds. Fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding.

FINANCIAL ASSETS MEASURED AT FAIR VALUE BASED ON LEVEL 3 FOR THE YEAR 2011

In CHF million	Debt securities				Equity securities		Financial assets for the account and risk of the Swiss Life Group's customers
	Derivatives	At fair value through profit or loss	Available for sale	At fair value through profit or loss	Available for sale		
Balance as at 1 January	-	194	12	13	812	284	
Total gains/losses recognised in the income statement	-	-2	-1	0	49	0	
Total gains/losses recognised directly in equity	-	-	0	-	-1	-	
Purchases	-	-	-	18	158	0	
Sales	-	-	-9	-3	-257	-38	
Foreign currency translation differences	-	-5	-	-	-3	-	
BALANCE AS AT END OF PERIOD	-	187	2	28	758	246	
Total gains/losses recognised in the income statement are presented in							
net gains/losses on financial assets	-	-	-1	-	49	-	
net gains/losses on financial instruments at fair value through profit or loss	-	-2	-	0	-	0	
Gains/losses for assets held at end of period recognised in the income statement are presented in							
net gains/losses on financial assets	-	-	-1	-	-15	-	
net gains/losses on financial instruments at fair value through profit or loss	-	-2	-	0	-	0	

FINANCIAL ASSETS MEASURED AT FAIR VALUE BASED ON LEVEL 3 FOR THE YEAR 2010

In CHF million	Debt securities			Equity securities		Financial assets for the account and risk of the Swiss Life Group's customers
	Derivatives	At fair value through profit or loss	Available for sale	At fair value through profit or loss	Available for sale	
Balance as at 1 January	35	226	46	-	1 686	300
Total gains/losses recognised in the income statement	1	4	16	0	188	-105
Total gains/losses recognised directly in equity	-	-	-49	-	-187	-
Purchases	-	-	-	13	83	89
Sales	-34	-	-1	0	-944	-
Foreign currency translation differences	-2	-36	-	-	-14	-
BALANCE AS AT END OF PERIOD	-	194	12	13	812	284
Total gains/losses recognised in the income statement are presented in						
net gains/losses on financial assets	-	-	16	-	188	-
net gains/losses on financial instruments at fair value through profit or loss	1	4	-	0	-	-105
Gains/losses for assets held at end of period recognised in the income statement are presented in						
net gains/losses on financial assets	-	-	0	-	-5	-
net gains/losses on financial instruments at fair value through profit or loss	-	4	-	0	-	-105

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the Group's balance sheet at fair value:

In CHF million	Carrying amount		Fair value	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
ASSETS				
Loans	23 615	24 608	25 812	26 170
Receivables	3 587	5 105	3 587	5 104
Financial assets held to maturity	5 046	5 229	5 369	5 099
Debt securities pledged as collateral	-	88	-	83
LIABILITIES				
Investment contracts without discretionary participation	53	170	53	170
Borrowings	2 624	2 142	2 849	2 167
Other financial liabilities	7 225	10 920	7 225	10 919

34 Guarantees and Commitments

In CHF million

	31.12.2011	31.12.2010
Financial guarantees	130	354
Loan commitments	119	107
Private equity commitments	266	331
Other capital commitments	611	475
Operating lease commitments	18	13
Contractual obligations to purchase or construct investment property	329	247
Other contingent liabilities and commitments	320	74
TOTAL	1 793	1 601

FUTURE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES – LESSEE

In CHF million

	31.12.2011	31.12.2010
Not later than 1 year	1	3
Later than 1 year and not later than 5 years	17	10
TOTAL	18	13

GUARANTEES

The Group has issued financial guarantees and transaction-related guarantees and similar instruments. Financial guarantees provide for specified payments to be made to reimburse the holder for a loss incurred in the event that a client fails to make payment when due.

LOAN COMMITMENTS

The Group has also entered into irrevocable commitments to extend credit in the form of loans and other instruments. They represent undrawn credit lines which are available to clients to secure their liquidity needs. With respect to credit risk, these commitments are contingent upon clients maintaining certain credit standards, and the Group monitors its exposure on a regular basis.

The total amount of credit commitments includes commitments to lend at fixed rates, which expose the Group to interest rate risk. These commitments are entered into for restricted periods of time. As at 31 December 2011, committed principal amounts stood at EUR 13 million and CHF 68 million (2010: EUR 4 million and CHF 52 million). The range of committed interest rates is 2.6% to 5.9% for commitments in euro and 1.0% to 3.2% for commitments in Swiss francs.

PRIVATE EQUITY COMMITMENTS

Private equity commitments represent unfunded commitments to make investments in direct private equity or private equity funds. Such commitments do not involve credit or market risk, as the Group purchases investments at market value at the time the commitments are invoked.

OPERATING LEASE COMMITMENTS

The Group has entered into various operating leases as a lessee. Rental expenses recognised in income for these items totalled CHF 42 million for the year ended 31 December 2011 (2010: CHF 43 million). Minimum lease payments totalled CHF 42 million in 2011 (2010: CHF 43 million).

OTHER CONTINGENT LIABILITIES AND COMMITMENTS

Contractual obligations for repairs and maintenance of investment property amounted to CHF 69 million as at 31 December 2011, which are included in this line item (2010: CHF 60 million).

LEGAL PROCEEDINGS

The Group is involved in various legal proceedings, claims and litigation generally relating to its insurance operations. The outcome of such current legal proceedings, claims and litigation could have a material effect on operating results or cash flows when resolved in a future period. However, in the opinion of the management these matters are adequately provided for as at the balance sheet date.

35 Collateral

ASSETS PLEDGED AS COLLATERAL

The following table provides details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition because substantially all risks and rewards of ownership are retained. Repurchase agreements and securities lending transactions are discussed in Notes 2.7 and 12. Securities pledged under other transactions include debt securities pledged as collateral under reinsurance contracts issued and debt securities pledged as collateral under prime broker contracts to cover margins due in respect of derivative transactions.

CARRYING AMOUNT OF ASSETS PLEDGED AS COLLATERAL

In CHF million

	31.12.2011	31.12.2010
Securities under repurchase and securities lending transactions	969	1 060
Securities under other transactions	1 871	1 240
Other financial assets	608	3
Investment property	227	–
Property and equipment	0	–
TOTAL	3 675	2 303
of which can be sold or repledged by transferee	969	1 060

FAIR VALUE OF COLLATERAL HELD

In CHF million

	31.12.2011	31.12.2010
Securities under repurchase agreements, securities borrowing and lending arrangements	93	–
Securities under derivative and other transactions	–	–
TOTAL	93	–
of which sold or repledged		
With obligation to return	–	–
No obligation to return	–	–

36 Future Minimum Lease Payments under Non-Cancellable Operating Leases – Lessor

In CHF million		
	31.12.2011	31.12.2010
Not later than 1 year	115	105
Later than 1 year and not later than 5 years	443	414
Later than 5 years	659	530
TOTAL	1 217	1 049
Contingent rents recognised in income	0	0

Leased assets where the Group is a lessor primarily relate to investment property leased to third parties under operating leases.

37 Scope of Consolidation

	Segment ¹	Consolidation period	Group share	Direct share	Currency	Authorised share capital in 1000
SWITZERLAND						
Adroit Private Equity AG, Zürich	Ins. CH		100.0%	100.0%	CHF	5 000
AWD Allgemeiner Wirtschaftsdienst AG, Zug	AWD		100.0%	100.0%	CHF	5 600
GENBLAN AG, Zürich	Ins. CH	from 31.05.2011	100.0%	100.0%	CHF	17 628
Livit AG, Zürich	IM		100.0%	100.0%	CHF	3 000
Livit FM Services AG, Zürich	IM		100.0%	100.0%	CHF	100
Long Term Strategy AG in liquidation, Zug	Other	until 21.01.2010	-	-		
Neue Warenhaus AG, Zürich	Ins. CH		100.0%	100.0%	CHF	5 000
Oscar Weber AG, Zürich	Ins. CH		100.0%	100.0%	CHF	5 000
Oscar Weber Holding AG, Zürich	Ins. CH		100.0%	100.0%	CHF	50
Rentenanstalt Holding AG, Zürich	Other	until 13.12.2010	-	-		
S.I. Eaux-Vives 2000 AG, Zürich	Ins. CH	until 24.06.2010	-	-		
S.I. Eaux-Vives Office AG, Zürich	Ins. CH	until 24.06.2010	-	-		
Swiss Life AG, Zürich	Ins. CH		100.0%	100.0%	CHF	587 350
Swiss Life Asset Management AG, Zürich	IM		100.0%	100.0%	CHF	250
Swiss Life Capital Holding AG, Zürich	Other		100.0%	100.0%	CHF	5 514
Swiss Life Funds AG, Lugano	IM		100.0%	100.0%	CHF	20 000
Swiss Life Holding AG, Zürich	Other		-	-	CHF	163 613
Swiss Life Intellectual Property Management AG, Zürich	Other		100.0%	100.0%	CHF	250
Swiss Life International Holding AG, Zürich	Other		100.0%	100.0%	CHF	1 000
Swiss Life International Services AG, Schaan, Branch Zürich (formerly Swiss Life (Liechtenstein) Services AG, Schaan, Branch Zürich), Zürich	Ins. Int.		100.0%	100.0%	-	-
Swiss Life Investment Management Holding AG, Zürich	IM		100.0%	100.0%	CHF	50 000
Swiss Life Pension Services AG, Zürich	Ins. CH		100.0%	100.0%	CHF	250
Swiss Life Private Equity Partners AG, Zürich	IM		100.0%	100.0%	CHF	250
Swiss Life Products (Luxembourg) S.A., Strassen, Branch Zürich, Zürich	Ins. Int.		100.0%	100.0%	-	-
Swiss Life Property Management AG, Zürich	IM		100.0%	100.0%	CHF	250
Swiss Life Selection AG, Zürich	Ins. CH	until 02.06.2010	-	-		
Swissville Centers Holding AG, Zürich	Ins. CH		100.0%	100.0%	CHF	7 100
Swissville Commerce AG, Zürich	Ins. CH		100.0%	100.0%	CHF	150 900
Swissville Commerce Holding AG, Zürich	Ins. CH	until 17.06.2010	-	-		

¹ Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment ¹	Consolidation period	Group share	Direct share	Currency	Authorised share capital in 1000
LIECHTENSTEIN						
Swiss Life (Liechtenstein) AG, Schaan	Ins. Int.		100.0%	100.0%	CHF	5 000
Swiss Life International Services AG (formerly Swiss Life (Liechtenstein) Services AG), Schaan	Ins. Int.		100.0%	100.0%	CHF	100
FRANCE						
AGAMI, Paris	Ins. FR		100.0%	100.0%	EUR	1 250
Carte Blanche Partenaires, Paris	Ins. FR		94.7%	95.1%	EUR	2 300
CEGEMA, Villeneuve-Loubet	Ins. FR		100.0%	100.0%	EUR	300
Financière du Capitole, Balma	Ins. FR		80.0%	80.0%	EUR	1 700
Financière du Patrimoine, Balma	Ins. FR		80.0%	100.0%	EUR	8
Garantie Assistance S.A., Paris	Ins. FR		99.7%	100.0%	EUR	1 850
MA Santé Facile, Paris	Ins. FR	from 10.06.2010	100.0%	100.0%	EUR	1 388
SAS Placement Direct, Pau	Ins. FR		100.0%	100.0%	EUR	40
Swiss Life Asset Management (France), Paris	IM		100.0%	100.0%	EUR	3 000
Swiss Life Assurance et Patrimoine, Paris	Ins. FR		99.9%	100.0%	EUR	169 036
Swiss Life Assurances de Biens, Paris	Ins. FR		100.0%	100.0%	EUR	80 000
Swiss Life Banque Privée, Paris	Ins. FR		60.0%	60.0%	EUR	37 902
Swiss Life Dynapierre, Paris	Ins. FR		99.9%	100.0%	EUR	7 317
Swiss Life France, Paris	Ins. FR		100.0%	100.0%	EUR	267 767
Swiss Life Gestion Privée, Paris	Ins. FR		60.0%	100.0%	EUR	205
Swiss Life Immobilier, Paris	Ins. FR		99.9%	100.0%	EUR	37
Swiss Life Prestigimmo, Paris	Ins. FR		99.9%	100.0%	EUR	2 340
Swiss Life Prévoyance et Santé, Paris	Ins. FR		99.4%	99.4%	EUR	150 000
Viveris REIM, Marseille	IM	from 15.03.2011	95.0%	95.0%	EUR	340
GERMANY						
Allgemeiner Wirtschaftsdienst Gesellschaft für Wirtschaftsberatung und Finanzbetreuung mbH, Hannover	AWD		100.0%	100.0%	EUR	2 700
AWD Beteiligungstreuhand GmbH, Hannover	AWD	until 29.11.2010	-	-		
AWD Gastronomie GmbH, Hannover	AWD		100.0%	100.0%	EUR	25
AWD Gruppe Deutschland GmbH, Hannover	AWD		100.0%	100.0%	EUR	1 501
AWD Holding AG, Hannover	AWD		100.0%	100.0%	EUR	38 639
AWD – Versicherungsmakler und -beratungs GmbH, Hannover	AWD	until 15.02.2011	-	-		
AWD Zweite Vermögensverwaltungsgesellschaft mbH, Hannover	AWD		100.0%	100.0%	EUR	25
Biztools GmbH, Bremen	AWD		100.0%	100.0%	EUR	50

¹ Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment ¹	Consolidation period	Group share	Direct share	Currency	Authorised share capital in 1000
GERMANY (CONTINUED)						
DEUTSCHE PROVENTUS AG, Bremen	AWD		100.0%	100.0%	EUR	511
Faircompare GmbH (formerly AWD Vermögensverwaltungsgesellschaft mbH), Hannover	AWD		100.0%	100.0%	EUR	100
Financial Solutions AG Service & Vermittlung, München	Other		100.0%	100.0%	EUR	200
Horbach Wirtschaftsberatung GmbH, Köln	AWD		100.0%	100.0%	EUR	260
PROFIDUS Assekuranzmakler GmbH, Bremen	AWD	until 01.01.2010	-	-		
PROFIDUS Vermittlung- und Verwaltungs-GmbH, Bremen	AWD	until 11.03.2010	-	-		
PROFIDUS Vertriebsgesellschaft mbH, Bremen	AWD	until 01.01.2010	-	-		
ProVentus Akademie- und Vertriebs GmbH, Bremen	AWD		100.0%	100.0%	EUR	25
SEKO, München	Ins. DE	until 17.08.2010	-	-		
SL Beteiligungs-GmbH & Co. Grundstücksverwaltung KG, München	Ins. DE		100.0%	100.0%	EUR	50
SL Beteiligungs-GmbH & Co. Immobilien I KG, München	Ins. DE		100.0%	100.0%	EUR	10
SL Beteiligungs-GmbH & Co. Immobilien II KG, München	Ins. DE		100.0%	100.0%	EUR	10
SL Beteiligungs-GmbH & Co. Immobilien III KG, München	Ins. DE		100.0%	100.0%	EUR	10
SL Beteiligungs-GmbH & Co. Immobilien Ost KG, München	Ins. DE		100.0%	100.0%	EUR	50
SL-Immobilien-Beteiligungs-Gesellschaft mbH, München	Ins. DE		100.0%	100.0%	EUR	25
SL Private Equity GmbH, Frankfurt am Main	Ins. DE		98.9%	98.9%	EUR	91
SLPM Schweizer Leben PensionsManagement GmbH, München	Ins. DE		100.0%	100.0%	EUR	150
Swiss Life AG, München (Branch Swiss Life AG)	Ins. DE		100.0%	100.0%	-	-
Swiss Life Asset Management GmbH, München	IM		100.0%	100.0%	EUR	1 000
Swiss Life Assurance Solutions S.A., Branch Germany, München	Other	from 29.06.2010	100.0%	100.0%	-	-
Swiss Life Beteiligungs GmbH, Hannover	Other		100.0%	100.0%	EUR	25
Swiss Life Cooperations GmbH in liquidation, Hamburg	Ins. DE	until 03.11.2010	-	-		
Swiss Life Deutschland Holding GmbH, München	Ins. DE	from 11.08.2011	100.0%	100.0%	EUR	50
Swiss Life Grundstücksmanagement, München	Ins. DE		100.0%	100.0%	EUR	26
Swiss Life Grundstücksmanagement GmbH & Co. Münchner Tor KG, München	Ins. DE		100.0%	100.0%	EUR	52 935
Swiss Life Insurance Solutions AG, München	Other		100.0%	100.0%	EUR	7 500
Swiss Life Insurance Solutions S.A. Branch Germany, München	Other	from 29.06.2010	100.0%	100.0%	-	-
Swiss Life Partner Service- und Finanzvermittlungs GmbH, München	Ins. DE		100.0%	100.0%	EUR	300
Swiss Life Pensionsfonds AG, München	Ins. DE		100.0%	100.0%	EUR	3 000
Swiss Life Pensionskasse AG, München	Ins. DE		100.0%	100.0%	EUR	3 000
Swiss Life Products (Luxembourg) S.A. Branch Germany, München	Ins. Int.		100.0%	100.0%	-	-
Swiss Life Service GmbH, Leipzig	Ins. DE	from 23.11.2010	100.0%	100.0%	EUR	100
Swiss Life Vermittlungs GmbH, München	Ins. DE		100.0%	100.0%	EUR	50
tecis Finanzdienstleistungen AG, Hamburg	AWD		100.0%	100.0%	EUR	500
Thomas Beteiligungsgesellschaft mbH, Bremen	AWD	until 01.01.2010	-	-		

¹ Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment ¹	Consolidation period	Group share	Direct share	Currency	Authorised share capital in 1000
LUXEMBOURG						
Heralux S.A., Luxembourg	Ins. FR		99.4%	100.0%	EUR	3 500
SWISS LIFE (LUXEMBOURG), Strassen	Ins. Int.		100.0%	100.0%	EUR	23 000
Swiss Life Assurance Solutions S.A., Strassen	Other		100.0%	100.0%	EUR	6 000
Swiss Life Funds (Lux) Management Company S.A., Luxembourg	IM		100.0%	100.0%	CHF	400
Swiss Life Immo-Arlon, Société Anonyme, Strassen	Other		100.0%	100.0%	EUR	1 000
Swiss Life Insurance Solutions S.A., Strassen	Other		100.0%	100.0%	EUR	18 450
Swiss Life International Pension Fund ASBL, Strassen	Ins. Int.		-	-	-	-
Swiss Life Invest Luxembourg S.A., Strassen	Other		100.0%	100.0%	EUR	60 211
Swiss Life Participations Luxembourg S.A., Strassen	Other		100.0%	100.0%	EUR	75 198
Swiss Life Products (Luxembourg) S.A., Strassen	Ins. Int.		100.0%	100.0%	EUR	79 031
Swiss Life Solutions S.A., Strassen	Other		100.0%	100.0%	EUR	22 450

¹ Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment ¹	Consolidation period	Group share	Direct share	Currency	Authorised share capital in 1000
UNITED KINGDOM						
AWD Chase de Vere Consulting Limited, London	AWD		100.0%	100.0%	GBP	1 935
AWD Chase de Vere Corporate Services Limited, Manchester	AWD	until 29.03.2011	-	-		
AWD Chase de Vere Direct Limited, Manchester	AWD	until 10.05.2011	-	-		
AWD Chase de Vere Limited, London	AWD		100.0%	100.0%	GBP	23 088
AWD Chase de Vere Financial Services Ltd, Manchester	AWD	until 04.05.2010	-	-		
AWD Chase de Vere Limited, London	AWD	until 04.05.2010	-	-		
AWD Consultancy Limited, Manchester	AWD	until 04.05.2010	-	-		
AWD Group Plc, London	AWD		100.0%	100.0%	GBP	5 000
AWD Group Services Limited, London	AWD		100.0%	100.0%	GBP	0
AWD Limited, Manchester	AWD	until 04.05.2010	-	-		
AWD Loans Limited, Manchester	AWD		100.0%	100.0%	GBP	1 000
AWD Private Client Trustees Limited, London	AWD		100.0%	100.0%	GBP	0
AWD Trustees Limited, Leicestershire	AWD		100.0%	100.0%	GBP	0
AWD Wealth Management Limited, Manchester	AWD	until 04.05.2010	-	-		
Chase de Vere Financial Solutions Limited, Manchester	AWD		100.0%	100.0%	GBP	10
Jaffrey Financial Services Limited, Dundee	AWD	until 08.05.2010	-	-		
AUSTRIA						
AWD CEE Holding GmbH, Wien	AWD		100.0%	100.0%	EUR	35
AWD Gesellschaft für Wirtschaftsberatung GmbH, Wien	AWD		100.0%	100.0%	EUR	727
Swiss Life Österreich AG, Wien	Ins. Int.		100.0%	100.0%	EUR	70
Swiss Life Products (Luxembourg) S.A., Branch Austria, Wien	Ins. Int.	from 01.01.2010	100.0%	100.0%	-	-
CAYMAN ISLANDS						
Adroit Investment (Offshore) Ltd., Grand Cayman	Ins. CH		100.0%	100.0%	CHF	0
Adroit Partnerships (Offshore) L.P., Grand Cayman	Ins. CH		100.0%	100.0%	CHF	6 580
Swiss Life Financial Services (Cayman) Ltd., Grand Cayman	Other		100.0%	100.0%	CHF	50
Swiss Life Insurance Finance Ltd., Grand Cayman	Other		100.0%	100.0%	EUR	5

¹ Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

	Segment ¹	Consolidation period	Group share	Direct share	Currency	Authorised share capital in 1000
CROATIA						
AWD Savjetovanje d.o.o. za poslovno savjetovanje, Zagreb	AWD	until 24.06.2010	-	-		
AWD zastupanje u osiguranju d.o.o., Zagreb	AWD	until 24.06.2010	-	-		
CZECH REPUBLIC						
AWD Česká republika s.r.o., Brno	AWD		100.0%	100.0%	CZK	1 000
HUNGARY						
AWD Magyarország Pénzügyi Szolgáltató Korlátolt Felelősségű Társaság, Budapest	AWD		100.0%	100.0%	HUF	5 000
ECG Oktatási Korlátolt Felelősségű Társaság, Budapest	AWD		100.0%	100.0%	HUF	5 000
IRELAND						
Swiss Life Private Placement (Ireland) Limited, Dublin	Other	until 13.01.2011	-	-		
ITALY						
Swiss Life Insurance Solutions AG, Branch Italy, Milano	Other	from 28.01.2010	100.0%	100.0%	-	-
POLAND						
AWD Spółka z ograniczona odpowiedzialnoscia, Warszawa	AWD		100.0%	100.0%	PLN	250
European Consulting Group Sp.z o.o., Warszawa	AWD		100.0%	100.0%	PLN	498
ROMANIA						
AWD Consultanta Financiara SRL, Târgu Mureş	AWD	until 15.04.2011	-	-		
AWD Romania Broker de Asigurare Srl, Târgu Mureş	AWD		100.0%	100.0%	RON	50
SINGAPORE						
Swiss Life (Liechtenstein) AG, Singapore Branch, Singapore	Ins. Int.	until 27.04.2010	-	-		
Swiss Life Network (Asia) Pte.Ltd., Singapore	Ins. Int.		100.0%	100.0%	SGD	0
Swiss Life (Singapore) Pte. Ltd. (formerly Swiss Life Private Placement (Singapore) Pte.Ltd.), Singapore	Ins. Int.		100.0%	100.0%	SGD	11 000
SLOVAKIA						
AWD s.r.o., Bratislava	AWD		100.0%	100.0%	EUR	33
UNITED ARAB EMIRATES						
Swiss Life Private Placement (Middle East) Limited, Dubai	Ins. Int.		100.0%	100.0%	USD	8 100

¹ Segment (Ins. CH = Insurance Switzerland, IM = Investment Management, Ins. Int. = Insurance International, Ins. FR = Insurance France, Ins. DE = Insurance Germany)

Report of the Statutory Auditor

Report of the Statutory Auditor
to the General Meeting of
Swiss Life Holding Ltd
Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Swiss Life Holding Ltd, which comprise the consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 72 to 181), for the year ended 31 December 2011.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz	Reto Zemp
Audit expert	Audit expert
Auditor in charge	

Zurich, 15 March 2012

Swiss Life Holding Financial Statements

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Review of Operations

Swiss Life Holding increased its profit in the 2011 financial year by CHF 38 million to CHF 238 million.

The annual profit was largely generated from the dividend payouts by subsidiaries. These fell slightly from CHF 197 million in 2010 to approximately CHF 191 million in 2011.

Total income improved significantly vis-à-vis the previous year, climbing from CHF 208 million to CHF 249 million. The additional income is chiefly derived from income and fees earned on loans and guarantees granted to subsidiaries in the previous year. In the year under review, a new loan for CHF 200 million was granted to Swiss Life Ltd, which will further increase future interest income. As a result of higher income tax, total expenditure rose by CHF 3 million to CHF 11 million.

In order to continue to finance the insurance business, CHF 200 million was made available to Swiss Life Ltd and CHF 87 million to Swiss Life International Holding AG, which comprises the foreign insurance companies. The total value of participations thus grew from CHF 3258 million to CHF 3545 million.

Swiss Life Holding's profit distribution to shareholders in the period under review came to CHF 144 million or CHF 4.50 per share. This took the form of a reduction in par value of the Swiss Life Holding share from CHF 9.60 to CHF 5.10. The company's nominal share capital thus totals CHF 163.6 million.

Swiss Life Holding was financed exclusively by equity during the period under review; no interest was paid on borrowings.

Swiss Life Holding's liquid assets (liquid funds, time deposits, and bonds and investments) amounted to CHF 615 million on 31 December 2011. Liquid funds and time deposits contracted slightly from CHF 306 million to CHF 279 million, while easily tradable bonds and capital-protected investments accounted for CHF 336 million at the end of the year. These share certificates are all eligible for repos and can generate liquidity at any time.

Statement of Income

STATEMENT OF INCOME FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2011	2010
Dividends received	191	197
Realised gain/loss on non-current assets	1	2
Unrealised gain/loss on non-current assets	5	3
Other finance income	40	42
Other financial expense	-1	-1
Foreign currency gains/losses	-8	-42
NET INVESTMENT INCOME	228	201
OPERATING EXPENSE	-7	-7
OTHER INCOME	21	7
OTHER EXPENSES	-	-
INCOME TAX	-4	-1
NET PROFIT	238	200

Balance Sheet

BALANCE SHEET

In CHF million

	31.12.2011	31.12.2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	149	266
Time deposits and similar investments	130	40
Receivables from Group companies	15	19
Receivables from third parties	0	0
Accrued income	4	5
TOTAL CURRENT ASSETS	298	330
NON-CURRENT ASSETS		
Shares	19	16
Debt securities	285	394
Participations	3 545	3 258
Loans to Group companies	795	653
Other assets	60	93
TOTAL NON-CURRENT ASSETS	4 704	4 414
TOTAL ASSETS	5 002	4 744
LIABILITIES AND EQUITY		
LIABILITIES		
Payables to Group companies	200	2
Liabilities towards third parties	52	86
Total short-term liabilities	252	88
TOTAL LIABILITIES	252	88
EQUITY		
Share capital	164	308
General reserves	32	1 139
Reserve for treasury shares	26	19
Capital contribution reserve	1 533	-
Total legal reserves	1 591	1 158
Free reserves	2 753	2 986
Balance carried forward from previous year	4	4
Net profit	238	200
Total profit shown in the balance sheet	242	204
TOTAL EQUITY	4 750	4 656
TOTAL LIABILITIES AND EQUITY	5 002	4 744

Notes to the Financial Statements

Accounting Rules

Assets and liabilities are stated in the balance sheet in accordance with the provisions of the Swiss Code of Obligations (CO).

EXPLANATIONS ON THE BALANCE SHEET AND STATEMENT OF INCOME

PARTICIPATIONS

	Currency	Authorised	Direct share	Currency	Authorised	Direct share
		share capital in 1000			share capital in 1000	
		31.12.2011			31.12.2010	
Swiss Life AG, Zürich	CHF	587 350	100.00%	CHF	587 350	100.00%
Swiss Life Beteteiligungs GmbH, Hannover	EUR	25	100.00%	EUR	25	100.00%
Swiss Life Intellectual Property Management AG, Zürich	CHF	250	100.00%	CHF	250	100.00%
Swiss Life International Holding AG, Zürich	CHF	1 000	100.00%	CHF	1 000	100.00%
Swiss Life Investment Management Holding AG, Zürich	CHF	50 000	100.00%	CHF	50 000	100.00%

LOANS TO GROUP COMPANIES – CHF 362 million of the loans to Group companies is classified as subordinated.

MAJOR SHAREHOLDERS – The following shareholders hold over 5% of Swiss Life Holding's share capital:

As % of total share capital

	31.12.2011	31.12.2010
Talanx AG	9.27%	9.31%
Carsten Maschmeyer & Sons	–	5.05%

SHARE CAPITAL – As at 31 December 2011, the share capital of Swiss Life Holding consisted of 32 081 054 fully-paid shares with a par value of CHF 5.10 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of his own shares and those he represents. As at 31 December 2010, Swiss Life Holding had 32 081 054 registered shares outstanding with a par value of CHF 9.60 per share. Conditional share capital was CHF 12 032 868.60 as at 31 December 2011 (2010: CHF 22 650 105.60).

LEGAL RESERVES – Legal reserves comprise the general reserves (plus the additional paid-in capital in excess of the par value, net of transaction costs), the reserve for treasury shares (equivalent in value to own Swiss Life Holding shares held by the Swiss Life Group) and the new capital contribution reserve of CHF 1533 million established on 1 January 2011. Of this amount CHF 1363 million is recognised by the Federal Tax Administration, while the legal qualification of CHF 170 million is still open and is to be reassessed according to future legal developments.

FREE RESERVES AND RETAINED EARNINGS – Free reserves and retained earnings comprise accumulated retained earnings which have not been distributed to the shareholders, or which have not been allocated to the reserve for treasury shares.

TREASURY SHARES – In the year under review the companies in the Swiss Life Group purchased a total of 66 900 Swiss Life Holding shares at an average price of CHF 127.86. In the same period, they sold 473 shares at an average price of CHF 118.50. As at 31 December 2011, the Swiss Life Group held 224 330 treasury shares.

PERSONNEL EXPENSES – No direct staff costs are included under operating expenses.

CONTINGENCIES — Swiss Life Holding acts as warrantor for all Swiss Life Ltd liabilities with regard to the various tranches of the subordinated perpetual step-up loan (hybrid debt), which amounted to an equivalent value of CHF 2308 million at the balance sheet date.

Swiss Life Holding further gives several capital guarantees for a maximum net asset value of CHF 750 million to Swiss Life Ltd, CHF 150 million to Swiss Life Funds, CHF 150 million to Swiss Life Funds (Lux) Management Company and CHF 97 million to Swiss Life Products.

In addition, Swiss Life Holding grants a credit line of CHF 37 million to Swiss Life Products.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER

In CHF million

	2011	2010
SHARE CAPITAL		
Balance as at 1 January	308	385
Reduction in par value	-144	-77
TOTAL SHARE CAPITAL	164	308
LEGAL RESERVES		
General reserves		
Balance as at 1 January	1 139	1 139
Allocation to capital contribution reserve	-1 107	-
Total general reserves	32	1 139
Reserve for treasury shares		
Balance as at 1 January	19	25
Allocation to reserve for treasury shares	7	-6
Total reserve for treasury shares	26	19
Capital contribution reserve		
Balance as at 1 January	-	-
Allocation to capital contribution reserve	1 533	-
Total capital contribution reserve	1 533	-
TOTAL LEGAL RESERVES	1 591	1 158
FREE RESERVES		
Balance as at 1 January	2 986	2 939
Allocation to free reserves	200	40
Reserve for own shares (incl. reduction in par value)	-7	7
Allocation to capital contribution reserve	-426	-
TOTAL FREE RESERVES	2 753	2 986
PROFIT SHOWN IN THE BALANCE SHEET		
Balance as at 1 January	204	44
Allocation to free reserves	-200	-40
Net profit	238	200
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	242	204
TOTAL EQUITY	4 750	4 656

RISK ASSESSMENT – For information on risk assessment, please refer to Note 5 of the Swiss Life Group's Consolidated Financial Statements.

DISCLOSURE OF COMPENSATION TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE BOARD IN ACCORDANCE WITH THE SWISS CODE OF OBLIGATIONS (CO) ART. 663B^{BIS} AND ART. 663C

COMPENSATION IN 2011 – The specifications below take into consideration the transparency regulations relating to compensation set out in the Swiss Code of Obligations Art. 663b^{bis} and Art. 663c and the directives on information relating to corporate governance issued by the SIX Swiss Exchange as well as Circular 2010/1 of the Swiss Financial Market Supervisory Authority FINMA on minimum standards for remuneration schemes of financial institutions. Further information on compensation and benefit expenditure can be found in the Corporate Governance section on pages 21 to 31 and in the Consolidated Financial Statements (Notes 24 and 32) on pages 154 to 159 and 168 to 169.

The description of the compensation received by the members of the Board of Directors and the Corporate Executive Board and the tables showing the relevant amounts are based on those of 2010. The variable cash compensation to the Corporate Executive Board members (the cash bonus and the new deferred compensation in cash introduced on 1 January 2012) for the 2011 financial year, which was determined by the Board of Directors at the beginning of 2012, is published in the compensation tables on an accrual basis as compensation for 2011. As a matter of new policy, the members of the Board of Directors are granted exclusively fixed compensation, payable 70% in cash and 30% in Swiss Life Holding shares, which are subject to a three-year blocking period. This replaces the previous arrangements, whereby Board of Director members received variable compensation in the form of blocked shares amounting to a maximum of 15% of the fixed compensation, depending on the business results.

The compensation received by each member of the Board of Directors and the Chairman of the Corporate Executive Board (Group CEO) is disclosed individually.

COMPENSATION POLICY PRINCIPLES – The Board of Directors as a whole is responsible for establishing guidelines on the Group's compensation policy (incl. variable compensation and equity compensation plans) and on employee benefit institutions. The compensation policy underpins the performance culture required by the corporate strategy and forms part of the HR policy. The aim is to retain well-qualified employees and gain new, highly skilled staff. The compensation system is in line with the market environment and must be competitive. The individual overall compensation takes into account the employee's professional skills, engagement and personal performance. It is made up of the basic salary, a variable bonus based on achievement of the annual objectives, which is generally paid in cash and possibly in shares, if applicable deferred compensation in cash and a mid- to long-term equity compensation plan, as well as contributions for occupational provisions and risk insurance. The salary is determined according to the employee's function and skill set, and is annually reassessed and adjusted if appropriate. Salary comparison studies and recognised job evaluation systems are used to check appropriateness and to ensure internal and external comparability.

Salary	
Variable compensation	
Compensation component based on achievement of annual objectives (Bonus in cash and possibly in shares)	Deferred mid- to long-term compensation component (Equity compensation plan and, if applicable, deferred compensation in cash)
Contributions to occupational provisions and risk insurance	

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

The share in the company's success is measured using quantitative Group objectives (Key Performance Indicators, KPIs), which are defined in advance for a period of three years as part of medium-term planning. The main KPIs, besides the key figures relating to annual profit, costs, business volume, investment return, return on equity and solvency, are the profitability of in-force and new business, margin performance and the share of non-traditional products in new business. In order to avoid conduct aimed at the short-term achievement of key indicators with a higher weighting, the individual KPIs are not mechanically weighted in advance; their individual weighting is determined by the Board of Directors at the end of each financial year.

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

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

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

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

PRACTICE AND PROCEDURE – Pursuant to the Organisational Regulations, the Board of Directors as a whole is responsible for determining the level and make-up of compensation for its members, whereas the Nomination and Compensation Committee (NCC) is responsible for putting forward appropriate proposals. The Board of Directors as a whole also establishes the guidelines for the Group's compensation policy. In doing so, it takes into consideration the compensation policies of other companies in the financial services industry, drawing its findings from publicly available information and studies by independent external experts. Comparable companies in the insurance sector in Switzerland used for the purposes of providing relevant information for the current compensation policy included Baloise Insurance, Swiss Re, Zurich Financial Services, Allianz and AXA.

The Board of Directors as a whole sets the level and distribution of the variable compensation pool for all employees on the basis of its compensation policy guidelines and taking into consideration a proposal by the Nomination and Compensation Committee. When determining the level of the allocation to the compensation pool, it takes into consideration the annual result, as well as medium-term planning and the degree of target achievement. The Board of Directors as a whole is also responsible for determining the individual compensation of members of the Corporate Executive Board. It carries out an annual performance assessment of all members of the Corporate Executive Board,

based on preparatory work by the Nomination and Compensation Committee. In addition, current aspects of HR policy and in particular succession planning are regularly discussed at meetings of the Nomination and Compensation Committee and the Board of Directors as a whole.

COMPENSATION TO MEMBERS OF THE BOARD OF DIRECTORS – As a matter of new policy, the members of the Board of Directors are granted exclusively fixed compensation. The previous arrangements, according to which members of the Board of Directors were allocated variable compensation in the form of blocked Swiss Life Holding shares of up to a maximum of 15% of the fixed compensation, depending on the business results, no longer apply. The total compensation is now paid 70% in cash and 30% in Swiss Life Holding shares with a three-year blocking period. The proportion of shares has thus been increased in comparison with the previous arrangements, under which 20% of the basic compensation was granted in the form of blocked Swiss Life Holding shares.

The compensation takes into account membership of the Board of Directors of Swiss Life Holding and its subsidiary Swiss Life Ltd, as well as membership of the individual Board Committees, and is commensurate with the individual's function and workload. The compensation is determined annually by the Board of Directors. The amount of compensation granted to members of the Board of Directors has been adjusted in the 2011 financial year in connection with the new compensation arrangements (transition to exclusively fixed compensation, payable 70% in cash and 30% in blocked shares), taking into consideration compensation paid to board members in comparable companies within the insurance sector (Balaise Insurance, Swiss Re, Zurich Financial Services, National, Helvetia and Vaudoise).

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

COMPENSATION TO MEMBERS OF THE CORPORATE EXECUTIVE BOARD – Compensation remitted to members of the Corporate Executive Board comprises the basic salary, variable compensation in cash and other compensation (child allowances, company cars, premium contributions to 3rd pillar pension plans). The variable compensation in cash is allocated as a bonus and, if applicable, as deferred compensation in cash. The deferred compensation in cash, which was introduced on 1 January 2012, is paid out after a period of three years has elapsed and provided that the regulatory requirements have been satisfied. In addition, a mid- to long-term compensation component is in place in the form of an equity compensation plan (RSU plan) linked to the performance of the Swiss Life Holding share price. It gives an entitlement to Swiss Life Holding shares after a period of three years has elapsed and provided that the relevant requirements are satisfied at the time of allocation.

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

The variable compensation components are determined by the Board of Directors in accordance with the described compensation policy principles and based on the company result and the achievement of personal goals assessed in the employee appraisal procedure implemented throughout the Group (Group Performance System, GPS). The variable compensation in cash (bonus in cash and, if applicable, deferred compensation in cash) is set at a maximum of 117% of the fixed basic salary ("bonus cap") and requires that all objectives have been considerably exceeded. The allocation of subscription rights to Swiss Life Holding shares (equity compensation plan, RSU plan) is also limited in value to 117% of the fixed basic salary; if deferred compensation in cash, which on its part is subject to the bonus cap mentioned above, is simultaneously allocated, the maximum limit is 64% of the fixed basic salary.

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

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

In the year under review, the profit and costs targets used to measure the success of the Swiss Life Group were exceeded. Investment return and return on equity were also above the target levels. The volume and margin expectations for in-force and new business were only partially satisfied. The target share of non-traditional products in new business was achieved. As far as the weighting of these KPIs is concerned, the Board of Directors took the targets for annual profit and return on equity, which directly impact the interests of shareholders and policyholders, into greater consideration than the other targets in view of the economic environment which prevailed during the year under review.

Within the framework of the compensation arrangements for members of the Corporate Executive Board, "deferred compensation in cash" was introduced as a new compensation component on 1 January 2012. On the basis of the corresponding regulations, the Board of Directors determines every year from what amount and, if applicable, what portion of the variable cash compensation is not paid immediately but is allocated as deferred compensation in cash. The Board of Directors determined that, for the 2011 financial year, as of a variable cash compensation level of CHF 500 000, a 23% share of the total variable cash compensation will be paid as deferred compensation in cash.

The allocated deferred compensation in cash represents an entitlement during the three-year deferral period. The underlying "deferred cash plan" also provides for adjustment and reclaiming mechanisms (clawback). Full or partial reduction of the deferred compensation is provided for in the following cases: negative impact of the key figures applying to the allocation of deferred compensation due to a restatement of the annual accounts or damage to Swiss Life as a result of a violation of statutory, regulatory or compliance standards by participants of the plan. If the employment relationship is terminated by a participant during the three-year deferral period, the entitlements expire worthless.

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

Pursuant to the regulations of the 2009 and 2010 equity compensation plans, future subscription rights were allocated in the form of Performance Share Units (PSUs), according to which share allocation after expiry of the three-year period was based on two objective performance criteria, each weighted at 50%. The first criterion is the Total Shareholder Return on the Swiss Life Holding share (TSR Swiss Life Holding), requiring a performance of over 20% for a subscription right to shares to arise after three years. The second criterion involves a comparison of the Swiss Life Holding share's TSR with the TSRs of the shares of the companies included in the Dow Jones STOXX 600 Insurance

Index (TSR Outperformance). A subscription right arises if the performance on expiry of the three-year term is above the first quartile in comparison with the companies in question. Depending on the fulfilment of the two performance criteria within the three-year period, the number of PSUs can increase by up to a factor of 1.5 (2009 plan) or 2.0 (2010 plan) or drop to zero. The number of PSUs entitling the participant to receive shares after the three-year term is determined in accordance with the following: One half of the PSUs allocated is multiplied by the factor resulting from the TSR Swiss Life Holding target being met, and the other half by the factor resulting from the TSR Outperformance target being met. The factor is 1 or 100% if a performance of 30% (2009 plan) or 35% (2010 plan) is achieved for the first performance criterion, the TSR Swiss Life Holding. Interim values are determined by linear interpolation. In the case of the second performance criterion, TSR Outperformance, the factor is 1 or 100% if the TSR Swiss Life Holding is equal to the median of the benchmark index (Dow Jones STOXX 600 Insurance Index). Here, too, interim values are determined by linear interpolation. The results (TSR Swiss Life Holding factor multiplied by one half of the PSUs and the TSR Outperformance factor multiplied by the other half) are added together. The sum is the number of PSUs, which translates into an entitlement to an equal number of Swiss Life Holding shares. Performance requirements for the 2010 equity compensation plan were increased over the 2009 plan to the extent that 35% performance (previously 30%) is required in the TSR Swiss Life Holding for factor 1 and at least 50% performance (previously 40%) for the maximum factor. The maximum factor was in turn increased from 1.5 or 150% to 2 or 200%.

In the year under review, participants in the 2011 equity compensation plan, which was launched on 1 April 2011, were allocated Restricted Share Units (RSUs) instead of PSUs. As with PSUs, RSUs grant the holder future subscription rights, entitling them to receive Swiss Life Holding shares free of charge after a three-year period has elapsed, but without any additional leverage effect. The attribution of shares after the expiry of the three-year deferral period is effected on a 1:1 basis (1 RSU = 1 share): the plan is therefore very simple, transparent throughout the whole term and directly linked to the performance of the Swiss Life share. The value of RSUs during the three-year term develops linear with the Swiss Life Holding share price and thus symmetrically corresponds with shareholder interests. The value of the PSUs allocated equals the fair value as at 1 April of the year of allocation. It is determined by an independent consultancy company.

The attribution of mid- to long-term compensation components (RSU plan) is deferred for a period of three years from the date of allocation in the same way as the deferred compensation in cash. Likewise, the RSU plan provides for adjustment and reclaiming mechanisms (clawback) in the event of a negative impact of the key figures applying to the allocation of deferred compensation due to a restatement of the annual accounts or damage to Swiss Life as a result of a violation of statutory, regulatory or compliance standards. If the employment relationship is terminated by a participant during the three-year deferral period, the entitlements expire worthless.

PERSONNEL CHANGES TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE BOARD IN 2011 – There were two resignations from the Board of Directors in the period under review. After serving for eight years on the Board of Directors of Swiss Life Holding, Paul Embrechts did not stand for re-election at the General Meeting of Shareholders in 2011 and no longer serves on the Board of Directors. Carsten Maschmeyer, who was elected to the Board of Directors of Swiss Life Holding at the 2009 General Meeting of Shareholders, resigned as a member of the Board of Directors on 7 December 2011.

There were no personnel changes on the Corporate Executive Board during the year under review.

COMPENSATION TO THE BOARD OF DIRECTORS IN 2011 – For comparison purposes, the corresponding details of the compensation for 2010, as published in the Annual Report 2010, are shown in a separate table below the compensation table for 2011.

Amounts in CHF	Compensation in cash		Compensation in blocked shares ⁴		Expenditure for occupational provisions		Aggregate total (amount)
	Amount	Number	Amount	Total compensation in cash and shares (amount) ⁵	Regular contributions ⁶	Extra-ordinary contributions	
Rolf Dörig, Chairman of the Board of Directors	1 008 000	4 478	362 839	1 370 839	225 504	–	1 596 343
Gerold Bühler	244 300	1 129	88 014	332 314			
Frank Schneuwlin	244 300	1 129	88 014	332 314			
Volker Bremkamp	129 500	589	46 653	176 153			
Paul Embrechts ¹	34 167	57	6 332	40 499			
Damir Filipovic ²	60 667	298	21 868	82 535			
Carsten Maschmeyer ³	82 000	172	15 223	97 223			
Henry Peter	91 000	413	32 908	123 908			
Peter Quadri	91 000	413	32 908	123 908			
Franziska Tschudi	106 400	480	38 390	144 790			
TOTAL BOARD OF DIRECTORS	2 091 334	9 158	733 150	2 824 484	225 504	–	3 049 988

¹ Left 05.05.2011.

² Joined 05.05.2011.

³ Resigned 07.12.2011. Swiss Life Ltd, AWD Holding AG and their subsidiaries paid a total of EUR 341 800 in fees for consultancy services to a company in which Carsten Maschmeyer has an important shareholding.

⁴ The allocation of shares was effected on 23.06.2011 and 15.12.2011 at economic value, which is equal to the tax value (CHF 111 0817 and CHF 73 3828 respectively), taking into account the blocking period of three years. The share prices (closing prices) on the days of allocation were CHF 132.30 and CHF 87.40 respectively.

⁵ All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 179 034 in the year under review.

⁶ Pursuant to the pension fund regulations, occupational provisions were financed by the employer and the employee at a ratio of 70% to 30%.

COMPENSATION TO THE BOARD OF DIRECTORS IN 2010 — The members of the Board of Directors received variable compensation in the form of blocked shares for the 2010 financial year. This is disclosed on an accrual basis as compensation for 2010.

Amounts in CHF	Compensation in cash		Compensation in blocked shares ²				Total compensation in cash and shares (amount)	Expenditure for occupational provisions		Aggregate total (amount)
	Basic compensation	Additional compensation	Total compensation in cash	As part of basic compensation Number	As variable compensation for 2010 financial year Number	Amount		Regular contributions ³	Extraordinary contributions	
Rolf Dörig, Chairman of the Board of Directors	960 000	0	960 000	1 970	761	302 399	1 262 399	195 656	–	1 458 055
Gerold Bühler	144 000	110 000	254 000	297	184	54 771	308 771			
Frank Schneulin	144 000	30 000	174 000	297	134	48 146	222 146			
Volker Bremkamp	96 000	30 000	126 000	198	96	20 262	146 262			
Paul Embrechts	72 000	10 000	82 000	149	64	23 723	105 723			
Rudolf Kellenberger ¹	50 000	4 167	54 167	110	0	10 501	64 668			
Carsten Maschmeyer ⁵	62 668	10 000	72 668	131	56	20 723	93 391			
Henry Peter	72 000	10 000	82 000	149	64	23 723	105 723			
Peter Quadri	72 000	10 000	82 000	149	64	23 723	105 723			
Franziska Tschudi	82 668	10 000	92 668	169	72	26 988	119 656			
TOTAL BOARD OF DIRECTORS	1 755 336	224 167	1 979 503	3 619	1 495	554 959	2 534 462⁴	195 656	–	2 730 118

¹ Left 06.05.2010.

² The compensation in shares was, on the one hand, part of the basic compensation (3619 shares in total) and, on the other, variable compensation in shares for the 2010 financial year, allocated in 2011 (1495 shares in total). The allocation of shares was effected on 18.06.2010, 15.12.2010 and 04.03.2011 at economic value, which is equal to the tax value (CHF 95.464, CHF 110.242 and CHF 132.492 respectively), taking into account the blocking period of three years. The share prices (closing prices) on the days of allocation were CHF 113.70, CHF 131.30 and CHF 157.80 respectively.

³ Pursuant to the fund regulations, occupational provisions were financed by the employer and the employee at a ratio of $\frac{2}{3}$ to $\frac{1}{3}$.

⁴ All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 139 793 in the year under review.

⁵ In the year under review, AWD Holding AG paid a total of EUR 44 625 in consulting fees for services provided to the AWD Group to a company in which the Board of Directors member Carsten Maschmeyer has an important shareholding.

COMPENSATION TO THE CORPORATE EXECUTIVE BOARD IN 2011 – The compensation table below shows the variable compensation in cash for the 2011 financial year which was determined by the Board of Directors at the beginning of 2012. It is disclosed on an accrual basis as compensation for 2011.

The members of the Corporate Executive Board did not receive any compensation in shares for the 2011 financial year. They are participating in the current equity compensation plan, which provides for the allocation of Restricted Share Units (RSUs).

For comparison purposes, the corresponding details of the compensation for 2010, as published in the Annual Report 2010, are shown in a separate table below the compensation table for 2011.

Amounts in CHF	Compensation in cash			Compensation in shares		Total compensation in cash and shares (amount)	
	Salary	Bonus for 2011 paid in 2012 ²	Other compensation ³	Total compensation in cash	Number		Amount
Bruno Pfister, Group CEO	1 437 510	1 200 000	47 996	2 685 506	0	0	2 685 506
Other members of Corporate Executive Board ¹	3 811 229	3 140 500	155 743	7 107 472	0	0	7 107 472
TOTAL CORPORATE EXECUTIVE BOARD	5 248 739	4 340 500	203 739	9 792 978	0	0	9 792 978

¹ Six individuals were taken into account in the period under review.

² The bonus paid in 2012 relates to the 2011 financial year.

³ Child allowances (CHF 4150), company cars (CHF 101 439), premium contributions to 3rd pillar pension plans (CHF 93 762), other (CHF 4388), each in total.

Amounts in CHF	Expenditure for occupational provisions		Aggregate total compensation in cash and in shares and occupational provisions expense (amount) ⁵
	Regular contributions ⁴	Extraordinary contributions	
Bruno Pfister, Group CEO	225 504	0	2 911 010
Other members of Corporate Executive Board	1 052 844	0	8 160 316
TOTAL CORPORATE EXECUTIVE BOARD	1 278 348	0	11 071 326

⁴ Pursuant to the pension fund regulations, occupational provisions were financed by the employer and the employee at a ratio of 70% to 30%.

⁵ All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 503 257 in the year under review.

Amounts in CHF	Deferred compensation in cash	Restricted Share Units (RSUs) ^{7,8}		Aggregate total compensation incl. deferred compensation in cash and RSUs (amount)
	Amount ⁶	Number	Amount	
Bruno Pfister, Group CEO	360 000	6 350	889 318	4 160 328
Other members of Corporate Executive Board	795 500	17 280	2 420 064	11 375 880
TOTAL CORPORATE EXECUTIVE BOARD	1 155 500	23 630	3 309 382	15 536 208

⁶ The deferred compensation in cash is paid out after a deferral period of three years, provided the requirements are satisfied at that point.

⁷ The RSUs represent future subscription rights that entitle the individuals concerned to receive Swiss Life Holding shares after a period of three years, provided the requirements are satisfied at that point.

⁸ The allocation of RSUs as at 01.04.2011 was effected at a fair value of CHF 140.05, as calculated by an independent consultancy firm.

COMPENSATION TO THE CORPORATE EXECUTIVE BOARD IN 2010 — The compensation table below shows the bonus in cash for the 2010 financial year which was determined by the Board of Directors at the beginning of 2011. It is disclosed on an accrual basis as compensation for 2010.

The members of the Corporate Executive Board did not receive any compensation in shares for the 2010 financial year.

Amounts in CHF	Compensation in cash			Compensation in shares for 2010		Total compensation in cash and shares (amount)	
	Salary	Bonus for 2010 paid in 2011 ²	Other compensation ³	Total compensation in cash	Number		Amount
Bruno Pfister, Group CEO	1 237 530	1 200 000	47 905	2 485 435	–	0	2 485 435
Other members of Corporate Executive Board ¹	3 627 025	3 275 000	213 535	7 115 560	–	0	7 115 560
TOTAL CORPORATE EXECUTIVE BOARD	4 864 555	4 475 000	261 440	9 600 995	–	0	9 600 995

¹ Six individuals were taken into account in the period under review.

² The bonus paid in 2011 relates to the 2010 financial year.

³ Child allowances (CHF 12 150), allowance for years of service (CHF 45 840), company cars (CHF 102 363), premium contributions to 3rd pillar pension plans (CHF 91 413), other (CHF 9674), each in total.

Amounts in CHF	Expenditure for occupational provisions		Aggregate total compensation in cash and in shares and occupational provisions expense (amount) ⁷
	Regular contributions ⁴	Extra-ordinary contributions	
Bruno Pfister, Group CEO ⁵	234 220	0	2 719 655
Other members of Corporate Executive Board ⁶	976 910	0	8 092 470
TOTAL CORPORATE EXECUTIVE BOARD	1 211 130	0	10 812 125

⁴ Pursuant to the pension fund regulations, occupational provisions were financed by the employer and the employee at a ratio of $\frac{2}{3}$ to $\frac{1}{3}$.

⁵ Regular contribution of CHF 185 230 and supplementary payment of CHF 48 990 in accordance with the pension fund regulations due to an increase in insured salary.

⁶ Regular contribution of CHF 848 645 and supplementary payment of CHF 128 265 in accordance with the pension fund regulations due to an increase in insured salary.

⁷ All contributions are gross contributions, i.e. they include employee contributions to AHV/IV/ALV. Employer contributions to AHV/IV/ALV/FAK amounted to a total of CHF 401 435 in the year under review.

Amounts in CHF	Performance Share Units (PSUs) ^{8,9}		Aggregate total incl. PSUs (amount)
	Number	Amount	
Bruno Pfister, Group CEO	6 500	974 870	3 694 525
Other members of Corporate Executive Board	18 200	2 729 636	10 822 106
TOTAL CORPORATE EXECUTIVE BOARD	24 700	3 704 506	14 516 631

⁸ The PSUs represent future subscription rights that entitle the individuals concerned to receive Swiss Life Holding shares after a period of three years provided the relevant conditions are then met. Depending on the fulfilment during the three-year term of the two performance criteria defined, the number of PSUs can increase by a factor of 2.0 or drop to zero.

⁹ The allocation of PSUs as at 01.04.2010 was effected at a fair value of CHF 149.98, as calculated by an independent consultancy firm.

SHARE OWNERSHIP/PARTICIPATION RIGHTS AS AT 31.12.2011 – As at the balance sheet date, acting members of the Board of Directors and the Corporate Executive Board (including closely related parties) held the following number of registered Swiss Life Holding shares and future subscription rights to Swiss Life Holding shares in the form of Restricted Share Units (RSUs) and Performance Share Units (PSUs).

BOARD OF DIRECTORS

	SLH shares 31.12.2011
Rolf Dörig, Chairman of the Board of Directors	40 486
Gerold Bühler	4 095
Frank Schnewlin	1 748
Volker Bremkamp	2 150
Damir Filipovic	298
Henry Peter	3 651
Peter Quadri	2 351
Franziska Tschudi	1 666
TOTAL BOARD OF DIRECTORS	56 445

CORPORATE EXECUTIVE BOARD

	SLH shares 31.12.2011
Bruno Pfister, Group CEO	3 068
Manfred Behrens	0
Thomas Buess	4 500
Patrick Frost	2 000
Ivo Furrer	0
Klaus Leyh	53
Charles Relecom	0
TOTAL CORPORATE EXECUTIVE BOARD	9 621

	Number Performance Share Units (PSUs) 31.12.2011 ¹	Number Restricted Share Units (RSUs) 31.12.2011 ²
Bruno Pfister, Group CEO	13 000	6 350
Manfred Behrens	5 800	2 880
Thomas Buess	4 800	2 880
Patrick Frost	5 200	3 390
Ivo Furrer	5 700	2 880
Klaus Leyh	4 000	2 540
Charles Relecom	5 400	2 710
TOTAL CORPORATE EXECUTIVE BOARD	43 900	23 630

¹ Total number of PSUs allocated in the years 2009 and 2010 in connection with the relevant equity compensation plan. The PSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

² Total number of RSUs allocated in the year 2011 in connection with the relevant equity compensation plan. The RSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

SHARE OWNERSHIP/PARTICIPATION RIGHTS AS AT 31.12.2010 – As at the balance sheet date, acting members of the Board of Directors and the Corporate Executive Board (including closely related parties) held the following number of registered Swiss Life Holding shares and future subscription rights to Swiss Life Holding shares in the form of Performance Share Units (PSUs).

BOARD OF DIRECTORS

	SLH shares
	31.12.2010
Rolf Dörig, Chairman of the Board of Directors	35 247
Gerold Bühler	2 782
Frank Schnewlin	485
Volker Bremkamp	1 465
Paul Embrechts	1 094
Carsten Maschmeyer	1 620 861
Henry Peter	2 174
Peter Quadri	1 874
Franziska Tschudi	1 114
TOTAL BOARD OF DIRECTORS	1 667 096

CORPORATE EXECUTIVE BOARD

	SLH shares
	31.12.2010
Bruno Pfister, Group CEO	9 068
Manfred Behrens	698
Thomas Buess	2 500
Patrick Frost	4 013
Ivo Furrer	0
Klaus Leyh	53
Charles Relecom	0
TOTAL CORPORATE EXECUTIVE BOARD	16 332

	Performance Share Units (PSUs) as future subscription rights to SLH shares
	31.12.2010 ¹
Bruno Pfister, Group CEO	18 924
Manfred Behrens	8 407
Thomas Buess	4 800
Patrick Frost	9 149
Ivo Furrer	7 675
Klaus Leyh	4 196
Charles Relecom	5 400
TOTAL CORPORATE EXECUTIVE BOARD	58 551

¹ Total number of PSUs allocated in the years 2008, 2009 and 2010 in connection with the relevant equity compensation plan. The PSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are then met.

Appropriation of Profit

Profit and Appropriation of Profit

The net profit for the year amounts to CHF 237 856 634. The Board of Directors proposes to the General Meeting of Shareholders that the profit be appropriated in accordance with the table below. If this proposal is adopted, a distribution of CHF 4.50 per share will be made from the capital contribution reserve.

PROFIT SHOWN IN THE BALANCE SHEET

In CHF		
	2011	2010
Balance carried forward from previous year	3 793 683	3 609 395
Net profit	237 856 634	200 184 288
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	241 650 317	203 793 683

APPROPRIATION OF PROFIT

In CHF		
	2011	2010
Dividend	-	-
Allocation to legal reserves	-	-
Allocation to free reserves	240 000 000	200 000 000
Balance carried forward to new account	1 650 317	3 793 683
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	241 650 317	203 793 683

Zurich, 15 March 2012

For the Swiss Life Holding Board of Directors

Rolf Dörig

Gerold Bühler

Report of the Statutory Auditor

Report of the Statutory Auditor
to the General Meeting of
Swiss Life Holding Ltd
Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Swiss Life Holding Ltd, which comprise the statement of income, balance sheet and notes to the financial statements (pages 186 to 202), for the year ended 31 December 2011.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz

Audit expert

Auditor in charge

Reto Zemp

Audit expert

Zurich, 15 March 2012

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ANNUAL REPORT 2011

The **Business Review** is published in German, English and French.

The English text is definitive for the extract from the Financial Statements.

The **Financial Statements** are available in German and English, and contain additional information on risk management, market consistent embedded value (in English only), corporate governance and the annual accounts. The English text is definitive for the Consolidated Financial Statements.

The Business Review and the Financial Statements for 2011 can be found at: www.swisslife.com/report

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IMPORTANT DATES

ANNUAL GENERAL MEETING 2012

19 April 2012, Hallenstadion Zurich

INTERIM STATEMENT Q1 2012

8 May 2012

HALF-YEAR RESULTS 2012

17 August 2012

INVESTORS' DAY

28 November 2012



SwissLife
The future starts here.